

# Republic of Malta

## Rating report

### Rating rationale

**Robust economic momentum and strong growth potential.** Malta’s robust economic growth is driven by private consumption, benefiting from a strong labour market, rising real incomes, declining inflation and energy related subsidies. Growth is also supported by net exports, among which high value-added services and tourism, while a favourable tax system continues to spur private investment. However, long-term growth potential could be hindered by skill mismatches, moderate investment in research and development, and structural constraints on energy supply.

**Record of fiscal prudence and moderate government debt.** Strong tax receipts driven by robust economic performance and enhanced tax compliance contribute to the reduction of fiscal deficits, despite pressures on current spending. The projected reduction is underpinned by the EU’s Excessive Deficit Procedure, Malta’s strong track record of prudent fiscal management, and the government’s plan to invest in renewable energy sources. Moreover, the gradual implementation of the EU’s Minimum Tax Directive is not expected to materially weaken corporate tax income and attractiveness. General government debt is expected to remain below 50% of GDP, supported by a favourable debt structure and moderate interest payment burden.

**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 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%	aa-	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%	[+1]	[-0]	- 1/3	
	Social factors	7.5%			0	
	Governance factors	12.5%	a-			
<b>Sovereign Quantitative Model</b>	<b>aa-</b>				<b>-1</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

### Lead Analyst

Thomas Gillet

+49 30 278911-25

[t.gillet@scoperatings.com](mailto:t.gillet@scoperatings.com)

### Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

### Credit strengths and challenges

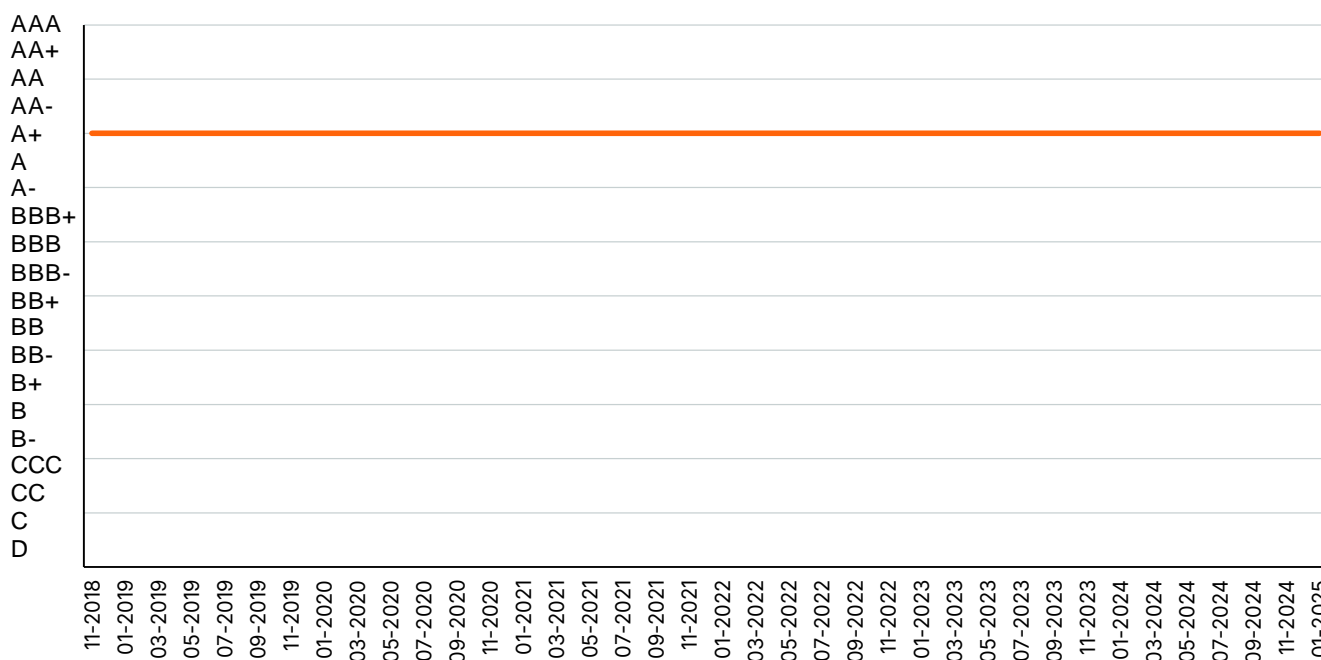
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Robust economic momentum, strong growth potential</li> <li>Record of prudent fiscal management, moderate debt</li> <li>Robust external position</li> </ul>	<ul style="list-style-type: none"> <li>Externally dependent, resource-constrained economy</li> <li>High contingent fiscal risks</li> <li>Lingering institutional and administrative shortcomings</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 reforms support economic 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 prospects</li> <li>Significant weakening in fiscal outlook</li> <li>Institutional fragilities re-emerge and pose a threat to economic attractiveness</li> </ul>

Figure 2: Rating history



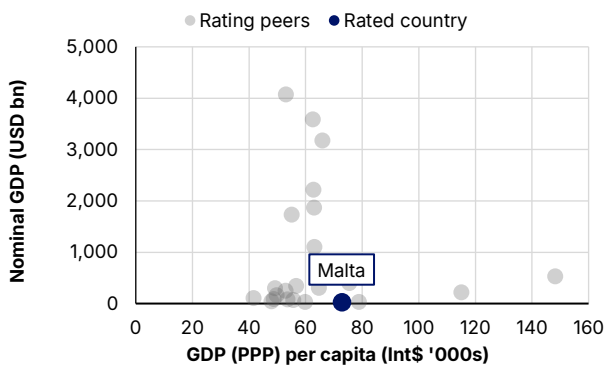
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

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

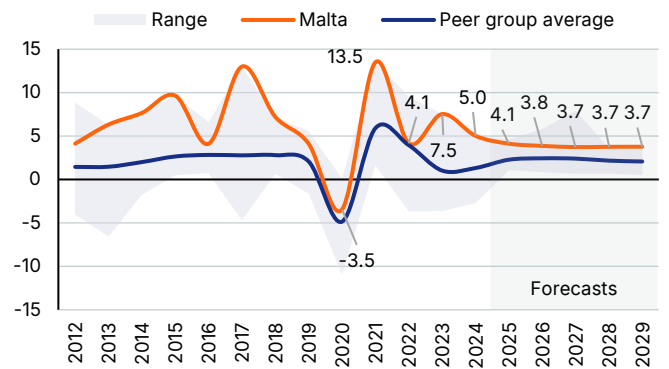
SQM <sup>1</sup> indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential and outlook	Strong	+1/3	High growth potential, high growth sectors and strong labour markets
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macroeconomic 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, %



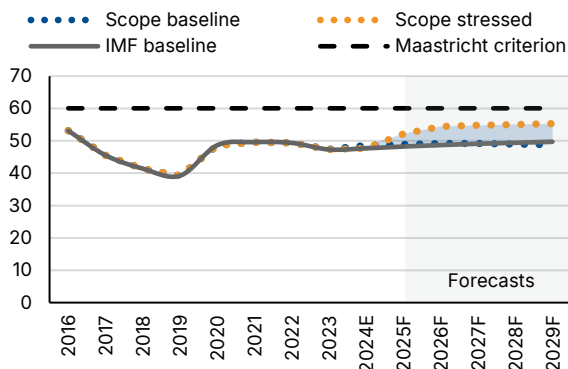
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

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

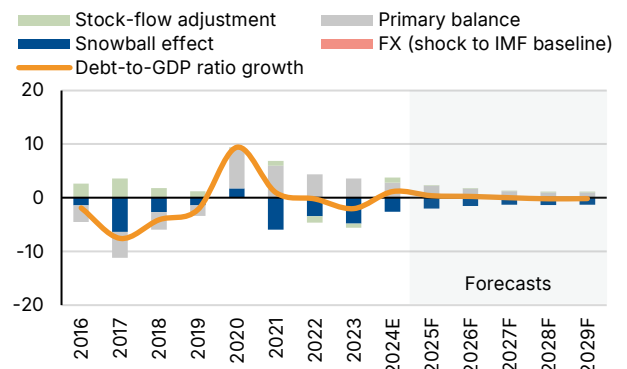
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Fiscal policy framework	Neutral	0	Good record of prudent fiscal management; decreasing deficits reflecting a gradual fiscal consolidation
	Long-term debt trajectory	Neutral	0	Stabilisation of the debt trajectory over the medium term; contingent liabilities pose long-term fiscal risks
	Debt profile and market access	Neutral	0	Favourable debt profile; moderate interest payments and public sector borrowing requirements

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

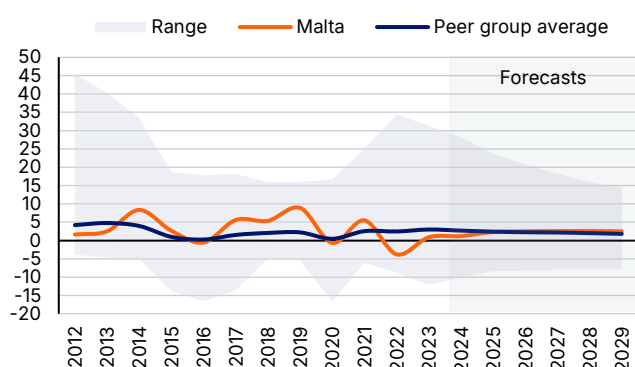
<sup>1</sup> Sovereign Quantitative Model

## External economic risk

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

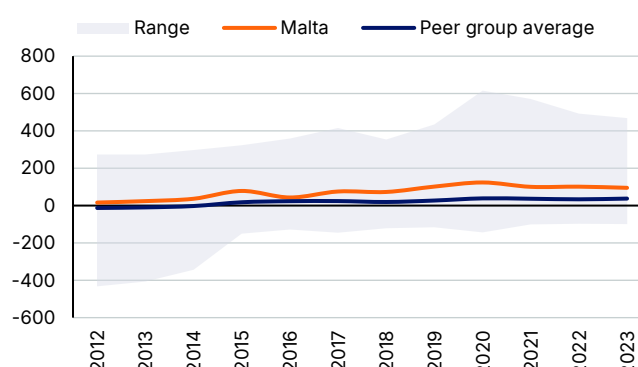
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Current account resilience	Neutral	0	Small, open economy exposed to volatility; current account surpluses underpinned by competitive export sectors
	External debt structure	Neutral	0	Large external liabilities offset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



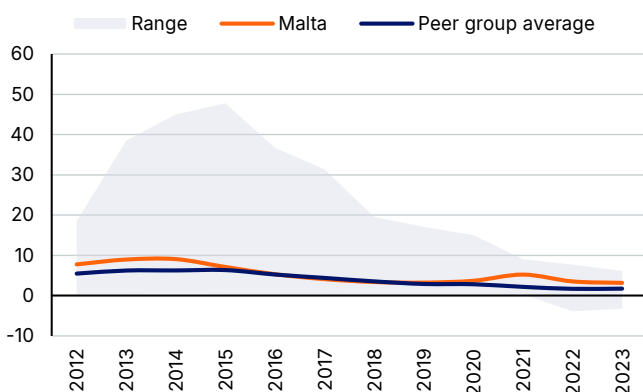
Source: IMF, Scope Ratings

## Financial stability risk

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

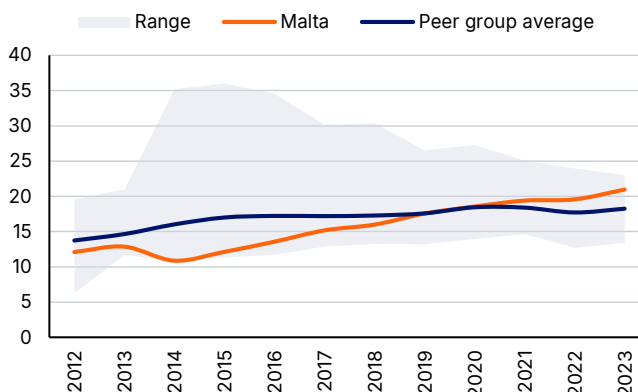
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Profitable and adequately capitalised banking sector
	Financial sector oversight and governance	Neutral	0	Historical shortcomings in supervision though reforms to enhance oversight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

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

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



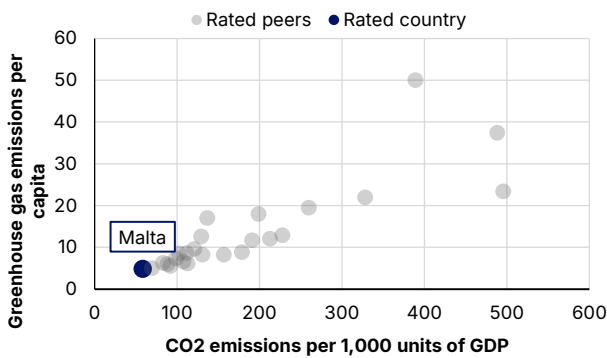
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

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

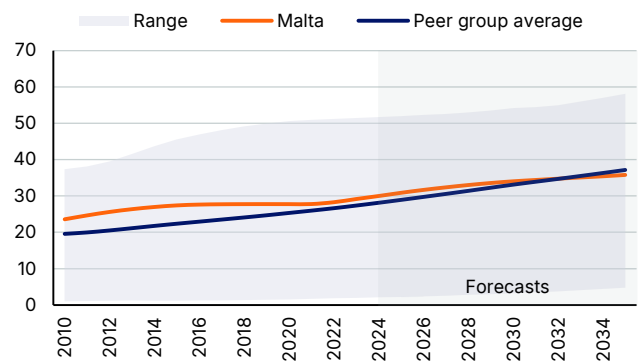
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Environmental factors	Weak	-1/3	Low carbon emissions per capita, but dominance of fossil fuels; higher vulnerability to climate risks given water-scarcity, relatively limited potential for cost-effective renewable energy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

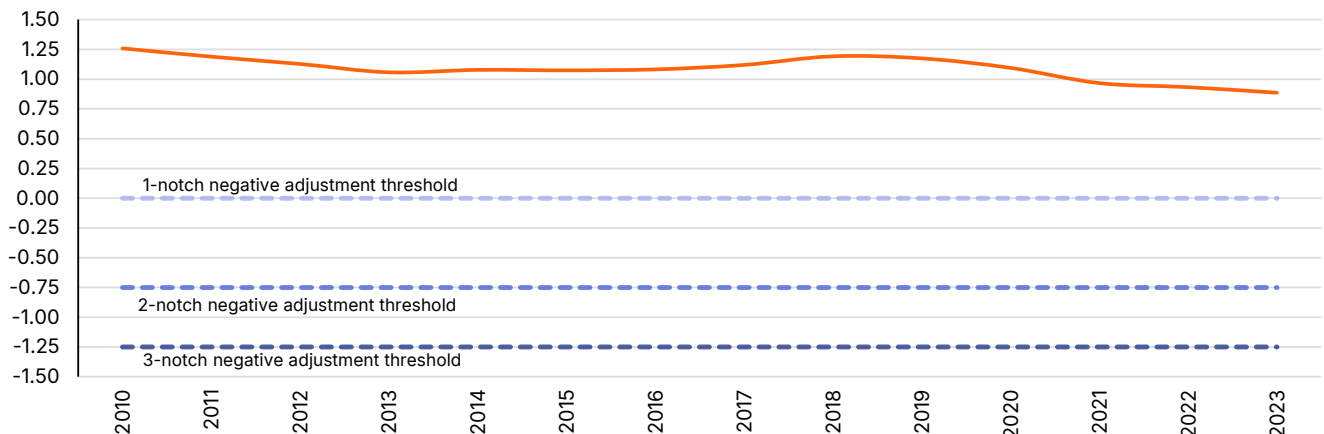
### IMF SDR basket and Scope reserve-currency adjustment

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



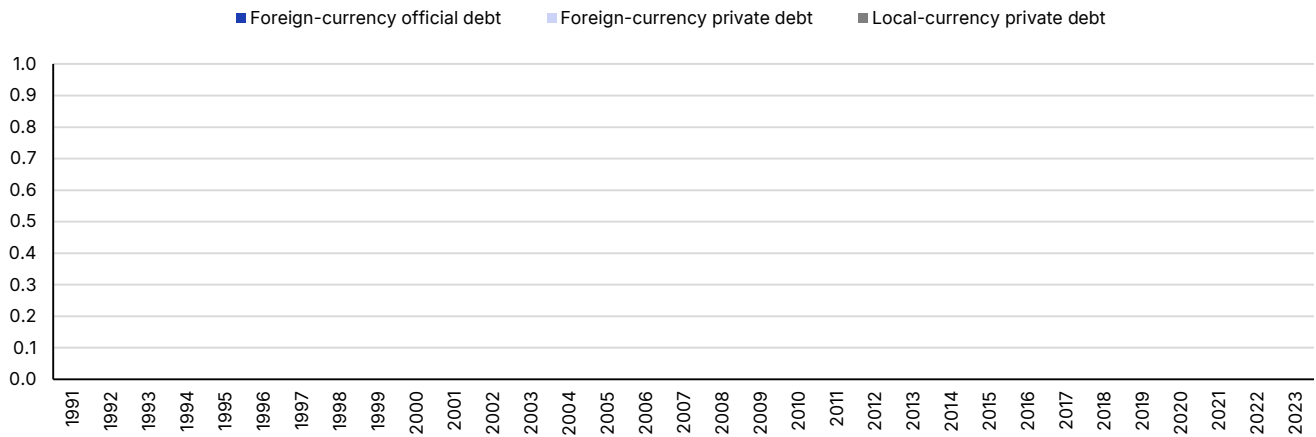
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

### Appendix 1. Sovereign default history

#### 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 2. 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

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

## Appendix 3. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 22 January 2025	57.43

#### Appendix 4. 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	2024
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	49.0	52.5	50.0	58.5	64.6	69.2	72.9
	Nominal GDP, USD bn	IMF	16.2	16.3	16.4	19.7	19.2	22.3	24.4
	Real growth, %	IMF	7.2	4.1	-3.5	13.5	4.1	7.5	5.0
	CPI inflation, %	IMF	1.7	1.5	0.8	0.7	6.1	5.6	2.7
	Unemployment rate, %	WB	3.7	3.6	4.4	3.4	2.9	3.1	-
Public Finance	Public debt, % of GDP	IMF	41.4	39.2	48.6	49.6	49.3	47.3	47.7
	Net interest payment, % of government revenue	IMF	3.9	3.5	3.6	3.1	2.8	3.3	3.8
	Primary balance, % of GDP	IMF	3.3	2.0	-7.5	-6.0	-4.4	-3.6	-2.8
External Economic	Current-account balance, % of GDP	IMF	5.4	8.8	-0.7	5.5	-3.8	0.9	1.2
	Total reserves, months of imports	WB	0.4	0.3	0.3	0.4	0.4	-	-
	NIIP, % of GDP	IMF	73.4	101.7	123.5	100.5	101.4	-	-
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	20.5
	Credit to the private sector, % of GDP	WB	72.5	71.0	80.8	74.5	71.1	69.3	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	62.5	62.3	65.7	58.7	58.7	53.2	-
	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	30.0
	Composite governance indicators*	WB	1.0	0.8	0.9	0.8	0.7	0.6	-
	Political stability, index	WB	1.2	1.2	1.1	1.0	0.9	0.9	0.0

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



**Analyst**

Thomas Gillet  
+49 30 278911-25  
[t.gillet@scoperatings.com](mailto:t.gillet@scoperatings.com)

**Associate Analyst**

Alessandra Poli  
+49 698 70027-498  
[a.poli@scoperatings.com](mailto:a.poli@scoperatings.com)

**Team Leader**

Alvise Lennkh-Yunus  
+49 69 6677389-85  
[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

**Applied methodology**

[Sovereign Rating Methodology](#), January 2024

**Scope Ratings GmbH**

Lennéstraße 5, D-10785 Berlin  
Phone: +49 30 27891-0  
Fax: +49 30 27891-100  
[info@scoperatings.com](mailto:info@scoperatings.com)

**Scope Ratings UK Limited**

52 Grosvenor Gardens  
London SW1W 0AU  
Phone: +44 20 7824 5180  
[info@scoperatings.com](mailto:info@scoperatings.com)



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