Creditreform Sovereign Rating

Rating Object	Rating Information	
REPUBLIC OF MALTA	Assigned Ratings/Outlook: **A+ /stable**	Type: Monitoring, unsolicited, with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	25-11-2016 20-11-2020 "Sovereign Ratings" "Rating Criteria and Definitions"

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Rating Action

Neuss, 20 November 2020

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

Key Rating Drivers

1. Vivid economic growth well above that of the euro area over recent years, further supporting the relatively high per-capita income level and buttressing strong labor market developments prior to the outbreak of Covid-19
2. Ongoing shift towards a more diversified export-oriented services sector should ultimately contribute to higher macroeconomic resilience, and would be key with regard to the sophistication of Malta's economic model; still high importance of tourism sector and need to strengthen the business environment present challenges to the short- to medium-term outlook, as does a less advantageous trade relationship with the UK beyond the end of the transition period
3. Generally high quality of the institutional framework, which includes advantages from being member of the EU/EA, with EU and ECB providing substantial additional support to mitigate the corona crisis; latest set of WGIs re-affirming room for improvement, but government seems committed to deliver on continued effort required to satisfyingly deal with rule of law and AML/CFT issues
4. Public finances will deteriorate markedly due to the pandemic, although still comparing as relatively benign in the euro area context; assuming the economic shock to be temporary, favorable debt affordability and expected commitment to embark on fiscal consolidation as witnessed in the recent past should help to improve fiscal metrics; however, uncertainty around these assumptions remains very high; a tax base generally more tilted towards cyclical revenue sources remains a structural factor constituting fiscal risks
5. External vulnerabilities associated with high degree of openness, and position as business and financial hub, to a degree balanced by persistent current account surpluses and high positive net international investment position (NIIP)

Reasons for the Rating Decision and Latest Developments

Creditreform Rating has affirmed the Republic of Malta's credit ratings, which are underpinned by a strong macroeconomic performance profile, a deterioration of the fiscal position from a relatively benign level, and some external risks that are partly mitigated. The institutional framework exhibits room for improvement.

Macroeconomic Performance

Malta's macroeconomic performance profile is underpinned by strong labor market developments on the back of vigorous economic growth over a considerable period, and a continued structural shift towards a more diversified services sector. Along with persisting challenges by European comparison as regards the business environment, less benign EU-UK trade relations from next year and the ongoing high importance of tourism-related services pose some balancing elements, the latter weighing particularly heavy in the current pandemic. While a structural shift seems well underway, we think that demonstrated robustness through the cycle and towards external shocks would be key with regard to the sophistication of Malta's economic model.

The Maltese economy entered the Covid-19 pandemic on a reasonably strong footing. Having experienced vivid, albeit volatile, GDP growth over a prolonged period, with an average growth rate of 6.3% over the last five years (2015-19), Malta was also able to increase its relatively high per capita income in 2019. At roughly USD 46,924 (IMF, PPP terms), GDP per capita saw an increase of 2.9% against the previous year and remains well above the level of A-rated peers in our rating universe (median: USD 38,587). Last year, real GDP expanded by 4.9%, again far exceeding output expansion in the euro area (EA, 1.3%). Domestic demand remained the main driver, not least as slowing global economic activity amid resurfacing trade tensions had taken its toll on Maltese exports.

With Covid-19 hitting the Maltese economy, real GDP in Q1 and Q2 fell by 2.6% and 11.6% q-o-q, respectively. While the downturn in Q1 seems mild by comparison (EA: -3.7), the economic slump registered for the second quarter, when authorities implemented the first (partial) lockdown, roughly matched the output decline recorded in the euro area as a whole (EA: -11.8%). Like elsewhere, economic activity was severely impaired, especially in consumer-facing sectors, causing private consumption to decrease by 11.2% q-o-q in Q2, while other GDP components also experienced strong contractions. The GVA share of trade/food services/accommodation, which also includes tourism-related services, plunged from 19.9% of total GVA in Q4-19 to 12.2% in Q2-20. Inbound tourism had to come to a standstill amid travel restrictions during the first lockdown phase in European countries and elsewhere. With a gradual lifting of constraints from July, tourist arrivals had recovered to some degree in August, before deteriorating again in September as infection numbers began to climb and entering the country was partly subject to provision of negative Covid-19 test results.

The high exposure to tourism, which according to the OECD accounted for 12.8% of GDP and 14.9% of total employment in 2018, increases the vulnerability of the Maltese economy, as underscored in the context of the current health crisis. That said, we observe progress in broadening Malta's economic model. Partly reflecting the significance of remote gaming, which has turned out to be a counterbalancing element in this crisis, we note that GVA of the category art, entertainment and recreation continues to account for an outstandingly high share of 9.4% of total GVA in Q2-20, having risen further from 8.7% in Q4-19. Apart from this, the GVA share of

ICT services has increased further to 8.2% in Q2-20 (EA: 5.4%), as has the share of business services (Q2-20: 19.0%, EA: 11.0%), all of which adds to the impression of a more diversified services sector that should benefit the economy's resilience to shocks going forward. We will monitor developments in this respect.

As in other EU member states, Q3-20 should see rebounding growth, as also suggested by improving monthly data such as industrial production, before renewed constraints to public life mute economic developments to some extent in the final quarter of the year. Following a rapid rise in Covid-19 cases, Maltese authorities introduced measures in October to contain the spread of the virus, including the closing of bars and clubs at 11pm. With the 14-day cumulative infection numbers soaring to 360.6 as of 13 November (16-Oct-20: 214.2) and a positivity rate of 4.1 in week 45, further restrictions to public life cannot be ruled out. While restrictions are still comparatively mild, some of Malta's main trading partners have entered a second, more or less stringent lockdown, weighing on the near-term outlook for Malta's economy.

Overall, we now expect GDP growth to shrink by 8.2% this year, bearing in mind not only the dismal first half of the year but also a prospectively more muted development in the final quarter. Uncertainty remains extremely high and risks remain tilted to the downside as long as there are no tested vaccines and medication available on a broad scale. For the coming year, we assume economic output to expand by about 4.5%, buttressed by significant fiscal and monetary policy support. Our estimate also builds on the assumption of available vaccines bringing at least some relief in the combat against Covid-19, presumably over the course of 2021. Recovering private consumption bolstered by employment support measures, and resuming trade activities also encompassing a degree of recovery in the tourism sector, would be part of the recovery.

Prior to outbreak of the pandemic, Malta's labor market had been performing well, inter alia reflected by an unemployment rate that had dropped to a historically low 3.6% in 2019 (EA: 7.5%), a labor participation rate that had further trended upward (2019: 75.9%) on a level higher than in the euro area overall (73.7%), and in ongoing strong employment growth of at least 4.0% since 2014 (2019: 5.8%, EA 1.2%). In this regard, we note that job creation in business services has been extraordinarily strong over the last few years (2019: 12.3%), underscoring the above-mentioned shift towards a more diversified services sector. Employment growth in trade, transport, accommodation, and food services incorporating tourism-related services has also remained high (2019: 6.9%). Participation continued to increase in Q1-20, to 77.5%, but dropped by 0.5 p.p. in Q2-20, still comparing rather favorably with the euro area (-1.2 p.p. to 72.1% in Q2-20). Thanks to wage subsidies to safeguard employment, the fallout from the corona crisis on the labor market has been limited so far, but is visible in a rising unemployment rate that jumped from 3.7% in Q1-20 to 4.4% in Q2, before edging down to 4.1% in the third quarter (NSO data). Employment in Malta continued to rise in Q2 (0.6% q-o-q, sa, not ca). The number of persons registering for work has been on the decline since peaking in May-20. In Sep-20, registered unemployment was at 3,385 persons, compared to 4,409 in May (NSO data).

In a risk scenario of a more protracted downturn, also among Malta's main trading partners, a higher number of insolvencies and associated job losses cannot be ruled out, and a delay in the availability of vaccines would certainly continue to suppress travel activities. However, we think that the support programs agreed on the EU level constitute a major positive factor with a view to the expected recovery next year. Regarding the forthcoming EU programming period (2021-27), Malta can expect an EU allocation of about EUR 2.27bn (Ministry for Finance, EUR 1.06bn in net terms), with EU cohesion policy and agriculture (gross) funds accounting for the lion's share (EUR 1.15bn). We gather that the government is currently formulating a strategy as to how EU funds would be used to ensure sustainable growth and strengthen the digitization of the economy. In this context, we understand that a new think tank on the digital economy was launched in June to help devise a digital strategy.

Apart from the obvious near-term downside risks emanating from the dynamically evolving Covid-19 pandemic, we think that, taking a broader perspective, Malta's challenges regarding its business environment could still pose restrictions to the medium-term growth outlook. We reiterate that Malta exhibited a rather low rank 88 out of 190 economies in the latest vintage of the World Bank's Ease of Doing Business report – an indicator that is currently under review – and stood at rank 38 in the World Economic Forum's most recent Global Competitiveness Report, having slipped slightly in both cases. Dependence on global developments remains high given the high degree of openness. At this stage, however, a stable global export market share does not point to an adverse impact on Malta's competitiveness (2019: 0.08%). Further downside risks stem from a likely less benign future trade relationship between the EU and the UK.

Institutional Structure

Our credit assessment continues to mirror a generally high quality of Malta's institutional framework, further buttressed by advantages from being member of the EU/EMU, which appear to be key to resolving the health and economic crisis engendered by the novel coronavirus. While the recent vintage of Worldwide Governance Indicators (WGIs) hints at weakening institutional conditions, with rule of law and control of corruption seemingly being areas for improvement, we observe significant reform efforts regarding AML/CFT issues and, more recently, with a view to enhancing the sovereign's judicial system.

We think that the benefits from being member of the EU/EMU outweigh the disadvantages of Malta not being able to set its own monetary policy, as impressively demonstrated in light of the exceptional health and economics crisis. Besides significant advantages related to the access to the large single market as well as to a broad and deep capital market, the sovereign draws substantial benefits from financial aid via EU funds (i.e. MFF, NGEU, SURE) and the ECB's monetary policy that lends valuable support in terms of financing conditions.

Examining the latest set of the World Bank's WGIs, which we view as a key metric for determining institutional quality, we note a partly deteriorating picture. With a view to perceived freedom of speech and free media (WGI voice and accountability), Malta improved by one notch to rank 33 out of 209 sovereigns, somewhat lagging the euro area average (rank 26). At the same time, we observe a substantial weakening pertaining to the perception of the extent to which public power is exercised for private gain. At rank 81/209, Malta displays a sizable gap towards the euro area median (rank 42) after having dropped from rank 60 on the WGI control of corruption in last year's WGI vintage. When it comes to government effectiveness and rule of law, the sovereign slipped three and five ranks to 48/209 and 43/209 respectively, also comparing unfavorably with the euro area median (rank 35 and 33) on both counts.

That being said, we favorably assess Maltese authorities' strong and intensified reform efforts to combat money laundering and financing of terrorism and enhance its justice system, in a bid to align the institutional set-up with European and international standards. On 29 July, the Maltese parliament thus unanimously legislated a comprehensive set of reforms targeting the judicial system as well as checks and balances more generally, in particular concerning the judicial review of decisions not to prosecute, the appointment and the dismissal of judges, the office of the Ombudsman, and the election procedure of the President of Malta. The Venice Commission endorsed the reform package on 8 October, largely welcoming the reform proposals and the way in which they have been transposed into law. What is more, we can see that further reform proposals have been tabled, with four bills still pending, inter alia as regards the appointment of Permanent Secretaries and the Auditor General, and regarding the National Audit Office.

We gather that the progress report to Moneyval was submitted on 5 October, this representing a due response to shortcomings identified regarding the AML/CFT framework in the 2019 Moneyval report. We believe that the authorities are firmly committed to complying with Moneyval's recommendations. To this end, the special edition of the Malta Financial Services Oversight newsletter published in October 2020 pays testament to the authorities' ongoing commitment to finding satisfying solutions in this respect.

At the turn of the year, the Financial Action Task Force (FATF) is reportedly to visit Malta in order to assess whether the sovereign should be put on the so-called grey list, i.e. the list of non-cooperative sovereigns in the matter of AML/CFT, which, if realized, might have serious reputational consequences. However, against the backdrop of the latest Covid-19 figures, an on-site visit may have to be postponed. We will follow developments here closely.

A further factor prompting us to flag some caution in our assessment is the EU's letter of formal notice in October that prompted an infringement procedure against Malta (in addition to Cyprus) in light of the Individual Investor Program (IIP). The EU argues that the latter is not compatible with the principle of sincere cooperation enshrined in the Treaty on EU and that the program undermines the integrity of the status of EU citizenship. A response should be given within two months.

Fiscal Sustainability

Malta's healthy public finances will deteriorate markedly, but should still compare as relatively benign in the euro area context, thanks to plenty of fiscal headroom before the outbreak of the pandemic. Based on the premise of a gradual economic recovery and that fiscal outlays can be contained, e.g. via broad availability of tested vaccines, high debt affordability and EU-level support should facilitate a more or less timely fiscal consolidation as witnessed in the recent past. However, uncertainty around these assumptions remains extremely high. More structural challenges such as a tax base generally more tilted towards cyclical revenue sources, and interrelated volatility in corporate income tax receipts which may also be affected by changes to international taxation, remain in place. Contingent liability risks, which had receded over recent years, may be rekindled in the wake of the Covid-19 crisis.

Sustained primary surpluses combined with strong growth have led to a firm downward trend in Malta's debt-to-GDP ratio, yielding the government a comparatively favorable position at the onset of the corona crisis. This in turn should lay the foundation for a timely economic recovery. To some degree, the public debt ratio also benefited from the latest NSO benchmark revision affecting Q1-95 to Q2-20, following which nominal GDP was calculated to have been on average 1.3% higher than previously estimated. In 2019, Malta achieved a headline surplus for a fourth consecutive year, although at 0.5% of GDP markedly smaller than in 2017 (3.2% of GDP) and 2018 (2.0% of GDP) amid an expansionary fiscal stance and lower revenue growth.

In the face of the coronavirus, 2020 will see the general government balance swing into a large deficit amid a steep fall in GDP and drastically rising expenditure owing to measures to mitigate the fallout from the pandemic. According to NSO data, total recurrent revenue shrunk by 17.8% in Jan-Sep 2020 compared to the same period of the previous year, whereas total expenditure soared by 15.4%. Since our last review, the government announced a EUR 900mn package in June mainly focusing on supporting economic recovery, including EUR 400mn earmarked for infrastructure investment over the coming years. In this context we note that works on a number of investment projects that were delayed in the first half of the year have been resumed, although the government opted to pursue a cautious approach in its forecasts on gross fixed capital formation. Moreover, in October the government extended the wage subsidy scheme until at least Mar-21 and made available further cash vouchers to provide some stimulus to the severely affected sectors such as gastronomy and hospitality.

Our current estimate of the fiscal deficit also considers that new restrictions to encourage social distancing both in Malta and – to a larger extent – in a number of trading partners will hamper economic activity in the current quarter. In light of the above and of measures adding up to approx. 5.5% of GDP, including spending on healthcare, support to safeguard employment, and financial aid to companies, we now estimate Malta to post a general government deficit to the tune of about 9.7% of GDP this year. With growth set to recover in 2021, but also with some support measures to last well into 2021, we expect the deficit to decline to roughly 6.1% of GDP next year. Bearing in mind the unpredictable nature of the corona crisis, we reiterate substantial uncertainty around these assumptions. Given that Malta still has to submit its Resilience and Recovery Plan to the European Commission, with a number of measures likely to receive funding from the Resilience and Recovery Facility, this would pose an upside risk to our forecast, as NGEU funding might result in a somewhat lower headline deficit next year.

Against the background of a deteriorating general government balance and declining GDP, Malta's falling debt trend should reverse, although we expect this to be temporary. After peaking at 69.3% of GDP in 2011, the public debt ratio had fallen to 42.6% of GDP in 2019, corresponding to just over half the level recorded for the euro area as a whole (84.3% of GDP), highlighting plenty of fiscal space to tackle the pandemic. We currently expect general government debt to leap to just short of 56% of GDP in 2020 and climb further to around 60% in 2021, before embarking on a more favorable path as growth returns and extended measures expire. We consider the government's reaffirmed commitment to fiscal prudence as positive, stating that its fiscal strategy is to revert to the medium-term objective of a balanced structural budget and a public debt ratio below 60% of GDP.

As to fiscal risks not immediately related to Covid-19, we recall that Malta's tax base seems tilted towards rather cyclical revenue sources. Accounting for 36.2% of total revenue in 2019 (EA: 27.9%), Malta displays one of the highest shares of taxes on income and wealth in the euro area, which contributes to its elevated revenue volatility as compared to many other European sovereigns. Corporate income tax (including holding gains) made up for 17.8% of total tax receipts (incl. social contributions), marking the highest ratio in the EU-27 and highlighting a comparatively pronounced dependence on this stream of income that might be affected by potential changes to international taxation. Moreover, difficult-to-predict IIP revenue adds to volatility. On a side note, any change to the IIP in response to the EU's criticism may have consequences for this source of income (see above).

Having said that, we consider fiscal risks to be mitigated by high debt affordability, which should remain in place given the ECB's very accommodative monetary policy and its hints that this might be enhanced, possibly as early as December. In the first nine months of 2020, interest costs declined by 5.7% against the same period in the preceding year. This compares with a fall in interest outlays of 5.2% in 2019 vs. 2018 that sent interest-to-revenue down to 3.6% in 2019 (2018: 4.0%).

Looking at contingent liability risks via the banking sector, which is one of the largest in the EU-27 given total assets that amount to 321.6% of GDP in Q2-20, metrics relating to asset quality and capitalization seem reasonably healthy at this stage (Central Bank of Malta (CBM) data). Having said that, the NPL ratio has started to climb (3.5% in Q2-20) and bank profitability has weakened (ROA at 0.04% in Q2-20; Q1-20: 0.31%). The CET1 ratio increased to 17.5% in Q2-20 (Q2-19: 16.6%) and remained well above the euro area level (Q2-20: 15.0%), thus pointing to considerable buffers against shocks, though. While the stress test performed by CBM has shown that exposure to sectors that are sensitive to Covid-19-related fallout accounted for some 40% of total loans outstanding in Q4-19, we note that about 60% thereof is related to non-resident lending, mainly by international banks that display only limited links to the domestic economy. Risks stemming from dynamic residential property prices have abated somewhat more recently, with house price growth falling to 3.4% y-o-y in the second quarter, the lowest reading since Q2-15.

In general, fiscal risks entailed by contingent liabilities had gradually receded over recent years, standing at 8.2% of GDP in Q2-20, up from 7.4% of GDP in Q4-19 (Q2-19: 8.2%, CBM data). In view of the Covid-19 Guarantee Scheme implemented in response to the virus outbreak, contingent liabilities may be pushed up further. However, risks appear somewhat tempered by the relatively moderate maximum amount (2.8% of GDP, DBP21).

Foreign Exposure

Malta's high degree of openness, its integration in global value chains, and its status as a business and financial hub render it rather sensitive to sudden movements regarding global growth and trade dynamics, as well as to capital flows. As a result, its current account is characterized by stark swings and frequent revisions, complicating the assessment of movements, although persistent surpluses and a highly positive net international investment position (NIIP) constitute a counterweight to external vulnerabilities.

Having posted a substantial surplus in five of the last six years, mainly on the back of a structurally higher surplus in the services balance, the current account registered a positive balance to the tune of 4.8% of GDP in 2019. While this would suggest some narrowing (-0.9 p.p.) compared to the prior year, chiefly owing to a somewhat reduced surplus in services trade, we would point out that the current outcome is partly the result of data revisions, also affecting GDP following a benchmark revision.

Turning to more recent developments, we note that the current account surplus has shrunk to 1.3% as of Q2-20 (moving four-quarter sum) as compared to 4.1% of GDP a year before. The decline was largely driven by a significantly diminishing services surplus (-3.7 p.p.) as tourism was heavily affected by travel bans and precautionary measures to combat Covid-19, thus highlighting a vulnerability (see above). With tourism inflows in Q3-20 corresponding to only a fourth of last year's level (23%) and clouding prospect as regards Q4, we expect a moderate current account deficit in 2020. Generally, we would expect Malta's current account to swing back into surplus from next year, aided by an increasingly diversified services sector and based on the assumption of a sluggish recovery in travel activities.

Malta's highly positive NIIP, meanwhile, remains among the highest in the EU and increased slightly from 54.6% of GDP at the end of 2019 to 58.5% of GDP in Q2-20. Its NIIP continues to be characterized by significant net direct investment liabilities, a less crisis-prone component. Likewise, excluding non-defaultable investment, its NENDI is by far the most positive in the EU (261.3% of GDP in Q2-20).

Rating Outlook and Sensitivity

Our rating outlook for Malta's long-term credit ratings is stable, as we consider risks associated with the drastic GDP decline and uncertain economic prospects, as well as with the assumed temporary reversal of fiscal consolidation, to be broadly balanced by the economy's generally favorable underlying macroeconomic strengths, by a progressing shift towards a more diversified services sector, as well as by the abovementioned mitigating factors concerning fiscal risks. We emphasize that the evolution of the Covid-19 pandemic is extremely uncertain. As a corollary, any assessment of further economic development is extraordinarily uncertain and significantly more difficult than usual, as is the case for other metrics, e.g. from the fiscal realm.

We could consider a negative rating action if, contrary to our expectation, Malta's medium-term growth worsens significantly. This could be the case if lacking progress in controlling the Covid-19 pandemic, also on the global level, significantly delays economic recovery and causes more lasting damage to large parts of the economy. Downward pressure on the ratings could also stem from a more sustained deterioration of public finances in this case. Changes to international taxation standards could exacerbate this. A generally less beneficial international trade environment, including a no-deal end to the UK-EU transition period, would also present downside risks to our rating and the outlook.

Although perhaps less likely given the current circumstances, we could consider a positive rating action in the event of a swifter and stronger economic rebound than we currently expect, in tandem with an improving outlook for medium-term prospects in light of a demonstrably more robust economic model. This could also result in more rapidly improving fiscal metrics. Moreover, positive effects from reinvigorated international trade cooperation could prepare the ground for a more favorable outlook, as would a more benign perception of institutional quality (i.e. rule of law, control of corruption) on the back of deep-seated and sustained reform efforts.

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Ratings*

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

*) Unsolicited

Economic Data

[in %, otherwise noted]	2015	2016	2017	2018	2019	2020e	2021e
Real GDP growth	9.6	3.9	8.0	5.2	4.9	-8.2	4.5
GDP per capita (PPP, USD)	37,922	40,127	43,745	45,589	46,924	43,087	45,517
HICP inflation rate, y-o-y change	1.2	0.9	1.3	1.7	1.5	0.8	1.2
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	82.0	82.6	82.4	82.5	n.a.	n.a.	n.a.
Fiscal balance/GDP	-1.0	0.9	3.2	2.0	0.5	-9.7	-6.1
Current account balance/GDP	2.7	-0.6	4.9	5.7	4.8	n.a.	n.a.
External debt/GDP	912.0	838.4	771.8	703.7	654.2	n.a.	n.a.

Source: International Monetary Fund, Eurostat, own estimates

ESG Factors

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

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

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

Since indicators relating to the competitive stance of the sovereign such as the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Indicator add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

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

ESG Factor Box

Environmental Quality	Ecological Risks	Ressource Management	Education	Health	Demographics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial System**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liberties/ Political Participation**	Market Access	**Business Environment**	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

Appendix

Rating History

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

Regulatory Requirements

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

This sovereign rating is an unsolicited credit rating. The Maltese Ministry for Finance (MFIN) and the Central Bank of Malta (CBM) participated in the credit rating process as the authorities provided additional data and information, and commented on a draft version of the rating report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of MFIN and CBM during their review. However, the rating outcome as well as the related outlook remained unchanged.

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

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

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, ECDC, Central Bank of Malta, National Statistics Office Malta, Ministry for Finance Malta.

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

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

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

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

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

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