

# NEWSLETTER

January 2018

## **IMF lauds Malta's economic performance, noted profitability and high capitalisation of banks**

The International Monetary Fund (IMF) has reached the conclusion that Malta's economic growth remains one of the strongest in Europe, owing to its favourable economic conditions and policies, which advanced structural reforms and encouraged the strengthening of private and public balance sheets.

In conclusion to its consultation with Malta, Executive Directors of the IMF endorsed the staff's appraisal, adding that the Maltese economy remains on strong growth trajectory, due to its rapid expansion of export-oriented services and solid job creation strategies, keeping unemployment at historically low levels, despite of the continued inflows of foreign workers.

The favourable economic performance is expected to persist in the coming years, albeit at a more moderate pace, with domestic demand as the main driver. Inflation is expected to pick up gradually, reflecting an increase in import prices and tighter labour market conditions, while buoyant exports are projected to sustain current account surpluses.

Risks to the outlook are broadly balanced, and the external position is assessed to be broadly in the line with fundamentals."

The IMF also noted that domestic banks remain profitable and well-capitalised.

February 2018

## **Moody's and DBRS upgrade Malta rating**

Two international credit rating agencies have upgraded Malta's rating. DBRS has upgraded Malta's economy from 'A' to 'A high', the highest ever rating. On the other hand, Moody's modified its rating from 'A3 stable' to 'A3 positive', which is the first upgrade given by the agency to Malta since October 2013.

DBRS commented positively on the improvement in public finances. "Since DBRS's latest review, the projection of the general debt ratio has been materially revised downwards due to more favourable growth prospects and stronger primary balances in coming years".

"The Maltese economy continues to power ahead," DBRS said, while Malta's economy "remains on the top performers in the euro area". DBRS added that "Malta's political environment is broadly stable" and "the government is making additional efforts to improve governance and strengthen its institutional framework".

In its report, Moody's said the reason behind the positive revision, is "Malta's improving fiscal strength, due to a sustained pace of public sector debt reduction supported by prudent fiscal policy and containment of contingent liabilities".

Moody's sustain that a surplus of 1.5% was achieved in 2017, as against the 3.5% deficit in 2012. It noted that part of the improvement resulted from the "fiscal consolidation efforts and sustainably strong economy performance", which "if sustained, the improvement in fiscal strength will support the assignment of an A2 rating."

March 2018

### **S&P reaffirms Malta's 'A' rating**

Standard & Poor's Global ratings has confirmed Malta's credit rating at "A", further maintain its outlook for the island as positive. S&P also highlighted that the possibility of raising the ratings on Malta over the following months. "Our ratings on Malta are supported by its strong growth performance coupled with consistent current account surpluses driven by its large services exports, as well as its improving budgetary position and fiscal management." S&P also anticipates that Malta's growth will possibly exceed that of peers at similar stages of development and level of income.

S&P remarked that in recent years and in the midst of a high-growth environment, the government had narrowed the budget deficit, reduced general government debt-to-GDP and undertaken various structural reforms, namely those that have increased women's participation in the labour market and lowered Malta's energy bill.

"We anticipate that macroeconomic policymaking will remain geared toward fiscal consolidation. Efforts to reform state-owned enterprises further, reduce skill mismatches, and improve the long-term sustainability of public finances in the context of an ageing population will be implemented gradually."

The fast-paced growth of the new economic sectors and the implementation of several recommendations from the spending reviews have also been acknowledged in the report. This has allowed the government to narrow the budget deficit thus leading to a surplus, and to a general reduction to the government's debt.

S&P also anticipates that the government's strategy and policymaking will remain geared towards further fiscal consolidation. The report emphasises that the ratings could be further raised if Malta maintains its economic growth and current fiscal performance.