INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/17

MALTA

2024 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

January 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Malta, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis following discussions that ended on November 15, 2024 with the officials of Malta on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 17, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Malta

FOR IMMEDIATE RELEASE

Washington, DC – January 15, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Malta. The Board considered and endorsed the staff appraisal on a lapse of time basis.

Malta has experienced remarkable growth over the past decade, primarily driven by export-oriented service industries, such as tourism and online gaming. Although growth is expected to moderate, it will remain among Europe's highest in the near term, along with tight labor markets. Inflation has fallen to around 2 percent, but some inflationary pressures remain in the service sector. Strong growth has been supported by an influx of foreign workers and tourists, leading to increased density and strain on infrastructure and public services. This has raised concerns about the sustainability of the labor-intensive growth model. The financial system has demonstrated resilience amid successive shocks.

Over the medium term, Malta's economy is projected to continue outperforming other European countries, but structural constraints will weigh on growth potential. Risks to the outlook are tilted to the downside. External downside risks include spillovers from intensified Russia's war in Ukraine and the Israel-Gaza conflict and deepening geoeconomic fragmentation. Domestically, wage growth may be higher than expected, resulting in higher inflation. On the upside, tourism exports could grow faster than anticipated, further boosting near-term growth, but at the cost of adding to capacity pressure.

Executive Board Assessment[2]

Malta has experienced remarkable growth over the past decade, while concerns about growing capacity constraints are rising. Although moderating, growth is expected to remain among Europe's highest. Growth has been supported by an influx of foreign workers and tourists, increasing population density and straining infrastructure. Risks to the outlook are tilted to the downside, including spillover effects from regional conflicts. Malta's external position in 2024 is expected to be substantially stronger than the level implied by fundamentals and desirable policies. The key challenge is to enhance a productivity-driven growth strategy for socially and environmentally sustainable growth.

The authorities' commitment to fiscal consolidation is welcome; however, it should focus on shifting policy away from energy subsidies toward investment and innovation. The overall

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

deficit is expected to decline to around 2¾ percent of GDP by 2029, while public debt is projected to remain around 50 percent of GDP, below 60 percent of the EU's debt ceiling. However, energy subsidies are expected to remain sizable, accounting for 20 percent of the fiscal deficit. The authorities should gradually but decisively exit the fixed energy price policy by shifting to more targeted subsidies and strengthening market pricing mechanisms. The resulting fiscal space should be allocated to investment (including green) and services (e.g., health), and innovation support.

The authorities should develop and disseminate a roadmap for corporate income tax (CIT) reform in line with the EU's Directive on Pillar II to guide taxpayers and investors, pending EC clarification of Qualified Refundable Tax Credits. While deferring Pillar II implementation allows for adaptation to international developments, it risks ceding revenue to other jurisdictions that adopt the directive sooner. The roadmap should encompass reforms addressing CIT (for both foreign and domestic companies) and personal income tax.

The authorities' long-term developmental vision should be reflected in fiscal planning. The government recently launched "Malta Vision 2050" to establish the country's long-term strategic direction. It is essential to develop a long-term fiscal framework that reflects emerging spending pressures related to population aging, climate transition, and infrastructure needs. This would help to set priorities and align fiscal planning with strategic goals.

The financial system is sound and stable; however, risks remain due to substantial exposure to real estate, and tightening macroprudential policy stance is warranted. Vigilant monitoring of real estate markets should continue, along with efforts to close the remaining data gaps in the commercial real estate sector. Supervisors should ensure that banks maintain robust underwriting and appraisals for loans to the real estate sector. Additionally, the authorities should continue conducting thorough assessments of cyber risk resilience in financial institutions. Further easing of ECB monetary policy and ongoing strong growth in Malta could stimulate additional credit expansion in real estate. Given banks' increasing and significant exposures to real estate, the authorities should consider raising the sectoral systemic risk buffer rate and broadening its scope beyond residential mortgages.

The authorities' commitment to strengthening the AML/CFT framework and advancing judicial reforms is welcome. They should remain vigilant in monitoring emerging threats, such as trade-based money laundering, and continue enhancing the risk-based approach by ensuring that gatekeepers (e.g., financial institutions) align their business and customer risk assessments with the 2023 National Risk Assessment results. They should also advance judicial reforms, including strengthening the appointment process of the chief justice and improving the efficiency of the justice system.

Continued efforts are needed to raise productivity and foster innovation for sustainable long-term growth. The authorities should continue evaluating the effectiveness of various schemes (e.g., grants, tax incentives) to support innovation activities, start-ups, and scale-ups, focusing on their size and overall design. The establishment of Malta's Venture Capital Fund is a step in the right direction. Innovation and digitalization require a skilled workforce. Therefore, it remains essential to continue efforts to improve educational outcomes, increase STEM enrollment, enhance digital skills, and boost adult learning. Having made notable progress in boosting female participation, the authorities should continue their initiatives to further narrow gender gaps across various measures of gender equality, including representation.

Concerted efforts from both the public and private sectors are essential to achieving Malta's ambitious climate goals. Additional mitigation measures and changes in public behavior are necessary to meet the 19 percent reduction target (relative to 2005 levels) by 2030 under the Effort Sharing Regulations. For climate adaptation, the vulnerability risk assessment should be completed, and the adaptation plan updated accordingly.

Malta: Selected Economic Indicators, 2021–26

	2021	2022	2023	2024	2025	2026
				Est.	Proj.	
Real economy (% change)						
Real GDP (expenditure)	13.5	4.1	7.5	5.0	4.1	4.0
Domestic demand	12.0	8.1	1.7	5.1	5.0	4.3
Output gap (% potential output)	2.3	-0.8	0.0	0.6	0.4	0.1
Gross national savings (% GDP)	33.4	24.4	25.9	25.6	25.5	25.7
Investment (% GDP)	24.0	25.2	19.6	19.3	19.2	19.7
Prices (% change)						
Consumer prices (HICP, avg)	0.7	6.1	5.6	2.5	2.2	2.0
Consumer prices (HICP, eop)	2.6	7.3	3.7	2.1	2.0	2.0
Labor (% change)						
Employment	3.0	6.7	5.4	3.8	2.1	2.1
Wages	2.7	3.9	3.0	3.6	4.1	3.9
Unemployment rate (%)	3.8	3.5	3.5	3.0	3.0	3.0
Net migration (% population)	0.7	4.2	1.9	1.8	1.8	1.7
Financial sector						
Credit to the private sector (% change)	5.8	8.2	8.3	4.2	5.8	6.3
Credit to the private sector (% GDP)	73.4	72.6	69.5	66.7	66.2	66.3
Short term deposit rate	-0.5	0.3	3.4	…	…	…
Long-term bond yield	0.5	2.4	3.7	…	…	…
General government finances (% GDP)						
Net lending/borrowing	-7.0	-5.2	-4.5	-4.0	-3.5	-3.1
Structural balance (% potential GDP)	-3.8	-1.9	-3.6	-3.8	-3.6	-3.2
Structural primary balance (% potential GDP)	-2.8	-1.0	-2.6	-2.6	-2.3	-1.8
Consolidated debt (gross)	49.6	49.4	47.4	49.0	49.7	50.2
External accounts (%GDP)						
Current account	9.4	-0.8	6.4	6.3	6.3	6.0
International investment position, net	105	100	93	95	97	98
Gross debt 1/	374	334	323	337	337	328
Net debt 1/	-186	-173	-171	-184	-191	-198
MEMORANDUM ITEMS						
Nominal GDP (bn €)	16.7	18.2	20.7	22.4	23.9	25.3
Population (1,000)	516	520	542	553	563	573
GDP per capita ($)	38,230	36,959	41,205	43,938	45,224	47,020
Real effective exchange rate	-0.6	-3.7	1.1	…	…	…

Sources: Authorities' data, Eurostat, and IMF staff estimates and projections.

1/ Excludes direct investment intercompany lending. Historical data are staff estimates.

INTERNATIONAL MONETARY FUND

MALTA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

December 17, 2024

KEY ISSUES

Context. Malta has experienced strong growth over the past decade, primarily driven by export-oriented service industries, such as tourism and online gaming. Although growth is expected to moderate, it will remain among Europe's highest in the near term, along with tight labor markets. Inflation has fallen to around 2 percent, but some inflationary pressures remain in the service sector. Strong growth has been supported by an influx of foreign workers and tourists, leading to increased density and strain on infrastructure and public services. This has raised concerns about the sustainability of the labor-intensive growth model. The financial system has demonstrated resilience amid successive shocks.

Policy recommendations. Given the tight labor market and the anticipated further easing of monetary policy by the European Central Bank, tightening fiscal policy would be appropriate. Other key policy priorities include supporting fiscal consolidation by reorienting fiscal policy away from energy subsidies and towards investment and innovation to achieve long-term sustainable growth while maintaining financial stability.

- **Fiscal policy.** The authorities should continue consolidation in line with the EU's new fiscal framework. The fixed-energy price policy should be phased out to contain costs and risks and enhance incentives for energy efficiency and green investments while protecting vulnerable households. Fiscal space created should be reallocated for investment and other productivity-enhancing policies. The authorities should develop a strategy for implementing the EU's Minimum Tax Directive on OECD Pillar II to better guide taxpayers and investors.

- **Financial sector.** The financial system remains sound; however, risks remain, particularly due to banks' substantial exposure to real estate (including residential mortgages, commercial real estate, and construction). The authorities should remain vigilant in monitoring risks from banks' concentrated lending to real estate and ensure that banks maintain robust underwriting and appraisals for loans. They should also consider raising the sectoral systemic risk buffer rate and expanding its scope beyond residential mortgages.

- **Structural reforms.** Continued reform efforts are necessary to boost productivity for sustainable long-term growth. The authorities should focus on a productivity-driven growth strategy that emphasizes innovation, education, training, and environmental sustainability including progressing on green transition and sustainable tourism.

Approved By:
Mark Horton (EUR) and Geremia Palomba (SPR)

Discussions were held in Valletta during November 4–15, 2024. The team comprised Kotaro Ishi (head), Thomas Gade, Fuad Hasanov, and Alexander Pitt (all EUR). Yueshu Zhao (EUR) provided research assistance, and Miguel De Asis (EUR) provided administrative assistance. Claudia Mastrapasqua and Elisa Sales (both Advisors to the Executive Director) participated in the discussions. Riccardo Ercoli (Executive Director) participated in the discussions during the last three days of the mission and attended the concluding meeting. The team met with Minister for Finance and Employment Clyde Caruana, Minister for the Environment, Energy, and Enterprise Miriam Dalli, Minister for Transport, Infrastructure, and Capital Projects Chris Bonett, Minister for Home Affairs, Security, Reforms, and Equality Byron Camilleri, Minister for the Economy, European Funds, and Lands Silvio Schembri, and Central Bank of Malta Acting Governor Alexander Demarco, Malta Financial Services Authority CEO Kenneth Farrugia, and other senior officials, representatives of labor and business organizations, and financial institutions.

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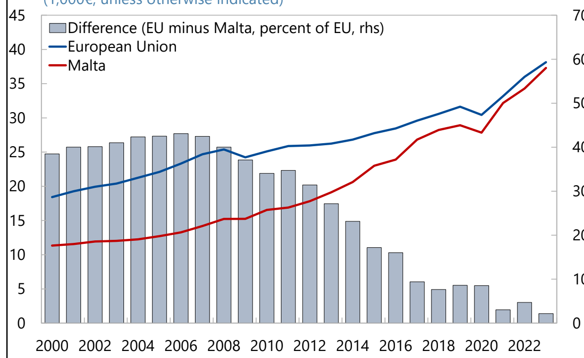
CONTEXT

1. Malta has achieved one of the strongest economic growth rates in Europe over the past decade. Between 2014 and 2023, growth averaged 6¾ percent, the second-highest rate in Europe. As a result, by 2023, GDP per capita converged with the EU average, reflecting proactive policies to promote export-oriented service industries such as tourism and online gaming. Significant recent revisions to GDP and balance of payments data indicate a stronger growth and external sector performance over the past four years, with a more favorable fiscal position than previously estimated.

GDP Per Capita

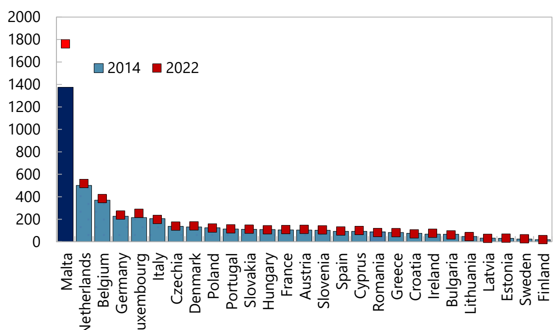
(1,000€; unless otherwise indicated)



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Population Density

(Persons per square kilometer)



Sources: Eurostat, NSO and IMF staff calculations.
Note: The 2022 data for Malta corresponds to 2024.

Malta: Revisions to GDP Data

	2017	2018	2019	2020	2021	2022	2023
GDP (% change)							
Revised	13.0	7.2	4.1	-3.5	13.5	4.1	7.5
Previous	10.9	7.4	7.1	-8.2	12.5	8.1	5.7
Fiscal balance (% GDP)							
Revised	3.4	1.9	0.7	-8.7	-7.0	-5.2	-4.5
Previous	3.3	2.0	0.8	-9.4	-7.6	-5.5	-4.9
Public debt (% GDP)							
Revised	45.5	41.4	39.2	48.6	49.6	49.3	47.3
Previous	47.8	43.4	40.0	52.2	53.9	51.6	50.3
Current account (% GDP)							
Revised	18.9	13.3	17.9	16.0	9.4	-0.8	6.4
Previous	5.6	6.0	8.8	-0.7	5.5	-3.8	0.9

Sources: Authorities' data, Eurostat.

2. Nonetheless, Malta faces challenges in maintaining strong growth while ensuring social and environmental sustainability. Diverse service exports continue to underpin growth. However, strong growth has been supported by an influx of foreign workers and tourists, leading to increased density and pressure on infrastructure (e.g., roads, water, sewage, electricity) and public services (e.g., education and health). Malta also faces a structural labor shortage and mismatches and the challenge of advancing the green transition. Against this backdrop, in October, the government launched the "Malta Vision 2050" initiative to engage the public in discussions about Malta's long-term strategic direction.

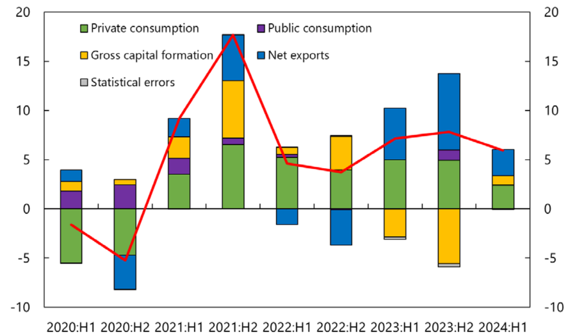
3. The Labor Party (the center-left) holds a comfortable parliamentary majority, with the next election expected in 2027. Although there are disagreements over energy price reforms, Malta's policy direction has aligned broadly with past staff recommendations (Annex I).

RECENT DEVELOPMENTS

4. **Growth has moderated from high levels** (Figure 1, Table 1). Growth slowed from 7¾ percent in H2 2023 to 6 percent y/y in H1 2024. Net export growth has moderated, with buoyant exports—notably tourism—offset by increased imports. Private consumption has also moderated after three years of strong growth, as employment growth slows. Meanwhile, gross capital formation has recovered, reflecting increased investments in intellectual property and residential properties.[1]

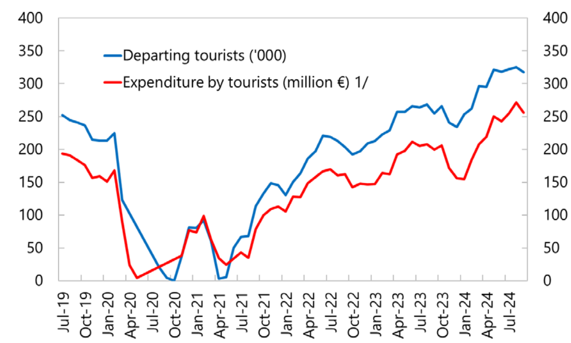
Contributions to Real GDP

(Percentage points, change from the previous period, annualized)



Sources: Haver Analytics, Eurostat, and IMF staff calculations.

Tourist Departures and Spending

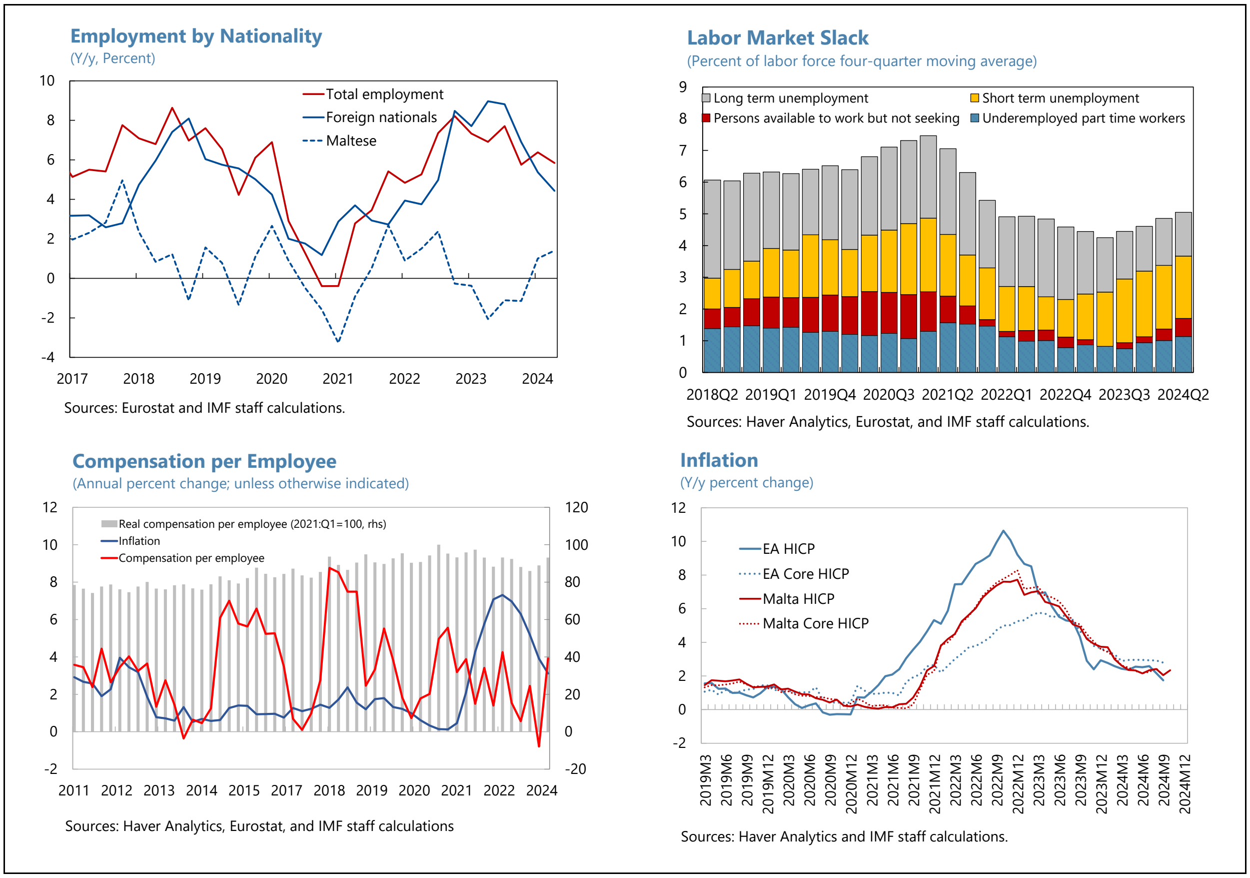


Sources: Haver Analytics, National Statistics Office of Malta, and IMF staff calculations.
1/ Deflated by HICP (2015 prices).

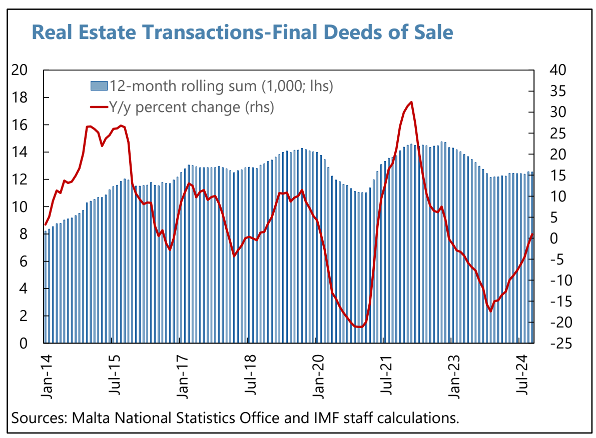
5. **Labor markets remain tight.** Employment continues to grow rapidly, at 5¾ percent in H1 2024, with the unemployment rate staying at historically lows (3 percent in September). Employment growth is largely driven by immigrant workers, largely from outside the EU, with foreign workers now accounting for over 30 percent of the total employment. Broader labor market indicators, such as labor force participation, vacancy rates and the share of part-time and underemployed workers, also point to still-tight labor market conditions. While wage growth picked up in Q1 2024, wage pressures have remained relatively contained, in part reflecting increased foreign worker inflows. Real wages remain lower than two years ago.

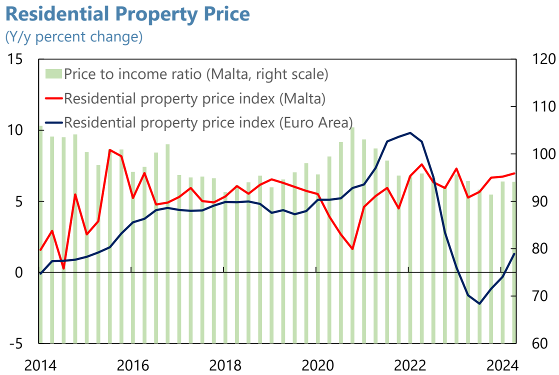
6. **Inflation has fallen, but some inflationary pressures remain.** The headline harmonized consumer price index (HICP) declined from its peak of 7.4 percent y/y in October 2022 to 2.4 percent in October 2024. Similarly, core inflation (HICP excluding energy and processed food) fell to 2.0 percent y/y in September. While goods inflation has fallen below 2 percent, inflationary pressures remain in services, especially in transport and tourism-related services where demand remains particularly strong. While the fixed-energy price policy helped contain headline inflation compared to the Euro Area in 2022, the difference has since faded as European energy prices have receded.

[1] The sharp decline in gross capital formation in 2023 reflected base effects related to exceptional aircraft investments in private aviation in 2022. Investment in a small economy like Malta's is inherently volatile.

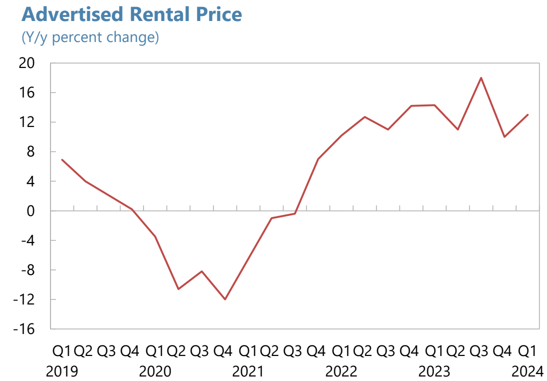


7. There are signs that activity in the residential property market is rising. The number of real estate transactions steadily declined over the past two years, as the post-pandemic boost faded. However, more recently, activity has begun to gradually rebound. Residential property prices have grown by 7 percent over the past year, in line with nominal income growth. Staff estimate that house prices are broadly in line with fundamentals. However, rental prices have continued to grow fast, reflecting a tourism boom and strong inward immigration.





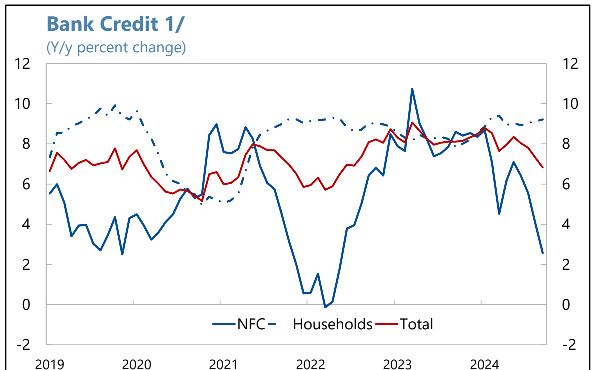
Sources: Eurostat, the European Central Bank, and IMF staff calculations.



Source: Central Bank of Malta.

8. The fiscal deficit has narrowed (Figure 2 and Table 2). The overall fiscal deficit in 2023 was €939 million (4.5 percent of GDP), below the budget forecast of €944 million (5.0 percent of GDP).[2] Energy subsidies, while declining after the global energy price spike of 2022, remained significant at 1¼ percent of GDP. Other subsidies, including costs related to the Air Malta closure, also remained high at 2¼ percent of GDP. In the first nine months of 2024, the fiscal balance recorded a cash surplus due to strong revenues, particularly from income taxes, and contained spending growth. In the last quarter, spending is anticipated to rise, partly due to higher employee compensation from recent wage agreements. Staff estimate the overall balance at 4 percent of GDP for 2024, with the potential for a better outcome.[3]

9. Bank credit to households has steadily grown, whereas credit to non-financial corporates (NFCs) has weakened. Credit growth to NFCs decelerated to 2½ percent y/y in September, as bank interest rates on NFC loans have remained high. In contrast, lending to households has remained robust and even slightly accelerated in recent months, with mortgage interest rates little changed. This reflects limited pass-through from European Central Bank (ECB) policy rates to Malta's mortgage interest rates.[4]



1/ Loans to resident NFCs by all banks.
Sources: Haver Analytics, Central Bank of Malta and IMF staff calculations.

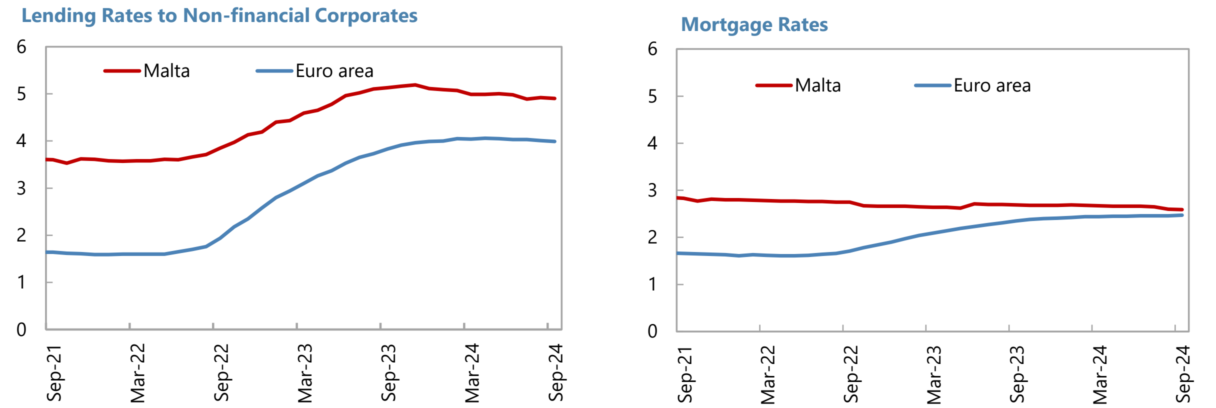
[2] The lower-than-expected deficit as a share of GDP also reflects upward revisions to GDP estimates.

[3] The wage agreements reflect a formula-based cost-of-living adjustment. In the education sector, this includes retroactive wage adjustments for 2023.

[4] The low pass-through reflects abundant liquidity, high banking system concentration, and low loan-to-deposit ratios (see 2023 Selected Issues).

Bank Lending Rates [1]

(Percent)

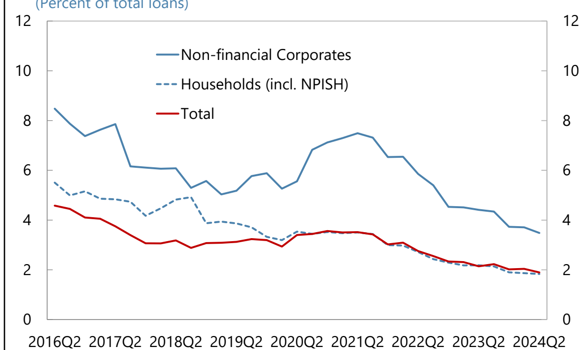


Sources: European Central Bank and Haver Analytics.

[1] Monetary financial institutions' (MFIs) harmonized interest rates on outstanding loans to nonfinancial corporates and households and non-profit institutions for house purchase.

Non-Performing Loans

(Percent of total loans)



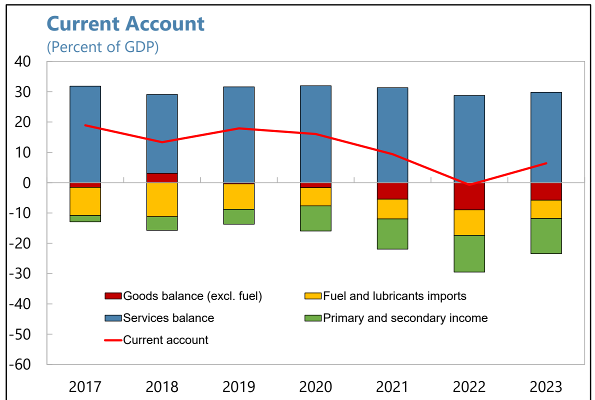
Sources: FINREP, Haver Analytics, and IMF staff calculations.

10. The financial system is stable, with domestic banks and insurance companies holding ample capital and liquidity buffers (Figure 3, Table 4).[5] Supported by strong growth and limited pass-through of interest rates, the non-performing loan (NPL) ratio continued to decline to about 2 percent by Q2:2024. With increased loan volumes and lower provisions, core domestic banks' return on equity reached 12 percent, the highest level in the past several years. Core domestic banks maintain a high level of capital with a Tier 1 capital ratio of 21 percent and a leverage ratio of 8 percent. Banks also hold strong liquidity buffers, with a liquidity coverage ratio of above 350 percent. The authorities introduced a sectoral systemic risk buffer (sSyRB) targeting residential mortgages in 2023 at 1.5 percent, strengthening banks' structural resilience to a potential housing shock. The domestic life-insurance sector also maintained strong capital and liquidity positions, with a solvency capital ratio of about 268 percent and a liquidity asset ratio of 59 percent.[6]

[5] Malta's financial system is large and bank-dominated, with total assets about 2.1 times GDP in 2023 (about 1.6 times GDP, excluding international banks). Core and non-core banks accounted for 68 percent and 8 percent of banking sector assets, respectively, in 2023. The remainder, 24 percent, was accounted for by international banks, which have limited linkages with domestic economic and financial activities. The non-bank financial sector is relatively small, with total assets of the insurance sector (the largest in the non-bank financial sector) less than 20 percent of GDP.

[6] Based on an updated methodology (which reduced the previous figures).

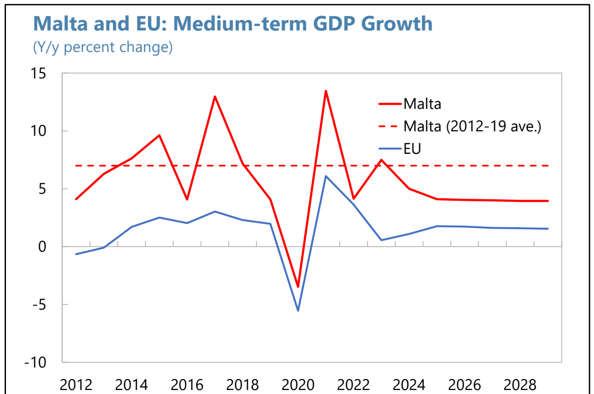
11. The external current account balance returned to surplus in 2023 (Figure 4, Table 3).[7] It was 6¼ percent of GDP, up from -¾ percent of GDP in 2022 but below the 2017-2023 average of about 11½ percent of GDP. The improvement reflects a stronger service balance, a narrower non-fuel goods deficit, and lower energy prices, while the primary and secondary income balances remained largely unchanged. In H1:2024, services exports strengthened, while the primary income balance weakened. Staff project a stable current account surplus of 6¼ percent of GDP as robust service exports continue throughout 2024. Malta's external position in 2024 is expected to be substantially stronger than the level implied by medium-term fundamentals and desirable policies (Annex II).



Sources: Haver Analytics, Eurostat and IMF staff calculations.

OUTLOOK AND RISKS

12. Growth is projected to moderate further. Output growth is forecast to decelerate from 7½ percent in 2023 to 5 percent in 2024 and 4 percent in 2025, remaining among the highest in Europe. Tourism exports are expected to taper off, although the sector should continue to grow robustly, given expanded flight capacity and increased tourism arrivals in the winter season. Non-tourism exports will likely be supported by a modest recovery in Europe. Domestic demand is expected to recover with solid private consumption and investment. The positive output gap, at ¾ percent of potential GDP in 2024, is projected to gradually close over the medium term. Inflation is projected to stabilize around 2 percent by mid-2025.



Sources: IMF WEO and IMF staff calculations.

13. Over the medium-term, Malta's economy is projected to continue outperforming other European countries, but structural constraints will weigh on growth potential. Staff estimate medium-term growth at 4 percent, significantly higher than the EU average, but below the pre-pandemic average. This reflects lower global growth prospects and the maturing of the gaming sector that previously drove Malta's growth. Growth in labor-intensive industries, particularly tourism, may be lower as the authorities shift to a more targeted immigration policy.

[7] Current account data were revised significantly as new administrative data sources became available. This led to a significant upward revision of services and primary income flows, resulting in large revisions of the current account.

14. Risks to the outlook are tilted to the downside (Annex III). External downside risks include spillovers from intensified regional conflicts and deepening geoeconomic fragmentation. These factors could disrupt trade and supply chains, leading to renewed spikes in global commodity prices (including food prices) and higher import prices in Malta. Growth in major economies, including Europe, may also slow. Cyberattacks and misuse of AI technologies could add to risks. Domestically, wage growth may be higher than expected, especially given tight labor markets, resulting in higher inflation. On the upside, tourism exports could grow faster than anticipated, further boosting near term growth, but at the cost of adding to capacity pressures.

POLICY DISCUSSIONS

The fiscal position should be consolidated in line with the EU's new fiscal framework. The current fixed-energy price policy should be phased out while protecting vulnerable groups, and resources reallocated to boost economic capacity in the longer term. Supervisors need to remain vigilant in monitoring and addressing financial sector risks, especially in real estate. Continued structural reforms efforts are imperative to enhance productivity and achieve strong, socially and environmentally sustainable, and inclusive growth.

A. Ensuring Fiscal Sustainability While Boosting Investment and Innovation Support

15. Given the tight labor market and anticipated further easing of monetary policy in the euro area, fiscal consolidation planned for 2025 is appropriate. The 2025 budget aims to reduce the fiscal deficit to 4 percent of GDP, with lower revenue more than offset by reduced spending (in percent of GDP). Key measures include:

- *Revenues*—an adjustment of personal income tax brackets upward to compensate for past inflation is projected to reduce income tax revenue by about ½ percent of GDP. Capital and other current revenues are also projected to decline.

- *Expenditures*—compensation of employees is set to decline from 2024, following one-off retroactive payments related to recent public wage settlements. Subsidies, including energy, will also decrease. Although retail energy prices remain fixed, lower global energy prices will reduce subsidies.[8] Capital spending is also projected to decrease temporarily, reflecting lower disbursements from EU funds.

[8] Retail energy prices are administered by state-owned companies. Prior to the energy crisis in 2022, a long-term fixed price contract for LNG imports helped maintain stable retail energy prices at 2014 levels. In March 2022, the contract expired, resulting in a substantial increase in market prices. In response, the government froze retail prices—including for fuels and electricity—and compensated energy-company losses.

Malta: Fiscal Estimates and Projections
(Percent of GDP)

	2017-19 Avg.	2023	2024 DBP 1/	2024 Staff Proj.	2025 DBP 1/	2025 Staff Proj.	2026 DBP 1/	2026 Staff Proj.	2027 DBP 1/	2027 Staff Proj.
Revenue	36.0	31.8	32.8	32.8	32.0	32.1	31.9	32.1	31.9	32.2
Expenditure	34.0	36.3	36.9	36.8	35.5	35.6	34.9	35.2	34.5	35.1
Recurrent	30.0	31.2	31.8	31.8	31.1	31.1	30.3	30.6	29.6	30.1
Of which: Subsidies	1.3	3.6	2.5	2.5	2.1	2.1	2.0	2.0	2.0	2.0
Of which: Energy	…	1.4	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6
Capital	4.0	5.1	5.0	5.0	4.4	4.4	4.6	4.6	4.8	4.9
Net lending/borrowing	2.0	-4.5	-4.0	-4.0	-3.5	-3.5	-3.0	-3.1	-2.6	-2.8
Primary balance	3.4	-3.5	-2.8	-2.8	-2.2	-2.1	-1.6	-1.7	-1.1	-1.4
Structural balance (% of potential GDP)	1.3	-3.6	…	-3.8	…	-3.6	…	-3.2	…	-2.8
Public debt	42.0	47.3	49.5	48.9	50.1	49.7	50.0	50.2	49.2	50.2
Memorandum items										
Air Malta restructuring	…	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (% change)	10.4	13.2	8.1	8.4	7.0	6.5	7.0	6.2	6.3	6.2
Real GDP (% change)	8.1	7.5	4.9	5.0	4.3	4.1	4.4	4.0	4.5	4.0

Sources: Authorities' data and IMF staff estimates and projections.

1/ Draft Budgetary Plan 2025.

16. **The authorities are committed to gradual consolidation in alignment with the EU's new fiscal framework.** Malta will enter the EU's Excessive Deficit Procedure in 2025. The government has opted for the 4-year adjustment period. Malta's Medium-Term Fiscal Structural Plan (MFSP) aims to reduce the structural deficit by ½ percent of GDP each year, reaching 2.6 percent of GDP by 2027, in line with the EU's new fiscal framework (Annex IV). The planned consolidation relies on spending restraint, especially for personnel, goods and services, and social payments. The current fixed energy price policy will continue; the MFSP assumes constant global energy prices, which implies a small reduction in energy subsidies as a share of GDP. Revenue assumptions are conservative, with neither tax increases nor improvements in taxpayer compliance expected. The MFSP projects slightly higher medium-term growth and faster fiscal consolidation than staff expect.

17. **Debt sustainability analysis suggests a low risk of sovereign stress** (Annex V). Under staff's baseline, public debt is projected to rise marginally from 47 percent of GDP in 2023 to 50 percent in 2026, stay at this level until 2030, and then gradually decline. Under a scenario where the deficit remains around 3½ percent of GDP—assuming constant global energy prices, no reduction in goods and services spending, and slower expansion of renewable energy—public debt would continue to rise but remain below 60 percent of GDP through 2040. A significant but temporary energy price shock (as

Malta: Macroeconomic Assumptions

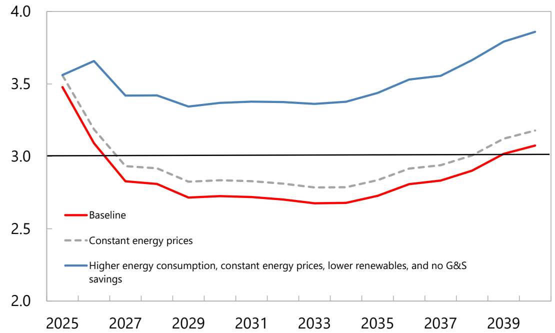
	Avg. 2010-19	2024	2025	2026	2027	2028	2029	2030
Medium-Term Fiscal Structural Plan								
Nominal GDP (% change)		8.2	7.1	7.1	7.2	7.3	7.6	7.5
Potential real GDP (% change)		5.1	4.8	4.6	4.6	4.6	4.6	4.5
Overall fiscal balance (% GDP)		-4.0	-3.8	-3.4	-3.0	-2.6	-2.4	-2.2
Public debt (% GDP)		49.2	49.8	49.9	49.5	48.8	47.8	46.7
IMF Staff								
Nominal GDP (% change)	8.8	8.4	6.5	6.2	6.2	6.2	6.1	5.9
Potential real GDP (% change) 1/	6.3	4.4	4.3	4.3	4.1	4.0	3.9	3.9
Overall fiscal balance (% GDP)	-0.6	-4.0	-3.5	-3.1	-2.8	-2.8	-2.7	-2.7
Public debt (% GDP)	…	48.9	49.7	50.2	50.2	50.2	50.1	50.1

Source: Ministry of Finance, Eurostat, IMF staff projections.

1/ Average 2010-19: percent change of actual real GDP.

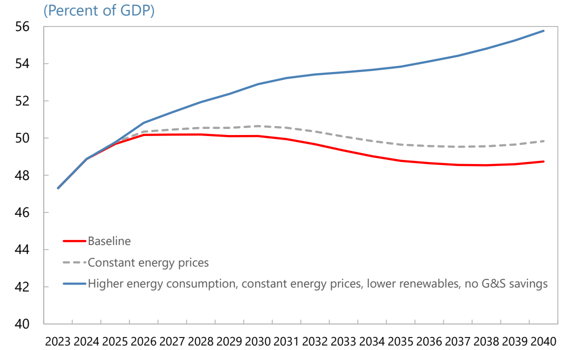
experienced in 2022) would increase public debt but would not trigger a dynamic of continually rising debt.

Overall Deficit: Baseline and Alternative Scenarios
(Percent of GDP)



Source: IMF staff calculations.

Public Debt: Baseline and Alternative Scenarios
(Percent of GDP)



Sources: Eurostat and IMF staff calculations.

Key Assumptions

	Baseline	Constant energy prices	Higher energy consumption, constant energy prices, lower renewables, and no G&S savings
Energy prices	WEO, gradual decline	Constant at 2024 level	Constant at 2024 level
Energy consumption growth	0.5 ppts lower than real GDP growth	0.5 ppts lower than real GDP growth	Same rate as real GDP growth
Renewables growth	5% per year 1/	5% per year 1/	2.5% per year 1/
Goods and services (% GDP)	0.5 ppts of GDP savings over 3 yrs 2/	0.5 ppts of GDP savings over 3 yrs 2/	No savings 2/

1/ Avg. 2019-22: 10.7%
2/ Takes into account age-related spending increases.

18. The consolidation plan poses challenges, especially considering the need to improve infrastructure and implement structural reforms. The authorities' consolidation strategy, which relies on restraining non-energy spending while maintaining the fixed-energy price policy, carries risks. In the event of energy price shocks, additional measures, such as cuts to locally-funded public investment, might be necessary to comply with fiscal rules.[9] Moreover, even under the baseline scenario, the policy of broad spending restraint may hinder structural reforms, such as increasing innovation support to promote productivity-driven growth or enhancing infrastructure investments and public services (e.g., health and education) to accommodate a growing population.

19. Consolidation should entail a strategy to reorient resources and refocus fiscal policy away from energy subsidies and towards investment and innovation to achieve long-term sustainable growth.

[9] In contrast, on the upside, revenues could be stronger than assumed as the ongoing revenue administration reform is successful. However, under the EU's fiscal framework, such overperformance would be saved, as targets are set in terms of net expenditure growth.

- *Rationalizing energy subsidies while minimizing inflationary impacts.* Staff recommends keeping current electricity tariffs for households up to a minimum consumption level and implementing a more progressive tariff schedule for higher consumption. This approach is less inflationary than raising the tariff schedule across all consumption bands and introducing targeted cash transfers for vulnerable groups.[10] For businesses, staff recommends gradually shifting to a full pass-through of market prices, with temporary support for energy-intensive firms conditional on improving energy efficiency. Fuel prices should be adjusted to reflect changes in import prices.

- *Strengthening revenue administration and public investment efficiency.* The Tax and Customs Administration should continue implementing its comprehensive program to improve the efficiency and effectiveness of tax collection, with IMF TA (Annex VI).[11] Next steps include (i) completing the establishment of a large taxpayer office, (ii) implementing the compliance and risk management strategy, and (iii) deploying new IT systems. On the spending side, priorities include: (i) assessing the effectiveness and efficiency of the public investment management framework, supported by a possible IMF public investment management assessment (PIMA) and Climate-PIMA, and (ii) strengthening public procurement in line with OECD recommendations (e.g., digitalizing procurement processes, applying a risk-based approach).

- *Boosting investment for sustainable growth and innovation.* Fiscal space from rationalizing energy subsidies and strengthening revenue administration should be redirected to innovation support as well as public investment and services, which is crucial to address capacity constraints arising from a growing population.

20. Fiscal planning should be more forward-looking by developing a long-term framework. A long-term fiscal framework should incorporate emerging spending pressures related to population aging (pensions, healthcare, long-term care), climate transition targets, and infrastructure investment needs as well as a prospective change in tax policy.[12] This would enable policymakers to set priorities—including in the context of the "Malta Vision 2050"—and devise long-term structural policies to meet future spending needs. The planned revision of the Fiscal Act following the revised EU budget rules would present an opportunity to incorporate this reform.

Corporate Income Tax (CIT) Reform

21. Malta has opted to defer implementation of the EU's Minimum Tax Directive on OECD Pillar II up until end-2029.[13] The authorities are monitoring other jurisdictions' actions and seeking clarification on implementing rules for Qualified Refundable Tax Credits (QRTCs) from the European Commission. While this wait-and-see approach allows adaptation, it has opportunity costs if waiting

[10] The second option requires a higher increase in the average tariff to raise revenue for cash transfers for vulnerable groups.

[11] See Malta Tax and Customs Administration (2023), 2023-2025 Strategic Plan for Tax and Customs Administration.

[12] See Selected Issues Paper, "Taking Stock of Infrastructure in Malta."

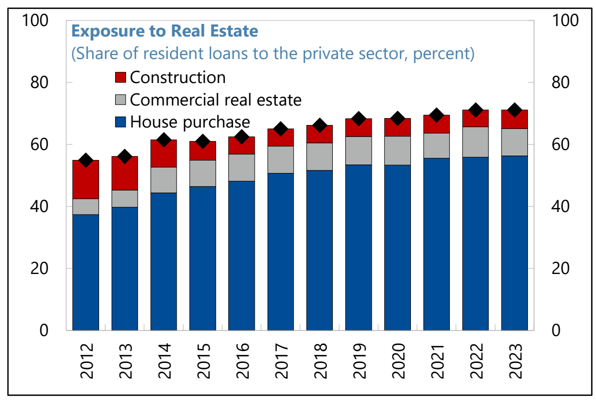
[13] Currently, the statutory tax rate for domestic enterprises is 35 percent, but a refund system allows shareholders of Maltese MNEs to claim a refund of 6/7th of the tax paid in Malta, reducing the effective tax rate (ETR) to 5 percent.

too long. Other jurisdictions implementing a Qualified Domestic Minimum Top-up Tax can collect taxes from multinational enterprises (MNEs) within the scope of Pillar II for the difference between Malta's current effective tax rate (ETR) of 5 percent and the Pillar II minimum ETR of 15 percent, leading to foregone tax revenue for Malta.

22. The authorities should develop a roadmap for CIT reform that aligns with the EU Directive to guide taxpayers and investors. Following last year's staff recommendations, the roadmap should address (i) CIT for MNEs (both within and outside the scope of Pillar II) and domestic firms and (ii) personal income tax due to its interaction with CIT. The authorities should also review the current expenditure system and introduce QRTCs aimed at addressing externalities. It is important the strategy carefully calibrate sequencing of necessary reforms to protect revenues and mitigate distortion in investor incentives.[14] The roadmap should be developed and disseminated promptly, pending clarification of rules regarding QRTCs from the European Commission.

B. Safeguarding Financial Stability

23. Systemic risks are contained, but risks remain, centered on real esate (residential, commercial, construction). Banks' exposure to real estate has steadily increased and now accounts for 70 percent of the total loan portfolio.

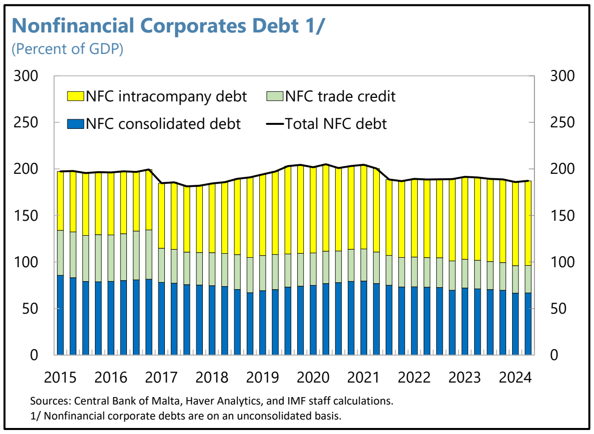


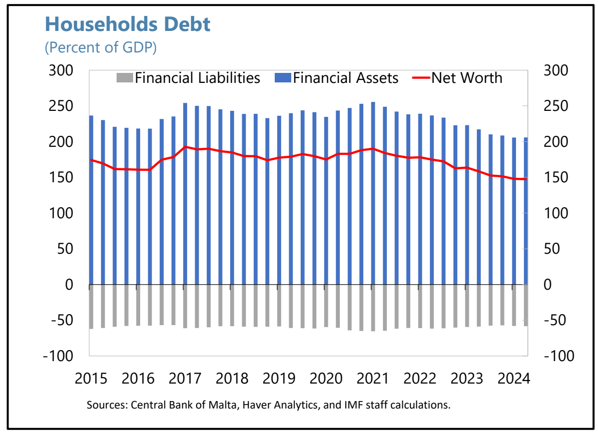
- *Households*. Households retain a solid financial footing, supported by limited pass-through from ECB policy rates to mortgage rates and strong labor markets. A moderate level of household indebtedness (~60 percent of GDP) is mitigated by substantial household assets (206 percent of GDP). Nonetheless, risks remain, especially among lower income households. Furthermore, most mortgages have variable interest rates, which add to this risk. Should banks decide to increase mortgage rates, this would pose a direct risk to households and an indirect risk to consumption and the macroeconomy.

- *Corporates*. Despite a rise in interest rates, corporate sector risks have been contained, as the share of Stage 2 and Stage 3 loans has declined in the corporate loan portfolio. Total NFC debt fell to 187 percent of GDP in Q2 2024, due to strong GDP growth. Corporate indebtedness is lower on a consolidated basis (excluding intracompany loans and trade credits) at ~67 percent of GDP. However, corporates that are highly indebted or rely on market-based financing, including those in construction and other real estate industries, may face pressure from increased debt service

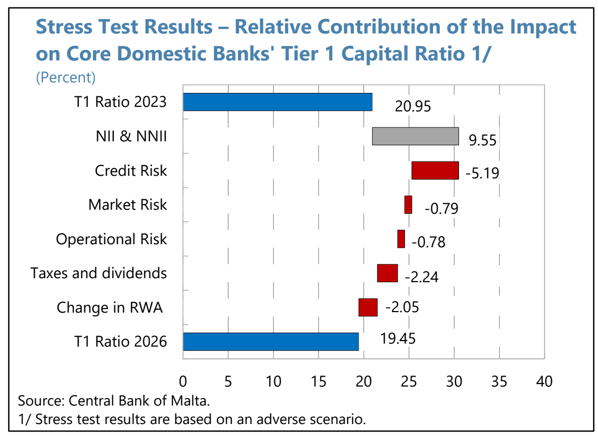
[14] This is because the adoption of the EU directive creates three distinct tax groups in Malta: (i) MNEs within the scope of Pillar II (subject to a 15 percent ETR); (ii) MNEs outside the scope of Pillar II (subject to a 5 percent ETR, the status quo); and (iii) domestic enterprises (subject to a 35 percent ETR).

burdens if growth falters, high interest rates persist, the tourism boom ends, or immigration inflows decline sharply.





24. The Central Bank of Malta (CBM)'s stress tests indicate that domestic banks have adequate capital and liquidity buffers to withstand severe stress scenarios. All core and non-core domestic banks (except for one small bank) meet capital requirements with comfortable margins under an adverse scenario.[15] On the liquidity front, all core banks and most non-core banks can maintain liquidity requirements even under a severe bank-run scenario. However, some banks face difficulties in maintaining liquidity coverage ratios above 100 percent, depending on the severity of the shocks.



25. Close monitoring and preparedness are key to maintaining financial stability:

- Applying granular risk weights for real estate exposures under the EU's Capital Requirements Regulation III (effective January 1, 2025) will strengthen banks' capital requirements. Nonetheless, it is imperative to continue vigilant monitoring of real estate, given sensitivity to macroeconomic conditions, interest rates, population growth, and tourist inflows. Bank supervisors should ensure that banks maintain robust underwriting and appraisals when providing real estate loans.

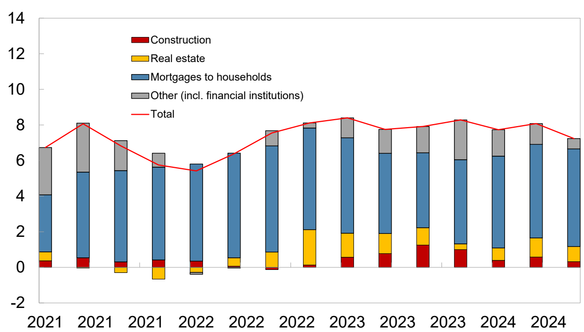
[15] Stress tests are based on the 2023 Financial Stability Report (FSR). Solvency stress tests under a stress scenario—drawing from the adverse scenario of the European Banking Authority's 2023 EU-wide stress test—assume a cumulative 4.9 percent fall in GDP and inflation of 12.1 percent over a three-year period.

- The authorities need to address remaining data gaps in commercial real estate, which is critical for strengthening financial stability analyses.

- Increased reliance on AI technologies, digital platforms, and ICT third party providers, along with heightened geopolitical tensions, raise cybersecurity threats. Implementation of the EU's Digital Operational Resilience Act (effective in January 2025) will strengthen cybersecurity.

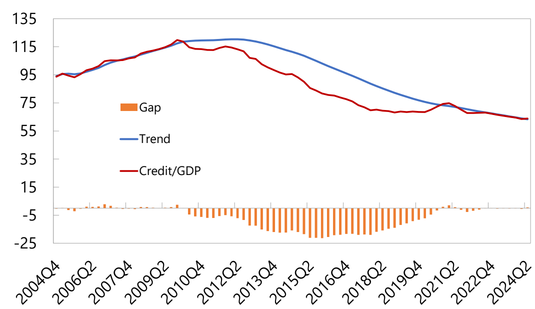
26. Given strong credit growth in real estate and anticipated ECB monetary easing, tightening macroprudential policy is warranted. Bank credit to real estate continues to grow robustly, while credit to other sectors remains modest or weak. Evidence of a positive broad-based credit gap is limited. However, further easing of monetary policy and sustained strong growth in Malta could stimulate additional credit expansion in real estate. Given banks' increasing and significant exposures to real estate, the authorities should consider raising the sSyRB rate in line with rising risks and broadening its scope beyond residential mortgages to include construction and commercial real estate. The effectiveness of borrower-based measures should also continue to be reviewed periodically.[16]

Bank Loans to Residents by Economic Activity
(Percent contribution to total growth, y/y)



Sources: Haver Analytics, Central Bank of Malta and IMF staff calculations.

Credit-to-GDP Gap
(Percent of GDP)



Sources: Central Bank of Malta and IMF staff calculations.
Notes: The credit data encompass resident households and non-financial corporations. The credit-to-GDP gap is determined using the BIS type gap measurement (a one-sided HP filter with a smoothing parameter of 400,000)

C. Sustaining AML/CFT and Governance Reform

27. Over the past few years, progress has been made in reforming the AML/CFT framework. Malta has strengthened beneficial ownership information and significantly bolstered resources for AML/CFT supervisors and regulators. The 2023 AML/CFT National Risk Assessment indicated a decline in the residual risk in most sectors. The authorities should remain vigilant in

[16] Borrower-based measures are applied to residential real estate loans. They include loan-to-value, debt-service-to-income, and maturity limits, with speed limits. "Speed limit" is defined as the restriction of the volume of new loans with the LTV ratio above 90 percent for Category I borrowers (mainly first-time borrowers) and 75 percent for Category II borrowers (mainly those purchasing secondary property). The speed limit is set at 10 percent for Category I borrowers and 20 percent for Category II borrowers.

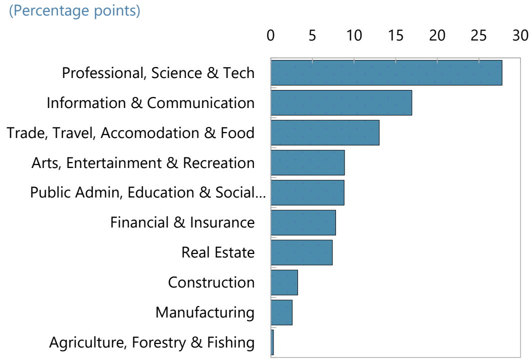
monitoring emerging threats, such as trade-based money laundering, and continue enhancing the risk-based approach by ensuring that gatekeepers (e.g., financial institutions) align their business and customer risk assessments with the 2023 National Risk Assessment results.

28. The ongoing justice system reform should decisively continue to boost investor confidence. The authorities have implemented several measures—including under the 2021 Digital Justice Strategy—to enhance justice system efficiency, effectiveness, and accessibility. Further efforts are needed, especially to strengthen the chief justice appointment process, improve efficiency, and reduce the length of proceedings.

D. Pursuing Structural Reforms

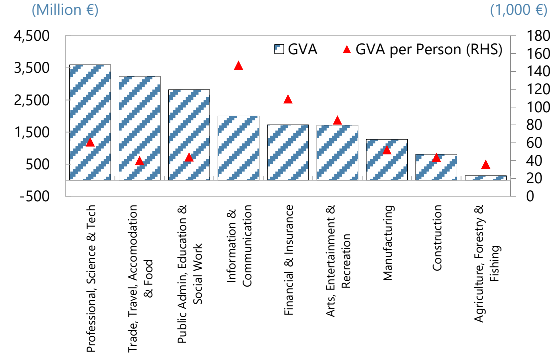
29. Continued reform efforts are necessary to boost productivity. Growth over the past decade has been driven by higher value-added sectors such as professional services, online gaming, and ICT, while lower value-added sectors such as trade and tourism have also experienced strong growth. The influx of foreign workers and increased tourism have strained infrastructure and public services, raising concerns about the sustainability of long-term growth. The authorities should further develop and implement their productivity-driven growth strategy emphasizing innovation, education, training, digital skills, and environmental sustainability—areas that are expected to form the pillars of the "Malta Vision 2050" to be published in Spring 2025.

Contribution to GVA Growth, 2013-23
(Percentage points)



Sources: Haver Analytics, NSO and IMF staff calculations.

GVA by Economic Activity, 2023
(Million €) (1,000 €)



Sources: Haver Analytics, NSO Malta and IMF staff calculations.

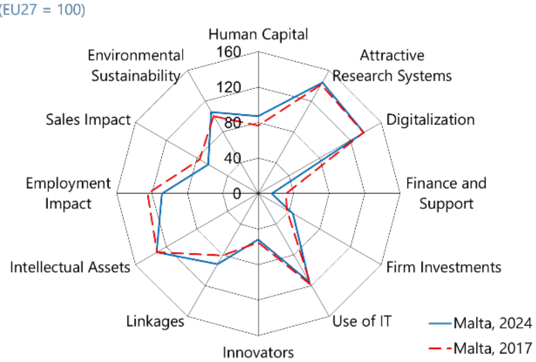
30. The implementation of Malta's Recovery and Resilience Plan (RRP) is well underway. The RRP, combined with other EU funding instruments (largely cohesion funds), supports the advancement of the green and digital transitions, and enhances economic and social resilience through reforms in the judiciary, governance, education, and healthcare. As of end-October, €166 million out of a total of €328 million (1¾ percent of GDP, all grants) have been disbursed, with about 40 percent of milestones achieved.[17]

[17] These include the adoption of a strategy to reduce waste in the construction sector, reforms to boost industrial research, a national antifraud and corruption strategy, and the digitalization of the justice system.

Enhancing Innovation, Digitalization, and Business Dynamism

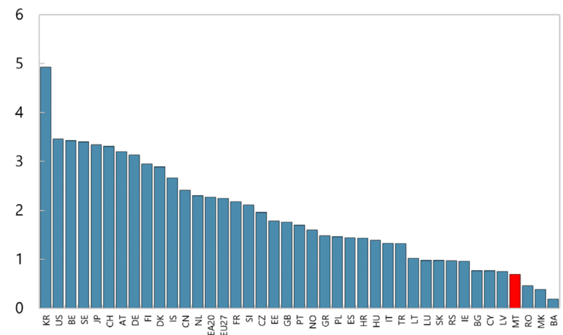
31. Stepping up efforts to strengthen innovation and its financing should enhance business dynamism. The European Innovation Scoreboard indicates that Malta excels in digitalization, ICT usage, and intellectual assets. However, it lags EU peers in R&D expenditure, financing, and human capital, which have deteriorated since 2017. While Malta has a high enterprise birth rate, many businesses do not grow. The authorities recognize these challenges and are implementing a Smart Specialization Strategy for 2021–27, which lays out sector-specific measures to leverage technologies (including AI) and boost innovation. They have also initiated the new National Research and Innovation Strategic Plan 2023-27 to improve Malta's R&D ecosystem.[18] However, more can be done:

Innovation Performance Indicators
(EU27 = 100)



Sources: European Innovation ScoreBoard, 2024

Expenditure on Research and Development, 2022
(Percent of GDP)



Sources: Eurostat, IMF staff calculations.
Note: For some countries, latest available data before 2022 is used.

- *Reviewing tax incentives for innovation.* R&D expenditure in 2022 was 0.7 percent of GDP, two-thirds of which was in the private sector. The government plans to raise R&D spending (both public and private) to 2 percent of GDP by 2030. As part of their efforts, the authorities should strengthen the effectiveness of the current tax incentive schemes for R&D by timely introduction of well-designed QRTCs under Pillar II. Policy design should focus not only local R&D activities but also skills and technology transfer from abroad.[19]

- *Enhancing financing for start-up and innovative SMEs.* Malta has multiple support schemes, including grants, loans, and tax incentives. The authorities should continue evaluating effectiveness of these schemes to support innovation activities and start-ups, including from early stages to commercialization. In addition, the authorities should continue streamlining requirements for companies accessing public funding schemes and developing common

---

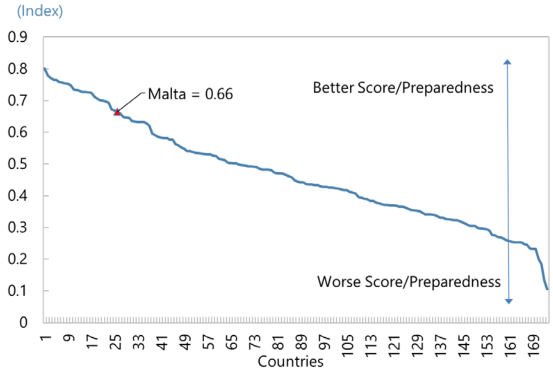
[18] These are health, climate change, manufacturing, marine and maritime, aviation, and digitalization.

[19] See IMF Fiscal Monitor, April 2024, Chapter 2.

account management.[20] In March, a €10 million state-sponsored venture capital fund was established, a step in the right direction. However, its size and design should be periodically assessed and it should be eventually integrated into the venture fund network in Europe.[21]

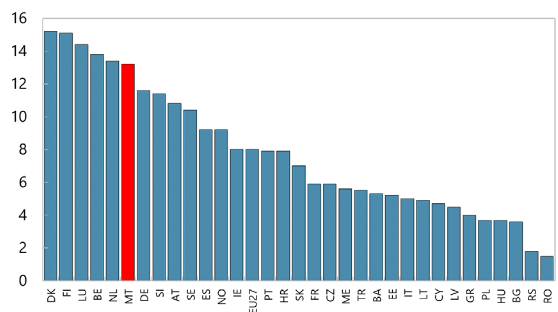
- *Further strengthening digital preparedness and AI use.* Malta has been implementing a well-developed AI strategy since 2019. The IMF's AI Preparedness Index suggests that Malta is well-positioned to harness the potential benefits of AI.[22, 23] However, despite increased digitalization since the pandemic, challenges such as a lack of expertise, high costs, and incompatibility with existing systems, could hinder progress. Malta recently inaugurated a Digital Innovation Hub to support digital entrepreneurs,[24] while e-government transformation is underway. Strengthening cybersecurity remains critical; the authorities continue efforts to mitigate risks through training and cyber-event exercises.

AI Preparedness Index
(Index)



Sources: Cazzaniga and others (2024), IMF staff calculations.

Share of Enterprises using AI Technology, 2023
(Percent)



Sources: Eurostat, IMF staff calculations.
Note: All activities (except agriculture, forestry and fishing, and mining and quarrying), without the financial sector.

Innovation and Digitalization Require a Labor Force with the Right Skills

32. Continued efforts in upskilling and reskilling, along with strengthening education outcomes, are essential to alleviate labor shortages and facilitate labor mobility amid digitalization. Malta faces large skills shortages in both technical and transversal areas. While the population share with tertiary education has increased, the number of STEM graduates has stagnated. Youth performance (measured by PISA scores) remains a focus for the authorities, but progress has been limited. Looking ahead, adopting digital technologies, including AI, could

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[20] Malta Development Bank and Malta Enterprise offer funding schemes to entrepreneurs, while the Malta Council for Science and Technology manages several grant schemes mainly for academic research. In addition, some support schemes, e.g. in digitalization, are managed by Malta Digital and Innovation Authority.

[21] See N. Arnold, G. Claveres, and J. Frie '*Stepping Up Venture Capital to Finance Innovation in Europe*', IMF WP/24/146

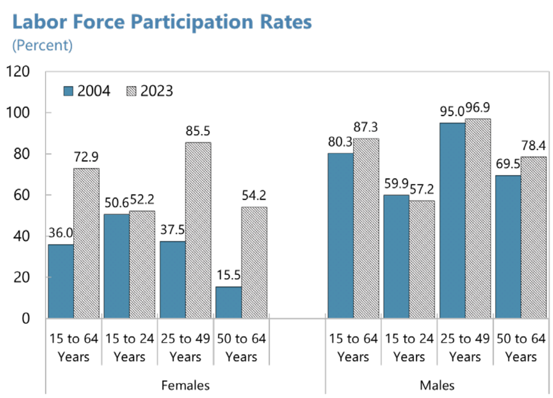
[22] The IMF's AIPI (Cazzaniga and others, 2024) assess the level of AI preparedness as of 2023 across 174 countries, based on macro-structural indicators that cover country digital infrastructure, human capital and labor market policies, innovation and economic integration, and regulation and ethics.

[23] See Selected Issues Paper '*The Impact of Artificial Intelligence on Malta's Labor Market*' for more details.

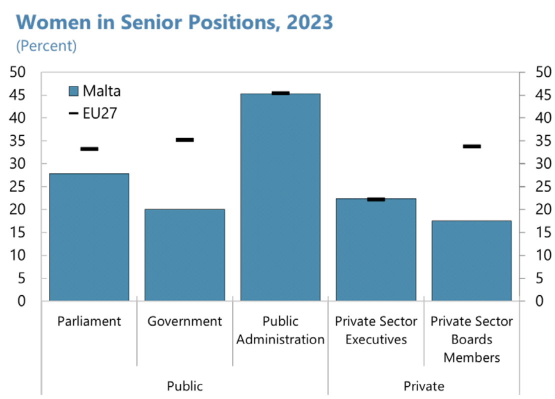
[24] See Malta's Digital Innovation Authority.

enhance productivity and alleviate some labor shortages by freeing up labor in areas such as business administration, customer service, and clerical support. However, this may also result in job losses during the transition. Robust implementation of the National Education Strategy 2024-30 and the Lifelong Learning Strategy 2023-30 is critical for strengthening educational outcomes, better aligning curricula with business needs, and further boosting adult learning.

33. Malta has made significant progress in boosting female labor force participation, but potential remains to further strengthen female representation in senior positions. The government's proactive supply-side policies in the 2010s, along with increased foreign female labor, have contributed to raising female participation rate from 36 percent two decades ago to 73 percent today, exceeding the EU average.[25] Participation among those aged 50-64 years remains low, but with limited scope to increase. The authorities have rightly focused on incentivizing delayed retirement for those already in the labor market. Malta has also significantly progressed in narrowing gender gaps in public administration representation. However, considerable gaps persist in the private sector, which may in part explain remaining gender pay gaps.[26]



Sources: Eurostat, IMF staff calculations.



Sources: Eurostat, European Institute of Gender Equality, IMF staff calculations.

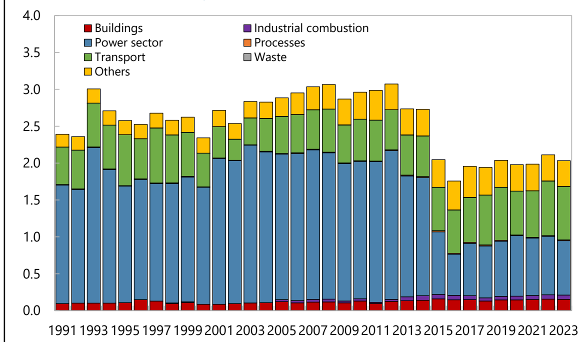
[25] Key policy measures implemented are: taxes and benefits including the reduction in national insurance) contribution, introduction of tax credits, a new parent tax computation, in-work benefits, and higher maternity benefits; and those that impact disposable income indirectly; and other supporting measures including increasing maternity and paternity leave, the introduction of partial payment for parental leave, free child-care services, afternoon school programs. For more details, see [Central Bank of Malta, 2023, "Women In the Labor Market," Quarterly Review 2023:Q2, Fruttero, A., 2020, "Women in the Labor Force: The Role of Fiscal Policies," IMF Staff Discussion Notes, and IMF 2019 Malta Selected Issues.].

[26] See Selected Issues Paper '*Assessing Gender Gaps in Malta*' for more details.

Enduring Environmental and Tourism Sustainability

Greenhouse Gas Emissions by Source Sectors

(In million tons of CO2 equivalent)



Source: EU Emissions Database for Global Atmospheric Research Community GHG.

34. Efforts must intensify to achieve ambitious climate goals, which will also help strengthen Malta's resilience to energy shocks. Net GHG emissions have been significantly reduced over the past decade due to the shift from heavy fuel oil to natural gas in power generation. However, they are projected to rise to around 1990 levels by 2030, negating past progress.[27] Current policies are insufficient to contain GHG emissions, especially from road transport.[28] The share of renewable energy remains low at around 13 percent, in part due to limited land availability for large-scale renewable projects. Planned offshore wind farms would support green electricity supply—but the timing of their rollout is uncertain. Additional actions are needed: (i) implement robustly the 2021 Low Carbon Development Strategy and the updated National Energy and Climate Plan (forthcoming), especially in transportation and buildings and (ii) phase out the fixed-energy price policy to enhance consumers' incentives for conservation and green investment. For climate adaptation, the vulnerability risk assessment should be completed, and the adaptation plan updated accordingly.

35. The "Malta Vision 2050" initiative, launched in October, to improve the quality of life, offers an opportunity to reconcile differing views about development strategies. The initiative focuses on digital innovation, infrastructure, education, healthcare, sustainability, and quality job creation. A steering committee has been established, and the details of the vision, including milestones set for 2035 and key performance indicators, are expected to be published by end-March 2025. The existing planning strategy, *Strategic Plan for Environment and Development* 2015, should also be updated accordingly.

36. The tourism sector requires more effective management. With numerous hotel projects underway and a rise in other types of accommodation, tourism may continue to grow significantly, potentially exacerbating labor shortages, infrastructure bottlenecks, and social and environmental concerns. Attention should be given to steadily implementing the Malta Tourism Strategy 2021–2030, which aims to promote sustainable, high-quality tourism.

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[27] EU Climate Action Progress Report Country Profile 2023 - Malta

[28] EC Malta 2024 Country Report

AUTHORITIES' VIEWS

37. **The authorities broadly agreed with staff on the outlook.** The economy is expected to maintain positive momentum, albeit at a more moderate pace than in the past three years. Wage pressures are contained, partly due to the influx of foreign workers, with inflation stabilizing at around 2 percent by mid-2025. Medium-term potential growth would be lower than in the past decade, as net migration inflows decline. They saw risks to the outlook as balanced, with downside risks including lower global growth and higher commodity prices due to geopolitical tensions and upside risks stemming from stronger gaming and tourism exports.

38. **The authorities reaffirmed their commitment to fiscal consolidation under the EU's new fiscal rules.** The Ministry of Finance (MOF) was confident in reducing the overall deficit from 4 percent of GDP in 2024 to 2.6 percent of GDP by 2027 while keeping public debt below 50 percent of GDP over the medium term. They stressed the continuation of the fixed-energy price policy, which they regard as essential for economic and social stability, noting a significant decline in energy subsidies. In the event of energy price shocks, the authorities would cut non-energy-related expenditure to meet EU fiscal targets.

39. **The MOF prioritizes revenue administration reform before CIT reform.** They appreciated the Fund's support for strengthening revenue administration, which has markedly improved tax compliance, as exemplified by personal income tax (PIT) returns reaching 90 percent. They were also committed to enhancing public procurement. Following progress in revenue administration reform, they will focus on CIT reform in line with the EU's Directive on OECD Pillar II, pending clarification of QRTC rules from the EC. They were open to reforming CIT for domestic firms and PIT but emphasized that reforms should be incremental and gradual. The authorities noted that developing a long-term fiscal framework requires careful assessment, considering Malta's specific political economy.

40. **The authorities stressed that the financial system remains resilient.** The banking system is sound, demonstrated by strong capital and liquidity positions, along with improved asset quality and profitability. Borrower-based measures introduced in 2019 have been effective in strengthening the resilience of lenders and borrowers by limiting risky mortgages. The EU's new capital requirements regulations will strengthen banks' capital. Nonetheless, supervisors reiterated their commitment to staying vigilant in monitoring real estate markets. They acknowledged that cybersecurity is a key risk and continue efforts to mitigate it.

41. **The authorities are planning to tighten macroprudential policies further.** They indicated that credit growth was predominantly driven by real estate, while growth in other corporate sectors remained moderate. They viewed adjusting the sectoral systemic risk buffer (sSyRB), rather than the countercyclical capital buffer, as the optimal policy response. They have already signaled to the banks the possibility of raising the sSyRB rate and expanding its coverage beyond residential mortgages in 2025.

42. The authorities are committed to further strengthening the AML/CFT framework and advancing judicial reforms. They continue to monitor emerging risks and enhance the risk-based approach. Work for the next National Risk Assessment (to be concluded in 2027) has begun. Regarding judicial reform, the authorities stressed their ongoing efforts, including to strengthen the appointment process of the chief justice and improve justice system efficiency.

43. The authorities agreed that enhancing higher value-added activity and innovation is essential for sustainable long-term growth. They highlighted various initiatives, including the Digital Decade Strategic Roadmap 2023-30, to enhance R&D, digitalization, venture capital, and start-ups. They were also considering new initiatives, including a one-stop shop for innovation support and a centralized data repository. The authorities acknowledged the need to strengthen educational outcomes, enhance STEM graduates, and reskill and upskill the labor force. They viewed implementation of the National Education Strategy 2024-30 as key. Furthermore, the authorities agree that efforts should continue to further narrow gender gaps to create a more inclusive and equitable society. They also emphasized that the recently-launched Vision 2050 would guide strategies in enhancing quality of life while addressing pressing challenges like climate change, technological advancements, and immigration policies.

44. The authorities reiterated their commitment to ambitious climate goals. They stressed that the updated National Energy and Climate Plan outlined measures to achieve these goals, but noted that implementation requires behavioral shifts in the public. They disagreed that allowing greater pass-through of market energy prices to consumers would be the best approach to meet climate targets. The authorities are also exploring wind energy harnessing within Malta's exclusive economic zone and developing solar projects in their territorial waters.

STAFF APPRAISAL

45. Malta has experienced remarkable growth over the past decade, while concerns about growing capacity constraints are rising. Although moderating, growth is expected to remain among Europe's highest. Growth has been supported by an influx of foreign workers and tourists, increasing population density and straining infrastructure. Risks to the outlook are tilted to the downside, including spillover effects from regional conflicts. Malta's external position in 2024 is expected to be substantially stronger than the level implied by fundamentals and desirable policies. The key challenge is to enhance a productivity-driven growth strategy for socially and environmentally sustainable growth.

46. The authorities' commitment to fiscal consolidation is welcome; however, it should focus on shifting policy away from energy subsidies toward investment and innovation. The overall deficit is expected to decline to around 2¾ percent of GDP by 2029, while public debt is projected to remain around 50 percent of GDP, below 60 percent of the EU's debt ceiling. However, energy subsidies are expected to remain sizable, accounting for 20 percent of the fiscal deficit. The authorities should gradually but decisively exit the fixed energy price policy by shifting to more targeted subsidies and strengthening market pricing mechanisms. The resulting fiscal space should be allocated to investment (including green) and services (e.g., health), and innovation support.

47. The authorities should develop and disseminate a roadmap for corporate income tax (CIT) reform in line with the EU's Directive on Pillar II to guide taxpayers and investors, pending EC clarification of Qualified Refundable Tax Credits. While deferring Pillar II implementation allows for adaptation to international developments, it risks ceding revenue to other jurisdictions that adopt the directive sooner. The roadmap should encompass reforms addressing CIT (for both foreign and domestic companies) and personal income tax.

48. The authorities' long-term developmental vision should be reflected in fiscal planning. The government recently launched "Malta Vision 2050" to establish the country's long-term strategic direction. It is essential to develop a long-term fiscal framework that reflects emerging spending pressures related to population aging, climate transition, and infrastructure needs. This would help to set priorities and align fiscal planning with strategic goals.

49. The financial system is sound and stable; however, risks remain due to substantial exposure to real estate, and tightening macroprudential policy stance is warranted. Vigilant monitoring of real estate markets should continue, along with efforts to close the remaining data gaps in the commercial real estate sector. Supervisors should ensure that banks maintain robust underwriting and appraisals for loans to the real estate sector. Additionally, the authorities should continue conducting thorough assessments of cyber risk resilience in financial institutions. Further easing of ECB monetary policy and ongoing strong growth in Malta could stimulate additional credit expansion in real estate. Given banks' increasing and significant exposures to real estate, the authorities should consider raising the sectoral systemic risk buffer rate and broadening its scope beyond residential mortgages.

50. The authorities' commitment to strengthening the AML/CFT framework and advancing judicial reforms is welcome. They should remain vigilant in monitoring emerging threats, such as trade-based money laundering, and continue enhancing the risk-based approach by ensuring that gatekeepers (e.g., financial institutions) align their business and customer risk assessments with the 2023 National Risk Assessment results. They should also advance judicial reforms, including strengthening the appointment process of the chief justice and improving the efficiency of the justice system.

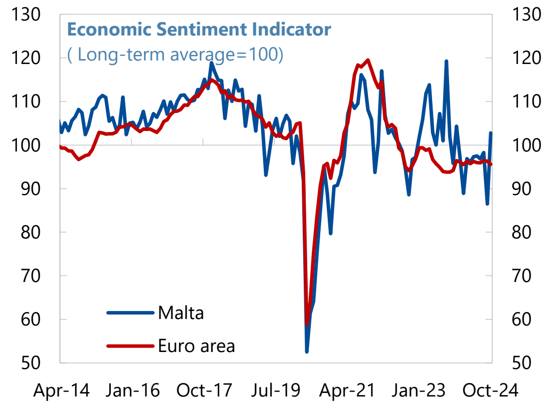
51. Continued efforts are needed to raise productivity and foster innovation for sustainable long-term growth. The authorities should continue evaluating the effectiveness of various schemes (e.g., grants, tax incentives) to support innovation activities, start-ups, and scale-ups, focusing on their size and overall design. The establishment of Malta's Venture Capital Fund is a step in the right direction. Innovation and digitalization require a skilled workforce. Therefore, it remains essential to continue efforts to improve educational outcomes, increase STEM enrollment, enhance digital skills, and boost adult learning. Having made notable progress in boosting female participation, the authorities should continue their initiatives to further narrow gender gaps across various measures of gender equality, including representation.

52. Concerted efforts from both the public and private sectors are essential to achieving Malta's ambitious climate goals. Additional mitigation measures and changes in public behavior are necessary to meet the 19 percent reduction target (relative to 2005 levels) by 2030 under the Effort Sharing Regulations. For climate adaptation, the vulnerability risk assessment should be completed, and the adaptation plan updated accordingly.

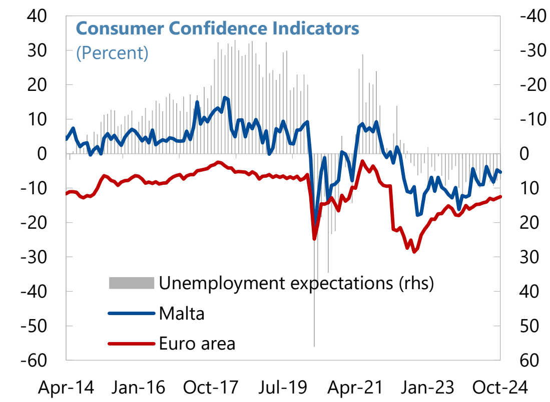
53. It is recommended that the next Article IV consultation be held in the standard 12-month cycle.

Figure 1. Malta: Short-Term Indicators

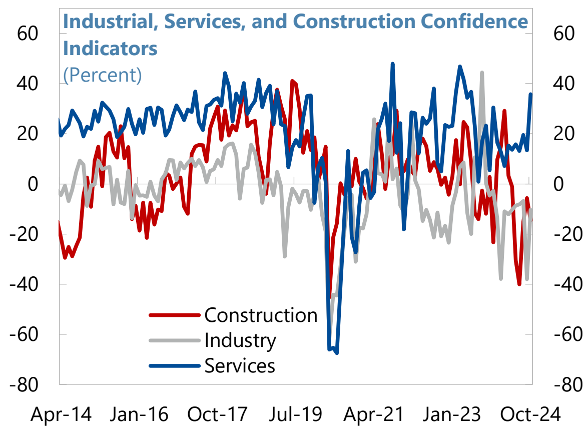
Economic sentiment has remained volatile…



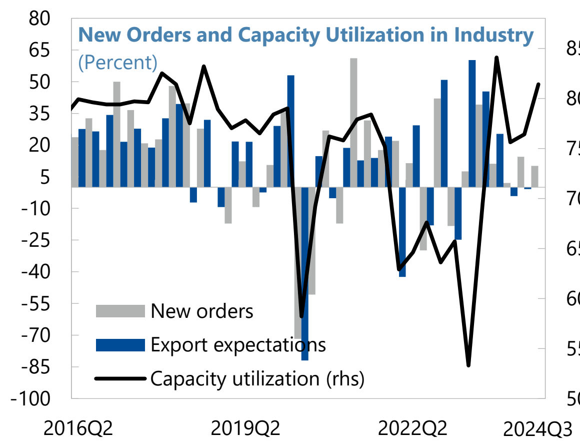
…with subdued consumer confidence.



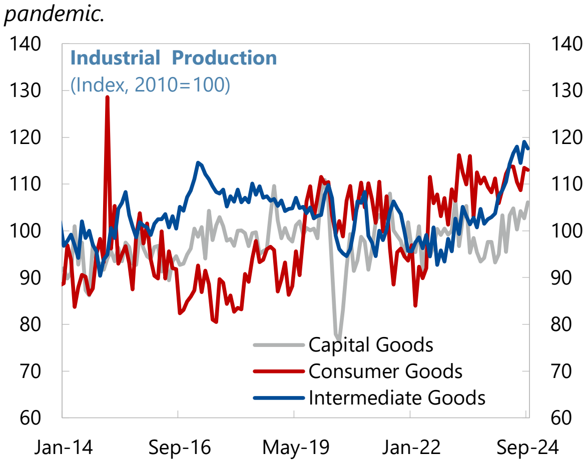
Construction and industry sector confidence declined, whereas confidence in the service sector improved.



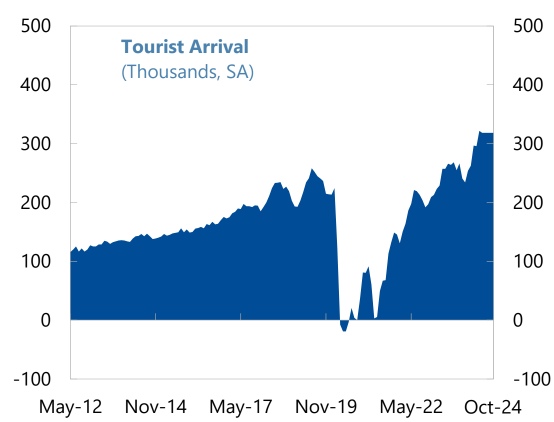
Capacity utilization has risen.



Industrial production continues to recover from the pandemic.



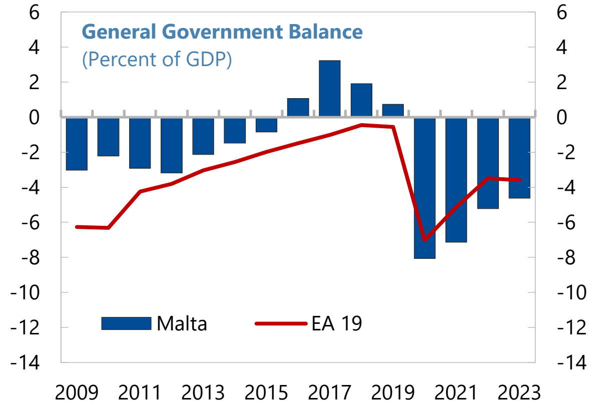
Tourism arrivals have continued to increase.



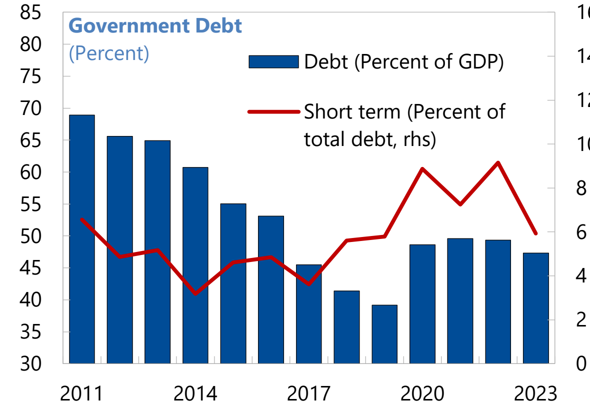
Sources: European Central Bank, Central Bank of Malta, European Commission, and IMF staff calculations.

Figure 2. Malta: Fiscal Developments

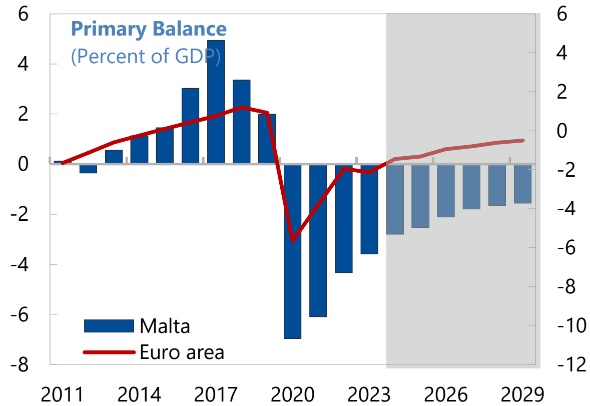
The fiscal deficit remains substantial but has narrowed since the pandemic.



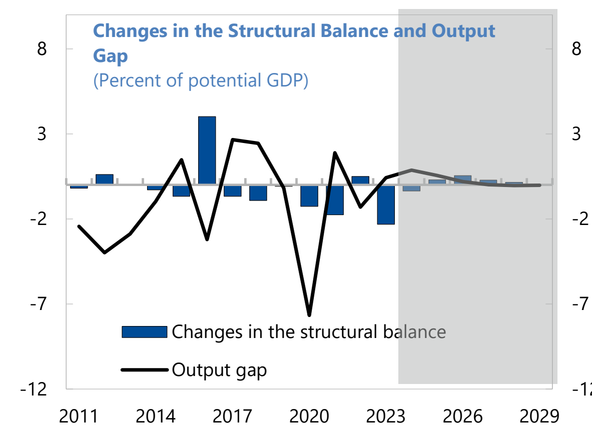
...and the public debt ratio has fallen to below 50 percent of GDP.



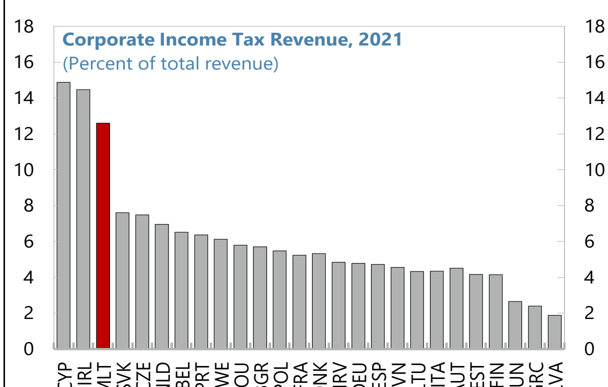
The primary deficit is expected to narrow over the medium term...



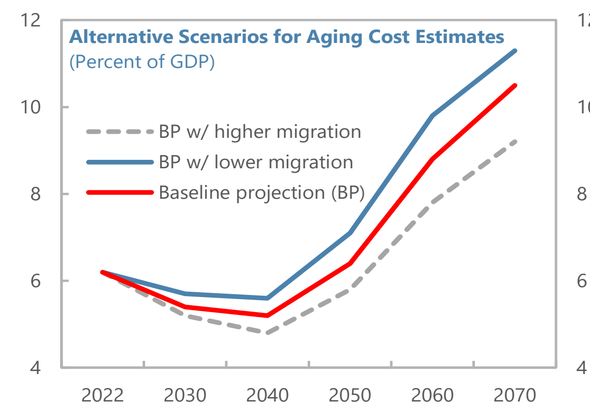
...reflecting an improvement in the structural balance.



Malta's reliance on corporate income tax revenues remains well above the EU average.



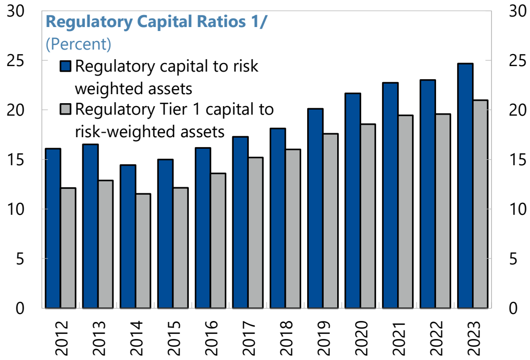
Age-related spending pressure will depend on migrant patterns.



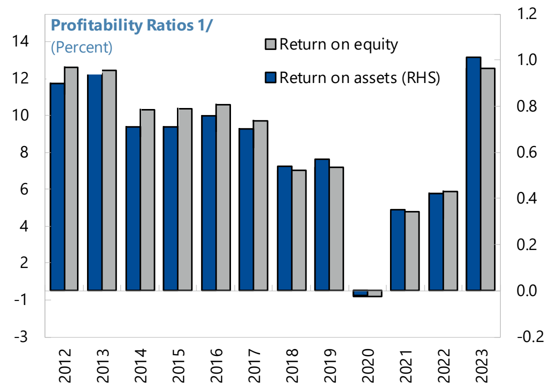
Sources: Eurostat, IMF *World Economic Outlook,* European Commission's "*The 2024 Ageing Report*", and IMF staff calculations.

Figure 3. Malta: Financial Soundness Indicators

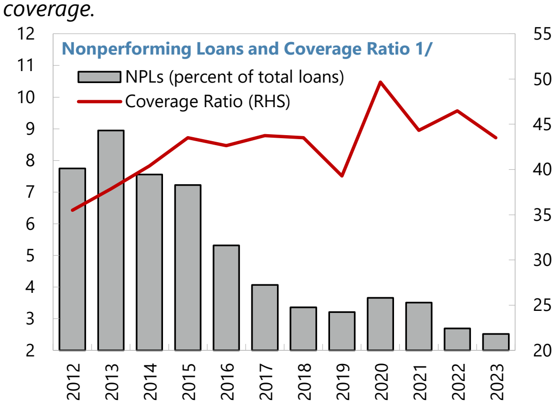
The banking system is well capitalized…



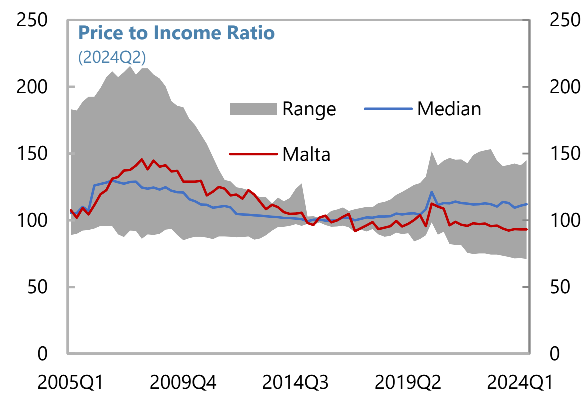
…and bank profitability has improved.



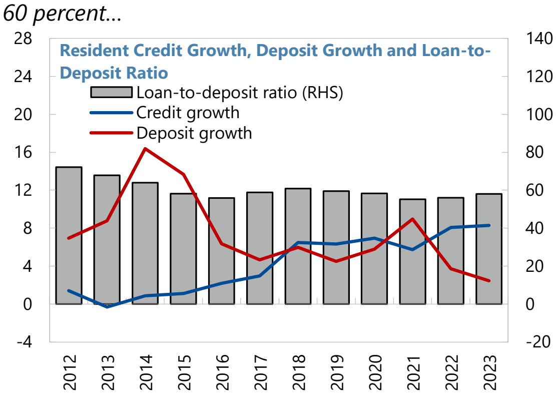
NPL ratios are at historically low levels with adequate coverage.



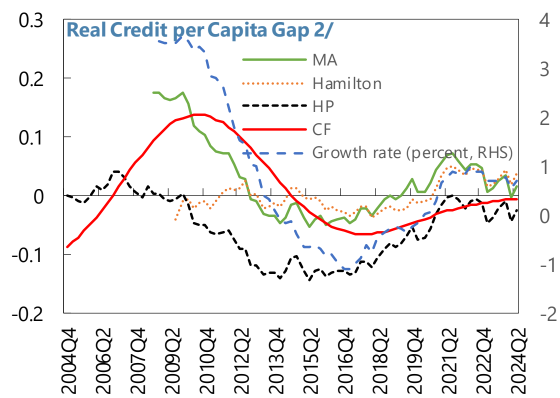
House prices have remained steady as a share of income.



The loan-to-deposit ratio has stayed constant at around 60 percent…



…while credit gaps are broadly around zero.



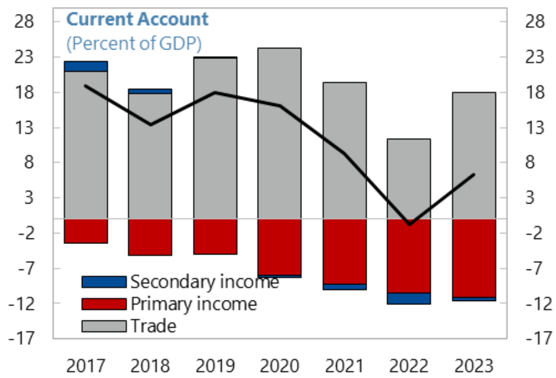
Sources: IMF *Financial Soundness Indicator,* Central Bank of Malta, Malta Financial Services Authority, and IMF staff calculations.

1/ Core domestic banks.

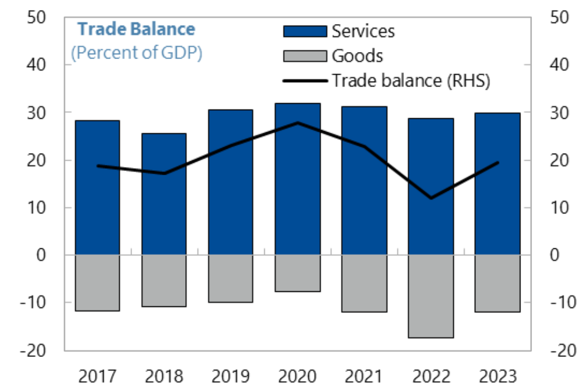
2/ The credit data encompass resident households and non-financial corporations. The growth rate is based on a 5-year horizon. MA shows deviations from a 5-year moving average trend. HP: Hodrick-Prescott filter. CF: Christiano-Fitzgerald filter.

Figure 4. Malta: External Sector

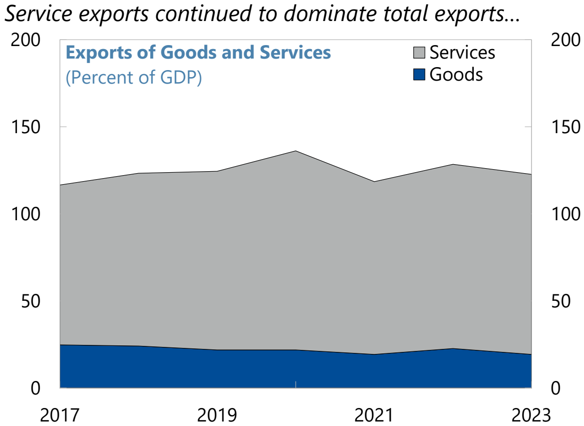
The current account balance returned to a surplus in 2023…



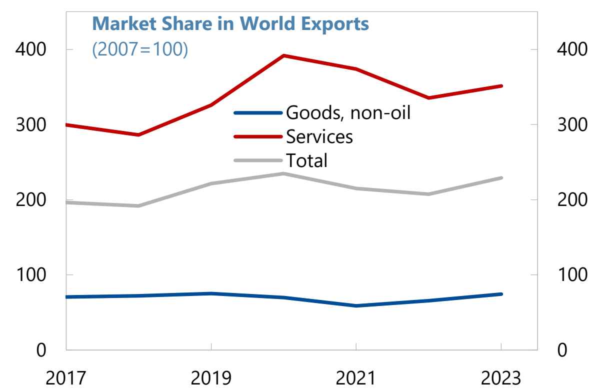
…reflecting a narrowing of the goods deficit.



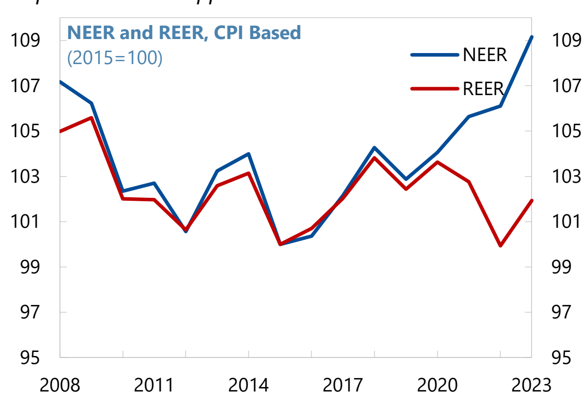
Service exports continued to dominate total exports…



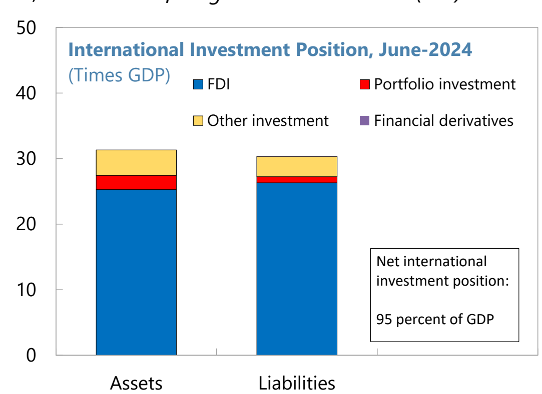
…while market shares in both services and goods increased.



The CPI-based REER has depreciated slightly since 2019 despite a nominal appreciation.



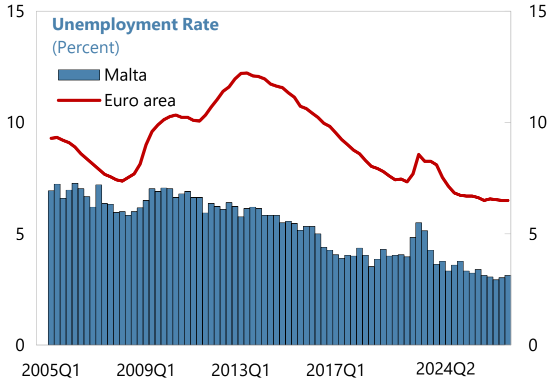
Gross international assets and liabilities exceed 30 times GDP, with sizable foreign direct investment (FDI).



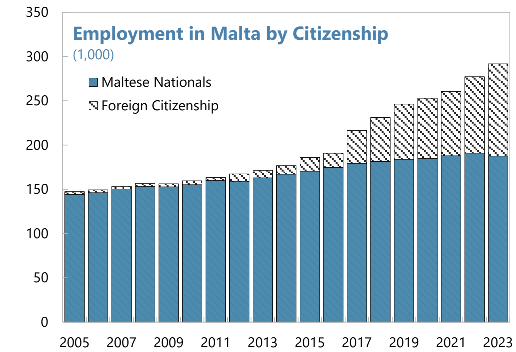
Sources: Haver Analytics, Eurostat, IMF World Economic Outlook, and IMF staff calculations.

Figure 5. Malta: Labor Market and Structural Indicators

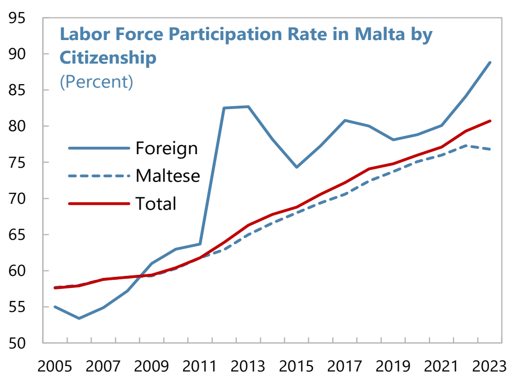
The unemployment rate has declined to historically low levels.



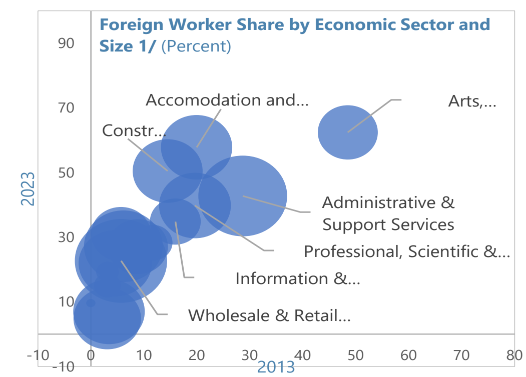
While labor shortages have been mitigated by an influx of foreign workers…



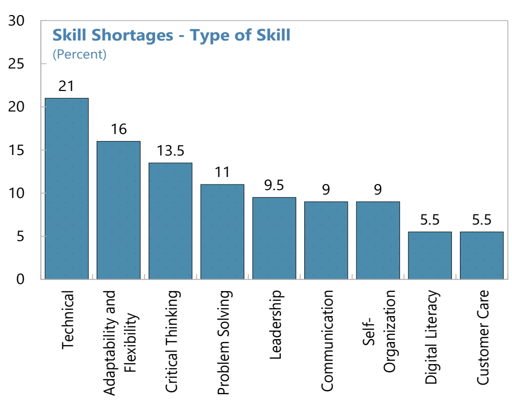
… and a higher participation rate among women.



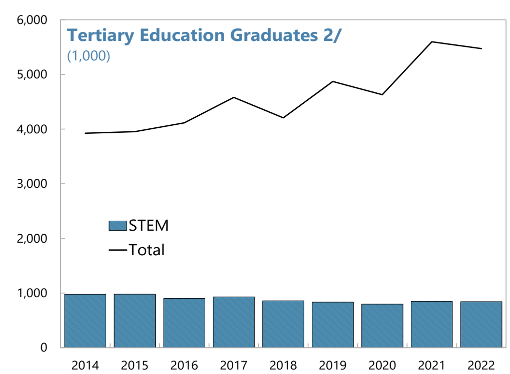
Foreign worker share increased significantly across sectors.



Skill shortages are prevalent, especially among companies in technical areas.



The number of graduates from tertiary education rose but slightly declined in the STEM areas.



Sources: Eurostat, NSO, Malta SME Barometer and IMF staff calculations.

1/ Foreign worker share denoted by the x and y axis, and size of the sector on the total labor market indicated by the size of the circle.

2/ STEM = Science, Technology, Engineering, and Manufacturing.

Table 1. Malta: Selected Economic Indicators, 2021–30

(Year on year change, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.	Projections					
NATIONAL ACCOUNTS										
Real GDP (expenditure)	13.5	4.1	7.5	5.0	4.1	4.0	4.0	4.0	4.0	3.9
Domestic demand	12.0	8.1	1.7	5.1	5.0	4.3	4.4	4.3	4.4	4.3
Consumption	10.0	7.7	8.8	5.0	4.9	3.8	4.1	4.2	4.3	4.2
Private	11.9	11.0	11.2	3.0	4.8	5.0	4.8	3.9	4.4	4.3
Public	5.9	0.4	2.9	10.2	5.1	0.9	2.3	4.8	4.3	3.9
Gross fixed capital formation	20.5	9.7	-18.2	7.0	6.0	6.0	6.0	5.0	5.0	5.0
GNFS exports	-0.4	13.7	4.7	6.0	4.1	5.0	4.8	4.7	4.6	4.5
GNFS imports	-3.1	18.5	-0.4	5.5	4.3	5.3	5.2	5.0	5.0	4.8
Contribution to GDP (percentage points)										
Final domestic demand	11.2	7.3	1.6	4.7	4.5	3.8	4.0	3.9	4.0	3.9
Net exports	3.6	-4.1	6.6	1.2	0.2	0.2	0.1	0.1	0.0	0.0
Inventories and statistical discrepancy	-1.3	0.9	-0.7	-0.9	-0.5	0.0	0.0	0.0	0.0	0.0
Investment (% GDP)	24.0	25.2	19.6	19.3	19.2	19.7	20.0	20.2	20.3	20.3
Public	4.8	4.0	5.1	5.0	4.4	4.6	4.9	4.9	4.9	4.9
Private	19.2	21.2	14.5	14.3	14.8	15.1	15.1	15.3	15.4	15.3
Gross national savings (% GDP)	33.4	24.4	25.9	25.6	25.5	25.7	25.4	25.5	25.4	25.3
Public	-2.2	-1.2	0.5	1.0	0.9	1.5	2.1	2.1	2.2	2.2
Private	35.5	25.6	25.4	24.6	24.6	24.2	23.3	23.4	23.2	23.1
Potential ouput	2.7	7.4	6.6	4.4	4.3	4.3	4.1	4.0	3.9	3.9
Output gap (% potential output)	2.3	-0.8	0.0	0.6	0.4	0.1	0.0	0.0	0.0	0.0
LABOR MARKET										
Labor force	1.8	6.3	6.7	2.3	2.1	2.1	2.2	2.1	2.0	1.9
Employment	3.0	6.7	5.4	3.8	2.1	2.1	2.2	2.1	2.0	1.9
Wages	2.7	3.9	3.0	3.6	4.1	3.9	3.7	3.8	3.9	4.0
Unemployment rate (% labor force)										
Age 15-74	3.8	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Age 15-29	7.0	6.7	6.4	…	…	…	…	…	…	…
Net migration (% population)	0.7	4.2	1.9	1.8	1.8	1.7	1.7	1.7	1.6	1.5
Unit labor costs	-7.5	0.0	-4.1	-2.1	0.1	0.1	0.1	0.1	0.1	0.1
PRICES										
Consumer prices (HICP, avg)	0.7	6.1	5.6	2.5	2.2	2.0	2.0	2.0	2.0	2.0
Consumer prices (HICP, eop)	2.6	7.3	3.7	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Core HICP (eop)	2.3	7.7	3.5	2.1	2.2	2.1	2.1	2.1	2.1	2.1
GDP deflator	2.4	5.1	5.3	3.3	2.4	2.1	2.1	2.1	2.1	2.0
MACRO-FINANCIAL										
Credit to the private sector	5.8	8.2	8.3	4.2	5.8	6.3	6.0	5.6	5.7	5.7
Credit to the private sector (% GDP)	73.4	72.6	69.5	66.7	66.2	66.3	66.1	65.8	65.5	65.4
Short-term deposit rate	-0.5	0.3	3.4	…	…	…	…	…	…	…
Long-term government bond yield	0.5	2.4	3.7	…	…	…	…	…	…	…
GENERAL GOVERNMENT FINANCES (% GDP)										
Revenue	32.5	32.5	31.8	32.8	32.1	32.1	32.2	32.2	32.2	32.2
Expenditure	39.5	37.8	36.3	36.8	35.6	35.2	35.1	35.0	34.9	35.0
Net lending/borrowing	-7.0	-5.2	-4.5	-4.0	-3.5	-3.1	-2.8	-2.8	-2.7	-2.7
Structural balance (% potential GDP)	-3.8	-1.9	-3.6	-3.8	-3.6	-3.2	-2.8	-2.8	-2.7	-2.7
Structural primary balance (% potential GDP)	-2.8	-1.0	-2.6	-2.6	-2.3	-1.8	-1.4	-1.3	-1.3	-1.3
Consolidated debt (gross)	49.6	49.4	47.4	49.0	49.7	50.2	50.2	50.2	50.1	50.1
EXTERNAL ACCOUNTS (% GDP)										
Current account	9.4	-0.8	6.4	6.3	6.3	6.0	5.4	5.4	5.1	5.0
International investment position, net	105	100	93	95	97	98	99	100	100	100
Gross debt 1/	374	334	323	337	337	328	321	314	308	303
Net debt 1/	-186	-173	-171	-184	-191	-198	-204	-210	-215	-220
MEMORANDUM ITEMS										
Nominal GDP (bn €)	16.7	18.2	20.7	22.4 #	23.9	25.3	26.9	28.6	30.3	32.1
Population (1,000)	516	520	542	553	563	573	584	594	604	614
GDP per capita ($)	38,230	36,959	41,205	43,938	45,224	47,020	48,907	50,912	53,152	55,435
Real GDP per capita (% change)	13.2	3.3	3.2	3.0	2.2	2.2	2.1	2.1	2.2	2.2
Real effecitve exchange rate (% change)	-0.6	-3.7	1.1	…	…	…	…	…	…	…

Sources: Authorities' data, Eurostat, and IMF staff estimates and projections.

1/ Excludes direct investment intercompany lending. Historical data are staff estimates.

Table 2. Malta: Fiscal Developments and Projections, 2021–30
(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.			Projections			
GENERAL GOVERNMENT OPERATIONS										
Revenue	**32.5**	**32.5**	**31.8**	**32.8**	**32.1**	**32.1**	**32.2**	**32.2**	**32.2**	**32.2**
Current revenue	31.5	31.6	30.8	31.8	31.4	31.4	31.5	31.6	31.6	31.6
Tax revenue	22.4	22.7	21.8	22.4	22.2	22.3	22.4	22.5	22.5	22.5
Indirect taxes	9.4	9.7	9.4	9.8	9.9	10.0	10.0	10.1	10.1	10.1
VAT	6.0	6.5	6.1	6.4	6.6	6.6	6.6	6.7	6.7	6.7
Other	3.4	3.2	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Direct taxes	12.9	12.7	12.2	12.5	12.1	12.2	12.2	12.2	12.2	12.3
Other taxes	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Social contributions	5.5	5.4	5.2	5.0	5.0	5.0	5.0	5.0	5.1	5.1
Other current revenue	3.5	3.5	3.8	4.4	4.1	4.0	4.0	4.0	4.0	4.0
Capital revenue	1.1	0.9	1.0	1.0	0.7	0.7	0.7	0.6	0.6	0.6
Expenditure	**39.5**	**37.8**	**36.3**	**36.8**	**35.6**	**35.2**	**35.1**	**35.0**	**34.9**	**35.0**
Expense	34.7	33.7	31.2	31.8	31.1	30.6	30.1	30.1	30.0	30.0
Compensation of employees	10.6	10.1	9.4	10.1	9.8	9.7	9.7	9.7	9.7	9.8
Goods and services	7.5	7.1	7.1	7.4	7.6	7.2	7.0	7.0	7.0	7.1
Social transfers	8.6	8.4	8.0	8.0	7.9	7.8	7.6	7.5	7.4	7.4
Subsidies	4.2	4.6	3.6	2.5	2.1	2.0	2.0	2.0	2.0	2.0
Of which: Energy subsidies	0.5	1.8	1.4	0.8	0.7	0.6	0.6	0.6	0.6	0.6
Interest payments	1.0	0.9	1.0	1.2	1.3	1.4	1.5	1.5	1.5	1.5
Other expenses	2.7	2.6	2.0	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Capital expenditure	4.8	4.0	5.1	5.0	4.4	4.6	4.9	4.9	4.9	4.9
Capital transfers	1.1	0.8	1.6	0.8	0.5	0.5	0.6	0.6	0.6	0.6
Capital formation	3.7	3.2	3.5	4.2	3.9	4.1	4.3	4.3	4.3	4.3
Operating balance	-2.2	-1.2	0.5	1.0	0.9	1.5	2.1	2.1	2.2	2.2
Primary balance	-6.0	-4.3	-3.5	-2.8	-2.1	-1.7	-1.4	-1.3	-1.2	-1.3
Net lending/borrowing	**-7.0**	**-5.2**	**-4.5**	**-4.0**	**-3.5**	**-3.1**	**-2.8**	**-2.8**	**-2.7**	**-2.7**
GENERAL GOVERNMENT BALANCE SHEET										
Consolidated debt	**49.6**	**49.4**	**47.4**	**48.9**	**49.7**	**50.2**	**50.2**	**50.2**	**50.1**	**50.1**
Short term	3.6	4.5	2.8	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Long term	42.6	42.3	42.4	43.7	44.4	44.8	44.9	44.9	44.8	44.8
Financial assets	9.6	9.3	9.8	10.3	10.0	9.7	9.3	8.8	8.4	8.0
Net debt	39.9	40.1	37.6	38.6	39.7	40.5	40.9	41.4	41.7	42.1
Government guarantees	7.3	6.4	5.8	6.0	6.0	6.0	6.0	6.0	6.0	6.0
MEMORANDUM ITEMS										
Cyclically adjusted balance	-8.0	-4.9	-4.6	-4.3	-3.7	-3.2	-2.8	-2.8	-2.7	-2.7
Cyclically adjusted primary balance	-7.0	-4.0	-3.5	-3.1	-2.3	-1.8	-1.4	-1.3	-1.3	-1.3
Structural balance (% of potential GDP)	-3.8	-1.9	-3.6	-3.8	-3.6	-3.2	-2.8	-2.8	-2.7	-2.7
Structural primary balance (% of potential GDP)	-2.8	-1.0	-2.6	-2.6	-2.3	-1.8	-1.4	-1.3	-1.3	-1.3
Fiscal impulse	3.6	-2.4	0.0	-0.2	-0.5	-0.4	-0.3	0.0	0.0	0.1
Gross financing requirement	11.4	9.0	9.2	7.7	5.8	7.2	8.0	8.2	6.7	6.6
Of which: Amortization	2.3	2.5	2.4	2.4	2.0	3.8	5.1	5.3	3.9	3.8
GDP (bn €)	16.7	18.2	20.7	22.4	23.9	25.3	26.9	28.6	30.3	32.1

Sources: Authorities' data, Eurostat, and IMF staff estimates and projections.

Table 3. Malta: Balance of Payments, 2021–30
(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Est.	Projections					
BALANCE OF PAYMENTS										
Current account	**9.4**	**-0.8**	**6.4**	**6.3**	**6.3**	**6.0**	**5.4**	**5.4**	**5.1**	**5.0**
GNFS balance	19.3	11.3	17.9	19.8	19.8	19.4	18.8	18.6	18.4	18.2
Balance on goods	-12.0	-17.4	-11.8	-12.0	-12.4	-12.8	-13.4	-13.9	-14.4	-15.0
Exports of goods	19.5	22.9	19.4	18.3	17.8	17.4	17.0	16.6	16.3	15.9
Imports of goods	31.5	40.3	31.3	30.3	30.1	30.2	30.4	30.5	30.7	30.9
Balance on services	31.3	28.8	29.8	31.8	32.1	32.2	32.2	32.5	32.8	33.3
Exports of services	95.3	100.2	99.9	101.6	103.2	104.7	106.0	107.3	108.6	110.0
Imports of services	63.9	71.5	70.1	69.8	71.1	72.5	73.8	74.8	75.8	76.7
Primary income, net	-9.3	-10.5	-11.2	-13.0	-12.9	-12.8	-12.7	-12.6	-12.5	-12.4
Credit	100.0	102.9	98.2	84.0	84.2	84.4	84.6	84.8	85.0	85.2
Debit	109.3	113.4	109.4	97.0	97.1	97.2	97.3	97.4	97.5	97.6
Secondary income, net	-0.7	-1.6	-0.4	-0.5	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8
Capital account	**1.5**	**1.3**	**1.2**	**1.2**	**1.2**	**1.3**	**1.2**	**1.0**	**1.0**	**1.0**
Financial account	**11.4**	**-2.8**	**9.3**	**9.2**	**7.5**	**7.3**	**6.6**	**6.3**	**6.1**	**6.0**
Direct investment, net	-85.0	-7.8	-4.9	-5.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Portfolio investment, net	-9.0	11.1	23.6	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Assets	12.2	9.8	29.8	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Liabilities	21.2	-1.3	6.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Financial derivatives, net	-3.1	-0.3	-1.2	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Other investment, net	108.7	-6.4	-8.1	7.6	11.5	11.3	10.6	10.3	10.1	10.0
Assets	30.1	6.2	26.1	45.0	30.0	20.0	20.0	20.0	20.0	20.0
Liabilities	-78.6	12.6	34.2	37.4	18.5	8.7	9.4	9.7	9.9	10.0
Reserve assets	-0.2	0.6	-0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.5	-3.2	1.7	1.6	0.0	0.0	0.0	0.0	0.0	0.0
INTERNATIONAL INVESTMENT POSITION										
International investment position, net	**105**	**100**	**93**	**95**	**97**	**98**	**99**	**100**	**100**	**100**
Assets	3,717	3,481	3,197	3,124	3,093	3,061	3,034	3,008	2,985	2,968
Liabilities	3,612	3,381	3,104	3,029	2,996	2,963	2,935	2,908	2,885	2,867
Direct investment	-117	-113	-108	-104	-108	-112	-115	-118	-122	-125
Assets	3,010	2,842	2,586	2,505	2,471	2,446	2,423	2,403	2,384	2,370
Liabilities	3,127	2,955	2,693	2,609	2,579	2,557	2,538	2,521	2,505	2,495
Portfolio investment, net	118	117	121	119	118	118	118	119	119	119
Financial derivatives, net	-1	1	-1	-2	-3	-3	-4	-5	-6	-6
Other investment, net	98	89	75	77	84	90	95	100	105	109
Reserve assets	6.1	6.2	5.4	5.6	5.3	4.9	4.7	4.4	4.1	3.9
MEMORANDUM ITEMS										
International reserves (bn €)	1.0	1.1	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Gross external debt 1/	374	334	323	337	337	328	321	314	308	303
Short term	174	168	169	169	169	164	159	156	152	149
Medium and long term	200	166	154	168	168	164	161	158	156	154
Net external debt 1/	-186	-173	-171	-184	-191	-198	-204	-210	-215	-220
General govt	36	32	30	28	27	26	25	24	23	23
Banks	-199	-143	-144	-165	-171	-175	-180	-184	-187	-191
NFC & HH	-23	-62	-57	-47	-47	-49	-49	-50	-51	-52
Real effective exchange rate (% change)	-0.6	-3.7	1.1	…	…	…	…	…	…	…
GDP (bn €)	16.7	18.2	20.7	22.4	23.9	25.3	26.9	28.6	30.3	32.1

Sources: Authorities' data, Eurostat, and IMF staff estimates and projections.

1/ Excludes direct investment intercompany lending. Historical data are staff estimates.

Table 4. Malta: Financial Soundness Indicators, 2020–24[1]

(Percent, unless otherwise indicated)

	Core Domestic Banks					Non-Core Domestic Banks					International Banks[1]					Total Banks[1]				
	2020	2021	2022	2023	Jun-24	2020	2021	2022	2023	Jun-24	2020	2021	2022	2023	Jun-24	2020	2021	2022	2023	Jun-24
Capital[2]																				
Regulatory capital to RWAs	21.7	22.7	23.0	24.7	24.2	20.2	20.3	20.4	20.8	20.7	52.5	46.3	41.1	38.7	37.1	25.8	25.6	24.9	26.0	25.5
Regulatory Tier 1 capital to RWAs	18.6	19.5	19.6	21.0	20.7	19.9	20.0	19.3	19.7	19.6	52.4	46.3	40.7	38.5	36.8	23.4	23.1	22.1	23.0	22.7
Leverage ratio	7.6	7.3	7.2	7.9	8.1	9.5	10.0	9.5	9.5	9.5	42.4	34.2	32.3	28.8	29.6	10.5	9.6	9.0	9.5	9.7
Large exposures to total own funds	69.6	66.1	83.3	60.6	59.2	175.8	173.0	184.7	133.2	129.7	83.3	67.9	75.6	65.4	53.7	81.8	76.4	91.6	68.3	64.6
RWAs to total assets	42.9	39.1	38.0	38.8	40.2	49.0	50.9	50.5	49.6	50.1	82.8	74.9	70.8	67.3	71.8	46.6	43.0	41.5	42.1	43.6
Profitability																				
ROA[3]	0.0	0.4	0.4	1.0	1.1	-1.5	0.2	-0.4	0.6	0.5	2.2	1.5	2.6	2.5	2.0	0.6	0.7	0.9	1.3	1.3
ROE[2,3]	-0.3	4.3	5.4	12.0	12.4	-12.7	2.4	-3.4	5.7	5.2	6.2	11.6	6.0	11.3	13.6	0.4	6.0	4.5	11.2	11.9
Operational cost-to-income ratio	68.0	75.2	82.3	51.0	49.9	95.8	82.2	81.0	66.6	68.7	35.1	47.2	44.5	55.8	63.3	51.7	61.8	62.9	53.9	56.3
Interest margin to gross income	73.2	72.1	71.8	78.8	78.9	48.9	40.9	54.0	66.2	68.4	64.8	56.4	49.2	36.0	33.1	67.8	62.7	59.3	60.0	59.9
Non-interest expense to gross income	70.0	77.0	83.2	51.5	50.3	97.5	83.4	81.3	67.4	69.4	35.2	47.3	44.5	55.8	63.3	52.7	62.7	63.3	54.2	56.5
Personnel expenses to non-interest expenses	45.8	41.2	36.4	46.6	47.0	48.3	48.5	47.3	49.1	49.9	12.7	10.8	10.0	9.2	9.6	34.2	30.3	27.6	30.4	30.3
Non-interest income to gross income	26.9	27.9	28.2	21.3	21.1	51.1	59.1	46.0	33.8	31.6	35.2	43.6	50.8	64.0	67.0	32.3	37.3	40.7	40.0	40.1
Net impairment charges to gross income	29.2	-3.4	-11.5	0.4	-1.1	79.5	6.3	35.2	5.8	5.4	18.7	18.9	14.5	5.5	3.7	25.6	8.1	4.2	2.9	1.2
Asset Quality																				
NPLs to total own funds[2]	28.9	29.4	21.5	17.9	16.0	53.1	34.2	27.8	8.0	9.0	13.2	12.1	11.5	11.8	12.4	26.4	25.7	20.1	15.8	14.7
NPLs to total gross loans	3.7	3.5	2.7	2.5	2.4	7.1	5.1	4.3	1.2	1.3	1.9	1.4	1.3	1.5	1.4	3.5	3.1	2.5	2.2	2.1
Overall NPL Ratio excluding CBM placements	5.1	5.3	3.7	3.3	2.9	12.6	8.5	6.4	2.0	2.2	2.2	1.9	1.6	1.9	2.1	4.7	4.6	3.4	2.9	2.7
Non-performing exposures to total gross exposures	2.8	2.7	2.0	1.8	1.6	5.6	3.8	3.0	0.9	1.1	1.3	1.0	0.9	0.9	0.8	2.6	2.4	1.8	1.5	1.3
Total coverage ratio[4]	49.7	44.3	46.5	43.5	45.5	47.6	59.8	72.7	60.1	59.1	91.4	147.5	189.6	125.3	118.9	55.2	57.9	66.1	55.7	57.9
Unsecured loans to total lending	23.2	20.1	18.7	18.0	18.0	80.8	71.9	55.3	47.1	49.1	19.7	21.5	23.6	27.9	27.9	25.6	23.8	22.4	22.1	22.1
Share of Stage 3 provisions to total provisions	66.7	70.2	69.6	67.3	70.0	93.0	90.2	88.3	56.6	54.5	44.6	27.9	26.5	45.3	47.2	65.1	60.5	58.4	59.9	61.7
Forborne loans to gross loans	3.0	4.5	3.5	2.5	2.4	0.5	0.8	0.6	1.1	1.2	3.3	7.4	7.4	1.3	1.2	2.9	4.9	4.1	2.2	2.0
Liquidity																				
LCR[2]	328.2	359.9	380.0	369.1	351.2	325.4	356.8	316.0	405.2	428.3	686.6	2469.6	383.7	566.9	396.8	332.7	379.0	373.8	381.9	361.0
Liquid assets to total assets[2,5]	33.3	35.6	36.3	34.6	33.9	40.3	33.2	30.8	36.1	39.3	11.8	27.3	26.9	30.5	25.1	32.3	34.7	35.1	34.4	33.8
Customer loans to customer deposits	58.4	55.2	56.0	58.9	60.6	46.5	52.2	54.4	49.3	48.3	462.3	267.0	230.6	184.6	183.9	75.4	67.5	67.2	67.0	68.1
CBC on net cash outflows	169.9	189.3	251.0	292.2	320.5	238.1	300.8	240.7	272.0	273.1	326.3	601.9	58.6	189.1	107.9	180.2	204.0	239.8	285.4	304.6
NSFR[2]		174.0	187.1	175.8	175.5		178.4	174.2	191.3	192.3		155.3	118.4	137.7	124.7		172.8	180.4	173.8	172.2
Balance Sheet																				
Assets-to-GDP	179.5	166.6	155.9	142.2	136.6	21.2	20.3	18.8	17.3	16.5	80.7	68.5	55.4	48.1	57.9	281.4	255.4	230.0	207.7	211.0
Domestic debt securities to total assets	8.3	8.8	9.4	8.9	9.3	7.2	7.9	7.9	6.0	5.0	0.1	0.2	0.2	0.0	0.0	5.9	6.4	7.1	6.6	6.4
Foreign debt securities to total assets	13.8	12.4	16.5	19.2	22.2	12.2	15.9	18.0	17.1	15.2	25.2	24.0	29.8	35.9	42.1	16.9	15.8	19.8	22.9	27.1
Customer loans to total assets	48.2	45.4	47.2	48.8	50.1	33.2	34.5	38.2	36.7	37.8	43.9	36.9	41.7	38.4	30.0	45.8	42.3	45.1	45.4	43.6
Interbank exposures to total assets	5.3	4.9	4.9	3.9	3.6	9.7	9.4	7.2	6.4	5.6	12.3	17.8	10.0	7.7	6.7	7.6	8.7	6.3	5.0	4.6

[1] Satabank plc is excluded from 2018 figures onwards following the MFSA's decision to appoint a competent person in October 2018 in terms of Article 29(1)(c) and (d) of the Banking Act. Its licence was withdrawn on 30 June 2020.

[2] Data for international banks excludes the branches of foreign banks.

[3] Based on profits after tax.

[4] For the core domestic banks the ratio includes 'Reserve for General Banking Risks' as per the revised Banking Rule 09/2019.

[5] Liquid assets defined in line with the EBA Liquidity Coverage Ratio (LCR DA) Methodology.

Annex I. Implementation of IMF Recommendations

2023 Article IV Advice	Actions Since 2023 Article IV
Financial Sector	
Remain vigilant in monitoring risks, particularly to ensure that banks update the assessment of expected losses as economic prospects evolve and provision accordingly.	Ongoing.
Consider introducing a sectoral systemic risk buffer to target systemic risks arising from mortgages.	Implemented. In February 2023, the authorities introduced a sectoral systemic capital buffer (SSyRB) targeting residential mortgage exposures, initially set at one percent from end-September 2023 and thereafter at 1.5 percent from end-March 2024.
Keep close monitoring of high AML/CFT-related risk sectors.	Ongoing.
Fiscal Policy	
Prepare an exit strategy from the current fixed energy price policy while protecting vulnerable groups.	Not implemented.
Accelerate planned fiscal adjustment.	Not implemented. The structural balance is projected to deteriorate in 2024, before improving from 2025 onward.
Reform the taxation of multinational firms and consider broader reforms to the tax system and revenue administration aimed at improving the efficiency of the tax system and reducing administration costs.	Underway. In light of the EU's adoption of the Minimum Tax Directive (Pillar II), the authorities are exploring options to reform the CIT system by leveraging IMF technical assistance.
Improve public investment management framework and rationalize recurrent spending to achieve a credible medium-term consolidation.	Ongoing.
Structural Reforms	
Address the skills gap in the workforce and foster labor force participation.	Ongoing through the implementation of the National Education Strategy 2024-30 and the Lifelong Learning Strategy 2023-30.
Promote digitalization and advance green investment and decarbonization.	Ongoing, including as a part of Malta's Recovery and Resilience Plan and various public support schemes.
Complete the comprehensive insolvency reform plan.	Implemented. The new Insolvency Practitioners Act and Pre-Restructuring Act were enacted in December 2022.

Annex II. External Sector Assessment

Overall Assessment: *Malta's external position in 2024 (staff's estimates) is expected to be substantially stronger than the level implied by medium-term fundamentals and desirable policies. Over the medium term, Malta's current account (CA) surplus is expected to gradually decline with an increase in private investment, while savings remain broadly unchanged. The country's large positive net international investment position (NIIP) significantly mitigates external vulnerabilities.*

Potential Policy Responses: *Structural policies aimed at raising investment, including in research and development, digital, and climate, would help reduce the surplus. To this end, the authorities should continue evaluating the effectiveness of various schemes (e.g., grants, tax incentives) to support innovation activities, start-ups, and scale-ups, focusing on their size and overall design.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Malta has maintained large net asset positions over the past decade, with sizable gross assets and liabilities. The NIIP (which excludes direct investment intercompany lending) increased from 76 percent of GDP in 2018 to 115 percent in 2020 and then fell to 93 percent in 2023, mostly driven by BOP developments. Direct investment comprises the largest component of assets (over 80 percent). NIIP is expected to remain constant at around 95 percent of GDP in 2024. Gross assets and liabilities are sizable, at around 31 and 30 times GDP, respectively.

Assessment. Malta's gross liabilities are sizable. The volatility of financial flows and investment returns present potential risks, especially in the current global context of economic uncertainty and relatively high interest rates. However, most of the liabilities are direct investments, and the sizable gross asset position mitigates risks.

2024 (% GDP)	NIIP: 95	Gross Assets: 3,124	Debt Assets: -	Gross Liab.: 3,029	Debt Liab.: -

Current Account

Background. The current account surplus was 6¼ percent of GDP in 2023, up from -¾ percent in 2022 but below the 2017-2023 average of about 11½ percent. The improvement reflects a stronger service balance, a narrower non-fuel goods deficit, and lower energy prices, while the primary and secondary income balances remained largely unchanged. In H1 2024, services exports strengthened, while the primary income balance weakened. Staff project a stable current account surplus of 6¼ percent of GDP as robust service exports continue throughout 2024. Over the medium term, the CA surplus is expected to gradually decline with an increase in private investment, while savings remain broadly unchanged.

Assessment. Considering cyclical contributions of -0.1 percent of GDP, the CA balance of 6.3 percent of GDP (staff estimate) is adjusted to 6.4 percent of GDP. The EBA-lite CA model suggests a CA norm of -0.4 percent of GDP, with a large positive model residual. Despite a large migrant labor force, Malta, as a high-income country, experiences relatively small remittances. Therefore, the CA norm is adjusted upward by 1.9 percentage points to 1.5 percent of GDP by reducing the negative contribution of the remittance/migrant share variable in the EBA-lite model (from -2.4 percentage points to -0.5 percentage points).[1] As a result, the CA gap is estimated at 4.9 percent of GDP, with an implied REER gap of -5.1 percent. Relative policy gaps contribute 1.9 percentage points to the CA gap, with the contribution of domestic policy gaps being 1.7 percentage points of GDP.

[1] The adjustment is based on a cross-country regression analysis that estimates the relationship between migrant shares and remittances across a large set of countries.

Malta: EBA-lite Model Results, 2024

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**6.3**	
Cyclical contributions (from model) (-)	-0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**6.4**	
CA Norm (from model) 2/	**-0.4**	
Adjustments to the norm (+)	1.9	
Adjusted CA Norm	**1.5**	
CA Gap	**4.9**	**8.4**
o/w Relative policy gap	1.9	
Elasticity	-1.0	
REER Gap (in percent)	**-5.1**	**-8.8**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The CPI-based REER depreciated by 0.1 percent during the first three quarters of 2024, following an appreciation of 3.5 percent on average in 2023.

Assessment. The EBA-lite CA model indicates a REER undervaluation of about 5 percent for 2024.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account is expected to record a surplus of 1.2 percent of GDP in 2024, and the financial account balance is expected to have a surplus of 9.2 percent, with positive contribution from net portfolio and other investment flows more than offsetting net FDI flows.

Assessment. Malta's large financial account surplus is expected to moderate in the medium-term in line with current account dynamics.

FX Intervention and Reserves Level

Background and Assessment. The euro (free-floating) is a global reserve currency. Reserves held by the euro area are typically low relative to standard metrics.

Annex III. Risk Assessment Matrix[1]

Source of risks	Relative Likelihood	Impact if realized	Policy response
Global Risks			
Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium. The direct impact of the war would be limited. However, as a small, open island economy, Malta's growth and inflation would be adversely affected by a slowdown in the global economy and higher commodity prices.	Provide targeted fiscal and financial support measures. Maintain structural reform momentum to spur investment and promote higher productivity growth.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in supply disruptions, protectionism, policy uncertainty, rising shipping and input costs, and lower growth.	High	High/Medium. As a small, open island economy, Malta's growth and inflation would be adversely affected by supply disruptions, higher shipping costs, and lower global growth.	Same as above.
Global growth surprises (slowdown). Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction.	Medium	High/Medium. As a small, open island economy, Malta is exposed to external shocks, including global economic downturns. Malta's export demand, including tourism, will weaken, affecting overall growth.	Same as above.
Monetary policy calibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	Medium	Medium. Inflation expectations could be de-anchored, triggering a wage-price spiral. Tighter financial conditions would increase financing costs for households and businesses and lower growth.	Intensify monitoring of the financial sector and calibrate macroprudential policies to ensure financial stability.
Cyber-threats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	Medium. Payment and financial systems are disrupted.	Following a cyber security contingency plan, take actions to assess damages and regain and restore IT functions.
Malta's Specific Risks			
Higher-than-expected wage pressures.	Medium	Medium. Higher wages would raise inflation and weaken Malta's external competitiveness.	Maintain structural reform momentum to spur investment and promote higher productivity growth.
Cyclical systemic risk in the financial system.	Medium	Medium. An expected easing of monetary policy boosts credit growth.	Prepare for tightening countercyclical capital buffers.
Unsmooth transition in adopting the OECD Pillar 2. A lack of a well-calibrated strategy could undermine investor's confidence.	Medium	Medium/Low. Malta's attractiveness as a financial and business location may deteriorate, leading to reduced fiscal revenues, foreign investment, and slower economic growth.	Develop a well-structured roadmap for a phased implementation of the CIT reform. Communicate clearly to investors.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10, "medium" a probability between 10 and 30, and "high" a probability between 30 and 50). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex IV. The EU's New Economic Governance Framework and Its Implications on Malta

1. The EU's new economic governance framework came into force in April 2024. This aims to strengthen fiscal sustainability by creating incentives for growth-enhancing reforms and basing adjustment requirements on a debt sustainability analysis (DSA).

2. Countries with debt ratios above 60 percent and/or fiscal deficits larger than 3 percent of GDP are required to implement fiscal adjustments that restore long-term fiscal sustainability. These adjustments should be implemented over a four-year period or a seven-year period (if the member state undertakes structural reforms or makes public investments that strengthen growth, resilience, and fiscal sustainability).

3. The framework requires that at the end of the adjustment period, debt should be on a downward path or remain below 60 percent of GDP over the following 10 years, even under adverse conditions, while the structural primary deficit should be below 1.5 percent of GDP. The new rules also internalize long-term aging-related health care and pension costs and require countries to take those into account when formulating medium-term fiscal strategies.

4. Implications for Malta. Because Malta's debt is below 60 percent of GDP, there is no requirement related to debt. However, the deficit minimum requirement applies: Malta is required to reduce the structural primary deficit by at least 0.5 percentage points of GDP annually to reach 3 percent of GDP.

5. The Maltese authorities have opted for the 4-year adjustment period. The European Commission's DSA (including stress tests) indicates that a deficit target of 3 percent of GDP by 2027 is appropriate. Projected long-term aging-related spending pressures are negligible for the next decade, given that the population is projected to continue to grow.

Annex V. Sovereign Risk and Debt Sustainability Assessment

Annex V. Figure 1. Malta: Risk of Sovereign Stress

Malta: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near, medium, and long term .
Near term 1/	...	...	...
Medium term	Low	Low	Medium-term risks are assessed as low, consistent with the mechanical signal.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test		...	
Long term	...	Low	Long-term risks are low over the extended period, even though debt is projected to rise marginally over the long term. Aging-related expenditures on health and social security are taken into account, but the projection is sensitive to immigration patterns and the number of retired migrants.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Malta is at a low overall risk of sovereign stress. Most indicators have started to normalize as the recovery from the COVID-19 and energy price shocks has been strong. While debt is expected to rise marginally over the projection horizon, it remains low. Medium-term risks as analyzed by the GFN Financeability Module are low. However, risk of sovereign stress could be affected by materialization of contingent liabilities, or a real GDP growth shock. Effective implementation of fiscal adjustment is important to mitigate these risks and ensure manageable gross financing needs while facilitating a decline in debt levels. Over the longer run, Malta should continue with reforms to tackle risks arising from population aging in the long term.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex V. Figure 2. Malta: Debt Coverage and Disclosures

Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

Reporting on Intra-Government Debt Holdings

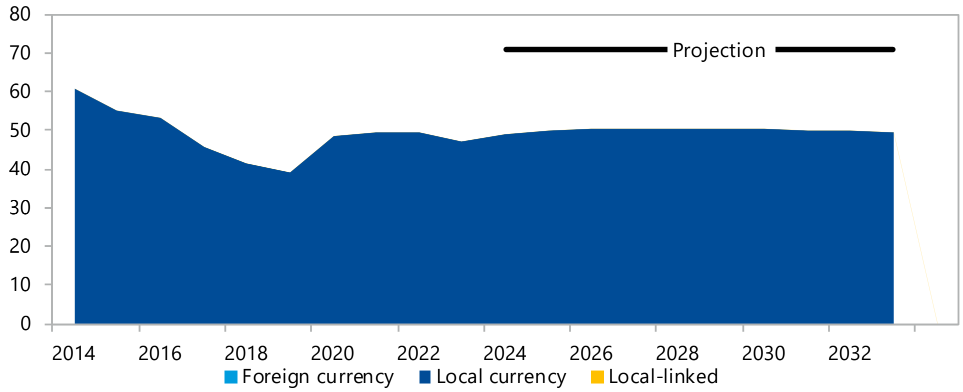
Issuer \ Holder		Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Annex V. Figure 3. Malta: Public Debt Structure Indicators

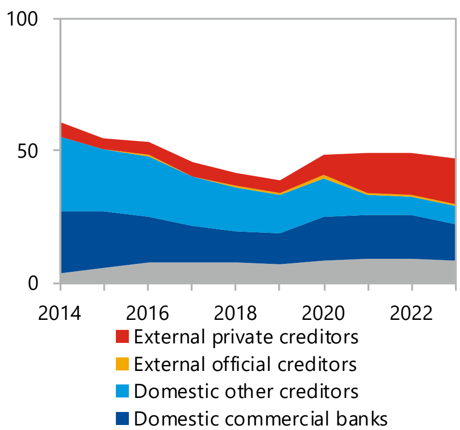
Malta: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



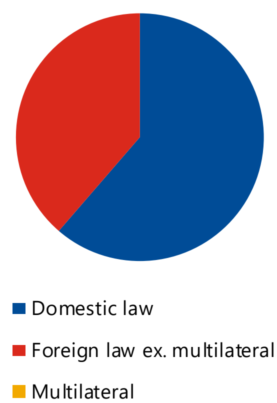
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



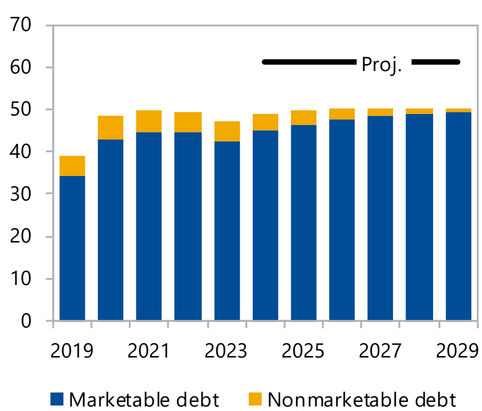
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



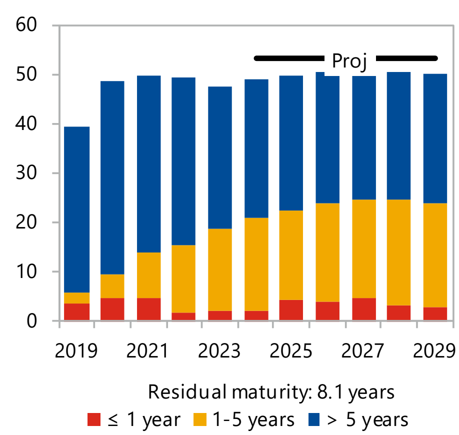
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Annex V. Figure 4. Malta: Baseline Scenario

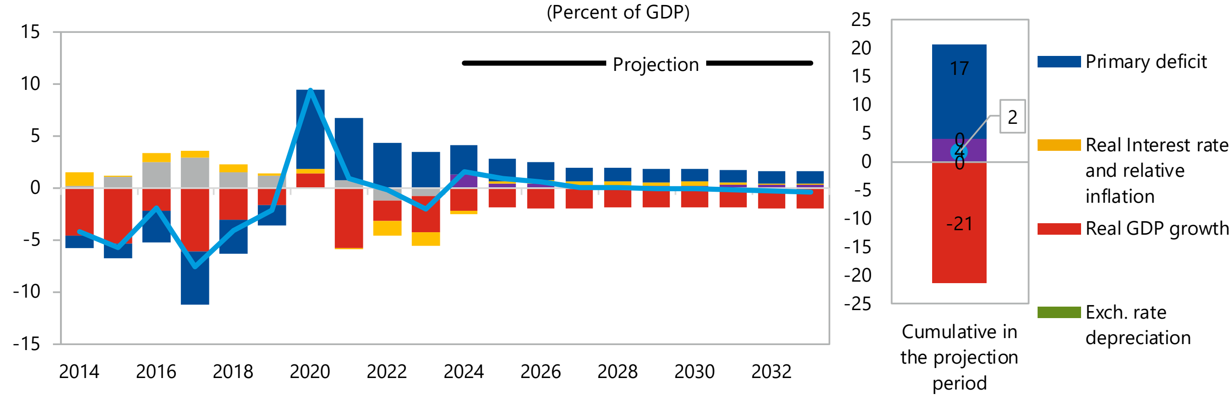
Malta: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	47.4	48.9	49.7	50.2	50.2	50.2	50.1	50.1	50.0	49.7	49.3
Change in public debt	-2.0	1.6	0.8	0.5	0.0	0.0	-0.1	-0.1	-0.2	-0.3	-0.4
Contribution of identified flows	-1.2	1.6	0.8	0.5	0.0	0.0	-0.1	-0.1	-0.2	-0.3	-0.4
Primary deficit	3.5	2.8	2.2	1.7	1.4	1.3	1.3	1.3	1.2	1.2	1.2
Noninterest revenues	31.8	32.8	32.0	32.1	32.2	32.2	32.2	32.2	32.2	32.2	32.2
Noninterest expenditures	35.3	35.6	34.2	33.8	33.6	33.5	33.5	33.5	33.5	33.4	33.4
Automatic debt dynamics	-4.7	-2.5	-1.8	-1.6	-1.5	-1.5	-1.5	-1.5	-1.6	-1.8	-1.9
Real interest rate and relative inflation	-1.3	-0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.2	0.2	0.1
Real interest rate	-1.3	-0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.2	0.2	0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-3.4	-2.3	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	1.3	0.4	0.4	0.2	0.1	0.2	0.2	0.3	0.3	0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	1.3	0.4	0.4	0.2	0.1	0.2	0.2	0.3	0.3	0.3
Contribution of residual	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	6.9	6.3	6.2	9.3	9.5	11.3	10.3	11.0	11.6	12.0	12.1
of which: debt service	3.4	3.6	4.0	7.6	8.2	9.9	9.0	9.8	10.3	10.8	11.0
Local currency	3.4	3.6	4.0	7.6	8.2	9.9	9.0	9.8	10.3	10.8	11.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	7.5	5.0	4.1	4.0	4.0	4.0	3.9	3.9	3.9	4.0	4.1
Inflation (GDP deflator; percent)	5.3	3.2	2.4	2.1	2.1	2.1	2.1	2.1	2.2	2.3	2.4
Nominal GDP growth (percent)	13.2	8.4	6.6	6.2	6.2	6.1	6.1	6.1	6.2	6.4	6.6
Effective interest rate (percent)	2.4	2.7	2.7	2.8	2.9	3.0	2.9	2.9	2.7	2.7	2.6

Contribution to Change in Public Debt

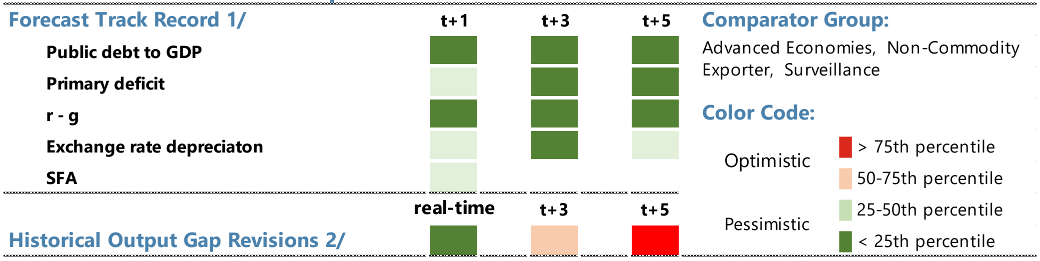
(Percent of GDP)



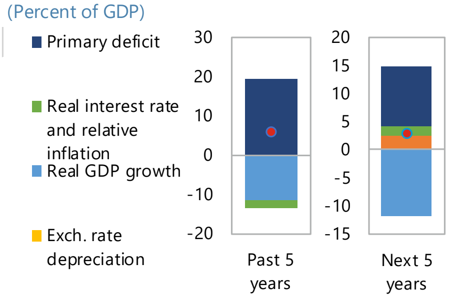
Staff commentary: Public debt is projected to rise marginally before beginning to decline in the medium-term projection horizon. The authorities' planned fiscal consolidation, if implemented, would lead to an earlier and more rapid decline of public debt.

Annex V. Figure 5. Malta: Realism of Baseline Assumptions

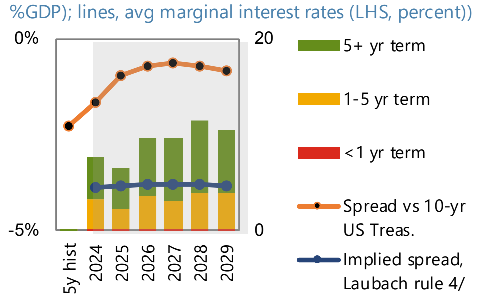
Realism of Baseline Assumptions



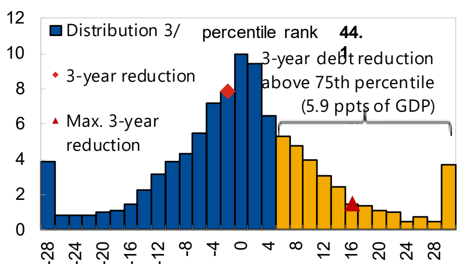
Public Debt Creating Flows
(Percent of GDP)



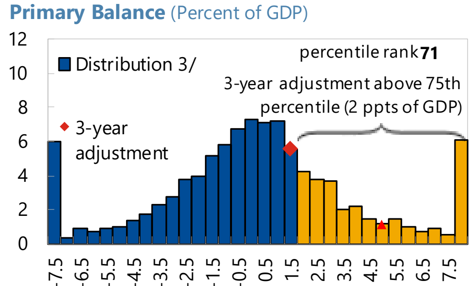
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



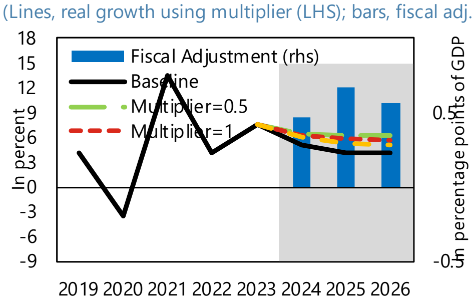
3-Year Debt Reduction
(Percent of GDP)



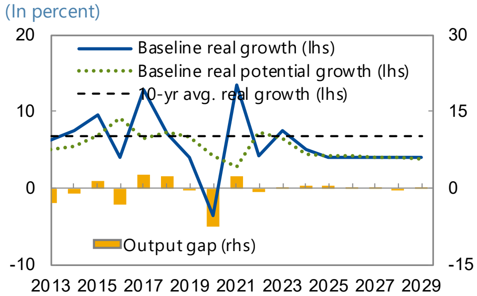
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(In percent)



Staff commentary: Staff forecasts have been conservative

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

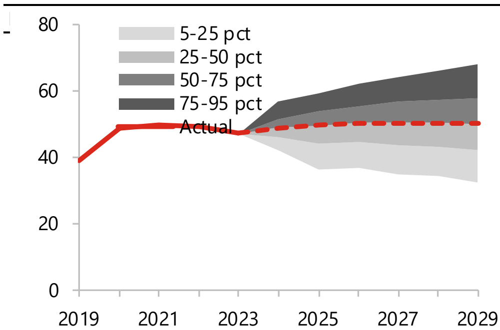
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical a

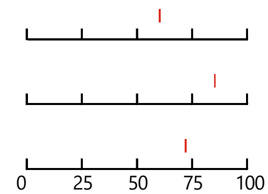
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

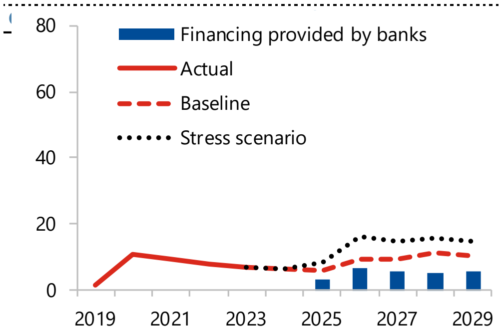
Annex V. Figure 6. Malta: Medium-Term Risk Assessment

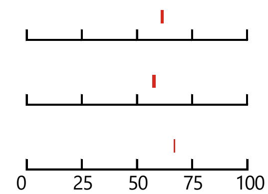
Medium-Term Risk Assessment

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	35.6	0.5	
Probability of debt non-stabilizaiton *(percent)*	50.1	0.4	
Terminal debt-to-GDP x institutions index	20.1	0.4	
Debt fanchart index (DFI)		1.4	
Risk signal: 3/		Moderate	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	8.8	3.0	
Initial Banks' claims on the gen. govt *(pct bank assets)*	6.7	2.2	
Chg. In banks' claims in stress *(pct banks' assets)*	6.3	2.1	
GFN financeability index (GFI)		7.3	
Risk signal: 4/		Low	



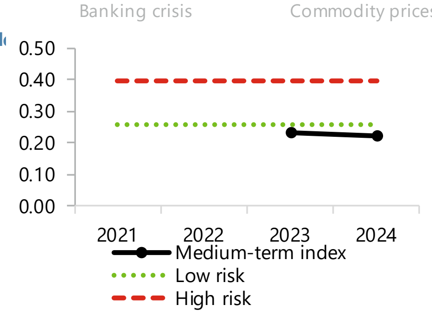






Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.4	0.3	0.5	0.2
GFN finaceability index	7.3	0.1	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2024-2029, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 48.9 pct.

Staff commentary: Medium-term risks are assessed as low, consistent with the mechanical signal. However, the index is near the threshold to moderate risk.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex VI. IMF Fiscal Affairs Department Capacity Development

Since late 2022, the IMF's Fiscal Affairs Department (FAD) has delivered several technical assistance missions to help the authorities develop a revenue administration reform program and corporate income tax reform options.

Revenue Administration Reform

1. **Increasing fiscal pressures have prompted the need for further reforms in revenue administration.** The government's decisive support to mitigate the fallout from the pandemic and its response to the global energy shock in 2022, which involved freezing retail energy prices, played an important role in supporting the recovery. However, Malta's fiscal position deteriorated significantly. Sustained fiscal pressures have pushed the Office of the Commissioner for Revenue (now the Malta Tax and Customs Administration, MTCA) to strengthen revenue administration and support the fiscal consolidation process by increasing tax collection. While some limited reform initiatives were already underway, efforts were stepped up to implement a comprehensive reform agenda for a transformational change.

2. **The authorities sought IMF FAD support in planning their reform agenda and developing a high-level implementation roadmap to enable the MTCA to pursue these reforms.** From November 2022 to November 2024, several technical assistance (TA) missions—both *in situ* and virtual—were conducted in Malta to assist the authorities in preparing and delivering their reform agenda.

3. **FAD identified several key areas requiring attention,** including: (i) strengthening risk management (compliance risks and enterprise risks); (ii) implementing a large taxpayer office (LTO); (iii) enhancing tax arrears management and collection; (iv) redeveloping an integrated tax administration information technology (IT) system; and (v) progressing with the merger of the tax and customs administrations.

4. **FAD's support served as a foundation for the development of the Delivering Transformation Strategic Plan 2023–25, which was launched in May 2023.** This strategic plan led to the establishment of the Malta Tax and Customs Administration by merging the previously separate tax and customs administrations, resulting in a redesigned organizational structure that includes dedicated units for Large Taxpayers and Compliance Risk Management.

Corporate Income Tax (CIT) Reform

5. **The EU's commitment to implement the OECD tax reform agreement has come into effect.** In December 2022, the EU adopted a directive aimed at establishing a global minimum level of taxation for multinational enterprise (MNE) groups and large-scale domestic groups in the EU with combined financial revenues exceeding €750 million annually and having either a parent company or subsidiary situated in an EU Member State. As part of the OECD Inclusive Framework, Pillar II introduces a global minimum effective tax rate (ETR) of 15 percent on income generated in

low-tax jurisdictions. EU member states were required to transpose this directive into their domestic law by December 31, 2023.

6. Malta will need to implement the EU's directive, which is a challenge due to its unique corporate taxation regime. Malta is home to a considerable number of MNEs, some of which fall within the scope of Pillar II. Malta's refund system allows shareholders of MNEs to claim a refund of 6/7th of the tax paid in Malta, reducing the ETR from 35 percent (the statutory corporate income tax rate) to 5 percent. With the adoption of the EU's directive, Malta's tax advantage for large MNEs could diminish. In this light, the authorities requested FAD assistance in developing a reform agenda to transform the challenges arising from these new CIT requirements into an opportunity to modernize Malta's tax system.

7. In late 2022 and early 2023, two TA missions were conducted with the primary objective of assessing CIT. The missions addressed a range of issues, including some broader corporate tax issues unrelated to Pillar II. They aimed to: (i) identify trends deserving further analysis; (ii) analyze and assess the key features of the CIT scheme, outlining a comprehensive strategy to mitigate challenges and maximize benefits arising from Pillar II; (iii) provide additional analysis on MNEs that fall outside the scope of Pillar II; (iv) outline options for the future of the tax refund system; (v) present considerations for an overarching strategy for reforms; and (vi) estimate the revenue implications of different packages of CIT reform.

8. The TA missions recommended that the authorities seize the opportunity presented by the Pillar II agreement to modernize the tax system, making it more efficient and less distortionary. The key recommendation was to develop a well-structured roadmap for the phased implementation of CIT reform, in consultation with all stakeholders, to provide both international and domestic investors with certainty. These recommendations include:[1]

- Introducing, at an early date, a Qualifying Domestic Minimum Top-up Tax (QDMTT) that aligns with EU and OECD guidance.
- Utilizing the revenue generated by the QDMTT to further tax reform initiatives, as outlined below, to stimulate economic activity and promote fairness.
- Keeping the option of introducing an income inclusion rule (IIR) and undertaxed profit rule (UTPR) before it becomes mandatory.
- Phasing out the tax refund system, with full removal by 2030, and gradually increasing ETRs for out-of-scope MNEs, bringing them closer to the ETRs faced by others, including domestic enterprises and entities belonging to in-scope MNE groups.

[1] Revenue impacts of the recommended reform strategy vary depending on new statutory tax rates, the size of refunds, and the size of the semi-elasticity of inward investment with respect to CIT rates, Assuming the new statutory tax rate of 25 percent (down from 35 percent), the refund rate of 5/7th (down from 6/7th), and the semi elasticity of 4, the revenue impact is estimated at around 2¼ percent of GDP.

- Gradually reducing the statutory CIT rate from 35 percent to alleviate the burden on domestic enterprises and foster greater alignment in ETRs across various entities, making the CIT more neutral, efficient, less distortionary, and fairer.

- Undertaking a tax expenditure analysis and developing Qualified Refundable Tax Credits (QRTCs) that would be accessible to all companies and help address externalities, such as those related to Research and Development (R&D) and the green transition.

Annex VII. Main FSAP Recommandations[1]

Recommendations and Authority Responsible for Implementation[1]	Timing[2]	Authorities' Actions
Risk Analysis		
Strengthen the risk analysis by incorporating new dimensions in liquidity stress testing, conducting regular sensitivity analysis on selected vulnerabilities, and enhancing data management. (CBM, MFSA)	ST	The Central Bank of Malta (CBM) enhanced its liquidity and solvency stress testing frameworks, including by assessing climate-related risks, IFRS9's expected losses, and household vulnerabilities. Co-operation between the CBM and the European Systemic Risk Board (ESRB) is ongoing on several projects, including macroprudential analysis, O-SII methodology results, and Capital Requirements Regulation (CRR) provisions in relation to risk weights. Both the CBM and the Malta Financial Services Authority (MFSA) invested in improving the data management system and worked closely on identifying risks and pockets of vulnerabilities. Various working groups have been set up to collaborate on topics such as the ESRB Recommendation on commercial real estate (ESRB/2022/9) and CRR Article 124-126 on mortgage and commercial risk weights adequacy. Collaboration with the Ministry of Finance is also ongoing. The MFSA conducts stress tests for the insurance sector and investment fund liquidity regularly. They also assess climate transition risk and have developed a composite indicator for non-bank financial institutions(NBFIs). A methodology has also been developed to assess credit risk within the financial sector investment portfolio. An internal Financial Stability Monitor report continues to be conducted on an annual basis, highlighting emerging systemic risks across sectors. The MFSA carried out a preliminary assessment on cyber risk, examining the interlinkages between the financial sector and third-party service providers. It is planned that the analysis is expanded further once Digital Operational Resilience Act (DORA) data are available. In addition, in-depth analyses on interest rate passthrough and residential real estate misalignment, as well as the impact of an increase in minimum reserve requirements and interconnectedness assessments for resolution plans, were recently done.
Macroprudential Policy		
Consider providing the CBM with powers to recommend actions to be taken by a public authority or public institution, with a "comply or explain" mechanism, and to issue warnings and opinions. Amend the MFSA Act to add a financial stability objective. (Government, MFSA)	ST	A financial stability objective has been added to the MFSA Act. The authorities note that the Joint Financial Stability Board, chaired by CBM governor, has recommendation powers.

[1] The Central Bank of Malta (CBM); the Financial Intelligence Analysis Unit (FIAU); the Malta Financial Services Authority (MFSA); the National Statistics Office (NSO).

[2] I = Immediate (within 1 year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years).

[1] Please refer to the Malta Financial System Stability Assessment (2019) for the full set of FSAP recommendations. The description of authorities' actions in this table was based on inputs from the Maltese authorities.

Recommendations and Authority Responsible for Implementation[1]	Timing[2]	Authorities' Actions
Close remaining data gaps and enhance analytical tools. (CBM, NSO, MFSA)	ST/MT	In 2021, the CBM started collecting comprehensive real estate data from all banks engaging in real estate lending on a quarterly basis. The database is now fully operational for authorized internal users. Concurrently, the National Statistics Office (NSO) started developing a database on commercial real estate indicators. The CBM and the MFSA have set up a technical working group in view of collaborating with respect to the development of a methodology to analyze further commercial real estate developments, in line with the ESRB Recommendation on vulnerabilities in the commercial real estate sector in the European Economic Area (ESRB/2022/9). At the CBM, the development of a risk dashboard for NBFIs is underway, and dashboards for banks and domestically relevant insurance and investment funds have been created. The CBM has developed other tools to assess cyclical developments. In 2023, the CBM developed a Malta-specific cyclical systemic risk indicator (available on the CBM website). Other tools developed include the construction of a semi-structural credit gap derived using the multivariate filter, linking credit gaps with other macroeconomic variables. With the aid of the IMF, the CBM is currently developing a network model to analyze the direct and second-round effects of a shock to common exposures across banks and thereby inform the CBM's macroprudential policy by providing insights into capital buffer adequacy. There are plans to extend this model to capture other segments of the domestic financial system. MFSA continues to develop its systemic risk monitoring capacity. It has developed an internal methodology to monitor the developments in residential real estate property and rental markets. Moreover, data on EU regulation on benchmarks in financial instruments and financial contracts (2016/1011) are being collected on an annual basis and analyzed in view of identifying any possible financial stability consequences from a discontinuation of critical benchmarks. A risk dashboard for NBFIs has been developed by MFSA and is in the process of being extended to investment funds to capture the entities that carry out bank-like activities.
Refine and introduce the planned borrower-based instruments to address a possible buildup of vulnerability in the housing and household sectors. (CBM)	I	CBM Directive No. 16 defines borrower-based macroprudential measures (effective on July 1, 2019, and revised in November 2021.)
Financial Sector Supervisory Resources and Independence		
Ensure stable funding for the MFSA, grant it full autonomy over its recruitment, and maintain a dedicated statutory committee on supervisory issues. (MFSA, Government)	I	Legal amendments in 2019 allow the MFSA's recruitment independence. The MFSA submitted a 5-year plan in relation to its budgetary resources, and the government is committed to covering all annual MFSA budgetary shortfalls and capital expenditures. The MFSA Board of Governors has approved a revised fee structure based on a new 5-year forecast up to FY2029. The MFSA has proposed a 60/40 model based on a cost recovery approach, and the Minister of Finance has agreed (i.e., 60 percent of its total operational expenditure will be netted out by revenue streams generated through application and supervisory fees, while the

Recommendations and Authority Responsible for Implementation[1]	Timing[2]	Authorities' Actions
		remaining 40 percent will be received in the form of quarterly tranches from the budget). MFSA also plans to implement a new fee structure on January 1, 2025. The Regulatory Committee is in place, with meetings conducted on a weekly basis. In relation to the Enforcement Decisions Committee, the MFSA continues to follow the case law development in the court of law. In the meantime, the MFSA's Board of Governors has appointed an Advisory Group of external legal and financial services experts to advise on how the frameworks can be strengthened further.
Address the significant gap in supervisory and enforcement capacity by increasing staff and broadening skill sets. (MFSA)	I	As of October 2024, the MFSA reached the annual target of 520 employees while aiming to increase the headcount to 575 in 2025 and 630 in 2026. Total MFSA supervisory headcount stands at 279 while the enforcement headcount stands at 36. In 2024, the MFSA launched a Development Plan 2024 – 2026, aiming to ensure that the MFSA continued to build the required capacity to deliver its statutory obligations in an effective manner. From 1 January 2024, staff remuneration was also completely revised to make it competitive and attract and retain talent more effectively. The Financial Supervisors Academy delivers an annual Training Curriculum built around the MFSA's Training Needs Analysis and continues to maintain more than 20,000 training hours annually to increase employee competencies and knowledge base.
Banking Regulation and Supervision		
Increase the number and risk orientation of onsite inspections of Less Significant Institutions (LSIs). Enhance supervision of third-country branches. (MFSA)	ST	The MFSA conducts a bi-annual Supervisory Review and Evaluation Process (SREP) on Less-Significant Institutions (LSIs) adopting ECB's framework, using thematic and deep dive assessments. Minimum Engagement Level meetings are conducted with banks to follow up on SREP actions, adopting a risk-based approach. The MFSA has also developed an onsite visit program covering thematic reviews, such as outsourcing, and higher-risk areas, such as credit risk, internal governance, and online deposit platforms and their related risks. The MFSA holds annual meetings with officials of branches to standardize Minimum Engagement Level meetings with regard to risk-based supervision of third-country branches (e.g., Türkiye). There is also close cooperation with FIAU and the MFSA's internal Financial Crime Compliance Function on compliance visits that take place in third-country branches. The MFSA actively participates in quarterly meetings with the ECB's contact group on third-country branches.

Recommendations and Authority Responsible for Implementation	Timing	Progress
Take timely supervisory actions (including for ML/TF) and increase the use of monetary fines. Ensure supervisory action is not delayed through judicial appeal, including by amending the law, if needed. (MFSA, FAIU, the government)	ST	The FIAU has taken multiple initiatives to support timely actions, including by further increasing human resources, creating specialized supervisory teams, improving its risk-based supervision approach, improving the IT tools used for risk assessment purposes, and introducing a quality control function to further reduce subjectivity and ensuring consistency throughout the supervisory and enforcement process. MFSA investigations and enforcement actions have continued to increase, including suspicious activity or dubious schemes such as clone companies and unlicensed exchange platforms. The majority of enforcement actions in 2023 were in the form of administrative penalties. Since 2023, the MFSA has entered into a number of settlement agreements with the aim of adopting an efficient settlement process which safeguards the general interests and legitimate expectations of consumers of the financial services. The Authority has continued to strengthen its Enforcement Function following the recruitment of qualified and experienced officials in the field of financial investigations.
Insurance and Securities Regulation and Supervision		
Strengthen conduct supervision and enhance the sectoral risk-based supervision framework. (MFSA)	MT	Conduct supervision is based on outcomes from the risk-based supervision frameworks that apply to prudential supervision. An ongoing internal workstream has established a dedicated Conduct Risk Model focusing on product design and distribution. The MFSA also carries out focused onsite inspections of credit institutions, including banks that distribute insurance products to assess their adherence to the applicable conduct of business rules, in addition to other supervisory engagements such as thematic reviews and supervisory meetings. As part of its macro-prudential risk monitoring framework, the MFSA has developed and updated various risk analysis tools to strengthen risk-based supervision across sectors.

Recommendations	Timing	Progress
AML/CFT		
Improve the authorities' assessment and understanding of ML/TF risks and strengthen national coordination. (National Coordination Committee)	I	The latest 2023 National Risk Assessment (NRA), coordinated by the National Coordination Committee (NCC), was published in December 2023. This has improved on the 2018 NRA in terms of identifying risks and vulnerabilities for money laundering, terrorist financing. and proliferation financing. The NCC facilitates the involvement of both authorities and the private sector representative bodies. Between 2018 and 2023, the authorities carried out a series of sector-specific risk assessments, including on: (i) virtual financial assets; (ii) terrorist financing; (iii) concealment of beneficial ownership; (iv) organized crime; (v) the shadow economy; (vi) corruption; and (vii) the laundering of the proceeds of tax crimes. The authorities have also issued sector-specific AML/CFT guidance, communicated the results of strategic analyses carried out by the FIAU, and increased outreach initiatives focusing on key risk areas. In addition, the MFSA initiatives to enhance national coordination include the receipt and issuance of Requests for Information, the red-flagging process between the MFSA and the Financial Intelligence Analysis Unit (FIAU), and the raising and escalating of suspicious transaction reports.
Adopt a multi-prong strategy that includes: (i) ensuring that banks appropriately apply preventive measures; (ii) fully implementing a risk-based AML/CFT supervision; and (iii) applying timely, dissuasive, and proportionate sanctions and effective fit-and-proper tests. (MFSA, FIAU, ROC, Government)	I	The MFSA set up a financial crime compliance function (FCCF) to conduct AML/CFT inspections, and Prudential and Conduct Supervisory Functions integrated AML/CFT elements in their supervisory work. (i) The FCCF reviews license applications and money laundering reporting officer (MLRO) questionnaires and conducts interviews with proposed MLROs, to ensure, inter alia, that the relevant policies and procedures are in place. The FCC has also extended the Prudential and Conduct Supervisory Functions by including elements of financial crime compliance within their ongoing supervisory visits. (ii) The MFSA carries out AML/CFT on-site examinations as an agent of the FIAU. Programming of these examinations is based on the FIAU's risk scoring model. The MFSA's own integrated risk scoring models for prudential supervision also include an AML/CFT component. Enforcement follows the FIAU's enforcement process. FCCF officials attend committees chaired by the FIAU to provide further feedback on these cases. Decisions are finally taken by the FIAU, following established methodologies. Fitness and properness assessments at pre- and post-licensing stage are carried out by the MFSA's Due Diligence Function on individual and corporate shareholders, members of the management body and key function holders. The FIAU's supervisory process for banks was revised involving sector specific risk evaluation questionnaires and dedicated teams. Administrative penalties on bank have increased from 1 in 2017 to 161 in 2021.

Recommendations	Timing	Progress
Support establishing an EU-level arrangement responsible for AML/CFT supervision. (Government)	MT	Malta is supporting the EU-level initiative of a harmonized higher-level AML regulation and supervision. The MFSA continues to actively participate and support EU-level arrangements responsible for AML/CFT supervision, including participation in working groups related to AMLA. As outlined in the MFSA's Strategic Statement dated February 2023, on an operational level, the MSFS will continue to collaborate closely with FIAU, other regulators, and law enforcement agencies tasked with safeguarding against criminal abuse of the financial system and sustaining the fight against money laundering and other financial crime. This collaboration also extends to initiatives taken at the interinstitutional and policy level, including the National Risk Assessment, within the framework provided by the NCC on Combating Money Laundering and Funding of Terrorism and the National AML/CFT Strategy.
Safety Nets and Crisis Management		
Adopt an administrative bank insolvency regime with explicit powers to transfer assets/liabilities. Clarify the creditor hierarchy. (Government)	I	The MFSA initiated advanced research on possible models to improve the bank insolvency framework. The draft legislation of the Administrative Bank Insolvency regime is in the process of finalization. The next step is to present the first draft of the legislation to other authorities and the Ministry for Finance, and following internal approval, issue a public consultation.
Shift responsibility for decisions on bank insolvency and liquidation, post-license revocation, from the MFSA's supervisory function to its resolution function. (MFSA)	I	The MFSA's board decided in April 2021 to shift responsibility from the supervisory function to the resolution function and set up a transition team. The legislative amendments have been drafted. Internal discussions will be initiated to time these amendments with the Administrative Bank Insolvency Legislation. In the meantime, the Resolution function is actively taking on cases to liquidate banks, working closely in conjunction with Banking Supervision.
Review the adequacy of the Resolution Unit's staffing and increase its resources accordingly. (MFSA)	I	The resolution function headcount has been raised to 24, which is deemed an appropriate headcount for the current workload. The Resolution function currently has 19 FTEs and is in the process of recruiting other FTEs to meet the full headcount.

Annex VIII. Data Issues

Annex VIII. Table 1. Malta: Data Adequacy assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			B	B		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance purposes. Malta publishes timely economic statistics and most macroeconomic statistics can be accessed through Eurostat and Haver Analytics. GDP data were revised as benchmarks were revised EU-wide on the initiative of Eurostat. External sector data were revised as new administrative data sources became available.

Changes since the last Article IV consultation. The authorities are continuing to work to improve external sector statistics in collaboration with Eurostat. GDP and external sector data were revised. Further progress has been made by the statistical office in developing a database on commercial real estate indicators.

Corrective actions and capacity development priorities. The authorities are working to improve external sector statistics and to address remaining weaknesses regarding consistency in the external and public finance statistics.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. N/A

Annex VIII. Table 2. Malta: Data Standards Initiatives

Malta adheres to the Special Data Dissemination Standard (SDDS) Plus since July 2023 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex VIII. Table 3. Malta: Table of Common Indicators for Surveillance

As of November 30, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Malta[8]	Expected Timeliness[6,7]	Malta[8]
Exchange Rates	Current	Current	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct. 2024	Nov. 2024	M	M	M	30	1W	30
Reserve/Base Money	Oct. 2024	Nov. 2024	M	M	M	30	2W	12
Broad Money	Oct. 2024	Nov. 2024	M	M	M	30	1M	30
Central Bank Balance Sheet	Oct. 2024	Nov. 2024	M	M	M	30	2W	12
Consolidated Balance Sheet of the Banking System	Oct. 2024	Nov. 2024	M	M	M	30	1M	30
Interest Rates[2]	Current	Current	D	D	D	...	...	...
Consumer Price Index	Oct. 2024	Nov. 2024	M	M	M	30	1M	30
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024Q2	Sep. 2024	Q	Q	A/Q	90	2Q/12M	90
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2024Q2	Sep. 2024	Q	Q	M	30	1M	30
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q2	Sep. 2024	Q	Q	Q	90	1Q	90
External Current Account Balance	2024Q2	Nov. 2024	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	2024Q2	Nov. 2024	Q	Q	M	30	8W	42
GDP/GNP	2024Q2	Oct. 2024	Q	Q	Q	90	1Q	70
Gross External Debt	2024Q2	Nov. 2024	Q	Q	Q	90	1Q	90
International Investment Position	2024Q2	Nov. 2024	Q	Q	Q	90	1Q	180

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

MALTA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 17, 2024

Prepared By | European Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2024)

Membership Status

Joined: September 11, 1968; Article VIII

General Resources Account	SDR Million	Percent Quota
Quota	168.30	100.00
Fund holdings of currency	123.68	73.49
Reserve Tranche Position	44.65	26.53

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	256.71	100.00
Holdings	259.93	101.25

Outstanding Purchases and Loans
None

Financial Arrangements
None

Overdue Obligations and Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement
The currency of Malta is the euro. The exchange rate arrangement of the euro area is free floating. Malta has been a member of the euro area since January 1, 2008, and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

Malta maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions with the exception of restrictions notified to the Fund in accordance with Decision No. 144-(52/51).

Article IV Consultation

Malta is on the standard 12-month consultation cycle. The previous consultation discussions took place during November 9–22, 2023, and the staff report (Country Report No. 24/33) was brought for the Executive Board's consideration. The Article IV Consultation with Malta was concluded on January 29, 2024.

Technical Assistance (2022-Current)

Date	Department	Subject
November 2022	FAD	Revenue administration (*Commissioner for Revenue: Delivering Transformation)*
November/December 2022	FAD	Corporate income tax (*Planning for the Future of the Corporate Income Tax)*
December 2022-February 2023 (virtual)	FAD	Revenue administration (*Commissioner for Revenue - Integration of Tax and Customs Organization Structure)*
March - April 2023	FAD	Revenue administration (*Commissioner for Revenue - Taxpayer Compliance Risk Management (CRM) Framework)*
April 2023	FAD	Revenue administration (*Commissioner for Revenue - Establishing a Large Taxpayer Office)*
April-May 2023	FAD	Corporate income tax (*Facing up to the Challenges)*
June 2023	FAD	Revenue administration (*Commissioner for Revenue - Structure of Customs within the Malta Tax and Customs Administration)*
June-July 2023	FAD	Revenue administration (*Malta Tax and Customs Administration - Procurement of Integrated Tax Information System)*
September 2023	FAD	Revenue administration (*Malta Tax and Customs Administration - Establishing the Large Taxpayer Office and Developing a Compliance Risk Management Framework)*
November 2023	FAD	Revenue administration (*Malta Tax and Customs Administration – Performance Management*
May-August 2024	FAD	Revenue administration (*Malta Tax and Customs Administration – Write-off Policies*
June-October 2024	MCM	Systemic Risk Analysis (Central Bank of Malta – *Financial Stability Network Model)*
October 2024	FAD	Revenue administration (*Malta Tax and Customs Administration – Tax Administration Diagnostic Assessment Tool.*

Resident Representative

None