# Creditreform Sovereign Rating

Creditreform Rating
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| Rating Object | Rating Information | |
|---|---|---|
| REPUBLIC OF MALTA | Assigned Ratings/Outlook: **A+ /stable** | Type: Monitoring, unsolicited |
| Long-term sovereign rating<br>Foreign currency senior unsecured long-term debt<br>Local currency senior unsecured long-term debt | Initial Rating Publication Date:<br>Rating Renewal:<br><br>Rating Methodologies: | 25-11-2016<br>23-11-2018<br><br>“Sovereign Ratings” |

**Contents**



## Rating Action

Neuss, 23 November 2018

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.

## Key Rating Drivers

1. Very strong economic expansion boosting per-capita income and employment; favorable macroeconomic performance set to continue in 2018/19 but small size, high degree of openness and high exposure to cyclical industries continue to weigh on the economy’s shock-absorbing capacities

2. Although sovereign continues to be characterized by a generally high quality of its institutional set-up, room to improve judicial system and step up anti-corruption measures; European institutions have raised concerns regarding effective implementation of AML/CFT rules

3. Fiscal risks stemming from composition of state revenues set against prudent budget execution, underpinned by a steadily improving headline balance and the government’s commitment to run surpluses; debt-to-GDP ratio set to remain on a steep downward trajectory

4. Risks associated with elevated current account volatility and high external liabilities are mitigated by limited external funding needs of the private sector and a positive net international investment position

## Reasons for the Rating Decision

Our assessment of Malta’s macroeconomic performance balances risks stemming from the small size of the Maltese economy coupled with a high exposure to tourism and gaming against a track record of extraordinarily strong GDP growth, which has helped to significantly lift per-capita income.

We thus continue to view Malta’s relatively high income levels as a credit positive. Per-capita income, which posted at USD 41,839 (in PPP terms, IMF data) in 2017, stands well above the median of our A-rated sovereigns (USD 33,775). We also note that GDP per capita has expanded dynamically in the recent past (2013-17: +29.5%). As a result, personal wealth surpassed EU-28 levels for the first time since EU accession in 2004.

An exceptionally strong growth momentum in the Maltese economy supported rapid growth in per capita income. Over the past five years, real GDP has grown by 6.8% on average, outpacing growth levels seen in the EU as a whole (average 2013-17: 1.8%) by a wide margin. In 2017, Malta's thriving economy gained further traction, with real GDP growth edging up from 5.2 to 6.7%, marking the second highest growth rate in the euro area. Last year's economic expansion was largely driven by net exports. In real terms, exports of goods and services increased by a robust 3.8% in 2017 (2016: +4.2%). In particular, tourism, gaming, and professional services continued to boost Malta's service exports. Drawing on BoP data, export receipts from travel were up 16.7% y-o-y, while professional and other business services recorded a growth rate of 9.0%. At the same time, import growth turned negative (-1.9%), responding to sharply contracting investment activity. After having risen by 1.7% in 2016, gross fixed capital formation dropped by 7.3% due to base effects. Expenditure on transport equipment, which had been inflated by extraordinarily high aviation investment linked to aircraft leasing corporations in the previous year, fell by 73.1% in 2017. Construction investment returned to growth, expanding by 22.6% (2016: -13.7%) on the back of brisk demand for housing. Investment in dwellings continued to perform strongly, posting double-digit growth for the third consecutive year. After having expanded by 26.4 and 33.9% in 2015 and 2016, dwellings investment leapt by 44.0% last year. Furthermore, 2017 witnessed sustained growth in private consumption. Underpinned by the favorable labor market development and positive wealth effects stemming from the ongoing recovery of the housing market (see below), private consumption growth accelerated from 2.6 (2016) to 3.7% in 2017 – thereby contributing 1.8 p.p. to last year's output expansion (2016: 1.3 p.p.).

Growth prospects for 2018 and 2019 remain positive. Although we expect the Maltese economy to lose some steam, real GDP should expand by a still high 5.5% in 2018, before moderating to 5.0% in 2019. The first half of the year has seen very robust quarterly growth rates. After recording a yearly rate of 4.7% in Q1-18, real GDP rose by 5.7% in the second quarter. Latest national accounts data supports our view that domestic demand is set to take over from net exports as the main driver of economic growth this year. Imports and investment, which had contracted in the first quarter, saw a turnaround in Q2-18, growing by 4.6 and 12.2% (y-o-y) respectively. At the same time, private consumption moved on a higher growth trajectory, increasing by 6.5% (Q4-17: 3.2%; Q1-18: 4.5%). Alongside upbeat consumer confidence, sustained growth in disposable incomes is set to foster private consumption in 2018. Real disposable household income should be buttressed by enduring employment and wage growth, which should more than offset the drag from gradually rising inflationary pressures (2018e: 1.6%). According to Central Bank of Malta (CBM) estimates, real disposable household income should go up by 4.2 and 3.8% in 2018 and 2019.

Robust consumer spending should coincide with a moderate recovery in gross fixed capital formation. As evidenced by a rapidly rising number of building permits, construction investment should remain on its growth trajectory. Up from 3,947 in 2015 and 7,508 in 2016, the number of permitted dwellings (units) jumped to 9,822 last year (+30.8%). Moreover, a stronger absorption of ESI funds should bode well for investment. As illustrated by EU commission data, financial resources allocated to specific projects are reported to have more than doubled from 22% of planned investment (EUR 227.4m) at the end of 2016 to 52% (EUR 530m) by 31-Dec-17. Moreover, against the backdrop of limited spare capacity in the manufacturing sector, investment in equipment should bottom out this year. In Q4-18 capacity utilization stood at 79.1%, still above historical norms (avg. 2003-17: 76.0%). Meanwhile, we anticipate export growth to remain solid but to moderate somewhat in light of easing economic activity in Malta's key trading partners. To be sure, tourism is set to expand further, thereby facilitating exports of services. After the first nine months of the year, tourism appears to be heading towards another record year. Up to September 2018, Malta registered 2.04m foreign visitors, surpassing the previous year's level by 15.6%.

Medium-term growth prospects remain favorable. Although potential growth may be subject to some procyclicality, it is estimated to be among the highest in the euro area (EU Commission 2018e: 6.1%), thanks to robust TFP growth and a well-performing labor market. Last year, the unemployment rate marked a new all-time low, falling from 4.7 (2016) to 4.0%. Concurrently, employment growth, which had averaged at an already high 4.4% over 2014-16, came in at 5.2% in 2017, making the Maltese labor market the most dynamic in the euro area. Job creation was particularly strong in professional services and in the ICT sector, where employment edged up by 11.7 and 7.1% respectively. Going into 2018, the labor market situation continued to improve. At the latest count, the unemployment rate stood at 3.8% (Q2-18), while employment growth came in at 5.6%. Strong employment gains were facilitated by positive net migration of foreign workers and a steadily rising participation rate (15-64y). Since Q2-15, Malta's participation rate has increased by 4.4 p.p. (EA-19: +1.0 p.p.), recently reaching a historic high. Standing at 73.4% in Q2-18, the Maltese participation rate was on par with the euro area (73.5%). Thus, structural reforms with regard to childcare and pensions appear to have paid off. To lift participation rates of women and the elderly population, the Maltese government has extended the provision of free childcare and adopted various measures to encourage later retirement (i.e. gradual rise in retirement age, benefits to extend working careers).

Although job creation should continue over the next two years, we expect employment growth to shift into a lower gear in light of increasingly tight labor markets. EU Commission survey data already points to pronounced labor shortages. As of Q4-18, the share of respondent NFCs from the industry (40.9%) and service sectors (37.8%), citing staffing issues to be a restricting factor to the production process, was significantly higher than in the euro area as a whole (16.6%; 17.8%). Partly due to the influx of foreign labor, we have not observed excessively rising wages so far. According to AMECO data, real compensation per employee has been more or less flat over recent years (2015-17: +0.4%). Coupled with gains in labor productivity, wage developments contributed to improving cost competitiveness as mirrored by real unit labor costs, which have fallen by 2.0% in 2015-17, comparing well to key trading partners Germany (+0.2%), France (+0.2%) and Italy (-1.6%).

While macroeconomic risks associated with deteriorating cost-competitiveness appear limited at the moment, a disorderly Brexit, as well as changes to the international tax environment, represent downside risks to the economy's medium-term outlook. Having said this, the probability of a hard Brexit has subsided more recently, as the EU and UK have reached a technical agreement on the terms and conditions. Yet, risks remain elevated as we view it to be highly uncertain whether parliament will endorse the arrangement. A hard Brexit may have adverse effects on external demand, in particular on tourism as citizens from the UK remained the single largest group of visitors last year. We acknowledge that the Maltese tourism sector has reduced its reliance on visitors from the UK over the last decade, as the share of British tourists fell from 35.2 to 24.7% between 2008 and 2017. Also, we concur with CBM that Malta may succeed in attracting companies that seek to relocate outside the UK (e.g. in the financial sector).

Likewise, a comparatively high exposure to sectors we consider as cyclical, or sensitive to a changing regulatory environment, increases the vulnerability of the Maltese economy. While the industrial share in GDP is one of the lowest in the EU-28, the tourism sector plays a pivotal role in the Maltese economy. The World Travel and Tourism Council estimates that travel and tourism directly contributed 12.4% to GDP in 2017 (in nominal terms) – one the highest shares in Europe. Furthermore, we note that Malta has become a favorite jurisdiction for e-gaming providers in recent years. As highlighted by Malta's gaming authority, gross value added in the gaming industry grew by roughly 40% between 2014 and 2017, accounting for 10.0% of GDP last year. Thus, tighter regulation of gaming activities on the European level could dampen growth going forward.

The sovereign's creditworthiness continues to reflect the generally high quality of institutional conditions. Assessing the World Bank's latest edition of the Worldwide Governance Indicators (WGIs), Malta's performance compares relatively well with similarly rated peers. Regarding the WGI government effectiveness, which captures the quality of policy formulation and implementation, Malta was placed at rank 41 out of 209 economies – standing on par with the median of our A-rated sovereigns. What is more, Malta outperformed most A-rated peers when it comes to the perception of the extent to which public power is exercised for private gain, and the quality of contract enforcement, property rights, and courts. Taking a longer-term perspective, the sovereign's performance on the indicators rule of law and control of corruption appears to have weakened somewhat over the last decade. Since 2008, Malta has slipped from rank 18 (rule of law) and 39 (control of corruption), to rank 32 and 49 respectively (A-median: rank 41; 57). The first pillar 'institutions' of the World Economic Forum's (WEF) Global Competitiveness Index underscores some deterioration in the institutional framework, as Malta fell from rank 29 to 33 in 2017-18, while slipping from rank 50 to 56 and 15 to 22 as regards judicial independence and strength of auditing and reporting standards respectively.

Further corroborating our view of a relative deterioration of institutional quality, the European Parliament (EP) published a report in Jan-18, underscoring that Malta has scope to improve the implementation of anti-money laundering (AML) and anti-corruption rules. Following the murder of investigative journalist Daphne Caruana Galizia, a delegation of the EP visited Malta in Dec-17 to assess the state of rule of law, as well as the implementation of European AML provisions. After having met with local authorities, journalists and NGOs, the mission report calls, among others, for increased transparency on the government's "citizenship for investment program" (IIP), revisions to the Whistleblower Protection Act, and the initiation of formal investigations against officials accused in the Panama Papers. In July 2018, the European Banking Authority (EBA) raised concerns on supervisory practices of the Financial Services Authority (MFSA) and the Financial Intelligence Analysis Unit (FIAU) in relation to Pilatus Bank, which lost its bank license in Nov-18. EBA identified weaknesses pertaining to the authorization process of credit institutions and the effectiveness of AML/CFT systems. The Commission has thus requested the FIAU to enhance banking supervision (8-Nov-18).

Maltese authorities have pushed ahead with reforms aiming to strengthen the enforcement of AML provisions. To make MFSA a more efficient, proactive, and dynamic regulator, an amendment to the MFSA act (Bill No. 49) is currently in the parliamentary process. At the same time, FIAU continues to implement its action plan. We note that efforts to improve internal governance procedures and risk assessment methodologies, as well as to increase human resources are ongoing, while it remains to be seen whether the measures will prove effective in mitigating the identified deficiencies in a sustainable manner. EBA envisaged carrying out an on-site visit in 2019.

In general, Malta benefits from EU/EMU membership, involving the adoption of common standards and rules, access to European cohesion funds, and significant trade integration. However, being the smallest member of the currency union, we believe that economic developments in Malta only have a limited impact on the ECB's monetary policy stance. We also continue to observe a sizeable interest rate differential with the euro area, pointing to persisting inefficiencies in monetary policy transmission.

Meanwhile, the business environment continues to be impeded by cumbersome administrative procedures. The World Bank affirms the bureaucratic business environment in its Doing Business report 2019. Businesses are confronted with a comparatively heavy administrative burden, as Malta remains at rank 84 out of 190 economies, with the most pressing challenges being the procedures for starting businesses (rank 103), insolvency resolution (rank 121), and property registration (rank 151). Moreover, infrastructure bottlenecks continue to be an obstacle to doing business, as highlighted by the World Economic Forum's most recent global competitiveness report. Malta's performance on the sub-index 'infrastructure' fell significantly short of most European peers. Being placed at rank 52, only Romania (55) and Bulgaria (58) scored lower on that count.

To be sure, simplifying administrative procedures and improving the transport infrastructure remain high on the government agenda. We notice that remarkable progress has been achieved in accelerating court procedures. As shown by the 2018 EU Justice Scoreboard, the time needed to resolve cases has almost halved from 866 to 446 days between 2010 and 2016. The planned judicial reform could further accelerate court procedures. What is more, in order to tackle infrastructure gaps, the Maltese parliament approved the government's plan to upgrade the country's road network. The EUR 700m seven-year road works project will commence in 2019 and the envisaged investments will be planned, overseen, and implemented by a newly-established government agency (Infrastructure Malta).

We regard Malta's healthy and improving public finances as a key credit strength. After the budget balance had turned positive in 2016 for the first time in 35 years, the headline surplus rose from 0.9 to 3.5% of GDP last year. Thus, Malta recorded the highest fiscal surplus in the euro area in 2017. In addition, the final budgetary outcome was significantly higher than envisaged in draft budget 2018, which had targeted a surplus of 0.8% of GDP on the general government level.

Last year's budgetary outperformance was mainly a result of higher-than-anticipated-revenues from Malta's IIP (2.2% of GDP) and strong nominal GDP growth, which translated into briskly growing government revenues. As a result, the revenue side contributed the bulk (1.7 p.p. GDP) to last year's improvement in the fiscal balance. Total government receipts expanded by 14.3% on the year, driven by double-digit increases in both tax and non-tax revenues. Taxes on income and wealth benefited from record-high tourism earnings and robust private consumption, increasing at a rate of 13.4% y-o-y (2016: +11.8%). Net social security contributions were up 9.9% (2016: 7.2%), mirroring buoyant labor market performance. Meanwhile, government expenditure lagged revenue growth, expanding by 6.8%. While stagnating public investment (-0.9%) and falling interest expenses (-5.3%) curbed spending growth, intermediate consumption rose by 14.6%, reflecting costs associated with Malta's EU presidency, as well as higher outlays on health and long-term care.

The steadily improving budget balance coupled with strong GDP growth has contributed to a significant reduction in government debt in recent years. Falling from 56.3 (2016) to 50.9%, the government's debt-to-GDP ratio declined for the fourth consecutive year in 2017. Thus, public debt stood almost 20 p.p. below its peak in 2011 (70.1% of GDP). Given the favorable fiscal outlook and robust growth prospects, government debt should remain on a steep downward trajectory over the coming years, with the debt-to-GDP ratio presumably approaching the 40%-mark by 2020. In the same vein, contingent liability risks should continue to recede. Down from a comparatively high 13.7% of GDP, contingent liabilities fell to 9.6% of GDP last year, mainly reflecting the expiration of a state guarantee to ElectroGas, and are expected to fall further (SP 18, 2018e: 8.9% of GDP).

In our opinion, Malta will sustain a positive headline balance in 2018, although we expect the surplus to decrease mainly due to the projected decline in IIP receipts, squeezing the revenue side of the budget. According to DBP 19 projections, IIP receipts can be expected to fall to 1.5% of GDP in 2018 and below 1.0% of GDP in 2019. We also assume that tax receipts will evolve less dynamically than in 2017, mirroring tax reliefs for SMEs and individuals with earnings of less than EUR 60,000. At the same time, a one-off capital transfer is set to put some pressure on government expenditures. State-owned Malta Air Travel services will receive funds in the amount of EUR 63.5m (0.5% of GDP) to acquire landing slots from Air Malta. Budgetary developments in the first half of the year support our view that the government may well achieve its fiscal target of 1.1% of GDP this year. After six months, the budget balance posted a surplus of 105.9m equivalent to 1.8% of GDP.

Looking ahead, the Maltese government should remain committed to sound public finances, with the budget surplus remaining broadly stable at 1.2% of GDP in 2019. As laid out in its draft budget 2019, the government intends to implement some measures to address housing affordability and pension adequacy. Most importantly, authorities have allocated higher funds to investment. Public investment is set to increase gradually from 2.3 (2017) to 3.6% of GDP next year, driven by higher spending on healthcare, transport, and education projects. However, additional spending should be offset by declining interest expenses, as well as savings stemming from the ongoing spending review and the 2016 pension reform.

In the absence of a major policy shift, fiscal sustainability risks appear moderate at present. Nevertheless, Malta faces some challenges regarding the stability of public finances. Corporate income tax, which tends to fluctuate with the economic cycle, makes up for a high proportion of tax revenues. In 2017, taxes on corporate income and profits accounted for 14.8% of total government revenue, which compares relatively high by European standards. Apart from slowing growth, a changing international tax environment could negatively impact CIT revenues. On 15 March 2018, the European parliament voted in favor of an EC proposal to re-launch the Common Consolidated Corporate Tax Base (CCCTB). Should a CCCTB eventually be implemented, this would probably hamper profit shifting of MNEs to Malta and thereby narrow the country's tax base. The past two years have also shown that forecasts on future IIP proceeds are subject to significant uncertainty. In the event IIP revenues fall more sharply than currently expected, this could presumably have an adverse impact on the budget balance. That said, the budget balance net of IIP receipts should remain in surplus.

Malta's large banking system harbors limited contingent liability risks, in our view. International banks, predominantly engaged in interbank and non-resident lending, account for 205.4% of GDP in 2017 (CBM data, almost half of bank total assets). By contrast, core domestic banks (CDBs) with assets amounting to 206.6% of GDP stand for the bulk of lending to Maltese households and NFCs. Given the high degree of interconnectedness with Malta's real economy, the financial constitution of CDBs is, in our opinion, of greater importance with regard to Malta's fiscal sustainability. As highlighted by CBM, CDBs display strong liquidity metrics and capital buffers. While the LCR increased from 164.4 to 183.8%, the CET1 ratio improved from 13.6 (2016) to 14.7% in 2017. What is more, CDBs continue to exhibit a stable funding base (79.4% customer deposits) and enjoy relatively high profitability. Standing at 0.7%, CDBs' return on assets remained above the euro area average of 0.5% last year. At the same time, asset quality continued to improve on the back of favorable macroeconomic conditions, with the NPL ratio decreasing from 5.3 to 4.1%. Nevertheless, asset quality remains a challenge in some segments. Impaired assets are in particular concentrated in the real estate and construction sector, which accounted for only 6.4% of loans outstanding in 2017, but represented more than one third (36.5%) of the total NPL stock.

Although we consider Maltese banks to be generally sound, their growing exposure to the domestic housing market warrants close monitoring. Strong economic activity, positive net migration, and fiscal incentives such as the government scheme for first-time buyers continue to boost house prices and mortgage lending. Since the beginning of 2015, the volume of outstanding mortgages has been growing at yearly rates between 6 and 11%, fueled by rising house prices (2014-17: +17.5%). In Q1 and Q2-18, house prices continued on their upward trajectory, increasing by 5.6 and 5.7% y-o-y respectively. While mortgage lending is growing briskly, lending to companies is recovering only slowly. After having contracted for three years, the outstanding credit volume to the NFC sector turned the corner in Mar-18 and continued to post positive y-o-y growth in Sep-18 (+5.6%). In general, Malta's corporate sector has shifted away from bank lending to alternative funding sources in recent years. In particular, the role of intrasectoral lending has substantially increased in light of relatively high NFC interest rates. According to CBM data, intrasectoral loans were the most important funding source of debt funding in Q2-18, accounting for 46.1% of total corporate debt (banks loans: 22.5%). SMEs' access to finance could benefit from the newly-established Maltese Development Bank (MDB) going forward.

Risks related to Malta's external position are broadly balanced. Potential vulnerabilities associated with the large stock of external liabilities are tempered by the relatively low external debt of the domestic private sector, and sustained current account surpluses.

It should be pointed out that Malta's external balance continues to be characterized by frequent data revisions and a high degree of volatility. Last year, the current account surplus almost doubled from 7.0 (2016) to 13.8% of GDP. Last year's improvement was mostly explained by a strengthening in the trade in goods balance. Owing to weak import demand in the context of last year's slump in investment, the deficit of trade in goods narrowed from 18.8 to 12.2% of GDP. Looking ahead, the current account surplus should moderate somewhat due to the weaker external demand and strengthening imports. Still, we expect Malta to run current account surpluses well above 10% of GDP over the next two years. Malta's external balance should continue to benefit from earlier measures, which have significantly reduced the economy's reliance on fuel imports. Increasing energy efficiency and Malta's integration into the European electricity grid via the Malta-Sicily interconnector in 2015 helped to bring down mineral fuel imports, which dropped sharply from 30.3 to 15.9% of GDP between 2014 and 2017. Meanwhile, the economy's net international investment position (NIIP) remains highly positive and further increased in 2017. Amounting to 62.6% of GDP, Malta's NIIP was the highest in the EU-28 last year. Underlying gross positions were significantly larger. In 2017, external assets and liabilities totaled at 2145.4 and 2082.9% of GDP respectively, mainly reflecting the large size of the domestic financial sector. However, we note that the external funding needs of the private sector are not excessively high. Gross external debt excluding debt liabilities of financial institutions and deposit takers made up for 75.7% of GDP last year.

## Rating Outlook and Sensitivity

Our Rating outlook on the long-term sovereign rating 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.

We could lower the rating if medium-term GDP growth falls significantly short of our current expectations. Its very high degree of trade openness (2017 trade-to-GDP ratio: 251.2%) leaves the economy susceptible to slowing growth in the global economy and in particular in the EU. Given the economy's strong linkages to the British economy, a hard Brexit remains a downside risk to our growth projections. In our view, a disorderly exit of the UK from the EU could have serious adverse effects on service exports and in turn on GDP growth. Likewise, changes in global tax standards or rising protectionism could endanger Malta's attractiveness for FDI and also have negative repercussions on the state's revenue base. That said, downward pressure on the rating could also arise if we observe significant fiscal slippages coupled with a reversal in the debt trend.

Conversely, we could raise our sovereign rating if medium-term growth turns out to be substantially higher than in our baseline scenario, or if public finances improve on a sustainable basis, thus resulting in a steeper-than-anticipated downward trend of general government debt. Moreover, we could upgrade our rating if structural reforms lead to a significant improvement in institutional quality and in the business environment.

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## Ratings*

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|---|---|
| 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

## Economic Data

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018e | 2019e |
|---|---|---|---|---|---|---|---|
| Real GDP growth | 4.6 | 8.2 | 9.5 | 5.2 | 6.7 | 5.5 | 5.0 |
| GDP per capita (PPP, USD) | 32,314 | 35,039 | 37,880 | 39,331 | 41,839 | 44,587 | 47,061 |
| HICP inflation rate, y-o-y change | 1.0 | 0.8 | 1.2 | 0.9 | 1.3 | 1.6 | 1.9 |
| Default history (years since default) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Life expectancy at birth (years) | 81.9 | 82.1 | 82.0 | 82.6 | n.a. | n.a. | n.a. |
| Fiscal balance/GDP | -2.4 | -1.7 | -1.0 | 0.9 | 3.5 | 1.1 | 1.2 |
| Current account balance/GDP | 2.7 | 8.8 | 4.5 | 7.0 | 13.8 | n.a. | n.a. |
| External debt/GDP | 1111.6 | 1104.0 | 935.2 | 850.6 | 808.9 | n.a. | n.a. |

Source: International Monetary Fund, Eurostat, own estimates

## 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 |

### 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.

This sovereign rating is an unsolicited credit rating. The Maltese Ministry of Finance (MoF) participated in the credit rating process as the authorities commented on a draft version of this report. Thus, the report represents an updated version, which was augmented in response to the factual remarks of MoF. The rating outcome as well as the related outlook remained unchanged.

The rating was conducted on the basis of CRAG´s “Sovereign Ratings” methodology in conjunction with its basic document “Rating Criteria and Definitions”. 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 the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Parliament, European Banking Authority, European Central Bank, World Economic Forum, Central Bank of Malta, National Statistics Office Malta, Ministry of Finance, Financial Intelligence Analysis Unit, Malta Gaming Authority, World Travel & Tourism 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. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

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 to 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

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Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact but an opinion. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one’s own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.



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