



MALTA

SELECTED ISSUES

February 2026

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European Department

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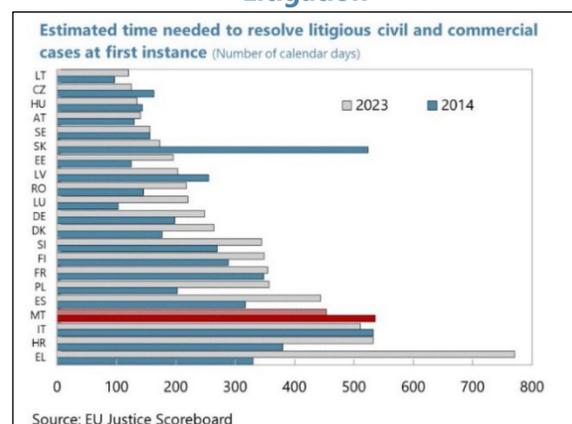
THE ROLE OF THE JUSTICE SYSTEM IN DEBT ENFORCEMENT AND INSOLVENCY¹

Malta's labor-driven growth model appears to be reaching its limits, underscoring the need for a strategic pivot toward productivity-driven growth. Among the factors hampering the business and credit environment are longstanding excessive delays and inefficiencies in the judicial system, which constrain lending and investment. This Selected Issues Paper discusses institutional and capacity constraints in the judicial sector and suggests reforms to modernize judicial procedures, enhance the mortgage enforcement toolkit, and improve the insolvency regime.

A. Background/Context

1. Malta's judicial system faces persistent challenges that affect its overall efficiency. The effective functioning of the judiciary has been undermined by chronic understaffing, court infrastructure and case management deficiencies, and often burdensome and outdated procedural rules. The number of judges and magistrates in Malta remains among the lowest per inhabitant in the EU, and courts lack sufficient premises. As a consequence, Malta has among the longest judicial proceedings in the EU, with an average duration of civil and commercial cases at first instance of 454 days in 2023 – a decrease from 491 days in 2022 though still well above the EU average.^{2 3} The number of resolved cases across all jurisdictions remains low⁴ contributing to growing backlogs. Malta's clearance rate – resolved cases relative to incoming cases – is below the EU median. While the official statistics do not allow a focused assessment of credit enforcement cases, lenders report that judicial credit recovery takes an average of 5-7 years.⁵

Figure 1. Malta: Estimated Time to Resolve Litigation



2. Lengthy court processes contribute to business and financial risks. In general, long delays in debt recovery and low recovery rates tend to result in significant uncertainties for businesses and credit providers, contributing to cash flow and liquidity problems as companies wait years to recover debts and often have to write-off losses or expend additional resources pursuing

¹ Prepared by Natalia Stetsenko (LEG) and Atticus Weller (EUR).

² "First instance" refers to the trial court where a case is initially heard and the facts, evidence, and legal arguments are presented for the first time.

³ Over the same period, the disposition time of first instance administrative and criminal cases increased to 1,350 and 713 days, respectively.

⁴ EC 2025 Country Report – Malta

⁵ Interviews with credit providers during the Article AIV mission.

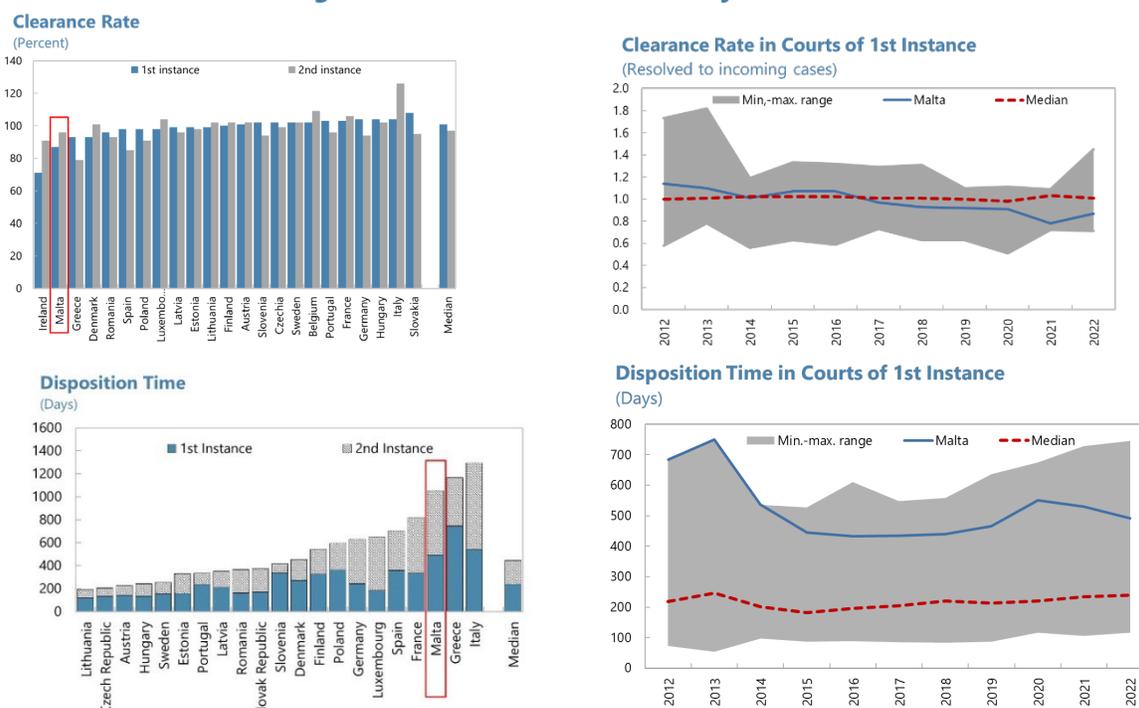
payments. These inefficiencies make lenders more cautious, resulting in higher collateral demands, increased interest rates, and reduced access to credit, especially for smaller and riskier enterprises (Qian and Strahan, 2007; Bae and Goyal, 2009). Another related consequence is the impact on domestic and foreign investment, as businesses are reluctant to extend credit or pursue growth opportunities in an environment where legal remedies are slow and unreliable, resulting in lower productivity (Chemin, 2020).

3. Cross-country studies show positive growth and investment spillovers from judicial efficiency reforms. Portugal undertook significant judicial reforms between 2011 and 2013, introducing new civil procedures and organizing courts into clusters to improve efficiency (Pompe and Bergthaler, 2016;⁶ Pereira and Wemans, 2018). These changes cut the disposition time in first instance courts from around 400 days to 200 days and increased investment and productivity at the firm level. Slovakia's reforms from 2012 to 2016 focused on quality and transparency, establishing a specialized enforcement court and adopting new civil codes. The efforts reduced average case times from about 500 to 200 days and raised clearance rates, also benefiting firm investment and productivity (Spac, Simalcik and Sipos, 2018). Simulations for Greece using data from Portugal and Slovakia indicate meaningful gains in investment and productivity with similar judicial system reforms (IMF, Greece Selected Issues Paper, 2025).

4. Malta's economy and business climate would benefit from further strengthening of judicial institutions and modernization of court processes. A timely, predictable and efficient commercial dispute resolution and credit enforcement system is vital to credit decisions and overall business confidence. This SIP focuses on the key obstacles that impede the efficient operation of the judicial system, including credit enforcement and insolvency proceedings. It further discusses recent reform initiatives and considers additional measures to increase judicial efficiency, reduce courts' delays, and strengthen creditors' rights.

⁶ "Reforming the Legal and Institutional Framework for the Enforcement of Civil and Commercial Claims in Portugal", by [Sebastiaan Pompe](#), [Wolfgang Bergthaler](#), 2016

Figure 2. Malta: Judicial Efficiency Measures



Source: CEPEJ

B. Institutional Issues

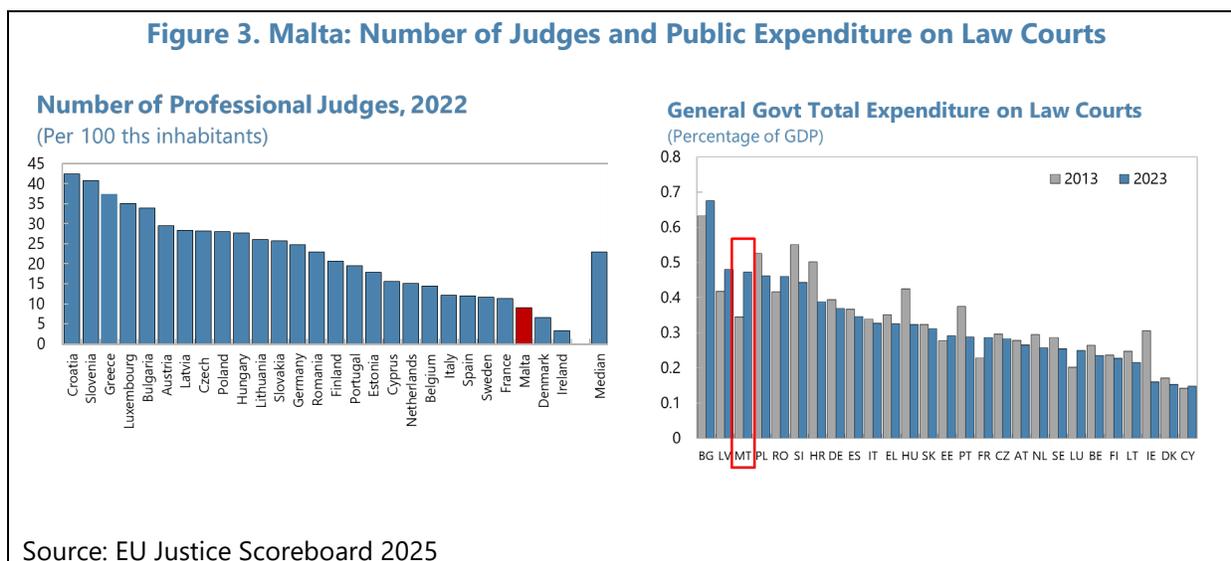
5. Malta has a two-tier judicial system with the courts divided into superior and inferior jurisdictions. Superior courts include the Civil Court, Criminal Court, Court of Appeal, Criminal Court of Appeal, and the Constitutional Court and are presided over by judges. Inferior courts are presided over by magistrates and include the Court of Magistrates (Malta) and the Court of Magistrates (Gozo). Most commercial litigation cases are heard by the Civil Court which can rule in disputes with claims of more than €11,600. Commercial claims below this threshold are treated by inferior courts. The Appeal Court hears appeals from both inferior courts and the Civil Court. Outside of the courts of general jurisdiction, there are also various tribunals that deal with specific areas.

6. The Maltese general court system has been historically characterized by understaffing, lack of judicial specialization, and poor court infrastructure. While various reform initiatives have been put in place over the last few years to strengthen judicial institutions, bottlenecks persist. Reform measures include increasing the number of judges and court staff, boosting judicial compensation, launching the digitalization of the court system, and reforming the system of judicial appointments. Also in process are an expansion of court premises, measures to strengthen court specialization, and comprehensive business mapping of court processes to identify inefficiencies.

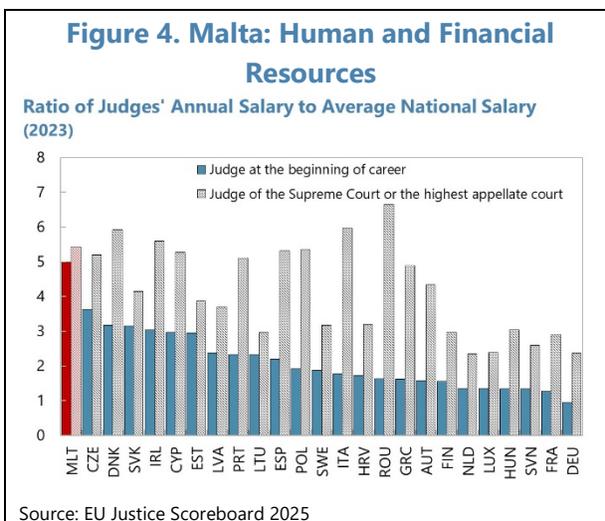
Notwithstanding these reforms, businesses⁷ continue to cite judicial inefficiencies, notably the length and complexity of court processes, as a major challenge to doing business in Malta.

7. Malta has also been increasing court resources and expanding court premises.

However, while the number of judges has been progressively increased from 43 in 2020 to 60 currently with overall court staff increasing by about 40 percent, the number of judges and magistrates remains among the lowest per inhabitant in the EU.⁸ The Court Services Agency has recently acquired additional buildings, two of which are expected to host the new Commercial Court and the Family Court.. Completing construction/renovation and operationalizing the new premises are expected to take at least 2-3 years. More generally, infrastructure and premises are outdated with limited space for efficient functioning.



8. Increases in judges’ compensation have helped to improve the attractiveness of the judicial profession. Historically, judges’ salaries in Malta were low and pegged to civil service scales. However, since 2018, compensation has been progressively adjusted; the latest increases were agreed in 2024 and will be progressively applied over the next two years. Malta’s expenditure on courts is now the third highest in the EU relative to GDP while judges’ and prosecutors’ salaries relative to average annual salaries are among the highest in the EU. Overall, the judicial profession is



⁷ Interviews with business representatives and banks during the Article AIV mission.

⁸ 2025 Rule of Law Report Country Chapter on the rule of law situation in Malta, 8.7.2025.

highly regarded and judicial remuneration considered adequate while judicial vacancies generally attract a large pool of quality candidates.

9. Malta has recently overhauled its judicial appointment system and created a Commissioner for Standards of the Judiciary. Historically, judiciary appointments in Malta have been subject to concerns of political bias and the executive's influence. In 2020, in response to Venice Commission recommendations, Malta reformed its framework for judicial appointments to depoliticize the process for the removal and discipline of judges and magistrates. As a result, a Judicial Appointments Committee, the majority of which is comprised by judges, was put in charge of judges' selections, with final appointments made by the President of the Republic. This has enhanced overall judicial independence⁹. However, despite the reform, some concerns persist around judicial appointments and lack of proper planning for the judicial selection process. For example, recent delays in replacement of retired judges have reportedly led to over 800 cases being stalled as calls for replacements were not made until after the judges had retired.¹⁰ Another important measure implemented in 2025 was introduction of the Commissioner for Standards of Justice¹¹ with powers to receive and investigate complaints against members of judiciary, analyze judicial workloads to tackle delays, and enhance discipline and efficiency. The Commissioner's office is expected to start functioning in 2026.

10. Further improvements in judicial efficiency are expected from enhancements in court specialization. Due to Malta's small size and overburdened judiciary, individual judges within the main courts system¹² generally handle all cases within the court's jurisdiction without specialization. This can affect the quality and speed of resolution. In 2018, Malta took initial steps towards increasing judicial specialization by establishing a Civil Court Commercial Section to handle company and commercial law and insolvency matters with specialized judges. However, the two judges currently assigned to the Commercial section continue to handle a number of civil, constitutional and administrative law cases. The current legislative proposal to create a specialized Commercial Court to exclusively handle commercial disputes and a Family Court to focus on family matters would alleviate the workload from civil courts, and together with related enhancements of judicial expertise, could improve the quality, predictability, and speed of resolution in commercial cases.

11. Digitization is generally seen by both the authorities and other stakeholders as key for modernizing and strengthening the judicial system. Malta ranks low relative to other EU countries in use of digital technology and electronic communications by courts and prosecutors. This limits the effectiveness of communication, information sharing, and record-keeping, and

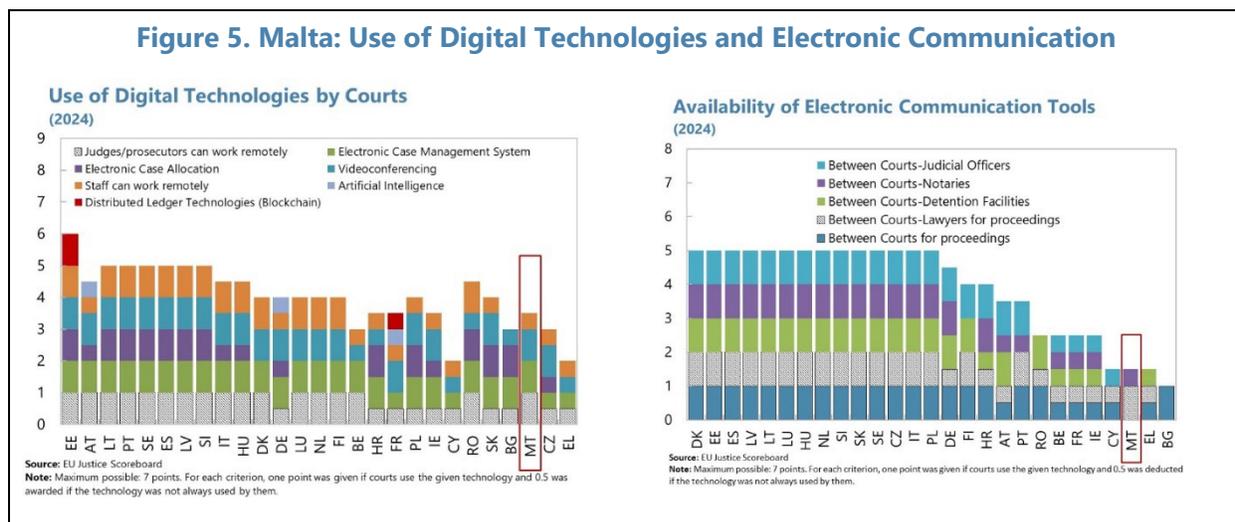
⁹ Prior to the reform judges were appointed by the President of the Republic acting in accordance with the advice of the Prime Minister, after the latter would have consulted the Leader of the Opposition. The new system aims at removal the possible political involvement by the executive branch of the State enhancing the separation of powers.

¹⁰ [Chief Justice urges MPs to reconsider constitutional amendments he had proposed](#), October 20205 (check the date, and please include the full link to the news piece)

¹¹ See <https://www.gov.mt/en/Government/DOI/Press%20Releases/Pages/2025/06/23/pr251123en.aspx>

¹² Malta has a wide range of specialized tribunals which address matters outside the main civil and criminal courts e.g. Construction, consumer, juvenile tribunals etc.).

prolongs pre-trial preparations and court proceedings. Supported by a €10 million investment under the EU's Recovery and Resilience Plan, Malta has started implementation of its Digital Justice Strategy 2022-27 and recently received its third disbursement of about €2 million. The strategy calls for the modernization and digitalization of the justice sector, including shifting all court records and processes to an electronic system, improving judicial data analytics, and building the digital skills of court staff. In this context, Malta also introduced the e-courts web portal and upgraded some of its court IT infrastructure. Digitizing case management, court filings, and documents submissions and allowing virtual hearings would further improve judicial efficiency. These measures could yield significant cost savings by reducing human resource needs while improving organization, predictability and transparency of the court system, and supporting effective case tracking and reducing judicial delays.



C. Modernizing Judicial Procedures and Enhancing the Credit Enforcement Toolkit

12. Institutional strengthening should run in parallel with modernizing procedural rules.

Malta's complex and outdated judicial processes, with their primary foundation in the [Code of Organization and Civil Procedure](#), exacerbate court delays as they often include redundant procedures and provide ample space for delay tactics through deferrals and appeals. These include a widespread requirement for in-person sworn applications and burdensome court notification rules. Such notifications are served in-person and a single notification reportedly takes 5 weeks on average. Frequently, repeated notifications are needed, which translates in several months of delay in the start of judicial processes. Stakeholders note the frequent abuse of the system through parties' avoidance of being notified as a delay tactic that prolongs judicial processes and adds to the costs. Frequent and prolonged deferrals are cited as another key reason for delays in court resolutions. Their timing is often inconsistent among courts, and often depends on the judge's workload. Amendments to the Code of Judicial Ethics in late 2025 highlight unjustified deferrals and excessive delays in case scheduling and resolution among the reasons for disciplinary measures against the responsible judges by the newly established Commissioner for Standards of the

Judiciary. Finally, the current case management system is paper-based and is also a cause of delays in documents access and in lost records.

13. Modernization of judicial procedures should be informed by better data on procedural hindrances and redundancies. The Ministry of Justice is in the process of conducting a business mapping exercise to improve collection of judicial statistics and identify sources of bottlenecks to design and implement digital solutions. Possible areas of focus include reforming the system of judicial notifications (allowing digital notification or using private couriers), reforming civil procedures through streamlining, consolidation and modernization of rules, and ensuring full digitalization of case management system.

14. Credit enforcement is often lengthy with low recovery rates. While there are no reliable statistics to estimate the average length of judicial enforcement cases, reports from market participants suggest 5-7 years as a common duration for credit recovery. Enforcement of most common collateral (movable and immovable) requires court involvement and is subject to court-led auction processes. These are slow and yield low recovery rates. While summary proceedings exist (as supported by executive titles), their use is not common given frequent disputes over debt amounts and courts' generally pro-debtor orientation allowing debtors benefit of the doubt throughout the process. While European Payment Order procedures are generally used for cross-border cases, domestically creditors often still use ordinary proceedings contributing to a prolonged enforcement process. Financial collateral (like pledges of shares, bank accounts or other financial instruments) can be executed by private sale or appropriation, but these are largely unavailable for smaller companies.

15. Inefficient judicial auction procedures contribute to lost value.¹³ In the context of secured credit enforcement, asset valuation rules in court auctions include court appointment of independent evaluation experts (e.g., an architect in case of immovable property sales) to appraise property value before ordering sale. While the law gives a judge discretion during the auction to accept or reject an offer below the minimum appraised value (within a limit of 60 percent set by law), the courts often hesitate to approve a sale at a significantly lower price and instead order a new auction. Each failed auction introduces months of delay, including time for re-notification and scheduling. Disputes over valuations cause further delays. The valuation framework for court-led auctions needs to be revisited to ensure that asset appraisals are based on market value and limit the scope for appraisal disputes. In this context, building an open online public database of all real estate sales would support increased transparency on market conditions and improve predictability in property evaluations and sales.

16. Auction sales lack proper advertisement, while the requirement to hold the auction at a specific date and time appears to significantly limit potential offers. Under the existing procedures for judicial auction sales, notices are posted at an online court registry and published in

¹³ In insolvency sales, recent process reforms allow liquidators to engage independent evaluators and conduct sales (including private sales) with court approval and under the obligation of realizing assets at the best price for creditors. However, judicial auctions continue to be widely used out of caution.

the Government Gazette, and for immovables, often in local newspapers. The requirement of publication in local gazette and print notices could be substituted by a greater effort to improve online outreach to expand the pool of potential buyers and increase the odds of getting the best price. Court auctions in Malta are conducted live, and bids are made orally. For immovable property, the sale is generally conducted in the public auction room at the court (or on-site) on the scheduled day. The auction is held by a public auctioneer in the presence of the registrar of the courts. Such methods likely significantly limit the pool of potential buyers.

17. An important impediment to judicial auction sales is the debtor’s right under Maltese law to reclaim the property within two years after the auction sale. Under the law, the debtor can buy back its property at the price sold at the auction 2 years after the sale. Inability to purchase property with a clean and incumbent title limits the range of potential buyers willing to take the risk. Banks are reportedly often the only buyers at auctions purchasing the property at the 60 percent minimum estimate threshold while pursuing other legal actions against the debtor for the remaining debt amounts not covered by the collateral sale. These add to the concerns over the integrity of the auction system. The removal of the debtor’s right to reclaim the property is needed to allow transparent and predictable enforcement on real estate collateral.

18. Introducing out-of-court mortgage enforcement for real estate collateral and more flexible auctions would expedite debt enforcement and maximize credit value recovery. This, in turn, would improve allocation of credit. Outsourcing mortgage enforcement to professional auctioneers, subject to legal and procedural safeguards, will help alleviate capacity constraints related to court-led enforcement procedures. At the same time, the existing system of judicial auctions should be supported by greater transparency and publicity together with an online auction platform, which could significantly increase the potential pool of buyers, including foreign investors. The reform should target greater accuracy and transparency of valuations, and more widespread advertisement and accessibility of auction sales. This would not only potentially reduce the number of failed and rescheduled auctions, but also increase creditor confidence. In this context, Malta could benefit from the recent adoption and enhancement of online asset auction platforms in its EU peers, such as Italy, Portugal and Spain.

D. Insolvency Regime Reforms

19. In 2022, Malta reformed its insolvency system by transposing the EU Directive 2019/2023 on restructuring and insolvency.¹⁴ The changes include a new pre-insolvency (preventive restructuring) framework, an early warning mechanism, and licensing and regulation of insolvency practitioners. While the measures go in the right direction, they are largely targeted on the pre-insolvency framework, and do not comprehensively revisit the entire insolvency system to identify which general rules require modernization.

¹⁴ See [Restructuring and Insolvency in Europe: Policy Options in the Implementation of the EU Directive, WP/21/152, May 2021](#).

20. The recent reforms have modernized Malta’s toolkit on preventive restructuring for businesses facing likely insolvency.¹⁵ The new Pre-Insolvency Act introduced a debtor-in-possession restructuring option that encourages debtor-initiated filing at early stages of financial distress. In this context, restructuring is aided by the debtor’s ability to apply for a stay of individual enforcement actions during plan negotiations with creditors. The restructuring plan provides for a wide range of debt restructuring options such as maturity extension, amount reduction, or debt-to-equity conversion, and its approval is facilitated by the possibility of a cram-down on the dissenting creditors, subject to the court’s confirmation of the plan. The law also strengthens protection of new financing and introduces a comprehensive modern framework for dealing with executory contracts during restructuring (i.e., under the new rules, the debtor, with court approval, can now unilaterally terminate onerous contracts which may impede restructuring). These modern features are expected to significantly increase the chances of successful restructuring.¹⁶

21. As part of the reforms, the Maltese Insolvency and Receivership Service launched an online self-assessment tool with early warning indicators for evaluation of firms’ financial health. The tool generates an indicative and confidential report on a company’s insolvency risks based on pre-set data indicators. Further support to companies is provided through seminars conducted by the Service, a published list of accredited insolvency professionals, detailed guidelines on the restructuring processes, and tools on the Service’s website. Additionally, the new law requires directors to take prompt actions where insolvency is deemed likely. The early warning system is further enforced by a new system of notifications to companies breaching regulatory requirements that could indicate financial difficulty. For example, failing to file annual reports or pay certain taxes may trigger alerts to the company. The system is now operational and is intended to tackle financial distress early to preserve creditor value and introduce related accountability mechanisms. Increasing awareness of newly introduced early warning tools and closely tracking the implementation of preventive restructuring legislation will help detect emerging problems and guide ongoing refinement of the insolvency framework.

22. The introduction of a licensed insolvency practitioner regulation is expected to enhance the overall quality of the insolvency regime.¹⁷ Prior to this reform, the courts in Malta had discretion to appoint any accountant or lawyer as an insolvency liquidator. The new law defines a framework for qualifications, licensing, accountability, and oversight for insolvency practitioners (IPs) subject to supervision of the Insolvency & Receivership Service of the Malta Business registry. The list of licensed IPs that may be appointed as liquidators or managers/overseers of the restructuring processes is maintained through the public IPs registry. Having a system of accredited specialists is expected to improve the quality and speed of insolvency case administration as the IP profession develops and gains experience and public trust. These reforms are important steps to

¹⁵ See Malta Pre-Insolvency Act, 2022 (Act No. XXIV of 2022).

¹⁶ The first restructuring case using the new law was seen in early 2025 (Skillpro Malta Ltd case) – where the court approved a restructuring plan in May 2025 (within ~3 months). See: [Malta's first pre-insolvency proceedings: Key takeaways](#).

¹⁷ The law on IPs is also adopted in transposition of the EU Insolvency and Restructuring Directive

shift insolvency tools from liquidation to prevention and rescue and have the potential to significantly improve the prevention of insolvencies through timely diagnosis of debt distress. The system of accredited specialists is expected to improve the quality and the speed of insolvency case administration as the restructuring framework and the IP profession develop and gain public trust. It will also alleviate the workload of insolvency courts by preventing insolvencies, encouraging out-of-court restructurings, and increasing the rates of debt recovery.

23. Notwithstanding these positive developments, the efficiency of insolvency liquidation continues to be hampered by complexity of procedural rules. Stakeholders note challenges in complying with requirements for submission of multiple audit reports and tax returns where necessary information is often limited or difficult to obtain. Audit and tax return requirements should be revisited to speed up processes and reduce procedural redundancies. The method of selling assets in liquidation often mirrors enforcement issues, with delays in asset valuation and sales.¹⁸ Another important obstacle adding to the length and the cost of liquidation is the absence of a unified framework for ranking of creditor claims. This same issue also arises in simple credit enforcement cases with multiple creditors. Fragmented rules across various legislative instruments give rise to ambiguity and disputes over the order of priority, increasing costs and delaying liquidation processes.

24. The current rules for “cash flow” insolvency need to be clarified. The current application of the “cash flow test” heavily relies on “future projected cashflow” without clear guidelines. This allows room for interpretation and often results in inconsistent and unpredictable applications by the courts, leading to delays in initiation of insolvencies. Furthermore, Malta would benefit from a modern standalone insolvency law rather than the current fragmented framework divided between the old Company law and the recent Pre-Insolvency Act.

E. Conclusion

25. Malta has taken significant steps to strengthen judicial institutions and address judicial inefficiencies, but more comprehensive reforms are needed. Recent measures include increasing the number of judges and court staff, raising judicial salaries, expanding courts premises, launching digitalization of judicial process, and targeted modernization of some insolvency rules. However, there is room for further improvement to unwind the accumulated courts’ backlog, modernize judicial processes, including for debt enforcement, and boost the overall efficiency of the Maltese judicial system. Despite recent reforms, Malta’s insolvency regime would benefit from a comprehensive reform to modernize and consolidate its general insolvency rules. To complement the recent reform of the restructuring regime, this could include consolidation of insolvency rules in a single law to streamline processes, clarifying the “cash flow insolvency test,” and unifying creditor ranking rules. Effective monitoring and comprehensive data collection are necessary to identify areas

¹⁸ While the law allows IPs discretion to consider private sales (with court permission), the use of this option is not wide spread possibly due to the risks of creditors disputing valuations.

of inefficiencies.¹⁹ Removing bureaucratic hurdles, consolidating procedural requirements, and unifying the creditors' ranking framework would also accelerate court proceedings.

26. Going forward, reform priorities include:

I. Guided by the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes²⁰ (Principles D), Malta's judicial system should continue to be strengthened to ensure the competence of the judiciary and the efficiency of court proceedings, including through timely case resolutions. In this context the key measures are:

- Further strengthening of judicial processes, including through improved case management.
- Enhanced monitoring of judicial delays, including by digitalization of the court management system to track delays and fully enabling the Commissioner for Standards of the Judiciary with necessary resources to ensure timely succession planning for retiring senior judge.
- Continued expansion and strengthening of the court infrastructure.
- Increasing judicial specialization and training, including by creating a specialized Commercial Court with clear delineation of jurisdiction.
- Completing the full roll-out of e-filing of court documents and virtual hearing and digital case management systems, supported by technology skills training for judges and court staff.

II. Guided by the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes (Principles C) and the recommendations of the UNCITRAL Legislative Guide on Insolvency Law, the insolvency system would benefit from further reforms targeted at improving timely, transparent, and impartial asset liquidation in insolvency cases. In this context, consideration should be given to:

- Consolidating, modernizing and streamlining of general insolvency rules, including via identifying and removing redundant procedural steps and documentary requirements within insolvency processes.
- Providing legislative clarification of the "cash flow insolvency test" to resolve ambiguities in interpretation and ensure the application of the test is in line with the international standards.

¹⁹ See IMF staff paper "[The Use of Data in Assessing and Designing Insolvency Systems](#)" By Jose M Garrido, Wolfgang Bergthaler, Chanda M DeLong, Juliet Johnson, Amira Rasekh, Anjum Rosha, Natalia Stetsenko, February 4, 2019 (revise the quotation style).

²⁰ See World Bank Principles for Effective Insolvency and Creditor/debtor regimes. [World Bank Document](#)

- Unifying creditor ranking rules under a single framework to ensure clarity in priority ranking of credit claims.

III. Guided by the World Bank Principles for Effective Insolvency and Creditor/Debtor Regimes (Principles A), Malta should ensure affordable, transparent and reasonably predictable mechanisms to enforce credit claims through reliable methods (both judicial and non-judicial), particularly through reforms targeted at:

- Streamlining judicial procedures in commercial disputes, debt enforcement and insolvency cases, including by revamping and modernizing court notifications rules, and identifying and addressing delay tactics through abuse of the existing framework for deferrals and objections. Revisiting of debtor rights to reclaim the property for 2 years after its auction sale to ensure unencumbered property titles.
- Modernizing collateral valuation to ensure market-based pricing, and improving judicial auction sales by ensuring their proper advertisement and accessibility, and digitalizing auctions with support of an online transactions' database and an e-auction platform.

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GROWTH-AT-RISK: EXPLORING THE EFFECTS OF MACRO-FINANCIAL FACTORS ON GROWTH¹

This paper employs a Growth-at-Risk (GaR) framework to assess the impact of macro-financial variables on the growth rate distribution over a one-to-two-year horizon. The analysis suggests that while the baseline outlook is positive, large tail risks are associated with the domestic risk factors related to residential housing prices and household credit. Conversely, external factors from the Euro Area are likely to have a smaller direct impact on the growth rate distribution, transmitted through financial conditions in the bloc.

A. Introduction

1. A Growth-at-Risk (GaR) framework is helpful to analyze the vulnerability of Malta's economic growth to financial and macroeconomic shocks. Traditional macroeconomic forecasts typically provide a "point estimate," a single number (or path of single numbers) predicting the most likely outcome for GDP growth (the baseline projection). These point forecasts often fail to capture uncertainty surrounding the economic outlook, particularly "tail risks" that arise during periods of financial stress or external shocks. GaR addresses this limitation by linking current financial and economic conditions to a probability distribution of future real GDP growth. In addition, the likelihood of extreme negative growth scenarios, specifically, how much growth is "at risk" at the 5th or 10th percentile of the distribution, may be estimated. In other words, instead of only forecasting the most likely (average) growth rate, GaR evaluates the probability distribution of future growth outcomes. The key GaR metric – "growth-at-risk" – shows the lowest GDP growth rate with only a 5 percent chance of being even lower. For example, if GaR is 2 percent, it means that there is a 5 percent probability that growth will fall below 2 percent over the specified horizon, generally one or two years.

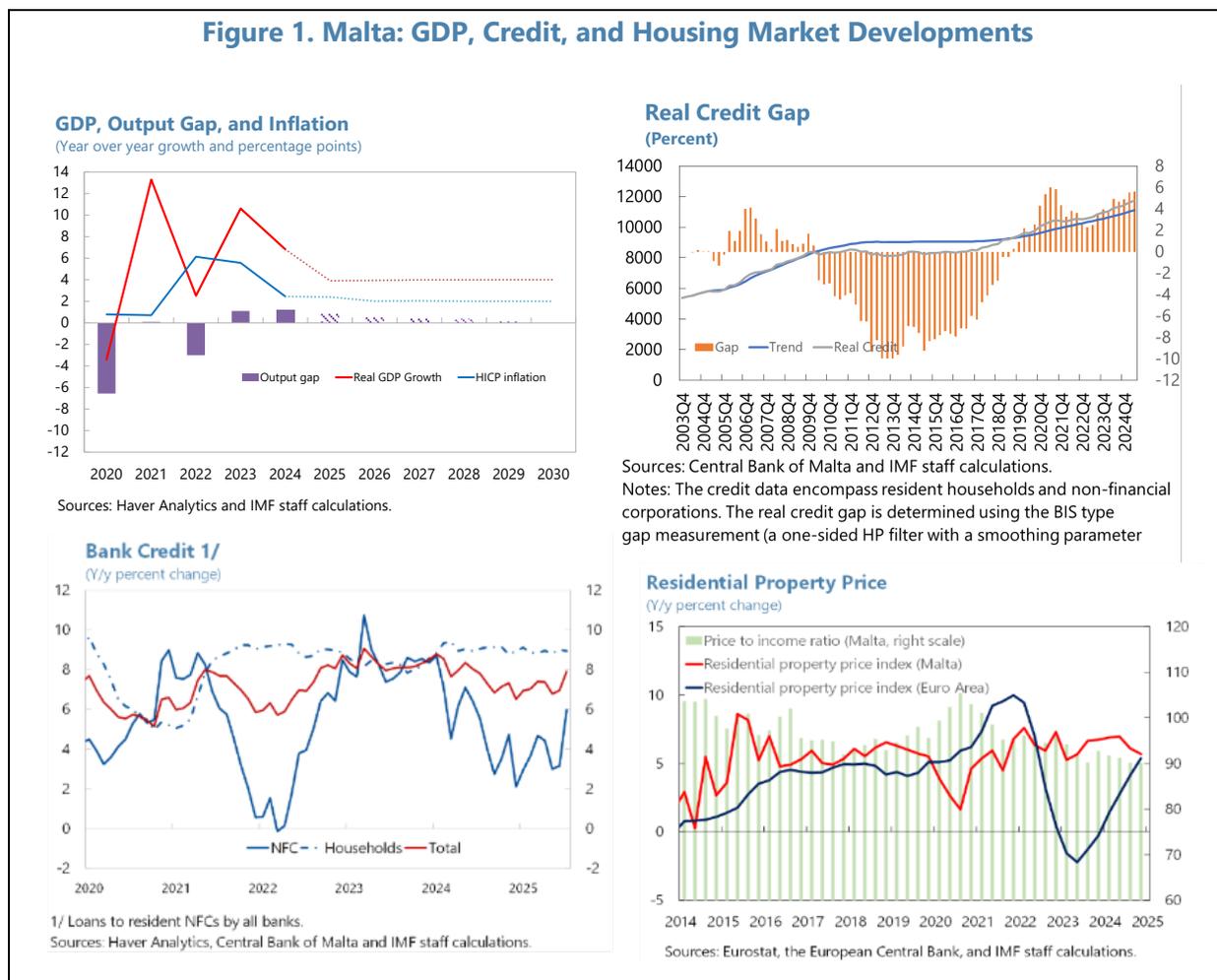
B. Strong Growth in Credit and Housing Markets

2. Malta's economy has been one of the fastest growing in Europe over the past decade. Real GDP growth averaged close to 7 percent per year from 2013 to 2019 and remained above 5 percent in 2020-2024, propelled by labor-intensive services sectors like tourism, gaming, and professional services, alongside a strong influx of foreign workers that expanded capacity. Growth in 2025 moderated to its estimated potential rate of about 4 percent, still significantly higher than the EU average. Unemployment is at historic lows of about 2.9 percent, and inflation has receded to around 2–3 percent, underscoring the favorable macroeconomic environment (Figure 1).

¹ Prepared by Fuad Hasanov, with comments and suggestions from the IMF Malta team and seminar participants at Malta's Ministry of Finance and the Central Bank of Malta.

3. Malta is a highly open economy, making it sensitive to external macroeconomic factors. With total exports of goods and services at about 120 percent of GDP and service exports (tourism, remote gaming, finance, etc.) dominating trade, Malta's economy is sensitive to European and global economic conditions. Risks include a sharp Euro Area slowdown, which would affect tourism and business services demand, and global financial market volatility such as a sudden risk-off event causing a Euro-wide credit crunch. Additionally, higher energy prices or geopolitical tensions could impact Malta directly and indirectly. Malta's current account surplus of around 6-7 percent of GDP and a strong international investment position provide significant cushions. The government's fiscal position has also improved with the budget deficit declining to about 3.5 percent of GDP in 2024 and public debt falling to below 50 percent of GDP, giving additional policy space.

Figure 1. Malta: GDP, Credit, and Housing Market Developments



4. Economic activity is further underpinned by an expanding credit market. Household credit is experiencing stronger growth compared to credit to non-financial corporations (NFCs). Bank lending is increasingly concentrated in mortgages and construction loans, which at end-2024 accounted for 72 percent of banks' private-sector loan portfolios, up from 60 percent a decade ago. Household credit grew by 8–9 percent annually in recent years, supported by low borrowing costs

(mortgage interest rates of around 3 percent) and steady house price appreciation. Household debt is moderate at approximately 60 percent of GDP, predominantly consisting of variable rate mortgages.

5. Credit expansion has boosted domestic demand but also led to higher vulnerability.

High exposure of banks and households to the property market suggests that adverse shocks to house prices or interest rates could weaken balance sheets and reduce spending, lowering growth and potentially affecting financial stability.

6. Malta's housing prices have seen a sustained increase. Drivers of the housing boom include robust income growth, population growth (Malta's population rose by 25 percent over a decade, largely due to immigration), and low interest rates. Residential property prices rose by 6.7 percent in 2024 and cooled slightly in early 2025. The price-to-income ratio has stabilized at about 90 percent since the early 2020s after climbing in the late 2010s. The price-to-rent ratio is elevated as rental yields have edged up to about 6 percent, reflecting strong rental demand from foreign workers and tourists. While current data do not suggest overvaluation (price increases have been in line with income growth in recent years) and the probability of a sharp correction in house prices appears to be low, such an event could negatively affect construction and wealth and strain banks via rising loan delinquencies and weaker consumer confidence. This is the type of macro-financial risk that the growth-at-risk analysis considers (domestic risk factor).

7. Domestic financial conditions in Malta remained accommodative through 2024-25.

Mortgage interest rates remain relatively low, liquidity is ample, and sovereign bond yields for Malta have stayed moderate. Public debt at about 47 percent of GDP and an A+ sovereign rating have kept borrowing costs contained. The Central Bank's stress tests indicate that banks are resilient with strong capital (Tier 1 ratio of 21 percent) and liquidity (LCR more than 350 percent) buffers. Local markets show no signs of financial stress, such as sudden jumps in spreads or funding pressures. However, Maltese financial conditions are correlated with euro-area conditions due to euro membership and open capital flows. The Euro Area financial conditions index (FCI) tightened in 2022-2023 as the ECB raised rates, leading to somewhat higher loan rates and slower credit growth in Malta. This linkage suggests that Malta's domestic FCI and the Euro Area FCI are both relevant: a deterioration in global financial sentiment (e.g., a spike in risk premia) could tighten financial conditions in Malta even in absence of domestic triggers.

8. In summary, Malta's baseline projections exhibit strong fundamentals, but there are pockets of vulnerability. These are mostly related to credit and housing markets and dependence on external conditions. These are the factors that the GaR model incorporates via risk indicators and FCI variables.

C. Growth-at-Risk Framework: Assessing Effects of Macro-Financial Factors on Growth

I. Methodology: Variables and Estimation

9. **GaR modeling requires choosing relevant predictors for growth risks.** Standard composite indicators or factors to summarize broad sets of information are as follows:

- **Domestic Financial Conditions:** A Malta-specific FCI captures overall financing conditions in the local economy such as interest rates, spreads, and equity performance, tracking the ease/tightness of financing. This factor also includes sovereign spreads and 10-year sovereign bond yields.
- **Domestic Risk Indicators:** These variables capture vulnerabilities related to credit and housing markets and include real house price growth, house price-to-income and house price-to-rent ratios, real credit growth, and credit to GDP.
- **Domestic Macroeconomic Fundamentals:** This is proxied by indicators of Malta's current economic conditions such as recent trend (4-quarter moving average) real GDP growth and inflation.
- **External (Euro Area) Financial Conditions:** A Euro Area-wide FCI is included to capture the external financial environment and global/regional financial shocks that could spill over to Malta (e.g., changes in European credit spreads or volatility, investor sentiment, or capital flows).
- **External (Euro Area) Macroeconomic Indicators:** These include Euro Area GDP growth and inflation, summarizing the external demand environment (e.g., strong vs. weak growth in trading partners) and policy stance (e.g., associated ECB policy stance).

10. **To reduce dimensionality and multicollinearity, principal component analysis (PCA) is used within each of the above five groups of variables.** The first principal component of each group (which typically explains a large share of that group's variance, around 60 percent in our analysis) is then used as the representative factor. By using these composite factors, Malta's future growth distribution is effectively modeled as a function of five variables: local financial conditions ("domestic FCI"), local financial vulnerabilities ("domestic risk"), local current macro conditions ("domestic macro"), external financial conditions ("euro area FCI"), and external macro conditions ("euro area macro").

11. **GaR is estimated using a quantile regression in a local projections framework.**

Specifically, the GaR model is based on quantile regressions forecasting GDP growth h quarters ahead (with $h=4$ for one-year, $h=8$ for two-year) at different quantiles (e.g. 50th percentile for median, 5th for tail risk). Quarterly data cover the period from the early 2000s (as available) through the latest available quarter (early 2025). The general form of the one-year GaR regression is:

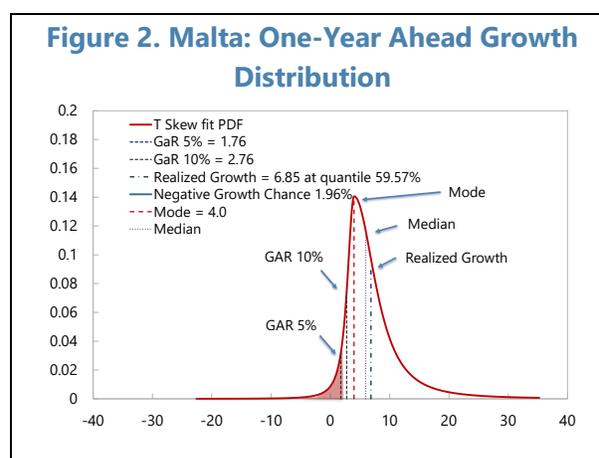
$$g_{t+4, \tau} = \alpha_{\tau} + \beta_{\tau} \cdot FCI_t + \gamma_{\tau} \cdot X_t + \varepsilon_{t+4, \tau},$$

where $g_{t+4, \tau}$ is annual GDP growth four quarters ahead at quantile τ , FCI is a domestic FCI at time t , and X_t is a vector of other macro-financial variables at time t (the remaining four factors in our model). The coefficients $\beta_{\tau}, \gamma_{\tau}$ vary by quantile τ . This allows the model to capture nonlinear effects. For example, financial stress might have little impact on the median growth forecast but a large impact on lower-tail outcomes. By estimating separate regressions for $\tau = 0.05$ (5th percentile) and $\tau = 0.5$ (median), we can piece together an implied distribution of future growth. The quantile local projection approach is flexible and does not impose a particular parametric distribution ex ante.

12. The model allows obtaining the entire forecast distribution for GDP growth. A skewed T-distribution is used to fit the estimated quantile data. The usual focus is on the GaR 5th percentile (or 10th percentile) as a summary of downside risk. A lower GaR indicates more severe downside risks.

D. Baseline Results: GaR and Historical Assessment

13. The GaR model indicates that the distribution of possible outcomes is skewed toward positive growth rates. Malta's projected GDP growth one year ahead (by mid-2026) has a baseline central estimate around 4 percent (close to potential). The 5th percentile of the one-year-ahead growth forecast is about 1.75 percent. In other words, there is a 5 percent chance that growth will fall below 1.75 percent in one year under prevailing conditions (shaded area in Figure 2). The 10th percentile is higher at about 2.75 percent. This GaR is below the median (4 percent), but still a positive growth rate, implying a very low probability of contraction over the next year. Indeed, the model suggests the probability of negative growth in the next four quarters is about 2 percent.² This reflects Malta's strong starting point and momentum.³



14. Despite global uncertainties, Malta's near-term recession risk appears low. Compared to the GaR based on 2024 economic conditions, the downside risk has increased slightly. The one-year GaR was higher (around 2.5 percent), indicating that vulnerabilities have

² Using the growth rate of tourist overnight stays for the Domestic Macro factor increases GaR to about 2.5 percent for the one-year ahead horizon but reduces it to about -4.6 percent for the two-year ahead horizon. The shock scenario to Domestic Macro does not affect the growth distribution much. Adding the growth rates of tourist overnight stays and real exports to the original variables in the Domestic Macro partition in fact results in higher GaR.

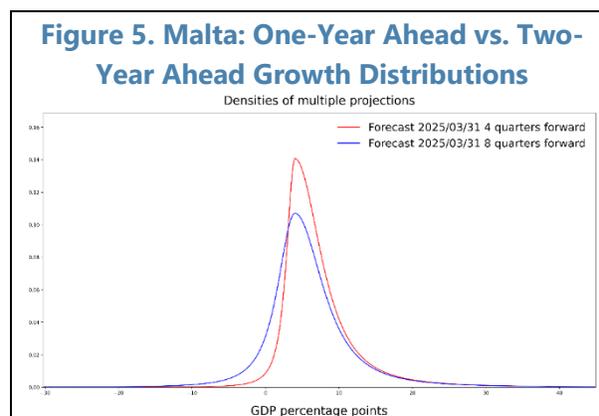
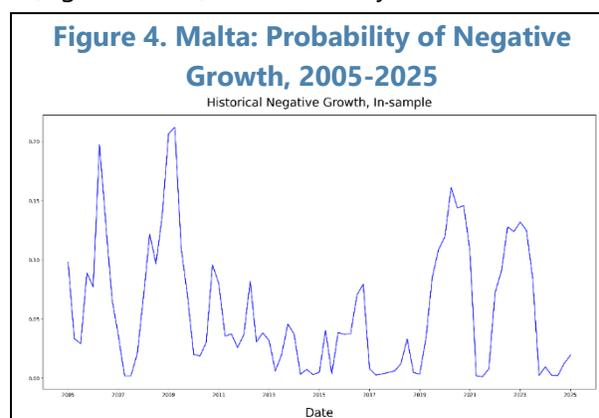
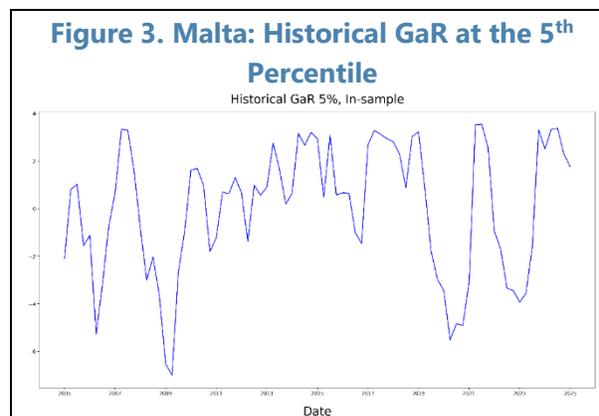
³ A similar model ran for Ireland with the mode growth of 2 percent results in GaR of about 1 percent for the one-year horizon and about 0.4 percent for the two-year horizon (which for the two-year horizon is a more positive forecast outlook than that for Malta).

grown since last year (Figure 3). The main contributor to this slight worsening of GaR is the continued strong growth of credit and housing markets as well as the somewhat less favorable external environment. The growth rate in 2024 was 6.85 percent, which is at the 60th percentile of the historical distribution, indicating that the recent economic performance has been slightly above average but not statistically extreme.

15. Malta's growth-at-risk has varied

substantially in recent years. During boom periods (e.g., 2015–19), Malta's one-year GaR was in the 2–3 percent range, reflecting limited downside as the economy had strong buffers and few signs of stress. During the COVID-19 shock, GaR plunged into negative territory (in early 2020, the model would have indicated a very high probability of negative growth), and indeed Malta experienced a large contraction (Figure 3). By 2022–2023, GaR recovered dramatically, underscoring the improved outlook. The current GaR at 1.75 percent is still higher than during the euro crisis of 2012 or the 2008 financial crisis, suggesting moderate but manageable risk (Figures 3-4).

16. When extending the forecast horizon, uncertainties compound. For the two-year-ahead period (through mid-2027), the GaR model predicts a wider distribution of growth outcomes and a larger downside risk. Comparing the one-year and two-year growth distributions (Figure 5) shows that the two-year distribution is flatter and more spread out with its left tail reaching notably negative growth rates. The baseline two-year-ahead median growth might still be around 4 percent (assuming the economy converges to that potential growth). However, the GaR at the 5th percentile for two years ahead is estimated at about –2.2 percent (about zero at the 10th percentile). That is, there is a 5 percent chance that the average annual growth over the next two years could be -2 percent or worse. This lower GaR (compared to +1.75 percent at one year) reflects higher forecast uncertainty and the term structure of risk. Financial shocks can have delayed effects and vulnerabilities can build over a longer horizon. The two-year GaR of about -2 percent indicates a small but non-negligible risk of a

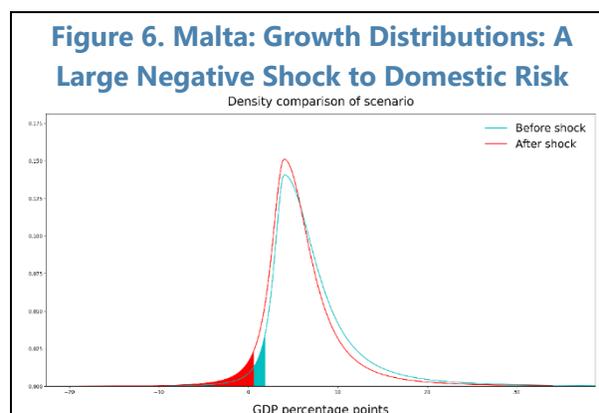


stronger downturn by mid-2027. It suggests that while the near-term risks are low, medium-term risks are more elevated, warranting close monitoring of potential build-up of financial vulnerabilities.

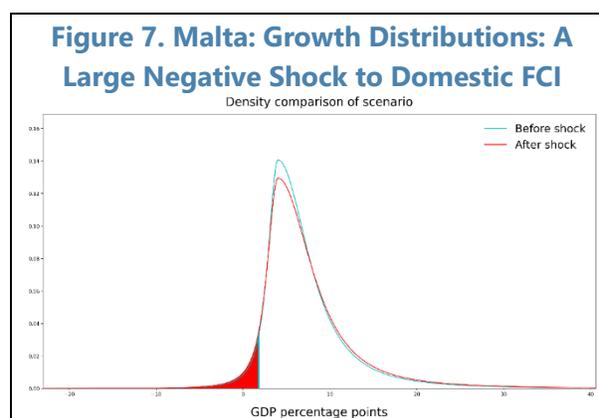
E. Scenario Analysis: Drivers of Risk

Scenario analyses are performed by shocking each of the five composite factors (in isolation) to gauge the sensitivity of the one-year GaR to various risk triggers.

17. The most severe scenario arises from shocks to domestic credit and housing markets. A 3 standard deviation adverse shock to the “domestic risk” factor approximates the impact of house prices falling sharply along with a substantial credit slowdown. The GaR model predicts that one-year-ahead GaR (5th percentile) would deteriorate from 1.75 percent to around 0.5 percent (Figure 6) implying a non-trivial likelihood of a recession in the event of a housing bust. Figure 6 shows how the entire distribution shifts left under the shock, and the left tail becomes much thicker. Even though banks have sufficient capital cushions, a housing downturn would likely curtail construction activity, hit consumer spending (via wealth effects), and potentially tighten credit availability, all combining to drag growth below baseline in a tail scenario.



18. The tightening of domestic financial conditions has a moderate effect on GaR. This is modeled by imposing stress on the domestic FCI, for example, through a sudden rise in interest rates or a widening of spreads due to a loss of confidence. The effect is a moderate worsening of GaR with the 5th percentile declining by a few tenths of a percent (Figure 7). Qualitatively, tighter domestic financial conditions reduce credit growth and raise financing costs, trimming both median and tail outcomes. In Malta’s case, thanks to strong bank buffers and the likelihood that domestic tightening might coincide with strong economy, the impact on the tail risk is noticeable but not as large as the housing shock. Nonetheless, maintaining market confidence and prudent policies would help keep domestic financial conditions benign, thereby containing downside risk.



19. A large negative shock to domestic macro fundamentals has a larger effect on GaR than the domestic FCI shock. In this scenario, Malta’s current macroeconomic fundamentals worsen, for instance, due to an idiosyncratic shock to a major industry leading to lower growth and higher inflation. The shock lowers the entire growth distribution (Figure 8), and Malta’s one-year

GaR drops closer to 1 percent. The strong current economy provides a buffer, and safeguarding the macro environment (through sound fiscal and financial policies) indirectly keeps GaR higher (better).

20. A euro-area FCI shock has much larger effects on Malta's economy than a domestic FCI shock.

A large euro-area-wide financial stress event such as a sudden spike in global risk aversion, causing equity markets to drop and credit spreads to jump would result in the Euro Area FCI factor deteriorating sharply. For Malta, such an external financial shock would likely worsen tail risks. Credit to Maltese firms might slow as international lenders pull back, investor confidence could wane, and borrowing costs might rise for the sovereign and banks. The GaR

model suggests that external financial tightening could reduce the one-year GaR close to or slightly less than that of the housing shock. The GaR would fall to the 0.5–1 percent range in a severe case (Figure 9). In practice, the ECB might respond to mitigate stress and soften the impact. Nonetheless, the GaR analysis highlights that Malta's outlook is sensitive to global financial conditions and that even if domestic conditions are sound, a global credit crunch can feed into higher downside risk.

21. A negative external demand shock emanating from the Euro Area lowers GaR but by less than the shock to the Euro Area FCI.

A mild Euro area recession (or significantly slower growth) without major financial turmoil, would weaken tourism and export demand for Malta. The model yields a somewhat milder effect on GaR (Figure 10) with the one-year GaR falling from 1.75 percent to 1.2 percent. The external growth shock could affect Malta's baseline growth more than its extreme tail unless it triggers financial contagion. Malta's strong fundamentals and policy space could help cushion trade shocks, but prolonged external weakness would eventually feed into higher risks.

F. Conclusion

22. Malta's baseline growth-at-risk is 1.75 percent, indicating a 5 percent chance that growth would fall below this threshold and suggesting a limited short-term downside risk. Nevertheless, a severe correction to credit

Figure 8. Malta: Growth Distributions: A Large Negative Shock to Domestic Macro Fundamentals

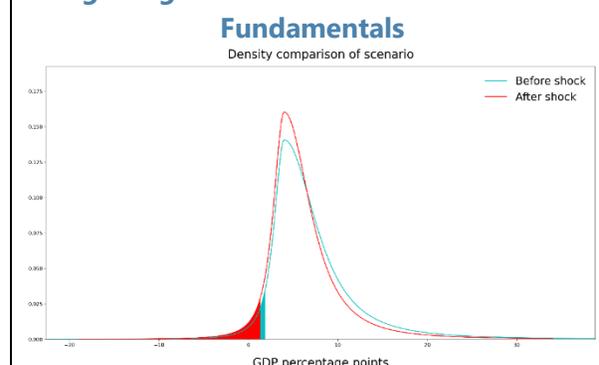


Figure 9. Malta: Growth Distributions: A Large Negative Shock to Euro Area FCI

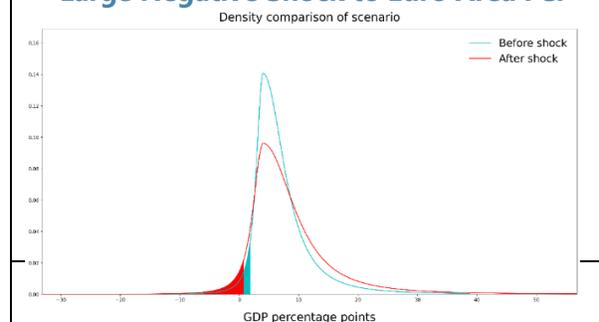
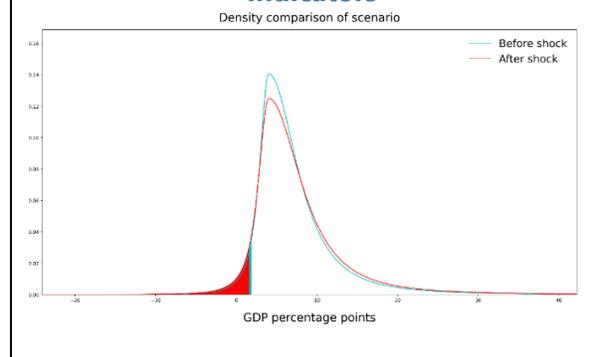


Figure 10. Malta: Growth Distributions: A Large Negative Shock to Euro Area Macro Indicators



and housing markets could push the economy close to zero growth in a tail event with low probability. External financial shocks also pose risks (given global interconnectedness), and a domestic macro shock has relatively large impact as well. In contrast, external growth slowdown or tightening of domestic conditions have more contained effects. This ranking of risks suggests that domestic macroprudential policies should focus on the housing sector, and vigilance is needed for global financial developments. Maintaining strong policy buffers would support the resilience of Malta's economy going forward.

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