



MALTA

2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

February 2026

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 2025 Article IV consultation with Malta, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 4, 2026 consideration of the staff report that concluded the Article IV consultation with Malta.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 4, 2026 following discussions that ended on December 15, 2025 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 January 20, 2026.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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IMF Executive Board Concludes 2025 Article IV Consultation with Malta

FOR IMMEDIATE RELEASE

- *Malta's robust economic performance has continued despite global uncertainties, maintaining growth rates that exceed the EU average, inflation levels near the ECB target, and a sustainable public debt.*
- *Growth is expected to slow to its potential rate of 4 percent due to structural challenges as labor-led expansion, supported by immigration, moderates, and gaming and tourism sectors reach saturation.*
- *Policy priorities focus on further strengthening fiscal buffers for future shocks while creating room for investment in infrastructure, human capital, and innovation. Long-term growth will depend on reforms that boost productivity and address structural challenges.*

Washington, DC – February 6, 2026: On February 4, 2026, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Malta.¹ Malta's economy has maintained robust momentum, with annual growth averaging nearly 7 percent over the past decade led by tourism, online gaming, and professional services alongside significant inflows of foreign workers. GDP growth is estimated to have slowed to 3.9 percent in 2025, which is still considerably higher than the EU average. The influx of foreign workers that fueled economic activity in the past has also strained infrastructure and public services, highlighting the limits of the current labor-intensive growth model. This labor-driven growth is expected to continue in the medium term, but slow in longer term since Malta cannot sustain a continued population increase. Inflation declined to slightly above 2 percent while fiscal consolidation has kept public debt on sustainable path. The financial sector remains sound and well-capitalized.

Executive Board Assessment²

Executive Directors commended the authorities' sound macroeconomic management with Malta enjoying one of the highest growth rates in Europe over the past decade, and public debt on a sustainable trajectory. Noting that risks are tilted to the downside and Malta's labor-intensive growth model appears to be approaching its limits, Directors emphasized the

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 At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

importance of transitioning toward a more productivity-driven growth path, while preserving macroeconomic stability.

Directors welcomed the narrowing fiscal deficit and the authorities' commitment to the EU fiscal framework. They agreed that fiscal consolidation efforts should be sustained to maintain public debt at current levels and create fiscal space for investments in human capital, infrastructure, and innovation. Directors also saw scope to enhance revenue mobilization, including through continued digitalization of tax systems, and improvements in VAT administration and corporate taxation. Strengthening public financial and investment management remain important. Recognizing the authorities' social objectives, Directors recommended gradually phasing out untargeted electricity and fuel subsidies while protecting vulnerable groups.

Directors welcomed the strength of the banking sector citing high capital and liquidity buffers and low non-performing loans. They urged vigilance on vulnerabilities from rising exposures to real estate and on the growing role of non-bank financial institutions, digital finance and crypto-asset providers. Directors welcomed the planned expansion of macroprudential measures and encouraged continued strengthening of financial sector supervision, data availability, and stress-testing. Noting the progress made, they encouraged the authorities to sustain progress in strengthening the AML/CFT framework.

Directors underscored that advancing structural reforms is essential to sustaining high growth. They emphasized the importance of addressing labor shortages and persistent skills mismatches alongside stepped-up investment in infrastructure and technology to support increasingly higher value-added activities. In this context, they welcomed the authorities' new migration and education strategies and emphasized the importance of improving judicial efficiency and sustaining progress in digitalization and innovation. Directors welcomed efforts in strengthening energy security and climate resilience and encouraged continued progress toward the green transition.

Malta: Selected Economic Indicators, 2024–27

	2024	2025	2026	2027
		Est.	Proj.	Proj.
Real economy (% change)				
Real GDP (expenditure)	6.8	3.9	3.9	4.0
Domestic demand	5.9	4.7	4.3	4.3
Output gap (% potential output)	1.2	0.8	0.5	0.4
Gross national savings (% GDP)	26.1	25.5	24.2	24.2
Investment (% GDP)	19.0	19.1	19.0	19.0
Prices (% change)				
Consumer prices (HICP, avg)	2.4	2.4	2.0	2.0
Consumer prices (HICP, eop)	1.8	2.2	2.1	2.0
Labor (% change)				
Employment	5.6	2.0	2.1	2.2
Wages	4.5	4.3	3.8	3.8
Unemployment rate (%)	3.2	2.5	2.5	2.5
Net migration (% population)	1.8	1.8	1.7	1.7
Unit labor costs	2.0	-0.3	-0.3	-0.2
Financial sector				
Credit to the private sector (% change)	6.9	5.4	5.8	5.6
Credit to the private sector (% GDP)	66.5	66.2	65.5	65.2
Short term deposit rate	...	...	...	3.2
Long-term bond yield	...	...	...	3.9
General government finances (% GDP)				
Net lending/borrowing	-3.5	-3.2	-2.6	-2.6
Structural balance (% potential GDP)	-3.6	-3.5	-2.8	-2.7
Structural primary balance (% potential GDP)	-2.5	-2.3	-1.6	-1.5
Consolidated debt (gross)	46.2	46.9	47.1	47.1
External accounts (% GDP)				
Current account	7.1	6.3	5.2	5.2
International investment position, net	80	83	85	86
Gross debt 1/	301	303	302	302
Net debt 1/	-169	-178	-185	-191
MEMORANDUM ITEMS				
Nominal GDP (bn €)	23.1	24.6	26.1	27.7
Population (1,000)	553	563	573	584
GDP per capita (\$)	45,167	49,277	53,082	55,176
Real effective exchange rate	...	...	...	...

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

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



MALTA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 20, 2026

KEY ISSUES

Context. Malta's economy has grown rapidly over the past decade, with per capita income nearly doubling since 2013. Growth averaged close to 7 percent annually, led by labor-intensive tourism, online gaming, and professional services, and was supported by inflows of foreign workers. Labor-driven growth supported by immigration, is expected to continue in the medium term but slow in the longer term as Malta, an island economy with the highest population density in the EU, cannot sustain further substantial population and labor force growth through immigration. Without adequate policy and structural reform measures, the inevitable deceleration in labor force growth would weigh on potential output and limit actual growth.

Policy recommendations. In an increasingly shock-prone global environment, the priority is to maintain macroeconomic stability and strengthen resilience to external shocks, while advancing the transition to a productivity-driven growth model by investing in human capital and infrastructure, strengthening the business climate and adopting innovation.

- **Fiscal policy.** The medium-term fiscal strategy needs to balance deficit reduction with pro-growth spending to address growth bottlenecks. While maintaining public debt stable, needed fiscal space can be created by further increasing the efficiency of VAT collection, reinforcing revenue administration through ongoing digitalization and enhanced enforcement measures, phasing out untargeted energy subsidies, and strengthening public finance and public investment management. Developing a roadmap for corporate tax reform would provide predictability for businesses.
- **Financial sector.** The financial system remains healthy and resilient, but the concentrated banking system and banks' large exposure to real estate call for supervisory vigilance. The authorities should continue monitoring these risks, implementing macroprudential regulations, broadening sectoral systemic risk buffers, and ensuring strict underwriting and appraisal practices.
- **Structural reforms.** To support the transition to productivity-driven growth, more strategic labor market policies would help alleviate labor and skills shortages and aid the development of higher value-added services. Other priorities include improving judicial efficiency to streamline court procedures and reduce case backlogs; strengthening insolvency frameworks; fostering technology adoption; and addressing climate risks and strengthening energy security.

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

Discussions were held in Valletta during December 2-15, 2025. The team comprised Nick Gigineishvili (head), Maria Atamanchuk, Fuad Hasanov and Atticus Weller (all EUR), and Natalia Stetsenko (LEG). Ashwini Arulrajhan (EUR) provided research assistance, and Miguel De Asis (EUR) provided administrative assistance. Elisa Sales (OED) participated in the discussions. The team met with Minister for Finance Clyde Caruana, Minister for Transport, Infrastructure, and Capital Projects Chris Bonett, Minister for Home Affairs, Security, and Employment Byron Camilleri, Governor of the Central Bank of Malta Edward Scicluna, senior officials from Malta Financial Services Authority and other government agencies, representatives of labor and business organizations, and financial institutions.

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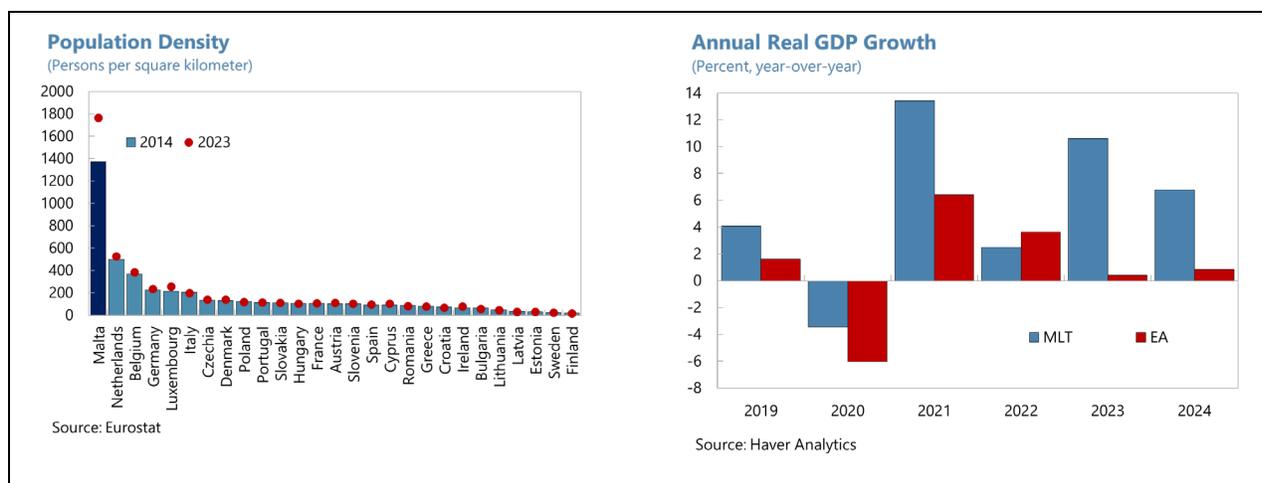
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CONTEXT

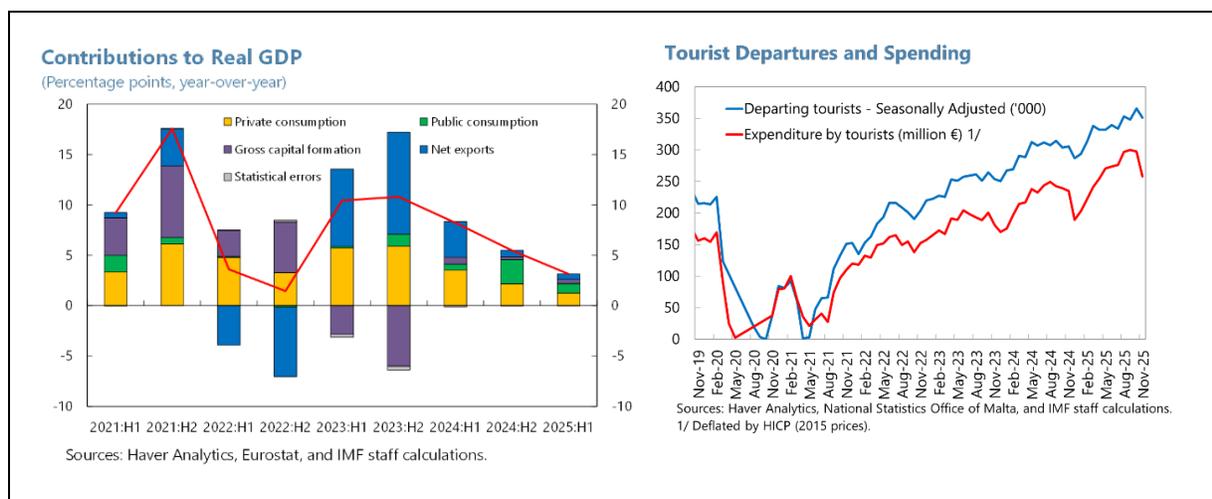
1. Malta has experienced a remarkable economic expansion over the past decade, consistently outpacing growth in the EU. Over this period, growth averaged nearly 7 percent, underpinned by political and social stability. Activity was mainly driven by export-oriented services such as tourism, online gaming, and professional services and was supported by continuous inflow of labor from outside the EU. By 2024, per capita income reached US\$45 thousand, higher than the EU average, up from US\$25 thousand in 2013. However, while continued immigration is expected to sustain growth in the medium term, a slowdown appears inevitable over a longer horizon. With a population density fifteen times greater than the EU average, straining infrastructure, housing and public services, Malta cannot rely indefinitely on population growth to maintain momentum. Furthermore, with unemployment at historically low levels and wages so far largely contained by non-EU immigration, slowing migration would exert an upward pressure on wages and inflation, and present challenges to Malta's competitiveness in the long term.

2. The current favorable macroeconomic environment is an opportunity to strengthen resilience to shocks and promote higher growth. To sustain high growth rates for longer, Malta must shift to a productivity-driven growth model that encourages innovation and labor upskilling to enhance its competitiveness, and address infrastructure bottlenecks and labor shortages amid demographic pressures. To this end, the medium-term priority is to balance macroeconomic stability objectives with the need to create fiscal space for much-needed investment in human capital, transport, public utilities, and new technologies, while advancing green transition. If executed in a fiscally sustainable manner, these initiatives would enhance productivity, support climate goals, and improve living standards. The authorities recognize the need for a strategic pivot toward productivity-driven growth, which is reflected in their long-term strategy document Malta Vision 2050 (see Annex V).

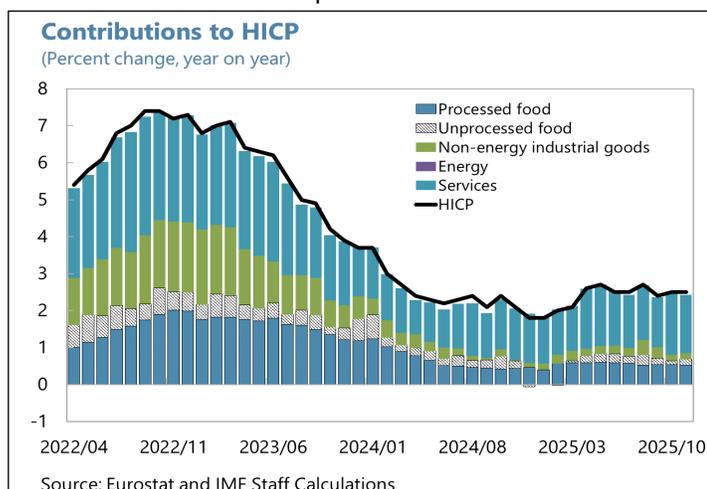


RECENT DEVELOPMENTS

3. Recent economic performance has remained strong. After expanding by 10.6 percent in 2023,¹ GDP growth slowed to 6.8 percent in 2024 and is estimated to have reached 3.9 percent in 2025, which is still considerably higher than the EU average. Tourism spending increased by 23



percent in 2024 with arrivals hitting a record 3.6 million in 2024 and 1.8 million in the first half of 2025, the latter constituting a 13.5 percent year-on-year increase. Online gaming and other services exports continued to perform strongly as well. Malta's gaming sector contributed about €1.4 billion to gross value-added and grew at an estimated annual rate of 3.5 percent in 2024.² The contribution of private consumption to growth has weakened in 2025 as still resilient domestic demand has led to higher imports of services and softer net exports. Employment grew by 5.3 percent in 2024, primarily due to the continued inflow of foreign workers, which account for over 30 percent of total employment. Unemployment remained at historical lows of around 3 percent in 2025, while real wages continued to increase, signaling a still-tight labor

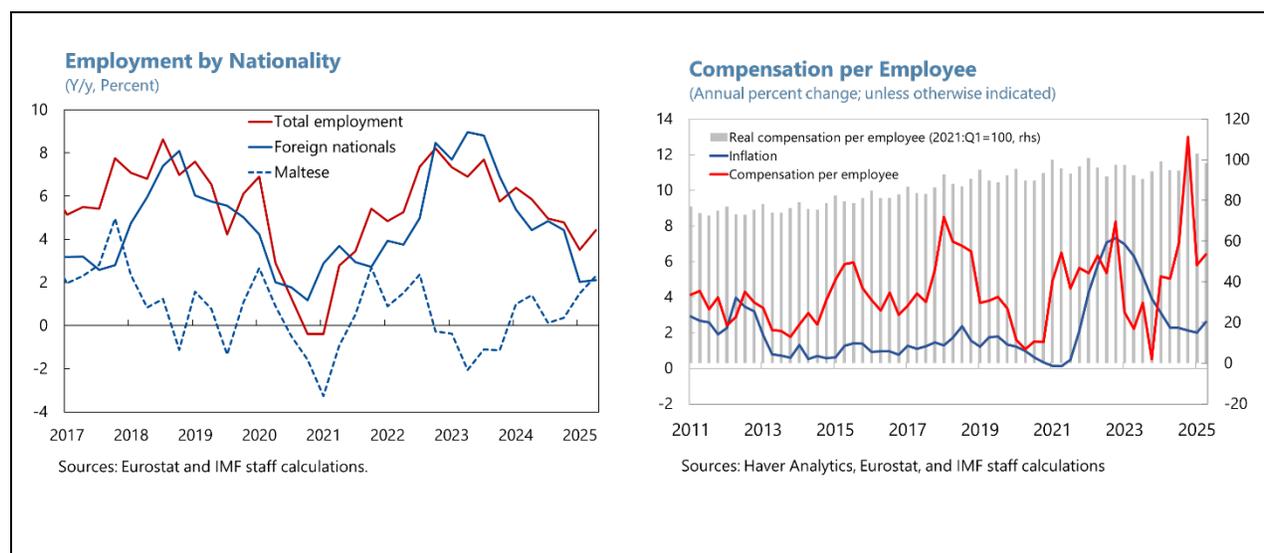


market. The headline harmonized consumer price index (HICP) declined from its peak of 7.4 percent in October 2022 to 2.5 percent in November 2025, and core inflation (HICP excluding energy and food) fell to 2.5 percent. While goods inflation has fallen below 2 percent, supported by the relative stability of global food and commodity prices, and the fixed energy tariffs domestically, inflationary

¹ Since the completion of the 2024 Article IV consultation, the National Statistics Office revised the 2023 growth figure from 7.5 percent to 10.6 percent.

² For details, [Annual Report, Malta Gaming Authority, 2024](#).

pressures remain in services, especially in transport and tourism-related sectors where demand remains particularly strong and supply is less elastic than for goods.

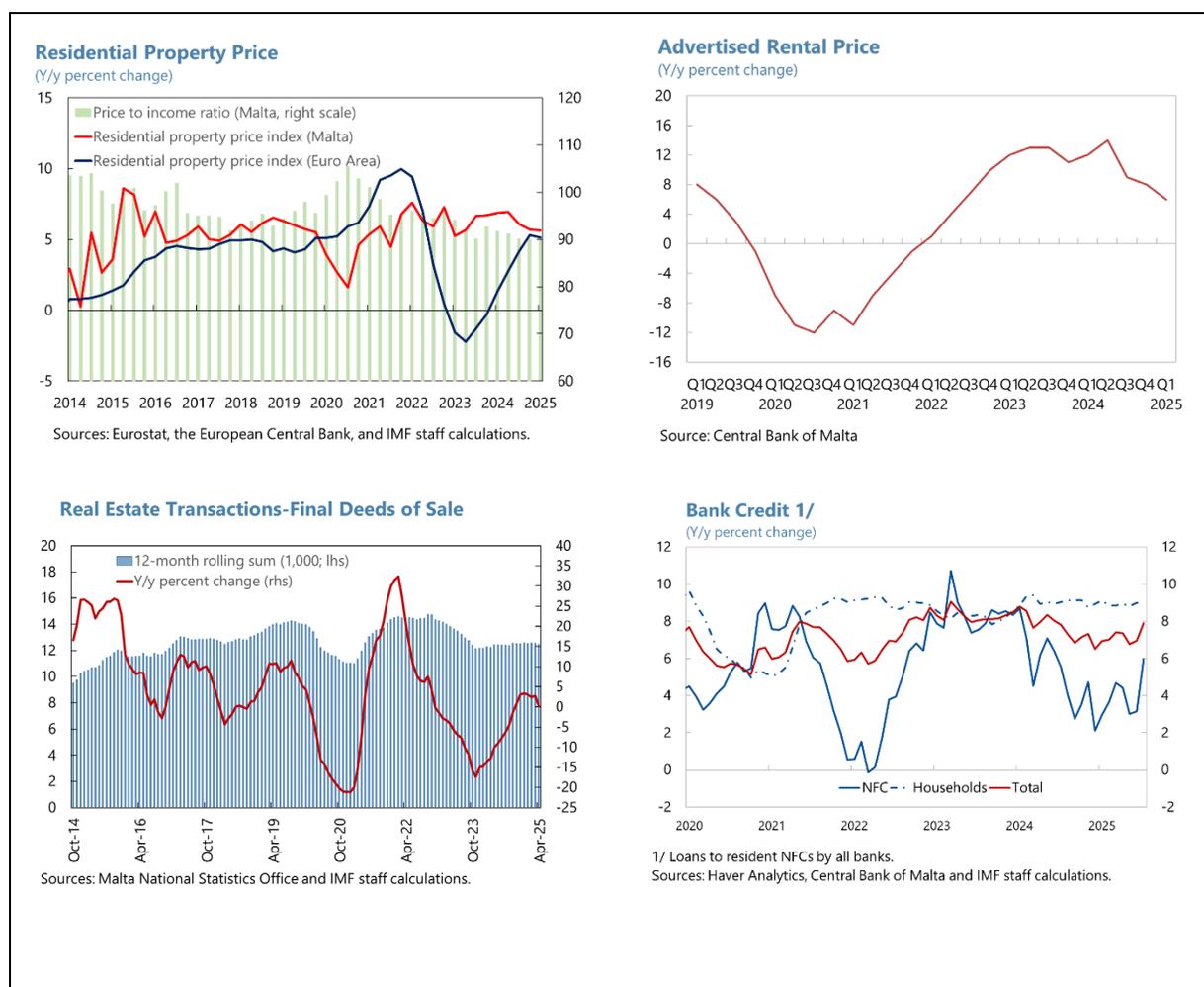


4. The fiscal deficit continued to narrow. It declined from 4.4 percent of GDP in 2023 to 3.5 percent in 2024, below the budget target of 4 percent. The improvement was driven by overperformance of income and wealth taxes paid by international corporations and by lower energy subsidies³, which declined to 0.9 percent of GDP from 1.4 percent in 2023 thanks to lower global energy prices. Part of the savings were offset by exceptional capital transfers to SOEs, including to the national airline, and by higher compensation of employees. Favorable revenue performance, especially in income taxes, and expenditure restraint continued in 2025 resulting in an estimated overall fiscal deficit of 3.2 percent of GDP. Public debt edged up from 46.2 percent of GDP in 2024 to around 47 percent of GDP in 2025.

5. Malta's financial system is bank-dominated with total assets of about two times GDP in June 2025. Core domestic banks – the six largest that primarily serve the domestic economy – controlled 71 percent of banking sector assets. Non-core banks, the rest of domestic banks that predominantly provide trade financing, accounted for 7 percent and international banks (offshore banks) accounted for 22 percent. Core banks reported a Tier 1 capital ratio of 21 percent, a leverage ratio of 7.9 percent, a liquidity coverage ratio of 403 percent, and returns on equity and assets of 10.2 and 0.9 percent, respectively. Non-performing loans (NPL) stood at about 2 percent of total loans. Household credit growth has remained steady, supported by relatively low mortgage rates. The life insurance industry – the largest component of domestic non-bank financial institutions (NBFIs) – holds about 15 percent of GDP in total assets and maintains robust capital and liquidity buffers, with a solvency capital ratio of 268 percent and a liquid asset ratio of 60 percent in mid-2025. Other insurance companies (about 3 percent of GDP) and investment funds (about 7 percent of GDP) are smaller in size and well-capitalized and liquid as well.

³ In response to the global energy price shock in 2022, the government opted to freeze retail electricity and fuel prices. This helped contain the impact of the energy price shock on households and businesses.

6. Malta's real estate market continues to grow, supported by robust economic growth and favorable financing conditions. Property prices and transaction volumes rose on average by 6.7 and 3.4 percent, respectively, in 2024 with the apartment segment leading the gains, reflecting strong investor interest and migration pressures. Rental yields also increased by about 6 percent in early 2025, underpinned by sustained inflow of migrant workers and tourists. However, growth moderated in early 2025 as property and rental prices growth rates eased while the house price-to-income ratio remained stable.



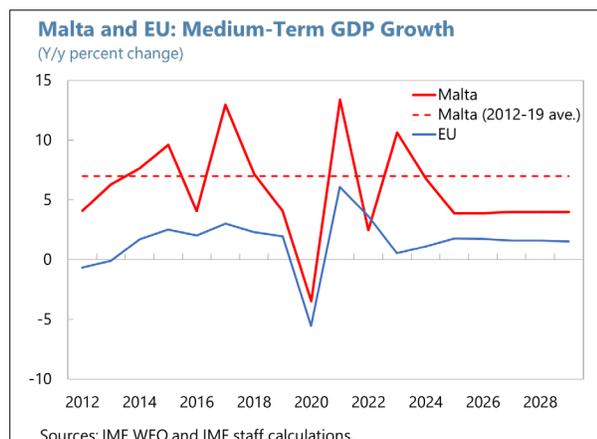
7. Malta's external position remains strong. The current account surplus increased to 7.1 percent of GDP in 2024, from 6.3 percent in 2023, as exports of goods and services remained resilient, particularly in tourism and online gaming. Staff project a current account surplus of 6.3 percent of GDP in 2025 supported by sustained momentum in services exports. Malta's external position in 2025 is assessed to be substantially stronger than the level implied by medium-term fundamentals and desirable policies (Annex II). This strength of the external sector is expected to ease over the medium term.

OUTLOOK AND RISKS

8. Growth is expected to remain at its potential of 4 percent in 2026 and over the medium term, maintaining one of the highest growth rates in Europe.

This moderation compared to the pre-pandemic pace reflects weaker global growth prospects, maturing of the gaming sector, and emerging capacity constraints in tourism. While tourism has been a key growth driver, the government's long-term target of 4.5 million annual tourists, as outlined in Malta Vision 2050, may be achieved sooner than expected

due to strong demand and investor interest in hotel development. However, the authorities are shifting focus toward higher-value segments, including luxury tourism, to sustain growth without overburdening infrastructure. Planned development of large new high-end hotels, a strategic marketing campaign, expanded flight connectivity with Gulf countries and the US, and rising arrivals from non-traditional European countries, such as Poland and Ireland, are expected to support this transition. Inflation is projected to stabilize at around 2 percent by 2026, contributing to a balanced macroeconomic environment. The fiscal deficit is projected to narrow to 2.6 percent of GDP in 2026 and public debt to remain stable at about 47 percent of GDP in the medium term.



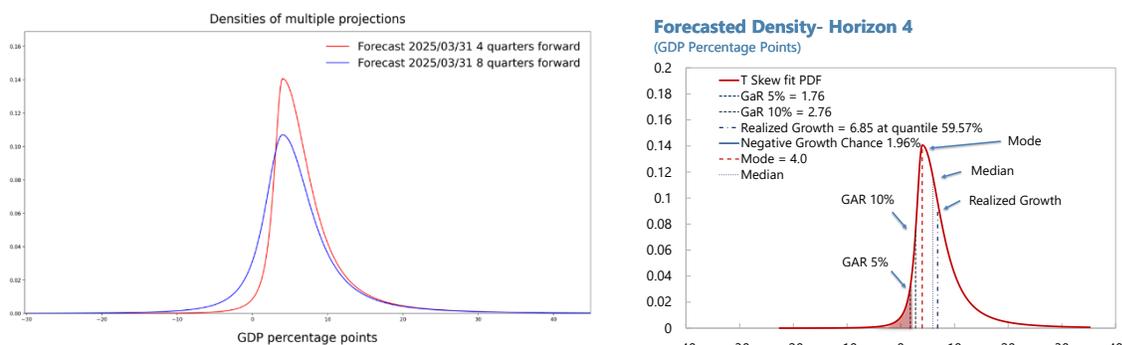
9. Risks to the outlook are tilted to the downside (Annex III). External downside risks include spillovers from intensified regional conflicts and deepening geoeconomic fragmentation. These factors could disrupt trade and supply chains, leading to renewed spikes in global food and energy prices and, therefore, higher import prices and higher energy subsidies. Slowdown in major economies, especially in Europe, may also drag down tourism and growth. Cyberattacks could add to risks. Domestically, a slowdown in migration could lead to wage pressures in already tight labor markets, and result in weaker competitiveness and higher inflation. While the likelihood of weakening of property and housing markets is currently low, it is a prospective risk that could negatively affect the banking sector and growth (Text Box 1). Intensification of competition in gaming from other jurisdictions could also reduce growth and fiscal revenue. On the upside, stronger than anticipated demand for tourism and other services could boost growth.

Box 1. Growth at Risk

A Growth-at-Risk (GaR) model helps gauge how materialization of macro-financial vulnerabilities could affect economic growth. It uses domestic and euro area financial and macroeconomic indicators to estimate growth forecasts and growth risks, and provides a probability distribution of possible growth outcomes. Currently, the GaR estimate—the 5th percentile of the one-year-ahead growth distribution—is about 1.75 percent, or just a 5 percent probability of GDP growth falling below 1.75 percent compared to the projected growth rate of 4 percent.

Box 1. Growth at Risk (Concluded)

If housing prices were to fall by 3 standard deviations (a very severe shock), the GaR estimate would be 0.5 percent. The chance of negative growth next year remains very low—below 5 percent—but has risen compared to last year. The GaR estimate for two years' out falls below -2 percent, signaling greater uncertainty and higher medium-term risks.



10. The direct impact of higher U.S. tariffs on Malta is expected to be limited. Goods exports to the U.S. account for just 1 percent of Malta's total export of goods and services (5.3 percent of exports of goods), but Malta's deep integration in European trade makes it vulnerable to second-round effects of U.S.-EU trade tensions. In an illustrative downside scenario, higher tariffs and increased global policy uncertainty would reduce the euro area activity due to trade and supply-chain disruptions, weaker confidence and higher inflation expectations.⁴ Malta would be primarily affected by a reduction in external demand and a temporary tourism shock, and its growth would decline by about 1 percentage point in 2026 and 2027 relative to the baseline. In such a scenario, despite the limited impact, Malta could further cushion the shock and strengthen its debt sustainability by allowing automatic stabilizers to operate and adjusting energy tariffs, while using available fiscal space to provide targeted support to the vulnerable.

Authorities' Views

11. The authorities broadly agreed with staff on the overall positive outlook. They also shared the view that Malta should rely less on labor-driven growth and transition to a more productivity-driven growth model. They concurred with staff's medium-term projections for continued robust growth and stable inflation, while acknowledging downside spillover risks from geopolitical tensions and possibly adverse EU-wide economic developments. They pointed to Malta's capacity to effectively respond to external shocks as a mitigating factor, citing prudent fiscal management, a well-capitalized financial sector, and Malta's demonstrated ability to swiftly adjust to the changing external environment. The authorities also noted that risks associated with the housing market were very limited, as real estate valuations remain broadly aligned with underlying fundamentals.

⁴ Based on Scenario A in Box 1.2 of the 2025 October WEO.

POLICY DISCUSSIONS

Policy priorities center on strengthening fiscal buffers to safeguard against future shocks, while creating the needed fiscal space for investments in infrastructure, human capital, and innovation. Sustaining higher growth rates in the longer term will require reforms to raise productivity and ease structural constraints. These reforms are essential to support innovation and investment and advance the transition to higher value-added growth, as envisaged in the authorities' Malta Vision 2050.

A. Strengthening Fiscal Buffers for Sustainability and Growth Support

12. The 2026 budget aligns with staff projections and reflects a balanced mix of consolidation and targeted social protection measures.

It aims for an overall deficit of 2.8 percent of GDP, down from the authorities' estimated 3.3 percent in 2025, and compares closely with staff's projection of 2.6 percent of GDP, which reflects higher revenue from the improved tax compliance. Public debt is

forecast to stay close to 47 percent of GDP. The consolidation is primarily driven by spending cuts, including lower energy subsidies thanks to lower global oil prices, and less EU-funded investment. The 2026 budget places a strong emphasis on social protection offering higher pensions, enhanced support for low-income households, higher child support grants and personal income tax reductions for parents, but total social transfers remain similar as a share of GDP. Total revenue is projected to decline from 33.6 percent to 32.8 percent of GDP, mainly on account of other current revenues due to reduced government fees, as well as EU funds revenue.

	2025	2026	Change (ppts)
Overall balance (– = deficit)	-3.3	-2.8	0.5
Total revenue	33.6	32.8	-0.9
Current taxes on income and wealth	14.1	13.9	-0.2
Taxes on production and imports	9.4	9.3	-0.1
Social contributions	5.1	5.2	0.1
Other current and capital revenue	4.9	4.2	-0.7
Total expenditure	37.0	35.6	-1.3
Subsidies	2.2	1.9	-0.3
Compensation of employees	9.9	10.0	0.1
Intermediate consumption	8.1	7.8	-0.3
Gross fixed capital formation	4.3	3.5	-0.8

Source: Malta Draft Budgetary Plan 2026

13. In the medium term, staff recommend anchoring fiscal policy to public debt stability.

In the baseline, where output grows at potential, an overall deficit of 2.6 percent of GDP would maintain public debt at its current level of 47 percent of GDP. This is well below the 60 percent of GDP reference value under the EU's Stability and Growth Pact and provides a significant fiscal buffer against potential shocks. Moreover, the debt sustainability analysis indicates that public debt would remain sustainable with a low risk of sovereign stress (Annex VI). The authorities' medium-term fiscal path is in line with this guidance. Under the EU's Excessive Deficit Procedure and the new fiscal framework, Malta's four-year deficit adjustment plan is outlined in its Medium-Term Fiscal Structural Plan (MFSP). The MFSP targets annual reductions in the structural deficit of ½ ppt of GDP,

projecting the overall deficit to decline to 2.6 percent of GDP in 2028 and 2.2 percent of GDP by 2030.

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	10.3	6.5	6.2	6.1	6.1	6.1	6.1
Potential real GDP (% change) 1/	6.3	5.4	4.1	4.1	4.2	4.1	4.1	4.1
Overall fiscal balance (% GDP)	-0.6	-3.5	-3.2	-2.6	-2.6	-2.6	-2.6	-2.6
Public debt (% GDP)	...	46.2	46.9	47.1	47.1	47.1	47.1	47.1
Source: Ministry of Finance, Eurostat, IMF staff projections.								
1/ Average 2010-19: percent change of actual real GDP.								

14. To improve productivity and long-term growth, Malta needs significant investments in infrastructure,⁵ human capital, and innovation. To this end, while preserving the debt stabilizing deficit of 2.6 percent of GDP, the medium-term fiscal strategy should aim at creating fiscal space through revenue and expenditure measures. The authorities will also need to consider anticipated spending needs on pensions, healthcare, climate transition, infrastructure and technology adoption.

15. On the revenue side, Malta has tax potential to utilize. Its overall tax burden (taxes plus net social contributions) was around 29 percent of GDP in 2024, placing it the fourth lowest in the EU and well below the EU average of 40 percent of GDP. This difference signals scope for additional revenue by reforming tax policy and strengthening compliance.

Possible measures include:

- *Enhancing VAT efficiency.* The EC has estimated that Malta's VAT compliance gap was one of the EU's highest at 25.9 percent in 2022. However, recent reforms have delivered tangible improvements. The authorities have accelerated digital transformation, rolling out electronic filing and payments, and have launched targeted campaigns to boost timely submissions. VAT refund processing has been streamlined, reducing turnaround for compliant taxpayers from five months to 30 days. Further gains could come from the planned expansion of risk-based audits and modernizing IT systems to enable large-scale data matching; systematically offsetting excess credits against tax arrears to improve taxpayer experience and cash flow management;

⁵ For details, see Selected Issues Paper, [Taking Stock of Infrastructure in Malta](#), IMF (2025)

and implementing a comprehensive monitoring of tax arrears to reduce the stock of overdue VAT liabilities and support revenue mobilization. These achievements, supported by IMF technical assistance (TA), lay the groundwork for the rollout of real-time reporting and e-invoicing.

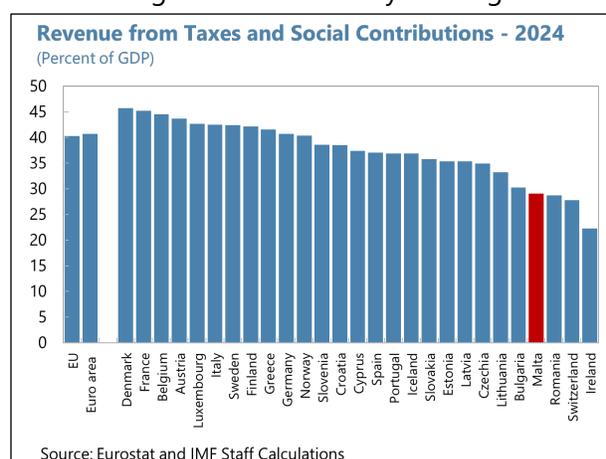
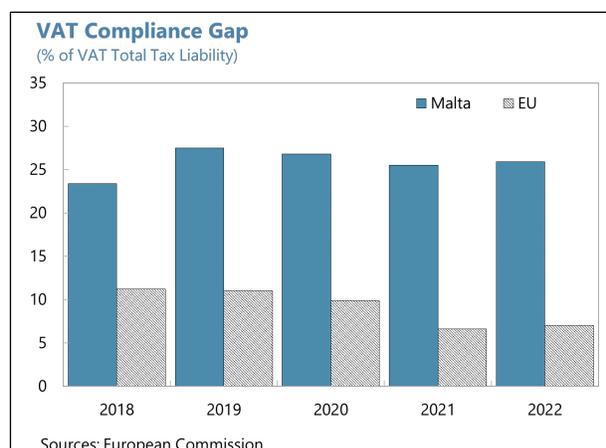
- *Reassessing the corporate income tax (CIT) regime.* The authorities should develop a roadmap for phased CIT reform to streamline taxation and provide

predictability to taxpayers and investors. In view of the heightened uncertainty about global

taxation agreements, Malta has postponed implementation of the Qualified Domestic Minimum Top-up Tax (QDMTT) under OECD's Pillar II and EU's Minimum Tax Directive until end-2029. The authorities' wait-and-see approach allows Malta to observe how Pillar II is implemented elsewhere and to assess competitiveness effects on key sectors, but it also carries risks. Without a clear roadmap, uncertainty about future taxation may delay investment decisions while Malta may forgo top-up tax

revenue collected by other jurisdictions. According to staff's estimates, QDMTT could raise an additional 2 percent of GDP. Gradual phasing out the refund system while also lowering the statutory rate for domestic enterprises would help align effective tax rates across taxpayer groups and reduce fragmentation. Collecting data on top-up taxation of Malta's MNEs in other countries would help inform the reform roadmap to mitigate risks. The CIT reform should be considered in conjunction with the personal income tax, given CIT-PIT interactions under the full imputation system (Box 2). In parallel, the authorities are also working closely with the EC to design the rules for Qualified Refundable Tax Credits.

- *Strengthening tax administration.* With help from IMF TA, the large taxpayers' office (LTO) is now fully operational, covering several hundred entities and high-net-worth individuals. The LTO has delivered tangible enforcement outcomes and built structured relationships with large taxpayers, providing timely responses and proactive engagement. Beyond the LTO, the authorities have unified tax and customs administrations under one roof, notably improved corporate income tax filing and payroll tax compliance, and implemented an integrated and data-driven risk-based model for tax administration. The planned rollout of real-time reporting, a central data warehouse, and modern risk management tools are expected to further enhance efficiency, transparency, and revenue mobilization across all major tax categories.



Box 2. Corporate Income Tax (CIT)

Malta's CIT is complex, combining a high statutory rate with a full imputation mechanism which ensures that CIT paid is credited against the personal income tax (PIT) liability of shareholders to avoid double taxation. The statutory CIT rate is 35 percent, which equals the marginal PIT rate for annual incomes above €60,000.

Non-residents shareholders of multinational enterprises (MNEs), however, who are not subject to personal income taxation in Malta, benefit from a refund system which significantly reduces the effective tax rate (ETR) upon profit distribution. Specifically, the system allows a 6/7th refund for trading income, reducing the ETR to 5 percent; a 5/7th refund for passive interest and royalty income resulting in the ETR of 10 percent; a 2/3rd refund when the company has claimed foreign tax relief; and a 100 percent refund for qualifying participating holdings. Retained earnings remain subject to the full 35 percent tax, which incentivizes profit distribution.

In September 2025, Malta introduced an optional Final Income Tax Without Imputation (FITWI) regulation enabling eligible companies to choose a flat 15 percent, outside the refunds and imputation system. This five-year minimum option could simplify taxation, mitigate potential top-up taxation in other jurisdictions and attract companies that plan to reinvest profits.

MNEs with consolidated turnover above €750 million (in-scope MNEs) fall under the OECD Pillar II and EC's Minimum Tax Directive, which envisage a 15 percent minimum tax on corporate profits. These MNEs represent less than 3 percent of all companies in Malta, but account for about 30 percent of the total turnover. The QDMTT is intended to reduce the risk of profit shifting and base erosion and allow Malta to collect revenue that may otherwise be lost to other jurisdictions. Out-of-scope MNEs (with annual turnovers of less than €750 million) make up about 17 percent of firms and account for about 40 percent of the total turnover, while domestic companies comprise the remaining 80 percent of firms.

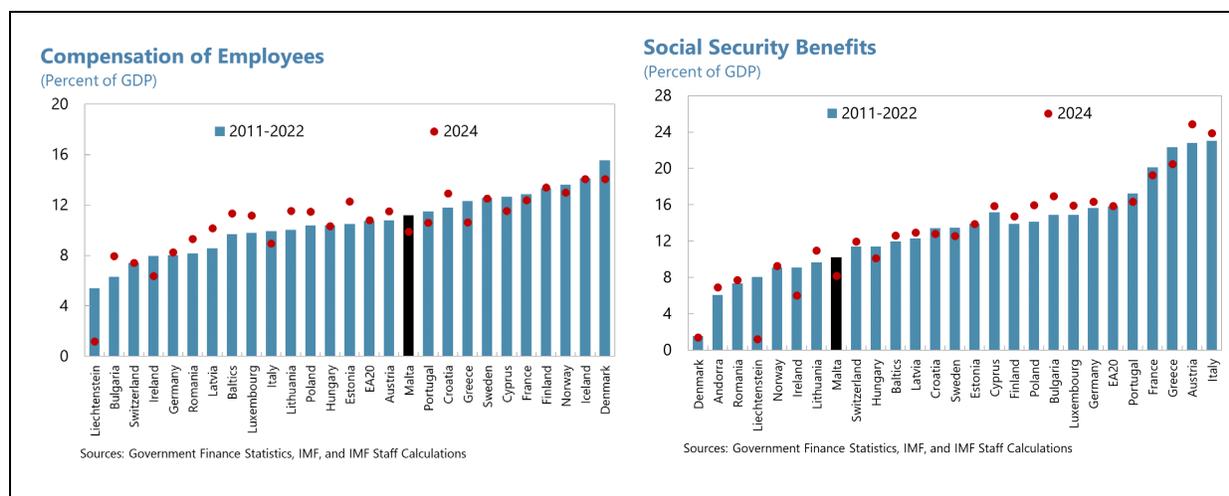
16. Expenditure rationalization would also help increase fiscal space. Although overall government spending of 37 percent of GDP is lower than the EU average of 49 percent⁶ (compensation of employees and social security benefits also compare favorably with EU peers), there is room for optimization.

Possible measures include:

- Gradually phasing out energy subsidies by adjusting tariffs to cost-recovery levels and introducing an automatic price adjustment mechanism to reduce fiscal risks from energy price fluctuations, while protecting vulnerable groups. With the reduction of global oil prices, energy subsidy costs in Malta are estimated to have declined to about 0.8 percent of GDP in 2025 compared to 1.8 percent in 2022 (Table 2), making this an opportune time to implement tariff reform. Cost-recovery pricing would prevent reemergence of subsidies in the event of a new energy price shock. The electricity tariff reform for households could include a lifeline tariff at the current rate for minimal use. For businesses, a gradual transition to cost-recovery pricing should be accompanied by temporary support for energy-intensive enterprises, while a progressive schedule for higher consumption would encourage energy conservation. Fuel prices should be determined by the markets.

⁶ For details, [General government total expenditure by function, 2023](#)

- Enhancing public finance and investment management frameworks to improve spending efficiency, including by developing a comprehensive plan for long-term public investment, improving public procurement, and strengthening project appraisal, selection, and multi-year budgeting by leveraging an IMF's Public Investment Management Assessment.



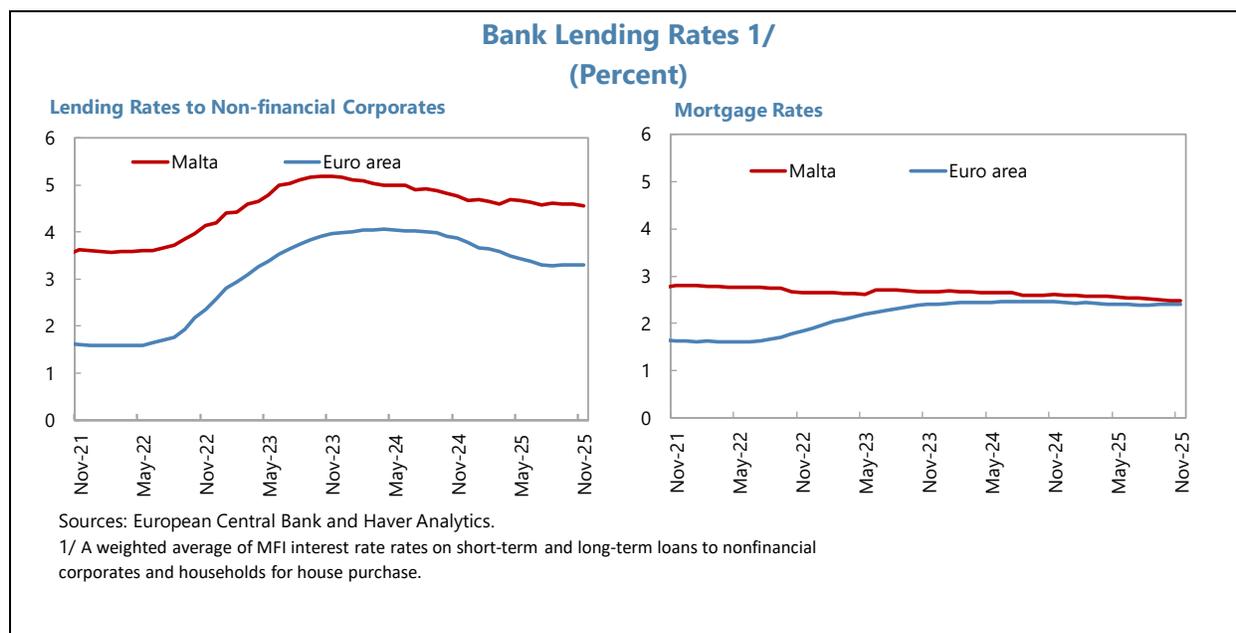
Authorities' Views

17. The authorities remain committed to fiscal consolidation in line with the EU's new fiscal framework, aiming to reduce the deficit below 3 percent of GDP in 2026. They highlighted significant progress in tax administration reforms, with digital transformation at its core, and acknowledged the valuable TA provided by the Fund in these areas. They reiterated their "wait-and-see" approach to CIT reform, preferring to observe international developments before implementing major changes to safeguard competitiveness, but agreed that predictability of the tax system was important for business continuity and investment. Regarding energy policy, they believe that fixed electricity and fuel prices underpin social and economic stability, which justifies the associated fiscal costs. In the event of global energy price shocks, they are committed to reprioritizing spending to preserve fiscal and debt sustainability.

B. Safeguarding Financial Sector Stability

18. Malta's banking system remains strong. Central Bank (CBM) stress tests show that domestic banks have sufficient capital and liquidity to withstand even severe shocks. At end-2024, all core and non-core domestic banks (except for one small bank that had losses) met capital requirements with sufficient margins to withstand an adverse scenario with a 5 percent decline in GDP growth, a 12 percent drop in housing prices, and a 10 percent increase in inflation coupled with a decline in asset prices and an increase in spreads cumulatively over 3 years. All core banks and most non-core banks also met liquidity requirements. Only in more extreme shocks did two banks

face difficulties in maintaining liquidity coverage ratios above 100 percent. In 2025, the banking system remained sound and resilient.



19. Systemic risks remain contained, but significant exposures of banks to real estate are a vulnerability. Lending to residential and commercial real estate and construction increased to 72 percent of the private loan portfolio by mid-2025, up from 61 percent a decade ago, and may grow further amid the ongoing tourism and construction boom. Residential mortgages account for 57 percent of private sector lending (up from 44 percent a decade ago). While delinquency risks are mitigated by low mortgage rates of about 3 percent, strong labor markets, growing household income, tight borrower-based measures, and robust household balance sheets with moderate liabilities (60 percent of GDP) and substantial assets (204 percent of GDP), the prevalence of variable-rate mortgages leaves lower-income households vulnerable to interest rate increases.

20. The authorities have taken proactive measures to safeguard financial stability.

Although property prices and transaction volumes continued to rise in 2024, house prices remained aligned with fundamentals and price-to-income and price-to-rent ratios have been stable. However, abundant liquidity and Malta's sustained strong growth may further fuel credit to the sector. The risk is further magnified by the market concentration in a few banks, which hold the majority of banking system assets, and by the tourism boom, creating incentives for investments in short-term rental property. To mitigate these risks, the authorities introduced a 1.5 percent sectoral systemic risk buffer (sSyRB) for residential mortgages in 2023, and plan to broaden its scope to include construction and commercial real estate starting in June 2026, which staff supports. The application of more granular risk weights for real estate exposures under the EU's Capital Requirements Regulation III (effective January 1, 2025) has strengthened bank capital adequacy. Further, an affordability test requires banks to verify that borrowers can service their mortgages under a 150-basis point increase in interest rates, providing a built-in cushion vis-à-vis future rate hikes.

Additionally, maintaining prudent lending standards, improving data coverage in commercial real estate, and continued close monitoring and preparedness are expected to further mitigate risks. The current borrower-based measures align with EU best practices but in view of rapid house price growth, staff recommend enhanced monitoring and periodic assessment to ensure that the framework remains effective under evolving macro-financial conditions (Annex IV).

21. Risks in the corporate sector are also contained. The share of loans with a significant credit risk increase (Stage 2) and credit-impaired loans (Stage 3) declined, and debt of non-financial corporations (NFC) remained stable at 188 percent of GDP at end-2024 (66 percent of GDP on a consolidated basis, excluding intracompany loans and trade credits). However, a slowdown in growth, tourism, and immigration could weigh on the real estate sector and increase the debt service burden for highly indebted firms.

22. Although well-capitalized and liquid, Malta's NBFIs sector warrants close monitoring given its potential to amplify shocks through interlinkages. NBFIs provide important financial intermediation and could transmit liquidity and market risk to banks and the broader economy. Despite limited direct exposure of banks to NBFIs largely through deposits, but also debt and equity holdings, the authorities have strengthened the oversight framework, led by the MFSA and the Central Bank of Malta. This includes more granular data collection on NBFIs linkages with the banking system, enhancing supervisory practices by conducting stress-testing of NBFIs to mitigate vulnerabilities and bolster financial stability, and developing a stress-testing model for the entire financial sector, the preliminary results of which indicate robustness of the system to shocks. In the insurance sector, Malta has adopted the EU Solvency II Directive.

23. Fast growth in digital banks and crypto service providers requires close monitoring and prudential oversight. While their systemic footprint remains small, emerging linkages to domestic banks, households, and corporates through payment systems, custodian and blockchain services, and crypto adoption could amplify vulnerabilities under external shocks. A clear and comprehensive regulatory and supervisory framework is essential to monitor these linkages and mitigate potential spillovers. Staff welcomes delineation of supervisory responsibilities between domestic and foreign financial authorities to ensure effective cross-border oversight. To address the growing cyberthreats from the increased use of AI technologies, digital platforms, and ICT third party providers, the authorities have strengthened regulatory coordination between the MFSA and CBM and are continuing implementing the EU's Digital Operational Resilience Act, which became effective in January 2025. The MFSA has applied its internally developed cyber mapping tool to identify interlinkages between financial institutions and third-party ICT service providers and conduct the assessment of cyber risks.

24. Malta has made significant progress in strengthening its AML/CFT framework in recent years. Supervisory and regulatory bodies have improved resourcing, and the quality of beneficial ownership information has improved. The 2023 National Risk Assessment by the National Coordinating Committee found a decline in residual risks across most sectors, reflecting the effectiveness of recent reforms. The Financial Intelligence Analysis Unit has sought to expand its intelligence collection capacity, broaden sectoral coverage, including for public-private partnerships

and crypto assets, and strengthened risk-based supervision. These advances are supported by ongoing investments in IT, data analytics, and cybersecurity. Nonetheless, continued enhancement of data collection, analysis, and monitoring and timely assessment of AML/CFT risks remain essential, particularly in addressing emerging threats such as trade-based money laundering and potential risks related to virtual assets.

Authorities' Views

25. The authorities agreed that systemic risks in the financial sector are contained and that increasing banking sector exposure to real estate requires continued prudent oversight. They emphasized, however, that most mortgage lending is for primary residences, that first-time homeownership is high and rising for Malta-born residents, and that households hold substantial equity, all of which reduce cyclical risks. Low unemployment and strong income growth are seen as additional mitigating factors. Nevertheless, the authorities acknowledged that strong GDP growth and abundant liquidity could further fuel credit to real estate; they are planning to expand the sectoral systemic risk buffer to include all real estate and construction loans. They noted that they opted for sectoral measures to mitigate risks stemming from housing markets without penalizing lending to other sectors. There was a broad agreement on the need for enhanced data collection, risk analysis, and supervisory frameworks for NBFIs and virtual assets and for continued AML/CFT vigilance.

C. Advancing Structural Reforms

26. Structural reforms are needed to alleviate potential headwinds to growth and power Malta's transition from a labor-intensive to productivity-driven economy. The surge in tourism and foreign workers has strained infrastructure and public services while skills mismatches have become a constraint on business growth.⁷ Administrative barriers and an inefficient judicial system have also impacted the investment environment. Addressing these bottlenecks will help to relieve restraints on medium-term growth and underpin the shift to higher value-added sectors. IMF research finds that structural reforms could lift growth rates in advanced European countries by about 5 percent in the medium term.⁸ For advanced European economies, the largest dividends can be derived from reforms in labor markets and human capital development, governance, judicial systems, and access to finance.

27. Gains from national reforms would be amplified by EU-level measures aimed at deepening market integration. Further reducing intra-EU trade barriers, advancing the Capital Markets Union, and removing obstacles to labor mobility would enable firms in Malta to access larger markets, attract investment, and tap into a broader pool of talent. Coordinated EU and national reforms would also help Malta's dynamic sectors, such as digital services and finance, to

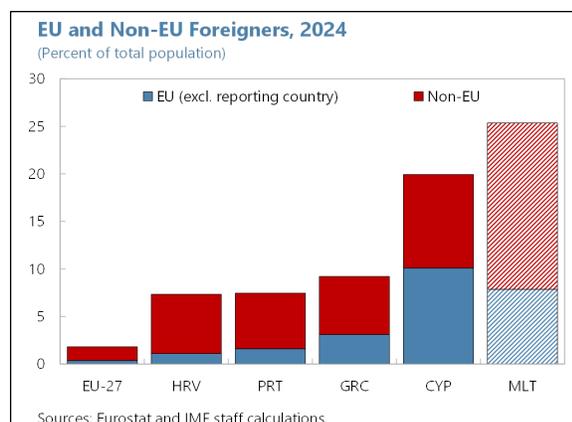
⁷ A 2022 EC report estimated traffic congestion and pollution costs €400 million annually, or 3.6% of Malta's GDP. A 2024 WHO report found that pollution levels were more than double the recommended threshold while waste from the construction sector was more than double the EU average.

⁸ Budina, N. et al. (2025). "Europe's National-Level structural Reform Priorities", IMF Working Paper WP/25/104.

scale up and innovate, while ensuring that benefits of growth are widely shared. As a small, open economy, Malta stands to gain significantly from a more integrated and efficient single market, making EU-level reforms a vital complement to the domestic policy agenda.

28. Labor shortages and mismatches may begin to restrain economic activity

(Annex VII). Malta increased its labor force via expansion of the share of foreign residents from 5.5 percent in 2013 to 28.1 percent in 2024, while also increasing domestic employment by enticing older, female and younger workers to join the workforce.⁹ This growth model will be limited by the physical constraints of a small island and domestic population and is facing diminishing returns. In the services sector, 68 percent of employers report that labor shortages limit their activities compared to an EU average of 24 percent. Ninety percent of respondents in an EIB investment survey said the shortage of skilled labor was the primary obstacle to long-term investment.¹⁰ Businesses identify retention of skilled labor as a significant challenge. While labor-intensive sectors (tourism, construction), will continue to require foreign workers in the medium-term, a shift is needed over time to more targeted use of skilled foreign labor in high value-added sectors.



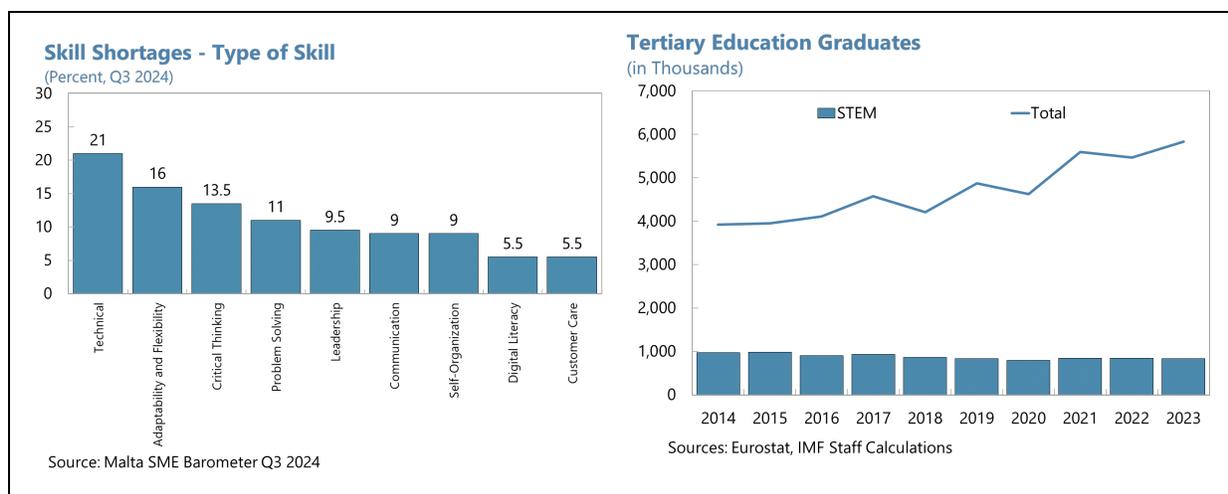
29. A more strategic approach to immigration complemented by domestic skills

development could help economic transformation. Research shows that output and productivity gains from immigration are generally larger where policies target skilled migrants and facilitate integration into labor markets.¹¹ In Malta, the authorities have already taken concrete steps to promote retention, stability, and fair treatment of migrant workers. The 2025 Labor Migration Policy Strategy, which was developed through broad public consultation, includes stricter employer requirements to advertise vacancies and prioritize hiring EU nationals, extended grace periods for terminated non-EU workers, introduction of sector-specific skills cards, mandatory pre-departure integration courses covering language and labor rights, and longer residence permits for skilled workers. Looking ahead, the authorities plan to further expand skills-based migration, strengthen training and integration incentives, and continue investing in STEM, vocational training, and adult education as reflected in the authorities' National Education Strategy 2024-30 and Lifelong Learning Strategy 2023-30.

⁹ EC 2025 Country Report – Malta.

¹⁰ ECFIN, European Business and Consumer Surveys; cited in EC 2025 Country Report – Malta.

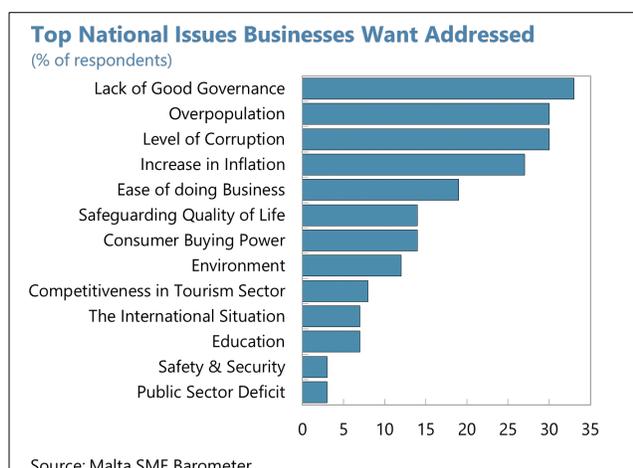
¹¹ [IMF, World Economic Outlook April 2025](#).



30. A more efficient judicial system is essential to strengthen the rule of law.

The Worldwide Governance indicators and a variety of business surveys show a deterioration in perceptions of Malta's legal and regulatory environment.¹² Delays in judicial proceedings are an important component of this and a key restraint on economic dynamism (Selected Issues Paper). The average duration of civil and commercial cases at first instance in 2023 was 454 days, well above the EU average (301 days).¹³ This

is partly a consequence of an understaffed court system where the number of judges per capita is the third lowest in the EU. Delays deter commercial activity and investment by increasing uncertainty of debt enforcement and credit recovery. Empirical studies show that increased judicial system efficiency can have positive spillovers for investment, productivity, and the credit market.¹⁴ Recently, the government has taken steps to address bottlenecks by hiring more judges and judicial support staff, and launching a strategy to digitalize court processes. Commercial court delays have declined somewhat, but remain above the EU average. Further effort is needed to increase court staffing and infrastructure, strengthen case management systems, and enhance court specialization, while streamlining judicial procedures such as rules for judicial auctions, and introducing an out-of-court mortgage enforcement mechanism. Efficiency gains could be achieved by strengthening the

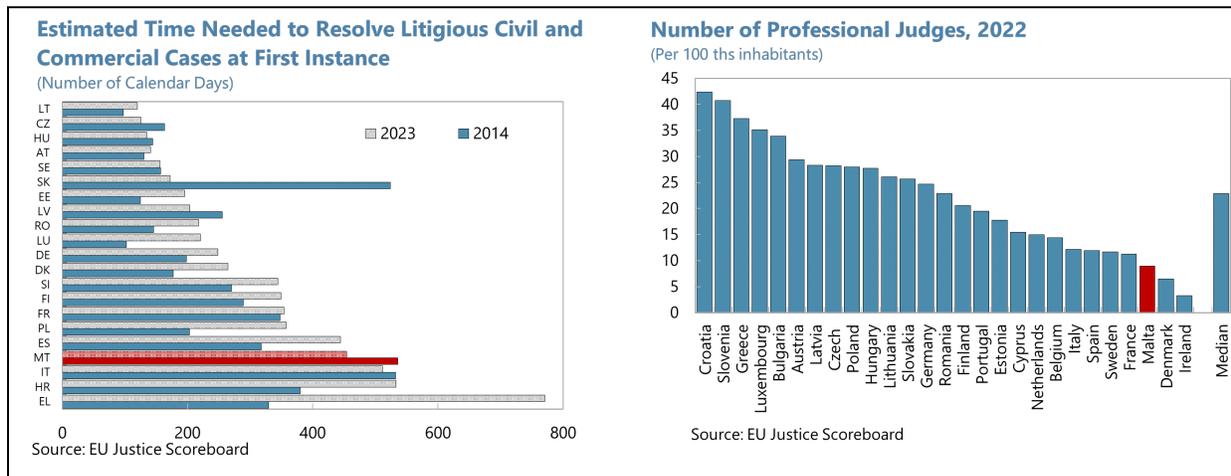


¹² [Worldwide Governance Indicators, 2024, World Bank](#); EY Attractiveness Survey Malta, 20 years on, 2024; cited in EC 2025 Country Report – Malta; Malta SME Barometer; Flash Eurobarometer 557 on Businesses' attitudes towards corruption in the EU (2025); cited in EC 20254 Rule of Law Report – Malta.

¹³ EC 2025 Country Report – Malta

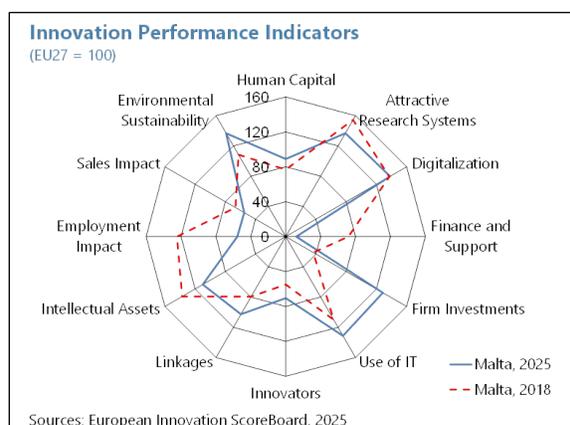
¹⁴ [IMF, Enhancing Judicial System Efficiency in Greece: Drivers and Economic Impact, 2025.](#)

insolvency framework and consolidating procedural requirements, including unification of rules for creditors' ranking.



31. Malta should build on progress in nurturing innovation and digitalization.

Malta has made strides in boosting firm-level investment in innovation, including ICT usage and digitalization, but continues to lag behind EU peers in government financing for innovation, human capital development, and product innovation.¹⁵ The government has responded with targeted strategies, such as the Smart Specialization Strategy 2021–27, the National Research and Innovation Strategic Plan 2023–27, and a well-developed AI strategy, while also improving financing options for startups and innovative SMEs and launching initiatives like the Digital Innovation Hub, a €10 million venture capital fund, and €100 million envelope for digitalization and AI uptake, co-financed by the EU. To advance further, it would help to incentivize R&D and support start-ups by streamlining access to the allocated public funding, and to strengthen cybersecurity and digital preparedness through training to support business dynamism and secure sustainable growth (see 2024 Article IV staff report).



32. Strong progress is being made on improving energy security. The authorities strengthened the climate-policy framework over the past years by enacting the Climate Action Act, operationalizing a Climate Action Authority, and submitting a final updated National Energy Climate Plan (NECP) in January 2025. Malta has already achieved 17 percent renewables in its energy mix, surpassing the original 2030 target of 11.5 percent, and revised its goal to 24.5 percent. The NECP also targets an approximately 40 percent reduction in greenhouse gas emissions by 2030 compared

¹⁵ [EC European Innovation Scoreboard 2025: Country Profile Malta.](#)

to 2005. Implementation has advanced, including progress on the second Malta–Italy interconnector, electricity grid upgrades, financial incentives for electric vehicles and charging stations, and continued rooftop-PV rollout. Malta could further accelerate its green transition by continued streamlining of permitting and upgrading grid infrastructure; phasing-out fossil fuel subsidies; and reducing transport sector emissions. The authorities have completed a Vulnerability and Risk Assessment across 10 priority sectors and are procuring expertise to develop a costed National Climate Resilience Plan that will address risks such as coastal flooding, sea-level rise, and extreme heat, alongside investments in urban greening and afforestation. Public support for climate action is strong, with nearly half of the public identifying climate change as a top global concern.

Authorities' Views

33. The authorities recognize the importance of structural reforms to advance the transition to more productivity-driven growth. They noted labor shortages and skills gaps as potential headwinds while highlighting efforts to promote AI and STEM education, enhanced incentives for the retention of high performing workers and migrant training to improve workforce integration and productivity. They also highlighted Malta's proactive stance on digital transformation, including public investment in AI preparedness, as part of a broader strategy to foster innovation and future-ready skills. They noted progress in climate action, while acknowledging remaining challenges in the judicial system and on infrastructure. On energy security, the authorities pointed to the construction of the second electricity interconnector with Italy and grid modernization.

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34. Malta's economy continues to outperform the EU average. Per capita income has nearly doubled since 2013, with growth underpinned by robust tourism, online gaming, and professional services. Unemployment remains at historic lows. However, the labor-driven growth model that has fueled Malta's success is reaching its limits due to infrastructure constraints, population density, and tight labor markets, underscoring the need for a strategic pivot toward productivity-driven expansion. Growth is expected to remain at its potential of around 4 percent in 2026 and over the medium term, supported by robust activity in tourism, online gaming, and professional services. Inflation is projected to stabilize at about 2 percent, the current account remain in surplus and public debt stable and sustainable.

35. Malta's open economy is exposed to external shocks. The main risks include spillovers from regional conflicts and geoeconomic fragmentation, a resurgence in commodity prices, a slowdown in global growth, especially in Europe, and a weakening of tourism. Domestically, wage pressures and property market corrections could affect competitiveness and financial stability. The authorities' commitment to fiscal discipline, structural reforms, and sound financial sector oversight is crucial in mitigating these risks.

36. Medium-term fiscal policy should be anchored on maintaining public debt stable, while addressing structural bottlenecks. The authorities are on track to meet fiscal consolidation

commitments under the EU's new framework, with the fiscal deficit projected to narrow to 2.6 percent of GDP in 2026 and public debt to remain stable at about 47 percent of GDP. Phasing out untargeted energy subsidies to rationalize expenditure and support climate goals while protecting the vulnerable and ongoing reforms to advance digitalization of revenue administration, enhance tax compliance and strengthen public finance and public investment management will create fiscal space for spending on infrastructure, human capital, and innovation. Developing a roadmap for the corporate income tax reform would provide predictability for businesses and reduce investor uncertainty.

37. The financial sector remains healthy and resilient, with strong capital and liquidity buffers. However, concentration in the banking system and banks' growing exposure to real estate warrant continued supervisory vigilance. To mitigate risks, the authorities are expanding a sectoral systemic risk buffer to all real estate and construction loans and implementing the EU's Capital Requirements Regulation. NBFIs, digital banks, and crypto service providers require close monitoring, a robust regulatory framework, and periodic system-wide stress testing. Malta's AML/CFT framework has been strengthened, but vigilance is needed to address emerging risks, especially in virtual assets and trade-based money laundering.

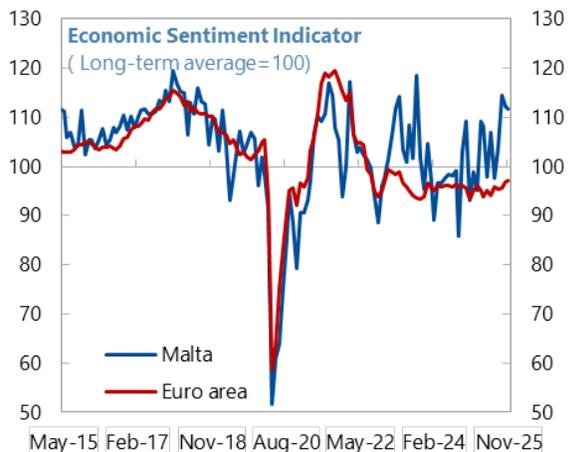
38. To sustain high growth rates and further raise living standards, structural reforms should advance. Malta needs to address labor shortages and skills mismatches, invest more in infrastructure and technology, and improve judicial efficiency, a drag on the business climate. The authorities' new migration and education strategies are designed to tackle labor market pressures and support a shift to higher value-added activities. Progress in innovation and digitalization is encouraging, but further efforts are needed to incentivize R&D, increase STEM education, streamline access to funding, and enhance cybersecurity. The authorities' focus on AI training and digital skills is a step in the right direction.

39. Malta's current favorable macroeconomic environment offers a window of opportunity for reforms. With strong policy buffers, a dynamic private sector, and broad public support for reforms, the country can deliver on its Vision 2050 by moving decisively to modernize its growth model, invest in people and infrastructure, and build resilience for the decades to come.

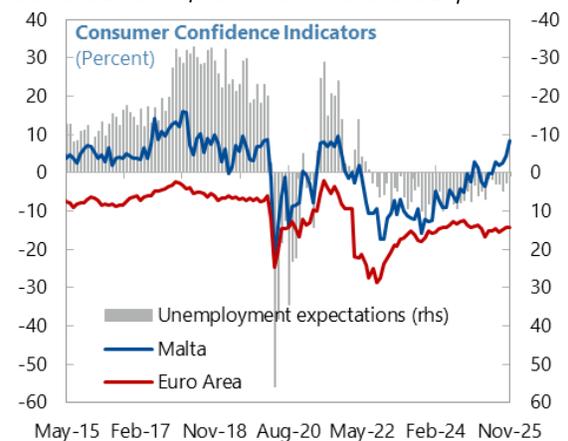
40. It is recommended that the next Article IV consultation be held on the 24-month cycle.

Figure 1. Malta: Short-Term Indicators

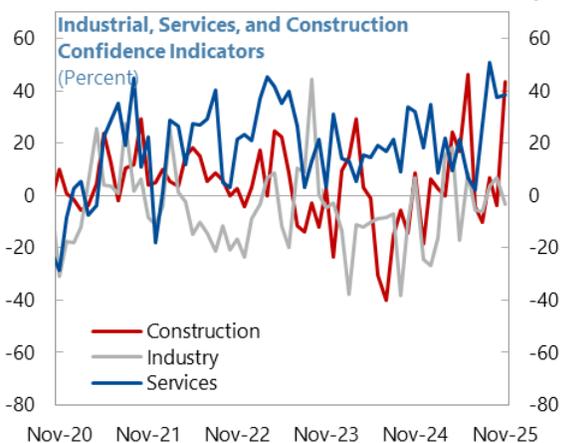
Economic sentiment has remained volatile...



...but consumer confidence has continued to improve.



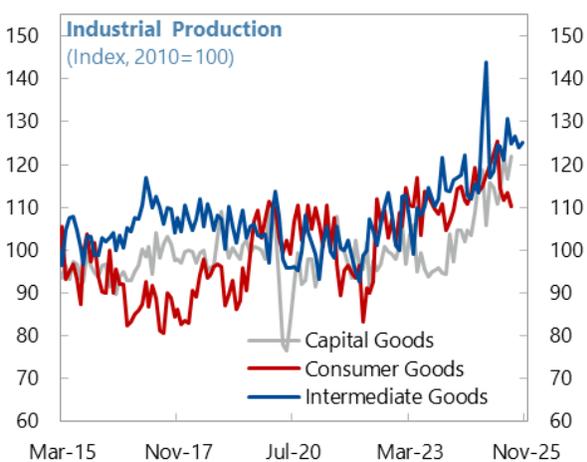
Construction and industry sector confidence declined, while confidence in the service sector remains strong.



Capacity utilization has risen.



Industrial production keeps growing.



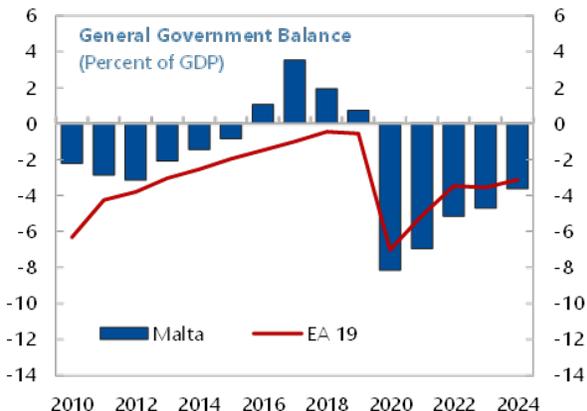
Tourism arrivals have continued to increase.



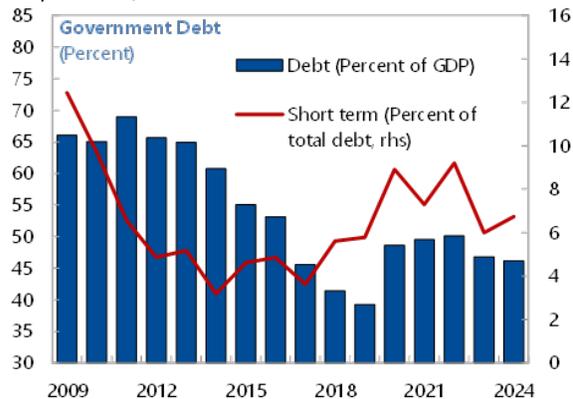
Sources: European Central Bank, Central Bank of Malta, European Commission, and IMF staff calculations.

Figure 2. Malta: Fiscal Developments

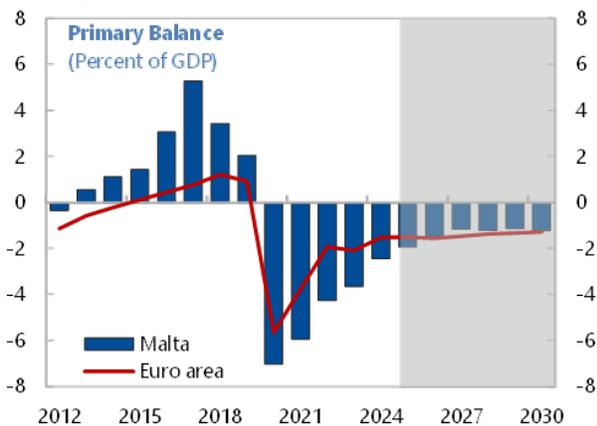
The fiscal deficit has narrowed since the pandemic.



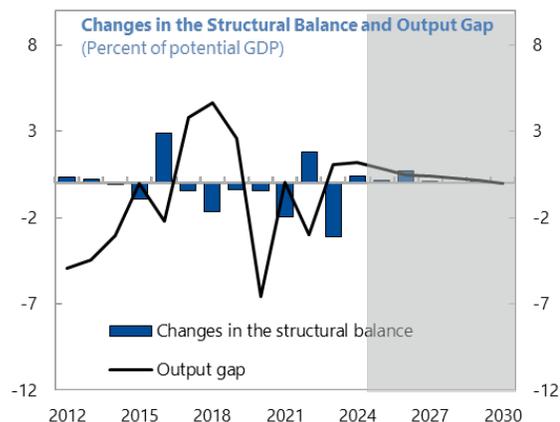
...and the public debt ratio has fallen to below 50 percent of GDP.



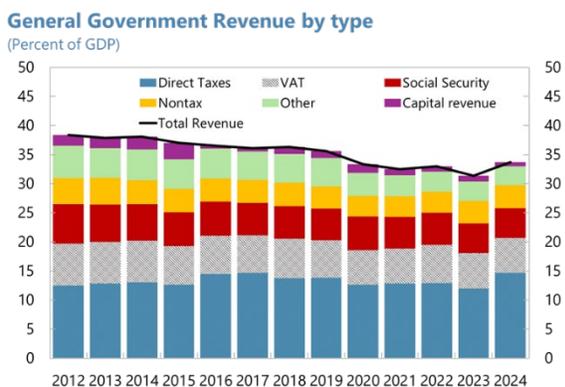
The primary deficit is expected to narrow further over the medium term...



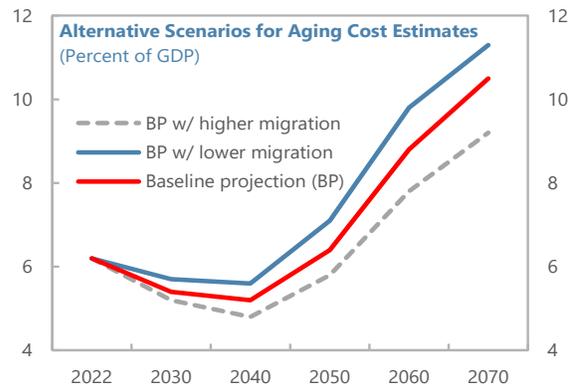
...reflecting an improvement in the structural balance.



General government revenues as a share of GDP have trended slightly downward since 2018, stabilizing around 30 percent of GDP in recent years



Age-related spending pressure will depend on migrant patterns.



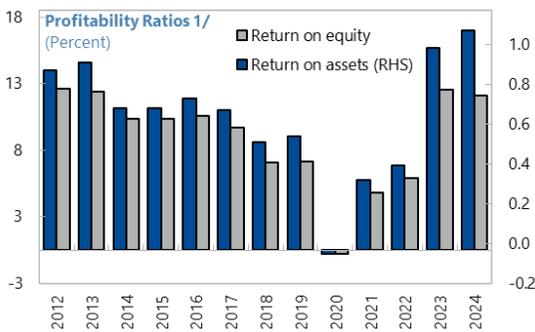
Sources: Eurostat, IMF World Economic Outlook, European Commission's "The 2024 Ageing Report", and IMF staff calculations.

Figure 3. Malta: Financial Soundness Indicators

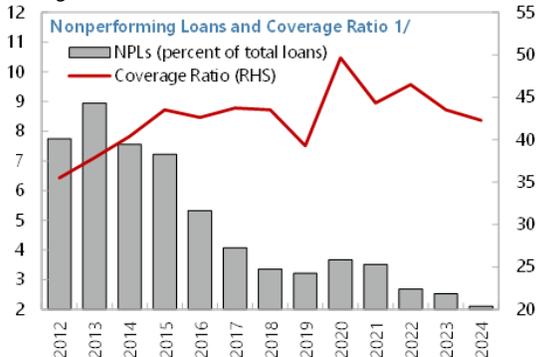
The banking system is well capitalized...



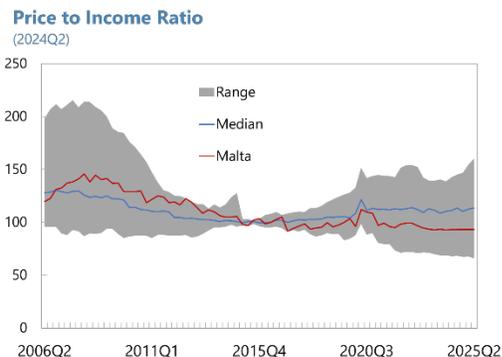
...and bank profitability remains strong.



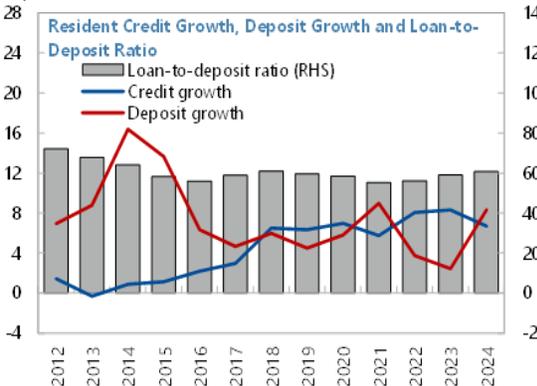
NPL ratios are at historically low levels with adequate coverage.



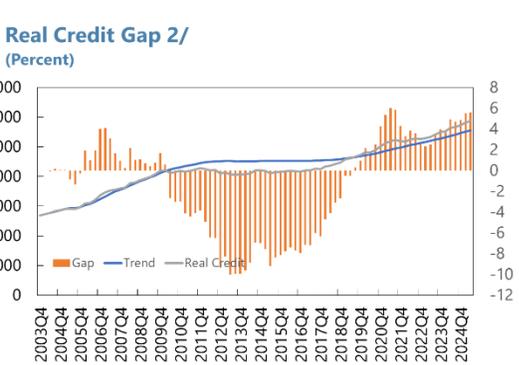
House prices have remained steady as a share of income.



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



...while credit gaps are broadly around zero.



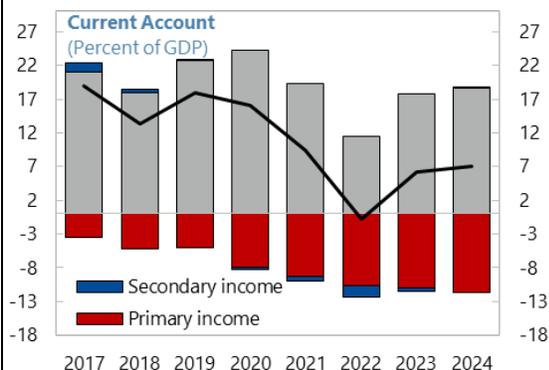
Sources: IMF Financial Soundness Indicator, Central Bank of Malta, Malta Financial Services Authority, and IMF staff calculations.

1/ Core domestic banks.

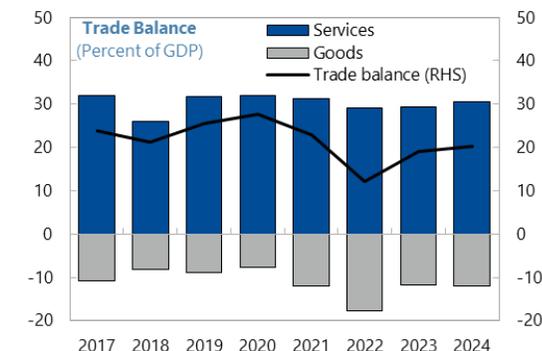
2/ The credit data encompass resident households and non-financial corporations. The real credit gap is determined using the BIS type gap measurement (a one-sided HP filter with a smoothing parameter of 400,000)

Figure 4. Malta: External Sector

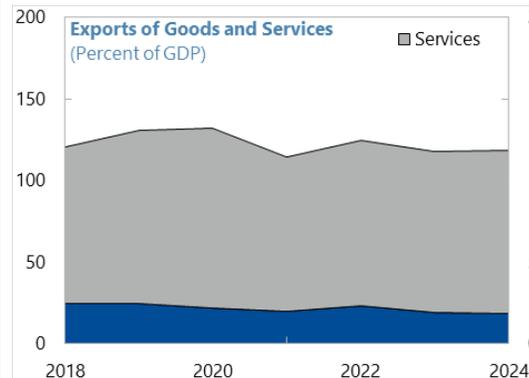
The current account surplus was strong in 2024...



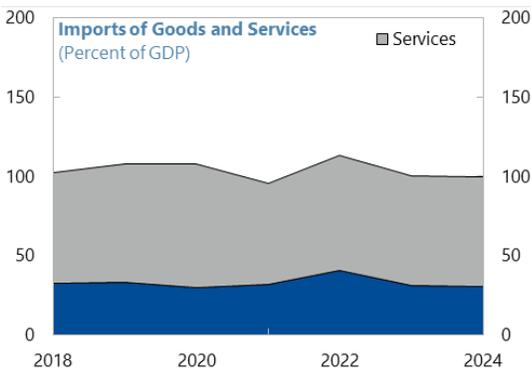
...reflecting a modest goods deficit offset by a robust surplus in services.



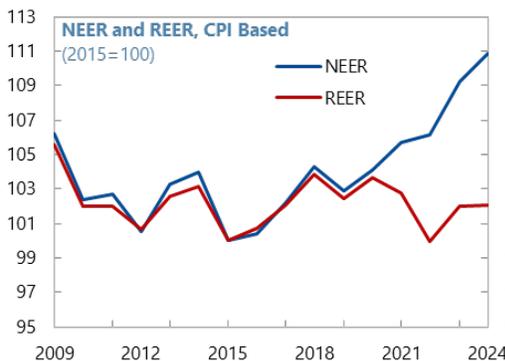
Services continued to dominate total exports...



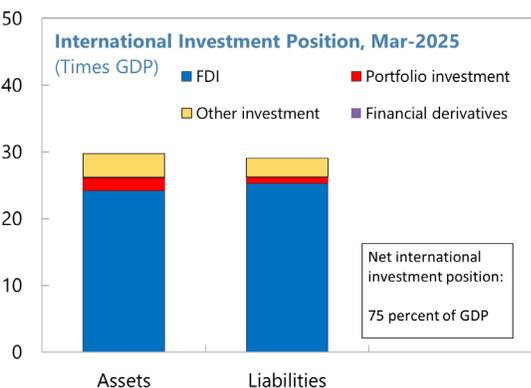
...as well as total imports.



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



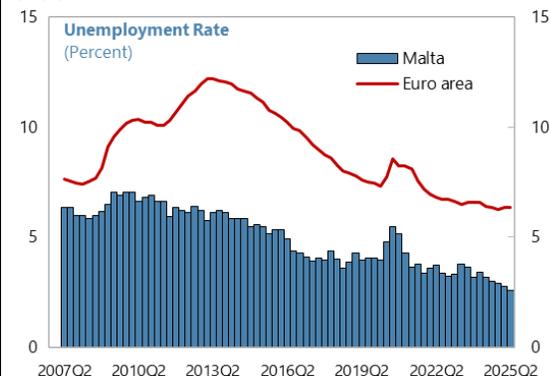
Gross international assets and liabilities exceed 30 times GDP, with sizable foreign direct investment (FDI)



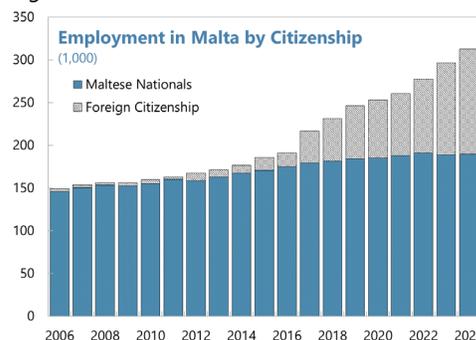
Sources: Haver Analytics, Eurostat, IMF World Economic Outlook, and IMF staff calculations.

Figure 5. Malta: Labor Market and Structural Indicators

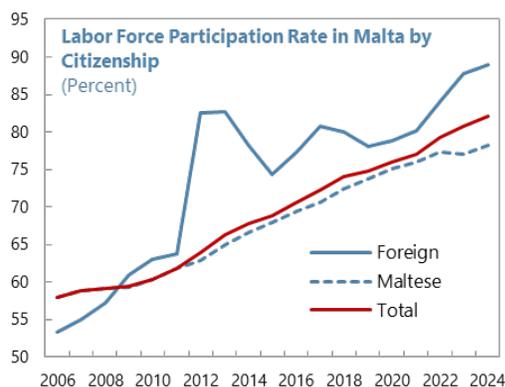
The unemployment rate has declined to historically low levels.



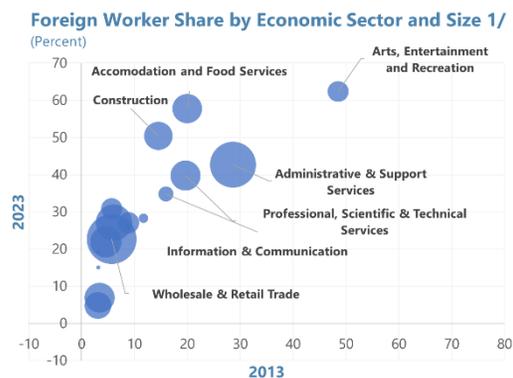
While labor shortages have been mitigated by an influx of foreign workers...



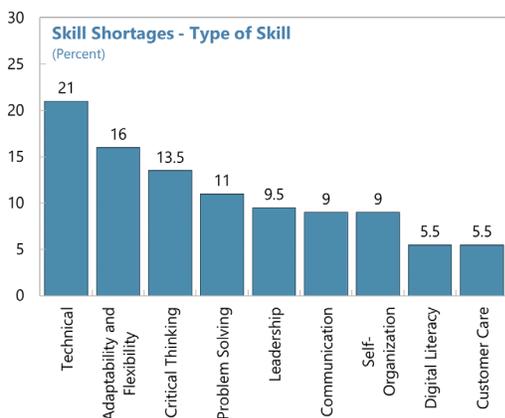
... and a higher participation rate among women



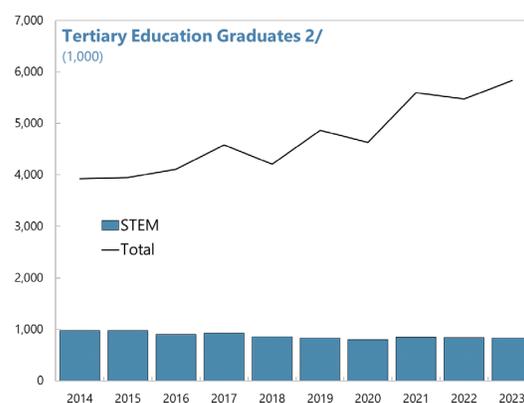
The foreign worker share increased significantly across sectors.



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, 2022–31
(Year on year change, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections									
NATIONAL ACCOUNTS										
Real GDP (expenditure)	2.5	10.6	6.8	3.9	3.9	4.0	4.0	4.0	4.0	4.0
Domestic demand	9.4	2.3	5.9	4.7	4.3	4.3	4.2	4.3	4.4	4.3
Consumption	6.6	10.4	7.0	5.4	4.5	4.5	4.3	4.5	4.6	4.4
Private	9.6	13.0	6.2	3.9	5.1	4.8	4.4	4.7	4.7	4.4
Public	-0.2	3.8	9.2	9.3	3.1	3.9	4.3	4.0	4.4	4.4
Gross fixed capital formation	14.4	-15.9	3.6	3.0	3.5	4.0	4.0	4.0	4.0	4.0
GNFS exports	11.7	4.9	6.2	5.3	4.6	4.5	4.6	4.5	4.4	4.4
GNFS imports	19.0	-2.2	5.3	6.4	5.0	4.9	4.8	4.8	4.8	4.7
Contribution to GDP (percentage points)										
Final domestic demand	7.1	2.7	5.0	3.9	3.5	3.6	3.5	3.6	3.7	3.6
Net exports	-5.5	8.9	2.1	-0.1	0.4	0.4	0.5	0.4	0.3	0.5
Inventories and statistical discrepancy	0.9	-1.0	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Investment (% GDP)	26.4	19.8	19.0	19.1	19.0	19.0	18.9	18.9	19.0	18.9
Public	4.1	5.1	6.3	5.1	4.2	4.2	4.2	4.2	4.2	4.2
Private	22.3	14.7	12.7	14.0	14.8	14.8	14.7	14.7	14.8	14.7
Gross national savings (% GDP)	25.6	26.1	26.1	25.5	24.2	24.2	24.0	23.7	23.7	23.3
Public	-1.2	0.7	2.7	1.9	1.6	1.6	1.5	1.6	1.6	1.6
Private	26.9	25.5	23.3	23.6	22.7	22.6	22.5	22.1	22.1	21.8
Potential output	5.7	6.1	6.7	4.3	4.2	4.1	4.1	4.1	4.1	4.0
Output gap (% potential output)	-3.0	1.1	1.2	0.8	0.5	0.4	0.3	0.1	0.0	0.0
LABOR MARKET										
Labor force	6.3	6.7	4.5	2.1	2.1	2.2	2.1	2.0	1.9	1.7
Employment	6.7	6.5	5.6	2.0	2.1	2.2	2.1	2.0	1.9	1.7
Wages	3.9	2.9	4.5	4.3	3.8	3.8	3.9	4.0	4.1	4.2
Unemployment rate (% labor force)										
Age 15-74	3.5	3.5	3.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Age 15-29	6.7	6.4	...	...	...	...	...	...	...	...
Net migration (% population)	4.2	3.9	1.8	1.8	1.7	1.7	1.7	1.6	1.5	1.5
Unit labor costs	4.4	-5.6	2.0	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1
PRICES										
Consumer prices (HICP, avg)	6.1	5.6	2.4	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (HICP, eop)	7.3	3.7	1.8	2.2	2.1	2.0	2.0	2.0	2.0	2.0
Core HICP (eop)	7.7	3.5	2.1	2.4	2.1	2.0	2.0	2.0	2.0	2.0
GDP deflator	5.1	5.2	3.3	2.5	2.2	2.0	2.0	2.0	2.0	2.0
MACRO-FINANCIAL										
Credit to the private sector	8.2	8.3	6.9	5.4	5.8	5.6	5.2	5.3	5.0	5.2
Of which: Nonfinancial corporations	7.4	9.4	2.1	5.7	5.6	5.7	5.5	5.5	6.0	5.1
Households	9.5	8.0	8.9	5.6	6.0	5.5	5.1	5.1	4.5	5.2
Credit to the private sector (% GDP)	73.7	68.6	66.5	65.8	65.5	65.2	64.7	64.2	63.5	62.9
Short-term deposit rate	0.3	3.4	3.6	...	...	...	...	...	...	...
Long-term government bond yield	2.4	3.7	3.4	...	...	...	...	...	...	...
GENERAL GOVERNMENT FINANCES (% GDP)										
Revenue	33.1	31.4	34.0	33.8	33.1	33.0	33.1	33.2	33.2	33.2
Expenditure	38.4	35.8	37.5	37.0	35.7	35.6	35.7	35.7	35.8	35.8
Net lending/borrowing	-5.3	-4.4	-3.5	-3.2	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Structural balance (% potential GDP)	-1.0	-4.1	-3.6	-3.5	-2.8	-2.7	-2.7	-2.6	-2.5	-2.6
Structural primary balance (% potential GDP)	-0.1	-3.0	-2.5	-2.3	-1.6	-1.5	-1.4	-1.3	-1.3	-1.3
Consolidated debt (gross)	50.1	46.8	46.2	46.9	47.1	47.1	47.1	47.1	47.1	47.1
EXTERNAL ACCOUNTS (% GDP)										
Current account	-0.8	6.3	7.1	6.3	5.2	5.2	5.1	4.8	4.7	4.4
International investment position, net	101	92	80	83	85	86	88	89	89	90
Gross debt 1/	339	319	301	303	302	302	301	301	302	302
Net debt 1/	-177	-170	-169	-178	-185	-191	-198	-203	-209	-213
MEMORANDUM ITEMS										
Nominal GDP (bn €)	18.0	20.9	23.1	24.6	26.1	27.7	29.4	31.1	33.1	35.1
Population (1,000)	520	542	553	563	573	584	594	604	614	624
GDP per capita (\$)	36,417	41,725	45,167	49,277	53,082	55,176	57,411	59,832	62,427	65,244
Real GDP per capita (% change)	1.7	6.2	4.7	2.0	2.0	2.1	2.2	2.3	2.3	2.4
Real effective exchange rate (% change)	-3.2	0.9	1.2	...	...	...	...	...	...	...

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, 2022–31
(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Projections						
GENERAL GOVERNMENT OPERATIONS										
Revenue	33.1	31.4	34.0	33.8	33.1	33.0	33.1	33.2	33.2	33.2
Current revenue	32.1	30.3	33.1	32.7	31.9	32.0	32.0	32.1	32.1	32.1
Tax revenue	23.0	21.5	24.1	23.8	23.5	23.6	23.6	23.7	23.7	23.8
Indirect taxes	9.9	9.3	9.2	9.4	9.4	9.5	9.5	9.5	9.5	9.5
VAT	6.6	6.1	6.1	6.4	6.4	6.4	6.4	6.4	6.4	6.4
Other	3.3	3.2	3.1	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Direct taxes	12.9	12.0	14.8	14.3	13.9	13.9	13.9	14.1	14.1	14.1
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	5.5	5.1	5.1	5.1	5.2	5.2	5.2	5.2	5.2	5.1
Other current revenue	3.6	3.8	3.9	3.7	3.2	3.2	3.2	3.2	3.2	3.2
Capital revenue	0.9	1.1	0.9	1.2	1.2	1.1	1.1	1.1	1.1	1.1
Expenditure	38.4	35.8	37.5	37.0	35.7	35.6	35.7	35.7	35.8	35.8
Expense	34.3	30.7	31.2	31.9	31.5	31.5	31.5	31.6	31.6	31.6
Compensation of employees	10.2	9.3	9.7	9.9	9.9	10.0	10.0	10.0	10.1	10.1
Goods and services	7.2	7.1	7.4	8.1	7.9	7.9	7.9	7.9	7.9	7.9
Social transfers	8.6	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.8
Subsidies	4.6	3.2	2.2	2.2	1.9	1.9	1.9	1.9	1.9	1.9
Of which: Energy subsidies	1.8	1.4	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Interest payments	0.9	1.0	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Other expenses	2.7	2.2	2.8	2.7	2.7	2.6	2.6	2.6	2.6	2.6
Capital expenditure	4.1	5.1	6.3	5.1	4.2	4.2	4.2	4.2	4.2	4.2
Capital transfers	0.8	1.6	3.0	0.8	0.7	0.6	0.6	0.6	0.6	0.6
Capital formation	3.3	3.5	3.3	4.3	3.5	3.6	3.6	3.6	3.6	3.6
Operating balance	-1.2	0.7	2.7	1.9	1.6	1.6	1.5	1.6	1.6	1.6
Primary balance	-4.4	-3.4	-2.4	-2.0	-1.4	-1.4	-1.4	-1.3	-1.3	-1.3
Net lending/borrowing	-5.3	-4.4	-3.5	-3.2	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
GENERAL GOVERNMENT BALANCE SHEET										
Consolidated debt	50.1	46.8	46.2	46.9	47.1	47.1	47.1	47.1	47.1	47.1
Short term	4.6	2.8	3.1	3.0	3.0	3.0	3.0	3.0	2.9	2.9
Long term	42.9	41.9	41.2	42.0	42.2	42.2	42.3	42.2	42.2	42.2
Financial assets	9.8	10.1	9.5	9.3	9.1	8.6	8.2	7.9	7.5	7.2
Net debt	40.4	36.7	36.6	37.6	38.1	38.5	38.9	39.2	39.6	39.9
Government guarantees	6.6	5.6	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
MEMORANDUM ITEMS										
Cyclically adjusted balance	-3.9	-4.9	-4.1	-3.6	-2.9	-2.8	-2.8	-2.6	-2.6	-2.6
Cyclically adjusted primary balance	-3.0	-3.9	-2.9	-2.4	-1.6	-1.5	-1.5	-1.3	-1.3	-1.3
Structural balance (% of potential GDP)	-1.0	-4.1	-3.6	-3.5	-2.8	-2.7	-2.7	-2.6	-2.5	-2.6
Structural primary balance (% of potential GDP)	-0.1	-3.0	-2.5	-2.3	-1.6	-1.5	-1.4	-1.3	-1.3	-1.3
Fiscal impulse	-2.5	1.3	-0.6	-0.3	-0.6	0.0	0.1	-0.1	0.1	0.0
Gross financing requirement	7.3	7.7	4.0	5.9	6.9	6.7	8.6	7.7	7.0	6.7
Of which: Amortization	0.7	0.6	0.6	2.3	4.0	4.0	5.9	5.1	4.3	4.0
GDP (bn €)	18.0	20.9	23.1	24.6	26.1	27.7	29.4	31.1	33.1	35.1

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

Table 3. Malta: Balance of Payments, 2022–31
(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections									
BALANCE OF PAYMENTS										
Current account	-0.8	6.3	7.1	6.3	5.2	5.2	5.1	4.8	4.7	4.4
GNFS balance	11.5	17.7	18.6	17.8	16.9	17.0	17.2	17.0	16.9	16.7
Balance on goods	-17.7	-11.7	-11.9	-12.7	-13.2	-13.2	-13.6	-14.0	-14.3	-14.7
Exports of goods	23.2	19.2	18.3	17.6	17.3	16.9	16.6	16.3	16.0	15.7
Imports of goods	40.9	30.9	30.3	30.3	30.4	30.2	30.2	30.3	30.3	30.3
Balance on services	29.2	29.4	30.5	30.4	30.1	30.3	30.8	30.9	31.2	31.4
Exports of services	101.7	98.7	100.2	100.4	100.5	101.0	101.8	102.1	102.6	103.5
Imports of services	72.5	69.2	69.7	70.0	70.4	70.8	71.0	71.2	71.3	72.1
Primary income, net	-10.7	-11.0	-11.6	-11.9	-12.2	-12.4	-12.6	-12.7	-12.8	-12.9
Credit	104.4	97.0	165.3	165.5	165.7	165.9	166.1	166.3	166.5	166.7
Debit	115.1	108.0	176.9	177.4	177.9	178.3	178.7	179.0	179.3	179.6
Secondary income, net	-1.6	-0.4	0.1	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Capital account	1.3	1.2	1.5	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Financial account	-2.8	9.2	11.0	7.6	6.5	6.4	6.3	6.0	5.9	5.6
Direct investment, net	-7.9	-4.8	-24.8	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Portfolio investment, net	11.2	23.3	2.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Assets	9.9	29.4	18.1	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Liabilities	-1.3	6.1	15.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Financial derivatives, net	-0.3	-1.2	-1.7	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Other investment, net	-6.5	-8.0	33.9	13.6	12.5	12.4	12.3	12.0	11.9	11.6
Assets	6.3	25.8	48.1	30.0	25.0	25.0	25.0	25.0	25.0	25.0
Liabilities	12.8	33.8	-3.1	16.4	12.5	12.6	12.7	13.0	13.1	13.4
Reserve assets	0.6	-0.1	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-3.3	1.7	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
INTERNATIONAL INVESTMENT POSITION										
International investment position, net	101	92	80	83	85	86	88	89	89	90
Assets	3,533	3,157	3,032	3,009	2,990	2,974	2,959	2,945	2,931	2,918
Liabilities	3,431	3,065	2,952	2,926	2,905	2,888	2,872	2,857	2,842	2,828
Direct investment	-115	-106	-110	-113	-117	-120	-123	-126	-129	-131
Assets	2,884	2,553	2,447	2,419	2,398	2,380	2,363	2,347	2,332	2,317
Liabilities	2,999	2,660	2,557	2,532	2,515	2,500	2,486	2,474	2,461	2,449
Portfolio investment, net	119	119	120	118	116	115	113	111	110	109
Financial derivatives, net	1	-1	-2	-3	-4	-5	-5	-6	-7	-7
Other investment, net	90	74	66	76	84	91	98	105	111	116
Reserve assets	6.2	5.3	6.0	5.6	5.3	5.0	4.7	4.4	4.2	3.9
MEMORANDUM ITEMS										
International reserves (bn €)	1.1	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Gross external debt 1/	339	319	301	303	302	302	301	301	302	302
Short term	208	198	197	198	198	197	197	197	197	198
Medium and long term	131	121	104	105	105	104	104	104	104	104
Net external debt 1/	-177	-170	-169	-178	-185	-191	-198	-203	-209	-213
General govt	3	3	4	4	4	4	4	4	4	4
Commercial banks	1	10	-27	-28	-30	-31	-32	-33	-33	-34
Other	-181	-182	-146	-153	-159	-165	-170	-175	-179	-183
Real effective exchange rate (% change)	-3.2	0.9	1.2	...	...	...	...	...	...	...
GDP (bn €)	18.0	20.9	23.1	24.6	26.1	27.7	29.4	31.1	33.1	35.1

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, 2021–25¹
(Percent, unless otherwise indicated)

	Core Domestic Banks					Non-Core Domestic Banks					International Banks					Total Banks				
	2021	2022	2023	2024	Jun-25	2021	2022	2023	2024	Jun-25	2021	2022	2023	2024	Jun-25	2021	2022	2023	2024	Jun-25
Capital⁽¹⁾																				
Regulatory capital to RWAs	22.7	23.0	24.7	25.4	26.5	20.3	18.7	20.8	23.2	22.5	46.3	41.1	38.7	37.6	36.9	25.57	24.64	25.98	26.8	27.4
Regulatory Tier 1 capital to RWAs	19.5	19.6	21.0	21.2	21.1	20.0	17.6	19.7	22.1	20.2	46.3	40.7	38.5	36.3	34.5	23.1	21.9	23.0	23.2	22.8
Leverage ratio	7.3	7.2	7.9	8.2	7.9	10.0	8.9	9.5	10.6	10.5	34.2	32.3	28.8	28.9	25.3	9.6	8.9	9.5	9.8	9.4
Large exposures to total own funds	66.1	83.3	60.6	58.3	60.1	173.0	194.4	133.5	104.2	97.6	67.9	75.6	65.4	64.6	91.2	76.4	91.8	68.3	63.8	69.3
RWAs to total assets	39.1	38.0	38.8	39.7	38.9	50.9	51.7	49.5	52.8	56.5	74.9	70.8	67.3	71.9	67.4	43.0	41.6	42.1	43.4	36.2
Profitability																				
ROA ⁽²⁾	0.4	0.4	1.0	1.1	0.9	0.2	-0.4	0.6	0.4	0.5	1.5	2.6	2.5	-0.3	-0.7	0.7	0.9	1.3	0.7	0.5
ROE ^(1,2)	4.3	5.4	12.0	11.6	10.2	2.4	-3.4	5.7	4.2	4.0	11.6	6.0	11.3	8.7	6.4	6.0	4.5	11.2	10.3	8.8
Operational cost-to-income ratio	75.2	82.3	51.0	52.4	55.7	82.2	81.0	66.6	73.3	78.3	47.2	44.5	55.8	80.0	94.9	61.8	62.9	53.9	60.4	66.5
Interest margin to gross income	72.1	71.8	78.8	78.8	76.8	40.9	54.0	66.2	71.2	65.7	56.4	49.2	36.0	46.3	50.8	62.7	59.3	60.0	70.7	69.9
Non-interest expense to gross income	77.0	83.2	51.5	52.8	56.1	83.4	81.3	67.4	73.8	78.7	47.3	44.5	55.8	80.0	95.0	62.7	63.3	54.2	60.7	66.7
Personnel expenses to non-interest expenses	41.2	36.4	46.6	47.5	46.9	48.5	47.3	49.1	49.8	44.9	10.8	10.0	9.2	11.5	17.2	30.3	27.6	30.4	33.3	38.8
Non-interest income to gross income	27.9	28.2	21.3	21.2	23.2	59.1	46.0	33.8	28.8	34.3	43.6	50.8	64.0	53.7	49.3	37.3	40.7	40.0	29.4	30.1
Net impairment charges to gross income	-3.4	-11.5	0.4	-4.8	-3.7	6.3	35.2	5.8	6.6	1.8	18.9	14.5	5.5	29.1	31.9	8.1	4.2	2.9	3.9	5.0
Asset Quality																				
NPLs to total own funds ⁽¹⁾	29.4	21.5	17.9	14.2	13.2	34.2	30.0	8.0	6.8	5.8	12.1	11.5	11.8	15.2	14.7	25.7	20.3	15.8	13.7	12.8
NPLs to total gross loans	3.5	2.7	2.5	2.3	2.2	5.1	4.3	1.2	1.1	1.0	1.4	1.3	1.5	1.7	1.6	3.1	2.5	2.2	2.0	1.9
Overall NPL Ratio excluding CBM placements	5.3	3.7	3.3	2.6	2.5	8.5	6.4	2.0	2.0	1.7	1.9	1.6	1.9	2.7	2.7	4.6	3.4	2.9	2.7	2.5
Non-performing exposures to total gross exposures	2.7	2.0	1.8	1.5	1.4	3.8	3.1	0.9	0.9	0.8	1.0	0.9	0.9	0.9	1.2	2.4	1.8	1.5	1.3	1.3
Total coverage ratio	44.3	46.5	43.5	39.5	39.5	59.8	72.7	60.1	71.2	74.2	147.5	189.6	125.3	107.4	108.8	57.9	66.1	55.7	54.8	55.1
Unsecured loans to total lending	20.1	18.7	18.0	17.4	17.0	71.9	55.3	47.5	49.6	48.6	21.5	23.6	27.9	33.1	39.4	23.8	22.4	22.1	22.5	23.2
Share of Stage 3 provisions to total provisions	70.2	69.6	67.3	70.8	69.5	90.2	88.4	56.6	54.8	49.2	27.9	26.5	45.3	55.1	53.5	60.5	58.5	59.9	63.6	61.9
Forborne loans to gross loans	4.5	3.5	2.5	2.3	2.0	0.8	0.6	1.1	1.4	1.9	7.4	7.4	1.3	1.4	2.5	4.9	4.1	2.2	2.0	2.1
Liquidity																				
LCR ⁽¹⁾	359.9	380.0	366.4	362.0	402.7	356.8	316.0	405.2	417.0	394.6	2469.6	383.7	566.9	422.6	308.3	379.0	373.8	379.4	370.4	394.3
Liquid assets to total assets ^(1,3)	35.6	36.3	35.0	36.7	38.1	33.2	31.1	36.1	41.3	37.6	27.3	26.9	30.5	30.6	27.7	34.7	35.1	34.7	36.6	37.2
Customer loans to customer deposits	55.2	56.0	58.9	59.1	60.5	52.2	54.4	49.5	49.0	52.3	267.0	230.6	184.6	179.3	161.1	67.5	67.2	67.0	66.9	67.6
CBC on net cash outflows	189.3	251.0	287.2	331.0	362.1	300.8	240.7	272.0	300.3	326.8	601.9	58.6	189.1	131.0	87.2	204.0	239.8	281.2	316.7	336.7
NSFR ⁽¹⁾	174.0	187.1	175.8	183.9	182.7	178.4	172.9	191.3	180.9	182.4	155.3	118.4	137.7	144.5	137.1	172.8	180.3	173.8	180.3	178.3
Balance Sheet																				
Assets-to-GDP	166.4	158.2	140.5	133.2	134.5	20.3	19.0	17.2	14.6	13.5	68.5	56.2	47.5	56.3	42.6	255.2	233.4	205.1	204.1	190.6
Domestic debt securities to total assets	8.8	9.4	8.9	10.3	10.4	7.9	7.9	6.0	5.2	6.0	0.2	0.2	0.0	0.0	0.0	6.4	7.1	6.6	7.1	7.7
Foreign debt securities to total assets	12.4	16.5	19.2	22.4	22.8	15.9	18.0	17.0	13.6	11.9	24.0	29.8	35.9	39.5	23.0	15.8	19.8	22.9	26.5	22.1
Customer loans to total assets	45.4	47.2	48.8	49.6	49.9	34.5	38.2	36.9	37.9	40.7	36.9	41.7	38.4	30.4	38.4	42.3	45.1	45.4	43.5	46.7
Interbank exposures to total assets	4.9	4.9	3.9	3.9	4.1	9.4	7.2	6.4	5.9	6.3	17.8	10.0	7.7	4.7	9.9	8.7	6.3	5.0	4.3	5.5

¹ Data for international banks excludes the branches of foreign banks.

² Based on profits after tax.

³ Liquid assets defined in line with the EBA Liquidity Coverage Ratio (LCR DA) Methodology.

Annex I. Implementation of IMF Recommendations

2024 Article IV Advice	Actions Since 2024 Article IV
Financial Sector	
Broaden and increase the sectoral systemic risk buffer (sSyRB) for residential mortgages to include all real estate and construction sectors.	The authorities plan to broaden scope of sSyRB to include construction and commercial real estate starting in June 2026.
Improve the collection of data in commercial real estate.	Ongoing.
Fiscal Policy	
Prepare an exit strategy from the current fixed energy price policy while protecting vulnerable groups.	Not implemented. The authorities believe that fixed electricity and fuel prices underpin social and economic stability, which justifies the associated fiscal costs.
Fiscal consolidation in line with the EU's new fiscal framework.	Ongoing. The fiscal targets established in the 2025-28 medium-term fiscal structural plan are likely to be overperformed.
Develop and disseminate a roadmap for corporate income tax (CIT) reform in line with the EU's Directive on Pillar II.	Not implemented. The authorities chose a "wait-and-see" approach to CIT reform, preferring to observe international developments before implementing major changes to safeguard competitiveness.
Improve public investment management framework and rationalize recurrent spending to achieve credible medium-term consolidation.	Ongoing.
Structural Reforms	
Strengthen educational outcomes and reskill and upskill the labor force.	Ongoing, including through implementation of the National Education Strategy 2024-30.
Strengthen Malta's resilience to energy shocks	Ongoing, including through National Energy and Climate Plan
Improve management of the tourism sector	Ongoing, including through Malta Tourism Strategy 2021– 2030, which aims to promote sustainable, high-quality tourism.
Strengthen innovation and its financing to enhance business dynamism.	Ongoing, including through implementation of a Smart Specialization Strategy for 2021–27, which lays out sector-specific measures to leverage technologies and AI and boost innovation.

Annex II. External Sector Assessment

Overall Assessment: Based on staff's estimates, Malta's external position in 2025 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 a decline in savings, while investment remains 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 further 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 114 percent in 2020 and then fell to 80 percent in 2024. Direct investment comprises the largest component of assets (over about 80 percent). NIIP is expected to remain constant at around 80 percent of GDP in 2025. Gross assets and liabilities are sizable, at around 30 and 29 times GDP, respectively.

Assessment. Malta's gross liabilities are sizable. The volatility of financial flows and investment returns presents 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: 80	Gross Assets: 3,022	Debt Assets: -	Gross Liab.: 2,942	Debt Liab.: -
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Current Account

Background. The current account surplus was about 7 percent of GDP in 2024 but below the 2013-2023 average of about 8 percent. A strong service balance offsets a large goods deficit and an increasing primary income deficit. Staff project a stable current account surplus of 6.3 percent of GDP as robust service exports continue throughout 2025. Over the medium term, the CA surplus is expected to gradually decline with a slight decline in savings, while investment remains broadly unchanged.

Assessment. Considering cyclical and natural disaster/conflict contributions of about -0.4 percent of GDP, the CA balance of 6.3 percent of GDP is adjusted to 6.7 percent of GDP. The EBA-lite CA model suggests a CA norm of -0.8 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 1.1 percent of GDP by reducing the negative contribution of the remittance/migrant share variable in the EBA-lite model.¹ As a result, the CA gap is estimated at 5.6 percent of GDP, with an implied REER gap of -6.8 percent. Relative policy gaps contribute 2.1 percentage points to the CA gap, with the contribution of domestic policy gaps of 1.8 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, 2025		
	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	6.3	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	6.7	
CA Norm (from model) 3/	-0.8	
Adjustments to the norm (+)	1.9	
Adjusted CA Norm	1.1	
CA Gap	5.6	8.5
o/w Relative policy gap	2.1	
Elasticity	-0.8	
REER Gap (in percent)	-6.8	-10.2
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

Real Exchange Rate

Background. The CPI-based REER has broadly remained stable in 2024. REER has been relatively stable since 2015.

Assessment. The EBA-lite REER model indicates a REER undervaluation of about 10 percent, slightly larger than that implied by the CA model

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account is expected to record a surplus of 1.3 percent of GDP in 2025, and the financial account balance is expected to have a surplus of 7.6 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 Matrix¹

Source of risks	Relative Likelihood	Impact if realized	Policy response
Global Risks			
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	Medium. The direct impact of the regional conflicts 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, declining tourism flows, and higher commodity prices.	Allow automatic stabilizers to operate and adjust energy tariffs, while providing targeted financial support to vulnerable. Maintain structural reform momentum to support investment, diversify exports, and promote higher productivity growth.
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	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. Its export demand, including tourism, will weaken, affecting overall growth.	Same as above.
Commodity Price Volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	Medium. As a small, open island economy, Malta is exposed to external shocks. Higher oil prices would increase energy subsidies and the fiscal deficit, mitigating the adverse effect on growth and inflation.	Adjust energy tariffs, while providing targeted financial support to vulnerable.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	High	Medium. Global slowdown could affect growth in Malta and negatively impact the financial sector. However, banks and NBFIs are very liquid and well-capitalized, which should mitigate the shock.	Intensify financial sector oversight. Consider releasing sSyRB buffers if banks fall under stress and providing targeted financial support.

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.

Source of risks	Relative Likelihood	Impact if realized	Policy response
Fiscal Vulnerabilities and Higher Long-Term Interest Rates. Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	High	Medium. Tighter financial conditions would increase financing costs for households and businesses and lower growth. External borrowing could get expensive, creating refinancing risks.	Intensify financial sector oversight and calibrate macroprudential policies. Consider releasing sSyRB buffers to ensure financial stability.
Decline in International Aid. A further sharp reduction in international financial assistance, including development aid and humanitarian support, could severely affect low-income and fragile countries. Such an additional aid withdrawal would strain public finances, worsen current accounts, increase debt vulnerabilities, and lead to a further deterioration in living conditions and food security.	High	Low. The country does not receive international aid.	N/A
Rising Social Discontent. High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken countries' capacity to address domestic and external shocks.	Medium	High. For Malta, the risk is small, but the impact could be large if social instability leads to declining tourist flows and high uncertainty. Growth would slow, the current account weaken, and the fiscal deficit and public debt increase	Allow automatic stabilizers to operate and adjust energy tariffs, while providing targeted financial support to vulnerable. Maintain structural reform momentum to support investment, diversify exports, and promote higher productivity growth.
New Trade Agreements. A breakthrough in trade talks could reduce uncertainty and protectionism, boost investment and productivity, and support broader reforms to lift medium-term growth.	Low	Medium. As a small, open island economy, Malta's growth and inflation would be positively affected by improved trade and higher global growth. Its export demand, including tourism, will rise, improving overall growth outlook.	In case of overheating, tighten the fiscal stance and macroprudential regulations to contain inflation and maintain financial stability. Build fiscal buffers.
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	Medium. Payment and financial systems could be disrupted, affecting trust in the financial system, delaying payments, and causing outflows.	Strengthen cybersecurity, assess damages and regain and restore IT functions. In case of prolonged financial stress, calibrate macroprudential policies such as potentially releasing sSyRB buffers to ensure financial stability
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity,	Medium	High/Medium. As a small, open island economy, Malta's growth and inflation would be adversely affected by supply disruptions, higher shipping costs, and	Allow automatic stabilizers to operate and adjust energy tariffs, while providing targeted financial support to vulnerable.

Source of risks	Relative Likelihood	Impact if realized	Policy response
supply disruptions, and heightened economic and financial instability.		lower global growth. Its export demand, including tourism, will weaken, affecting overall growth.	Maintain structural reform momentum to support investment, diversify exports, and promote higher productivity growth. Invest in climate change resilience.
Labor Supply Gaps. Tighter restrictions to migration could worsen labor shortages in aging economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues.	Medium	High/Medium. As a migration-driven economy, Malta's growth and inflation would be adversely affected by reduced migration.	Allow automatic stabilizers to operate and adjust energy tariffs, while providing targeted financial support to vulnerable. Maintain structural reform momentum to support investment, diversify exports, and promote higher productivity growth. Support worker retraining and automation.
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.
A systemic risk in the financial system, potentially triggered by the real estate sector (e.g. a drop in prices and demand).	Medium	High/Medium. A shock to the real estate sector and the financial system could affect financial stability, reducing credit flow and economic growth.	Intensify financial sector oversight. Allow automatic stabilizers to operate and adjust energy tariffs, while providing targeted financial support to vulnerable. Maintain structural reform momentum to support investment, diversify exports, and promote higher productivity growth.
Unsmooth transition in adopting the OECD Pillar 2. A lack of a well-calibrated strategy could undermine investors' 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.

Annex IV. FSAP Recommendations

Recommendations and Authority Responsible for Implementation ¹	Timing ²	Authorities' Actions
Risk Analysis		
<p>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)</p>	<p>ST</p>	<p>The Central Bank of Malta (CBM) enhanced its liquidity and solvency stress testing frameworks, including by adding a liquidity-solvency channel to their liquidity frameworks, assessing climate-related risks, accounting for IFRS9's expected losses, and assessing 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.</p> <p>Both the CBM and the Malta Financial Services Authority (MFSA) invested in improving the data management system, enhancing the granularity and integration of datasets used for financial stability assessments, and worked closely on identifying risks and pockets of vulnerabilities. Collaboration between the two institutions remains strong, with regular interaction such as risk identification, the Other Systemically Important Institutions (O-SIIs) annual exercise, Commercial Real Estate (CRE), cyber security, micro and macroprudential policy and Minimum Requirement for Own Funds and Eligible Liabilities (MREL). Various working groups have also 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.</p> <p>The MFSA conducts stress tests for the insurance sector and investment fund liquidity regularly and continues to refine its in-house stress testing frameworks. 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 and serves as a central analytical tool for supervisory functions.</p> <p>A major area of progress during the year has been the enhancement of cyber risk monitoring. The MFSA applied its internally developed cyber mapping tool to the full population of entities reporting under the Digital Operational Resilience Act (DORA) dataset, enabling the identification of interlinkages between financial institutions and third-party ICT service providers, as well as the assessment of potential exposure channels in the event of cyber incidents. Further projects are planned to strengthen further cyber risk analytics.</p>
<p>¹ The FSAP mission took place in the fall of 2018, and the report was published in 2019. The table is based on the authorities' inputs. The Central Bank of Malta (CBM); the Financial Intelligence Analysis Unit (FIAU); the Malta Financial Services Authority (MFSA); the National Statistics Office (NSO).</p> <p>² I = Immediate (within 1 year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years).</p>		

Recommendations and Authority Responsible for Implementation ¹	Timing ²	Authorities' Actions
		<p>Additional analytical work has focused on monitoring developments in Malta's capital markets, particularly the identification of exposures and risk concentrations across selected issuances. The analysis of geopolitical risks has also been expanded, assessing both direct and indirect implications for the Maltese economy and financial sector arising from global developments, such as US tariff measures and regional conflicts. Climate risk remains a key thematic area, with ongoing efforts to enhance existing models and broadening the monitoring toolkit. Further work has also been undertaken on crypto-assets and their potential financial stability implications, as well as on the real estate sector, encompassing both residential and commercial segments. 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 done in the recent past.</p>
Macprudential Policy		
<p>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)</p>	ST	<p>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.</p>
<p>Close remaining data gaps and enhance analytical tools. (CBM, NSO, MFSA)</p>	ST/MT	<p>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.</p> <p>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.</p> <p>With the aid of the IMF, the CBM developed the first phase of 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.</p> <p>The MFSA continues to strengthen its systemic risk monitoring toolkit by leveraging newly available data sources. In particular, the DORA dataset has provided comprehensive information on financial entities' ICT outsourcing arrangements with third-party providers, previously limited to pilot projects with partial data</p>

Recommendations and Authority Responsible for Implementation ¹	Timing ²	Authorities' Actions
		<p>coverage. This has significantly enhanced the Authority's analytical capabilities, enabling full-population network mapping, geopolitical risk inference, and assessments of potential exposures to cyber events.</p> <p>In addition, the MFSA was granted access to AnaCredit, allowing for more granular insights into banks' lending portfolios from a corporate perspective, thereby supporting deeper analysis of credit and real estate related risks. The MFSA also continues to gather information from license holders regarding their exposures to critical benchmarks, in line with the EU Benchmarks Regulation (Regulation (EU) 2016/1011). This facilitates annual assessments of potential financial stability implications arising from the discontinuation of such benchmarks.</p> <p>MFSA developed an internal methodology to monitor the developments in residential real estate property and rental markets. A risk dashboard for NBFIs was developed by MFSA and is being extended to investment funds to capture the entities that carry out bank-like activities.</p> <p>During the year, the MFSA gathered information from financial entities regarding their use and application of Artificial Intelligence (AI). This provides visibility on entities' AI strategies, governance frameworks, and practical use cases, offering insights into the extent and nature of AI adoption across the financial sector. These findings will support deeper assessments of the associated opportunities and potential risks stemming from the increasing reliance on AI technologies.</p>
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	<p>Legal amendments in 2019 allow the MFSA's recruitment independence.</p> <p>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 remaining 40 percent will be received in the form of quarterly tranches from the budget). This model applies only to operational expenditure. Capital expenditure will continue to be in the domain of the government, as it will always be covered in full (against certified invoices) by the yearly Capex Government Subvention. As a result of this 60/40 model, the MFSA has implemented a new fee regime as of 1st January 2025. The 60/40 model will be applied gradually over the 5-year forecast period to avoid a sudden or disruptive fee implementation for the industry.</p> <p>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</p>

Recommendations and Authority Responsible for Implementation ¹	Timing ²	Authorities' Actions
		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	<p>As of October 2025, the MFSA reached a headcount of 565 employees, with 300 employees working in supervision. The MFSA remains firmly on track to deliver on its three-year phased staffing plan, targeting 575 employees by 2025 and 630 by 2026. This expansion is being implemented strategically to strengthen supervisory depth and capability, with a strong emphasis on targeted capacity building, advanced upskilling programs, and the development of specialized technical expertise across key supervisory areas</p> <p>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.</p> <p>The Financial Supervisors Academy delivers an annual Training Curriculum built around the MFSA's Training Needs Analysis and continues to maintain 25,000 training hours annually to increase employee competencies and knowledge base. This training framework is complemented by targeted professional development opportunities, including sponsorship for formal qualifications and certifications.</p> <p>In collaboration with the University of Malta, MFSA has also launched the second intake of its Post Graduate Diploma in Financial Regulation and Compliance, a flagship program designed to deepen supervisory and regulatory expertise across multiple sectors of the financial services industry.</p> <p>To further enhance supervisory methodologies and alignment with international best practices, the MFSA has initiated staff exchange programs with peer regulators and ESAs. These exchanges enable practical exposure to diverse regulatory frameworks, foster collaboration, and strengthen the MFSA's ability to implement leading supervisory approaches within its jurisdiction.</p>

Recommendations and Authority Responsible for Implementation ¹	Timing ²	Authorities' Actions
Banking Regulation and Supervision		
<p>Increase the number and risk orientation of onsite inspections of Less Significant Institutions (LSIs). Enhance supervision of third-country branches. (MFSA)</p>	ST	<p>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. In 2025, MFSA's Banking Supervision Function completed 5 SREP assessments and is in the final process of completing an additional one. Accordingly, Banking Supervision is planning to have issued 6 SREP decisions by end-2025. In addition, 5 new SREPs were launched during 2025 and are currently in progress. For LSIs not undergoing a SREP assessment, Banking Supervision continues to perform ongoing supervisory work, including meetings with Key Function Holders as part of the MFSA's Minimum Engagement Level Plan and, the monitoring of financial performance and key risk indicators.</p> <p>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). Banking Supervision is assessing the potential impact on its Third Country Branches (TCBs) licensed to transact the business of banking in terms of the Banking Act Cap. 371 of the Laws of Malta and authorised to carry out the business of banking in/ from Malta. In the meantime, the MFSA encouraged TCBs to assess (and ensure) their compliance with the new rules. Banking Supervision is further following up with its TCBs on the three public consultations on RTS and Guidelines on TCBs under the CRD concerning booking arrangements, capital endowment requirements, and colleges of supervisors.</p> <p>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 holds monthly meetings with ECB's Malta Country Desk to <i>inter alia</i> discuss key developments taking place at each institution. Banking Supervision holds annual meetings with officials and closely monitors the financial performance and risk profile of the TCBs through MFSA internal report and continuous sharing of information with ECB's Malta Country Desk.</p>
Recommendations and Authority Responsible for Implementation	Timing	Progress
<p>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, FIAU, the government)</p>	ST	<p>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.</p>

		<p>MFSA investigations and enforcement actions have continued to increase, including suspicious activity or dubious schemes such as clone companies and unlicensed exchange platforms. In 2024, ongoing investigations arising from supervisory referrals and other sources covered breaches such as the non-submission of statutory documentation, unauthorized licensable activities, and inadequate governance arrangements. This led to 134 enforcement actions being imposed, with administrative penalties amounting to €926,485</p> <p>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 and targeted professional training. It carried out investigations into potential unauthorized financial services activity as well as investigations into trustees' compliance with Trusts Ultimate Beneficial Ownership Register (TUBOR) obligations.</p> <p>The MFSA revised its Publication Policy to enhance transparency and regulatory clarity, establishing clear criteria for the publication of enforcement actions, including conditions under which anonymous notices may be issued, typically for non-material breaches and administrative penalties which do not exceed €30,000. Key changes to the Publication Policy include introduction of new retention periods for Settlement Notices and clearly defined and exhaustive list of non-material breaches.</p> <p>In 2025, the MFSA initiated the development of the Supervisory Cycle Management System (SCMS), a major step in digitizing regulatory oversight. Once fully implemented, the SCMS will automate licensing, compliance, and data analysis, improving operational efficiency and decision-making. The Enforcement Function will also benefit from a dedicated Case/Records Management System as part of the Authority's wider digitalization strategy.</p> <p>MFSA continued to enhance its collaboration with national and international regulators through joint initiatives, training, and information-sharing frameworks.</p>
Insurance and Securities Regulation and Supervision		
Strengthen conduct supervision and enhance the sectoral risk-based supervision framework. (MFSA)	MT	<p>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.</p> <p>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.</p> <p>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.</p>

Recommendations	Timing	Progress
AML/CFT		
<p>Improve the authorities' assessment and understanding of ML/TF risks and strengthen national coordination. (National Coordination Committee)</p>	I	<p>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</p> <p>involvement of both authorities and the private sector representative bodies.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>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)</p>	I	<p>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.</p> <p>(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.</p> <p>(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.</p> <p>The MFSA's supervisory duties as a prudential and conduct regulator have been extended as a result of the implementation of the MFSA's 2019 AML/CFT Strategy, which saw further integration of AML/CFT into prudential supervision, over and above the MFSA's role as an agent of the FIAU. These additional interactions have driven up the coverage of AML/CFT supervision, and act as a trigger for more in-depth FIAU supervisory action.</p>

		<p>Fitness and propriety 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 assessment, which assesses (i.) Competence, (ii.) Reputation, (iii.) Conflicts of Interest and (iv.) Time Commitment, is to be satisfied on an ongoing basis.</p> <p>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.</p>
Recommendations	Timing	Progress
Support establishing an EU-level arrangement responsible for AML/CFT supervision. (Government)	MT	<p>Malta is supporting the EU-level initiative of a harmonized higher-level AML regulation and supervision.</p> <p>The MFSA continues to actively participate and support EU-level arrangements responsible for AML/CFT supervision, including participation in working groups related to AMLA.</p> <p>As outlined in the MFSA's Strategic Statement dated February 2023 and Strategic Update 2024 - Securing Our Future as a Resilient and Efficient Jurisdiction, 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, sustaining the fight against money laundering and other financial crime, seeking to ensure a more holistic and streamlined approach to AML/CFT efforts.</p> <p>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.</p> <p>The approach described by MFSA extends beyond local borders, as it has entered into MoUs with international authorities and engaged in bilateral discussions to strengthen international relationships and foster greater cooperation with foreign counterparts. Officers from the MFSA contribute to several European working groups. Those that were previously coordinated by the EBA, particularly in relation to the drafting of new regulatory technical standards, have recently been concluded and dissolved after the latter's formal response to the European Commission's Call for Advice.</p> <p>MFSA is supporting the FIAU by acting as alternates within newly formed AMLA working groups. These working groups are, as done previously by EBA, intended to draft new guidelines and technical standards mandated by the AML Package. MFSA has volunteered several of its Officials as sectoral experts that may be consulted in specific instances.</p>
Safety Nets and Crisis Management		
Adopt an administrative bank insolvency regime with explicit powers to transfer assets/liabilities. Clarify the creditor hierarchy. (Government)	I	<p>The draft legislation governing administrative bank insolvency is in the process of being presented to the MFSA's Executive Committee (ExCo) for its approval. Throughout the year extensive discussions were held between the Resolution Function (Lead Function of this project) and the Legal Function. Banking Supervision Function also provided its feedback.</p>

		Following ExCo's approval, the MFSA will proceed with launching public consultation. After assessing the feedback received following the public consultation and the required legislative review, the legislation will be forwarded to Parliament for its approval.
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. In parallel to the Bank Administrative Insolvency Framework, MFSA's Resolution Function has drafted the necessary legislative changes to reflect the shift of responsibility. Discussions with Banking Supervision will continue on this front. In the meantime, the Resolution function is actively taking on cases to liquidate banks, working closely in conjunction with Banking Supervision.
Recommendations	Timing	Progress
Review the adequacy of the Resolution Unit's staffing and increase its resources accordingly. (MFSA)	I	In 2025 the Resolution Function headcount stood at 24 FTEs. Additional resources will be made available to cover new responsibilities emanating from the Insurance Recovery and Resolution Directive.

Annex V. Vision 2050

Malta Vision 2050 is government's strategy document, which provides a long-term policy framework aimed at improving quality of life, fostering resilience, and ensuring sustainability. It covers the economy, environment, society, governance, and infrastructure, and sets out medium-term targets for 2035 and long-term aspirations for 2050.

Four Strategic Pillars

First, sustainable economic growth to be promoted through diversification and higher-value sectors:

- Tourism: Premium offerings, high-value experiences.
- Gaming: Regulatory reform, expansion into e-sports and content creation.
- Shipping & Maritime: Freeport expansion, new trade routes, streamlined ship registration.
- Financial Services: Fintech, investment funds, multinational HQs.
- Aviation: Aircraft registration, MRO expansion, long-haul connectivity.
- High-End Manufacturing: Semiconductors, pharmaceuticals.
- Smart Construction: Renovation, vertical expansion, sustainable urban planning.

Second, citizen-centered services to focus on:

- Healthcare: AI diagnostics, telemedicine, public-private partnerships.
- Social Policy: Affordable housing, pension reform, inclusive support systems.
- Mobility: Electric vehicles, Mobility-as-a-Service, mass transit, drone logistics.
- Migration: Skills-based integration, fair wage policies, labor market alignment.

Third, resilience and education reform:

- Education: Curriculum reform, STEM focus, vocational alignment.
- Energy: Renewable energy expansion, interconnectors, hydrogen pipelines.
- Environment: Carbon neutrality, biodiversity, circular economy, waste-to-energy.
- National Identity: Cultural preservation, cybersecurity, civic trust-building.

Fourth, sustainable land and sea management:

- Urban Planning: Compact, livable communities, sustainable architecture.
- Green Malta: Expansion of green spaces, biofuel adoption, land conservation.
- Land Reclamation: Environmentally assessed projects for strategic expansion.
- Gozo Development: Premium tourism, agri-tech, cultural promotion

Targets

By 2035, Malta aspires to rank in top 20 globally on the Human Development Index (HDI) and raise median disposable income to 115 percent of the EU average. By 2050, the ambition is to reach the top 10 in HDI, 135 percent of the EU average in disposable income, and top-five EU ranking in life satisfaction.

Risks and Challenges

Implementation faces risks from fiscal constraints, institutional inertia, demographic pressures, and external shocks, as well as the physical limits of Malta's small geography.

Annex VI. Sovereign Risk and Debt Sustainability Assessment

Annex VI. Figure 1. Malta: Risk of Sovereign Stress			
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. 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			
<p>Malta is at a low overall risk of sovereign stress. Debt is expected to remain stable and below 50 percent of GDP. 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.</p>			
Source: Fund staff.			
<p>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.</p>			
<p>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.</p>			
<p>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</p>			

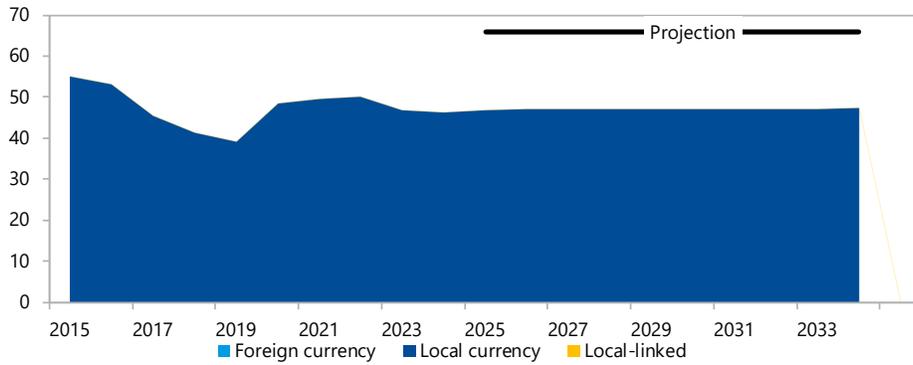
Annex VI. Figure 2. Malta: Debt Coverage and Disclosures

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:																			
Subsectors captured in the baseline										Inclusion									
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	Not applicable							
				2	Extra budgetary funds (EBFs)						No								
				3	Social security funds (SSFs)						Yes								
				4	State governments						Yes								
				5	Local governments						Yes								
				6	Public nonfinancial corporations						No								
				7	Central bank						No								
				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	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp.	Total
CPS	NFPS	GG: expected	CG	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 VI. Figure 3. Malta: Public Debt Structure Indicators

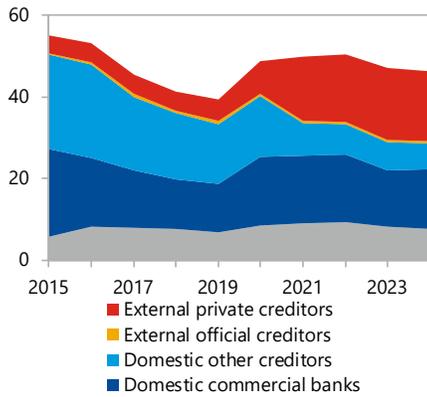
Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



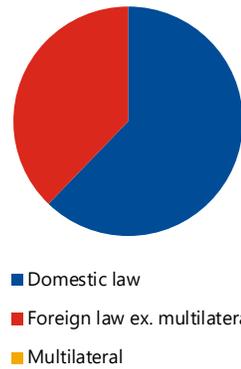
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



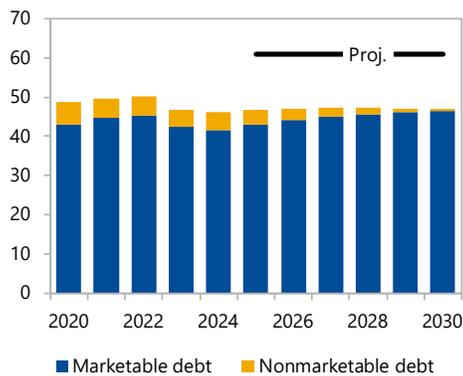
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



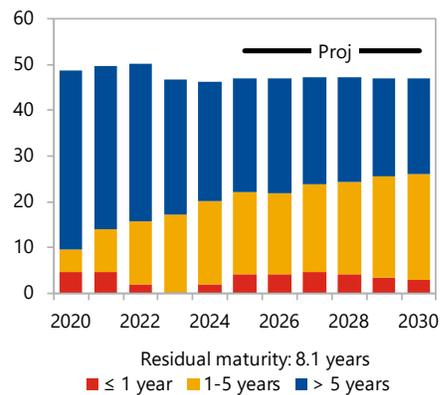
Note: The perimeter shown is general government.

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.

Staff commentary: Public debt is issued in local currency. By holder, debt is mainly held by external private creditors, domestic commercial banks, and other domestic creditors. The debt stock is largely marketable, with a well-diversified maturity profile.

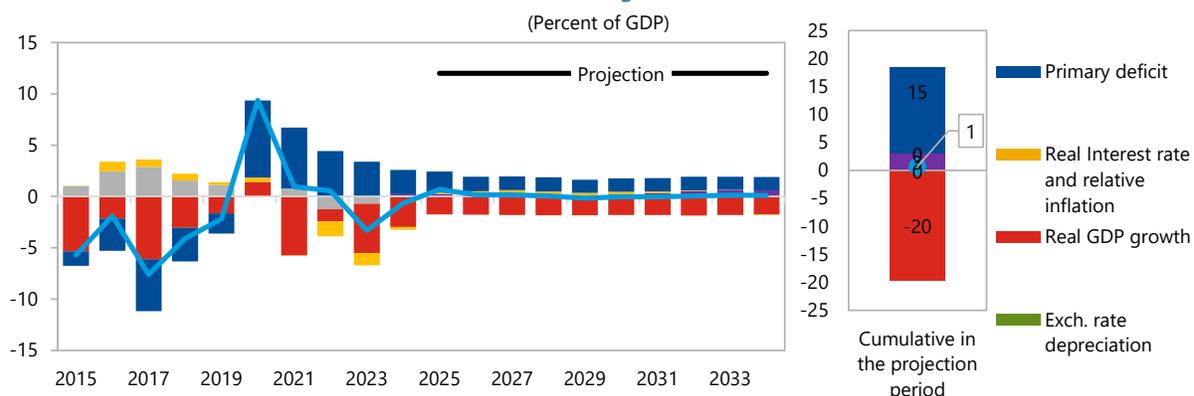
Annex VI. Figure 4. Malta: Baseline Scenario

Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	46.2	46.9	47.0	47.2	47.2	47.1	47.0	47.0	47.1	47.2	47.3
Change in public debt	-0.6	0.7	0.2	0.2	0.1	-0.2	0.0	0.0	0.1	0.1	0.1
Contribution of identified flows	-0.7	0.7	0.2	0.2	0.1	-0.2	0.0	0.0	0.1	0.1	0.1
Primary deficit	2.4	2.0	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Noninterest revenues	34.0	33.8	33.1	33.0	33.1	33.2	33.2	33.2	33.1	33.1	33.1
Noninterest expenditures	36.3	35.9	34.5	34.4	34.4	34.5	34.5	34.5	34.4	34.4	34.4
Automatic debt dynamics	-3.2	-1.6	-1.4	-1.4	-1.4	-1.5	-1.5	-1.7	-1.8	-1.8	-1.8
Real interest rate and relative inflation	-0.2	0.1	0.3	0.4	0.4	0.3	0.3	0.2	0.1	0.0	0.0
Real interest rate	-0.2	0.1	0.3	0.4	0.4	0.3	0.3	0.2	0.1	0.0	0.0
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	-3.0	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.9	-1.8	-1.8
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.1	0.2	0.2	0.2	0.1	0.0	0.2	0.3	0.5	0.6	0.6
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	0.1	0.2	0.2	0.2	0.1	0.0	0.2	0.3	0.5	0.6	0.6
Contribution of residual	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	4.1	5.6	7.5	8.8	9.8	10.0	10.2	10.5	11.2	11.3	12.4
of which: debt service	1.8	3.5	6.1	7.5	8.4	8.7	8.8	9.2	9.8	10.1	11.1
Local currency	1.8	3.5	6.1	7.5	8.4	8.7	8.8	9.2	9.8	10.1	11.1
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)	6.8	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.1	4.0	3.8
Inflation (GDP deflator; percent)	3.3	2.5	2.2	2.0	2.0	2.0	2.0	2.1	2.2	2.1	2.1
Nominal GDP growth (percent)	10.3	6.5	6.2	6.1	6.1	6.1	6.1	6.1	6.4	6.2	6.0
Effective interest rate (percent)	2.7	2.8	2.9	3.0	3.0	2.8	2.6	2.4	2.3	2.1	2.0

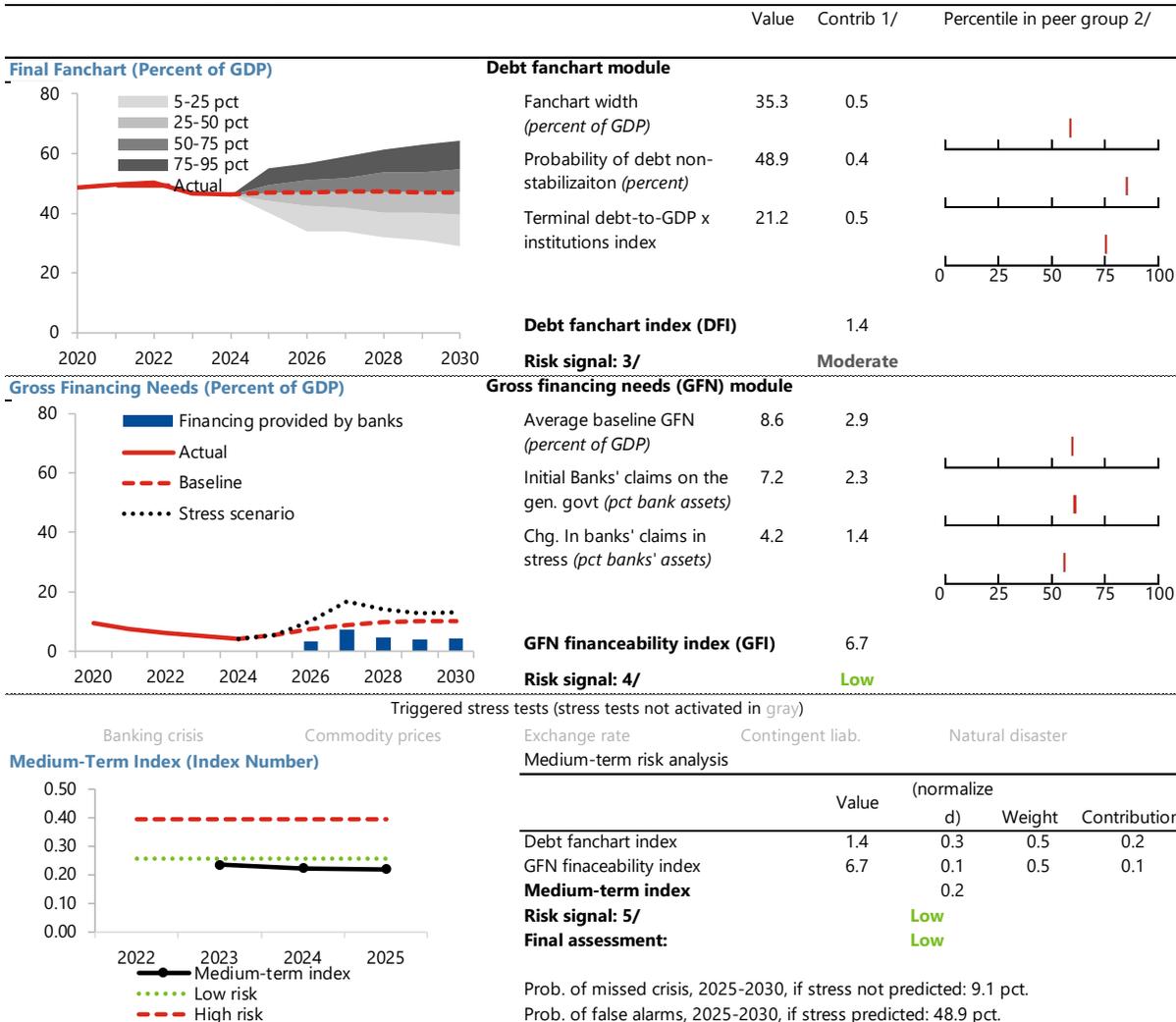
Contribution to Change in Public Debt



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 VI. Figure 5. Malta: Medium-Term Risk Assessment

Medium-Term Risk Assessment



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

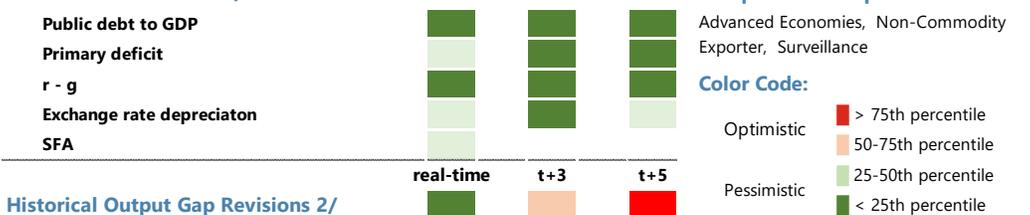
Source: IMF staff estimates and projections.

- 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. Figure 6. Malta: Realism of Baseline Assumptions

Realism of Baseline Assumptions

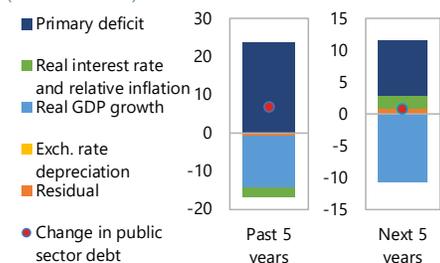
Forecast Track Record 1/



Historical Output Gap Revisions 2/

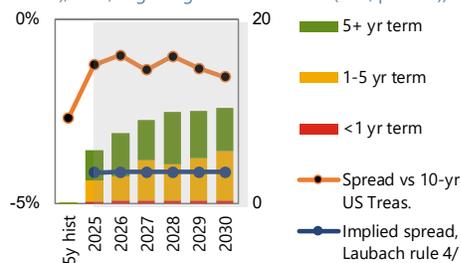
Public Debt Creating Flows

(Percent of GDP)



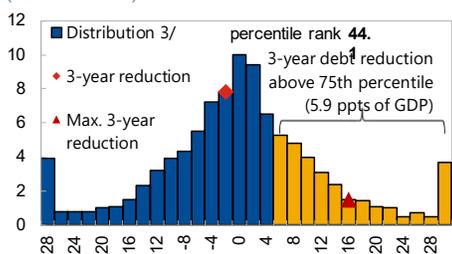
Bond Issuances

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



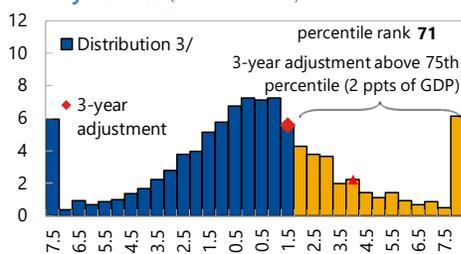
3-Year Debt Reduction

(Percent of GDP)



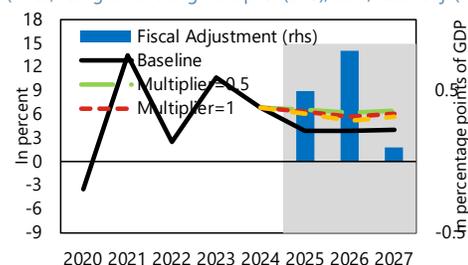
3-Year Adjustment in Cyclically-Adjusted

Primary Balance (Percent of GDP)



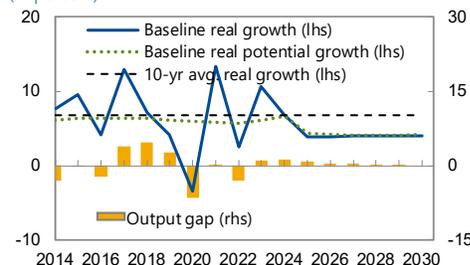
Fiscal Adjustment and Possible Growth Paths

(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)

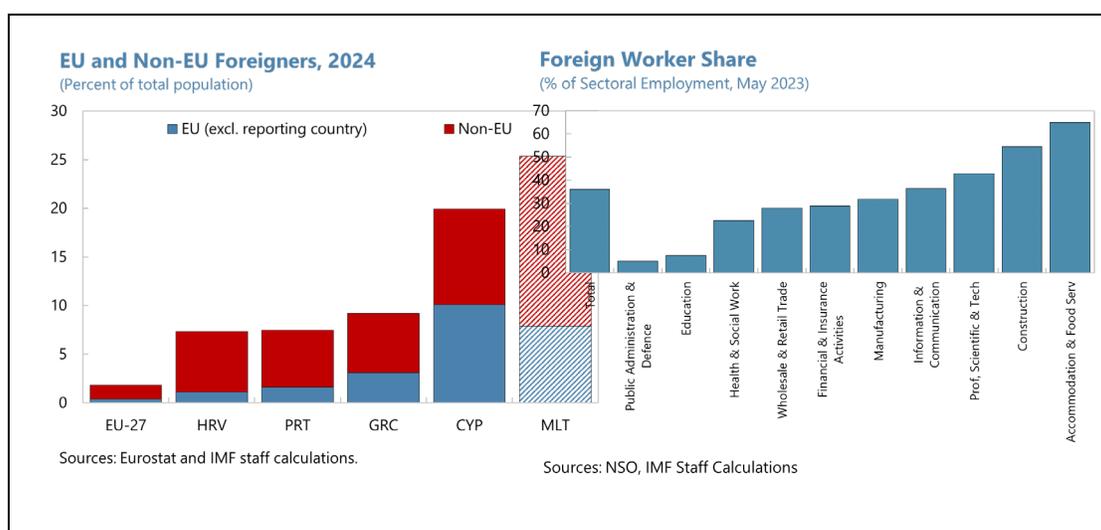
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

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 VII. Immigration Reform

Malta has experienced strong growth over the past decade, led primarily by labor-intensive tourism and services. This has been underpinned by an influx of foreign workers, leading to increased density and strain on infrastructure and public services, underscoring the difficulty of sustaining the current growth model. Transitioning to a productivity-driven growth strategy that emphasizes innovation, education and environmental sustainability, as described in Malta's Vision 2050, would help to mitigate these strains and power more sustainable growth. A skills-based immigration policy is an essential part of this strategy as it would facilitate the transition into higher value-added services.

1. Malta experienced the largest percentage population increase in the EU driven by a surge of foreign workers. In the decade up to 2024, Malta's population grew by 26 percent to over half a million inhabitants. This growth was largely driven by a sharp rise in the foreign resident population, from 5.5 percent in 2013 to 28.1 percent of the total in 2024. Over the same period, the labor force grew from just under 190,000 to nearly 317,000 relative to an increase of only around 100,000 in the preceding half century.¹ Foreign workers accounted for three-quarters of the rise in employment numbers since 2013 and now comprise 39 percent of the workforce, with non-EU nationals alone making up 27 percent, with the share of foreign workers topping 50 percent in the construction, and accommodation and food sectors.^{2,3}



¹ Central Bank of Malta: Understanding recent labor supply developments.

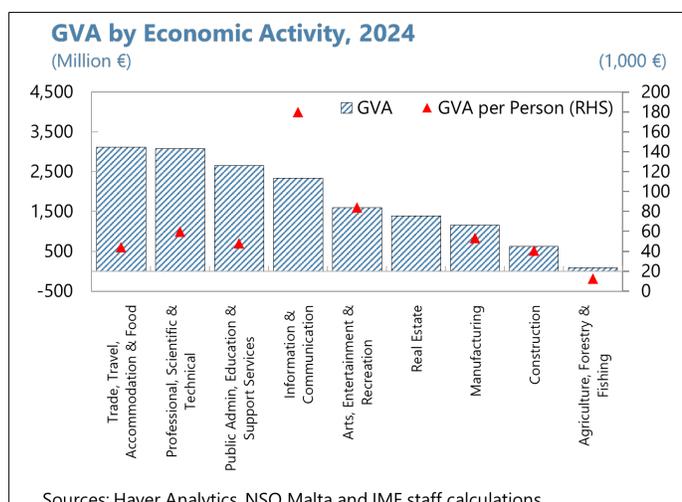
² Central Bank of Malta: Understanding recent labor supply developments.

³ EC 2025 Country Report – Malta.

2. Rapid economic growth and structural changes in the Maltese economy helped to drive the demand for foreign labor.

Malta's economy roughly doubled in real terms over the past decade. While tourism and back office services, traditional drivers of the economy, expanded significantly and helped to power this growth, sectors such as information and communication, and arts, entertainment and recreation contributed significantly as well. For

example, the real value added of the computer programming, consultancy and information services quadrupled in just a decade to €1.4 billion (6.8 percent of 2023 GDP) while manufacturing value added (€1.1 billion, 5.3 percent of GDP) showed only a gradual increase.⁴ Over the same period, construction contributed about 3 percent of total economic growth while gaming added three times as much.⁵ These "new" sectoral drivers of economic growth have higher value-added per capita than the traditional sectors but tend to be less labor intensive and have absorbed comparatively less foreign labor.



Annex VII. Table 1. Malta: Change in Sectoral Employment by Nationality, 2013-23

Sector	Maltese	Foreign
Agriculture & fishing	191	444
Manufacturing	-3,448	7,322
Construction	-2,479	10,640
Retail, transport, accommodation & food services	-2,751	30,333
Information and communication	1,822	3,225
Financial services	3,229	3,586
Professional services and administrative support	15,087	24,492
Public administration, education & health	12,082	6,547
Arts & entertainment, other services	4,168	9,446

Source: Ministry for Home Affairs, Security and Employment (2025)

3. Though foreign labor was the main driver of the expansion in the labor force, Maltese workforce participation also increased.

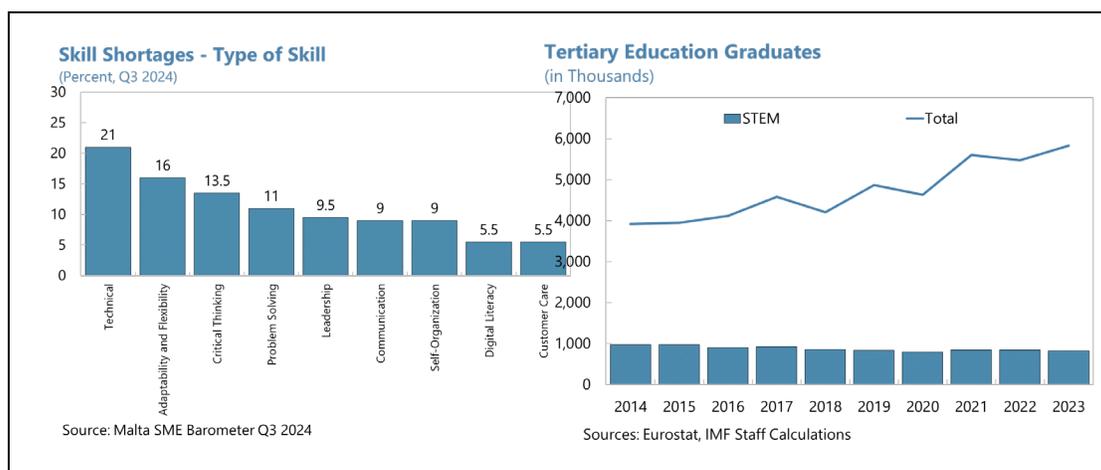
The employment rate rose from

⁴ Central Bank of Malta: Understanding Recent Labor Supply Developments, 2025.

⁵ Central Bank of Malta: Understanding Recent Labor Supply Developments, 2025.

75.6 percent in 2019 to 83 percent in 2024, compared to an EU average of 75.8 percent, largely by mobilizing older, female and younger workers. This was accomplished in part through a gradual increase in the retirement age and policies such as free childcare, tax credits for returning parents, support for flexible working arrangements, and enhanced vocational education.

4. However, labor shortages and skills mismatches have emerged as a byproduct of rapid economic growth. 68 percent of employers in Malta’s services sector report that labor shortages limit their activities vs. an average of only 24 percent in the EU, while 90 percent of respondents in an EIB investment survey said the availability of skilled labor was the primary obstacle to long-term investment along with uncertainty about the future (82 percent).⁶ Shortages are particularly acute in among companies in technical areas, a finding that is reflected in a declining share of university graduates in the STEM fields. Meanwhile, increasing population density has exacerbated overcrowding, strained services and increased pollution, traffic congestion, and habitat destruction.⁷



5. Low worker retention has contributed to skills mismatches. In 2023, half of Malta’s foreign workers departed within two years of arrival, while nearly a third of EU nationals left their jobs after just one year.⁸ Several factors have been attributed to this trend, including rising housing costs, comparatively low salaries, limited access to banking and home loans, and restricted opportunities for career growth. This is echoed in a recent survey in which Malta ranked 46 out of 53 countries as a desirable location for living and working abroad, down from 3rd place in 2015, due to concerns about overpopulation,

⁶ ECFIN, European Business and Consumer Surveys; cited in EC 2025 Country Report – Malta.

⁷ A 2022 EC report estimated traffic congestion and pollution costs Malta about €400 million annually, or 3.6% of the country’s GDP. A 2024 World Health Organization report found that Malta’s pollution levels were more than double the recommended WHO threshold. Waste from the construction sector is 3.9 tons per capita, more than double the EU average.

⁸ Grech, A. G. (2023). The Extent of Labour Turnover in Malta. Malta: Central Bank of Malta. Cited in EC 2025 Country Report -- Malta.

quality of life, environment, and transportation infrastructure.⁹ Governance concerns are also increasingly salient with only 29 percent of firms ranking Malta's political, legal and regulatory environment positively vs. 85 percent in 2015.¹⁰

6. Given capacity strains, Malta will need to rely on a more selective use foreign labor to sustain growth and power the shift to a productivity-based economy. This should be built upon the recruitment and retention of highly skilled foreign workers to fill gaps in key sectors such as IT and financial services while limiting non-EU migrants in lower priority areas. Research shows that output gains from immigration are highest when policies are geared to reducing barriers to the integration of skilled migrants.¹¹ Such policies include cutting down on administrative delays in immigration processing, offering language courses to facilitate social integration, and making it easier to recognize and transfer qualifications to avoid gaps in employment. Providing access to job search resources and investing in education so that newcomers can upgrade their skills are also crucial in facilitating integration and supporting labor market dynamism.

7. The authorities have taken initial steps to promote retention, stability, and fair treatment of migrant workers. Recent reforms under the phased implementation of the 2025 Labor Migration Policy Strategy have targeted important labor market bottlenecks. These include stricter employer requirements to advertise vacancies and prioritize hiring Maltese or EU nationals, extended grace periods for terminated non-EU workers, introduction of sector-specific skills cards, mandatory pre-departure integration courses covering language and labor rights, and longer residence permits for skilled workers.

8. Upskilling and further increases in domestic labor force participation could complement a more targeted deployment of foreign workers. Looking ahead, the authorities plan to further expand skills-based migration, strengthen training and integration incentives, and continue investing in STEM, vocational training, and adult education. These are prioritized in the National Education Strategy 2024-30 and the Lifelong Learning Strategy 2023-30. Greater investment in vocational training and adult education will be needed to address shortages in technical fields and to help upskill the domestic workforce and better align skills with employer needs. Further reduction of the gender employment gap—particularly among women aged 50-64, where participation remains low—could be encouraged through enhanced caregiving support for elderly relatives, expanded healthcare for this age group, and retirement incentives. To build on recent gains in the employment of disabled persons, Malta could strengthen active labor market policies, including upskilling initiatives and the provision of reasonable workplace accommodations.

⁹ InterNations, Expat Insider 2024 survey.

¹⁰ EY Attractiveness Survey Malta, 20 years on, 2024; cited in EC 2025 Country Report – Malta.

¹¹ IMF, 2025 World Economic Outlook, Journeys and Junctions: Spillovers from Migration and Refugee Policies.

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	B	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	B		
Granularity 3/	A		A	A	B		
			A		A		
Consistency			B	B		A	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>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.</p> <p>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 <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>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.</p>							
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.						
<p>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. NBF1 data collection does not yet provide the needed granularity, and therefore the rating for Monetary and Financial Statistics was downgraded to B.</p>							
<p>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.</p>							
<p>Corrective actions and capacity development priorities. The authorities are working to improve external sector statistics, NBF1 data, and to address remaining weaknesses regarding consistency in the external and public finance statistics. It will be helpful to collect data on top-up taxation of Malta's MNEs to mitigate foregone revenue risks.</p>							
<p>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.</p>							
<p>Other data gaps. N/A</p>							

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 January 12, 2026

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	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. 2025	Dec. 2025	M	M	M	30	1W	30
Reserve/Base Money	Oct. 2025	Dec2025	M	M	M	30	2W	12
Broad Money	Oct2025	Dec2025	M	M	M	30	1M	30
Central Bank Balance Sheet	Oct2025	Dec2025	M	M	M	30	2W	12
Consolidated Balance Sheet of the Banking System	Oct. 2025	Dec2025	M	M	M	30	1M	30
Interest Rates ²	Current	Current	D	D	D	...	...	...
Consumer Price Index	Sept. 2025	Oct. 2025	M	M	M	30	1M	30
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2025Q2	Sep. 2025	Q	Q	A/Q	90	2Q/12M	90
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	2025Q2	Sep. 2025	Q	Q	M	30	1M	30
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2025Q2	Sep. 2025	Q	Q	Q	90	1Q	90
External Current Account Balance	2025Q3	Jan 2026	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	2025Q2	Oct. 2025	Q	Q	M	30	8W	42
GDP/GNP	2025Q2	Sept. 2025	Q	Q	Q	90	1Q	70
Gross External Debt	2025Q2	Nov. 2025	Q	Q	Q	90	1Q	90
International Investment Position	2025Q3	Jan 2026	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 "...".



MALTA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

January 20, 2026

Prepared By

European Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of November 30, 2025)

Membership Status

Joined: September 11, 1968; Article VIII

General Resources Account	SDR Million	Percent Quota
Quota	168.30	100.00
Fund holdings of currency	125.86	74.78
Reserve Tranche Position	42.48	25.24

SDR Department	SDR Million	Percent Allocation
Net cumulative allocation	256.71	100.00
Holdings	258.90	100.85

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				
	2025	2026	2027	2028	2029
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 Arrangements

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 has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, and 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 has moved to the 24-month consultation cycle. The previous consultation discussions took place during November 4–15, 2024, and the staff report (Country Report No. 25/17) was brought for the Executive Board’s consideration. The Article IV Consultation with Malta was concluded on January 15, 2025.

Technical Assistance (2023-Current)

Date	Department	Subject
December 2022-February 2023 (virtual)	FAD	Revenue administration (<i>Commissioner for Revenue - Integration of Tax and Customs Organization Structure</i>)
March - April 2023	FAD	Revenue administration (<i>Commissioner for Revenue - Taxpayer Compliance Risk Management (CRM) Framework</i>)
April 2023	FAD	Revenue administration (<i>Commissioner for Revenue - Establishing a Large Taxpayer Office</i>)
April-May 2023	FAD	Corporate income tax (<i>Facing up to the Challenges</i>)
June 2023	FAD	Revenue administration (<i>Commissioner for Revenue - Structure of Customs within the Malta Tax and Customs Administration</i>)
June-July 2023	FAD	Revenue administration (<i>Malta Tax and Customs Administration - Procurement of Integrated Tax Information System</i>)
September 2023	FAD	Revenue administration (<i>Malta Tax and Customs Administration - Establishing the Large Taxpayer Office and Developing a Compliance Risk Management Framework</i>)
November 2023	FAD	Revenue administration (<i>Malta Tax and Customs Administration – Performance Management</i>)
May-August 2024	FAD	Revenue administration (<i>Malta Tax and Customs Administration – Write-off Policies</i>)
June-December 2024	MCM	Systemic Risk Analysis (Central Bank of Malta – <i>Financial Stability Network Model</i>)
October 2024	FAD	Revenue administration (<i>Malta Tax and Customs Administration – Tax Administration Diagnostic Assessment Tool</i>)
April 2025	FAD	Revenue administration (<i>Malta Tax and Customs Administration - Implementing the Large Taxpayers Office Action Plan</i>)

June 2025	FAD	Revenue administration (<i>Malta Tax and Customs Administration – Strengthening Revenue Administration Management and Governance Arrangements</i>)
July 2025	FAD	Revenue administration (<i>Malta Tax and Customs Administration - Compliance Risk Management Policy and the Structure of Compliance Risk Register</i>)
October-December 2025	FAD	Revenue administration (<i>Malta Tax and Customs Administration – Digital Transformation</i>)

Resident Representative

None