

BEST'S COUNTRY RISK REPORT

Malta CRT-3

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Malta, a small southern European archipelago in the Mediterranean Sea, is a CRT-3 country, with moderate levels of economic and financial system risk and a low level of political risk.
- GDP growth was 6.6% in 2017, due to strength in the export sector and growing external demand. Growth is expected to moderate over the medium term, and range between 3.0% and 5.5%.
- The majority of countries pictured in the map are categorized as CRT-1 and CRT-2. Some exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, and Ukraine, as well as Malta.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Western Europe

- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

Vital Statistics 2017

Nominal GDP	USD bn	12.54
Population	mil	0.5
GDP Per Capita	USD	27,250
Real GDP Growth	%	6.6
Inflation Rate	%	1.3

United Nations Estimates

Literacy Rate	%	94.4
Urbanization	%	95.6
Dependency Ratio	%	48.8
Life Expectancy	Years	80.5
Median Age	Years	41.8

Insurance Statistics

Insurance Regulator	Malta Financial Services Authority	
Premiums Written (Life)	USD mil	1,544
Premiums Written (Non-Life)	USD mil	3,147
Premiums Growth (2016 - 2017)	%	6.7

Regional Comparison

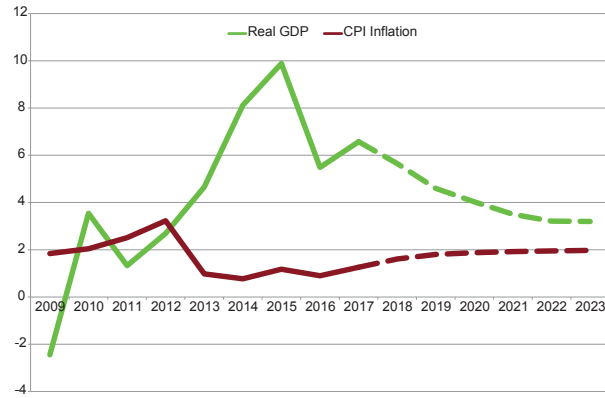
	Country Risk Tier
Malta	CRT-3
Cyprus	CRT-3
France	CRT-1
Germany	CRT-1
Italy	CRT-2
Switzerland	CRT-1

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

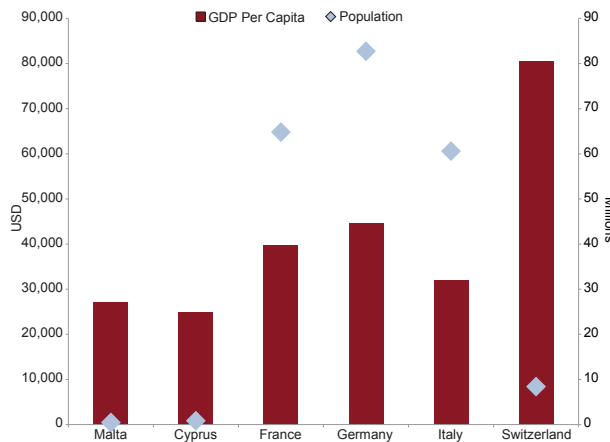
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Economic activity in Malta relies heavily on trade for both goods and services. Tourism, manufacturing, and financial services are the main sectors in the economy. Its open economy is small, making it vulnerable to changes in global financial conditions.
- Unemployment has been below 5% since 2016 and is significantly lower than the rest of the eurozone's. Wage pressures, however, remain contained owing to increases in labor force participation (particularly higher participation for women and the youth demographic) and in inflows of foreign workers.
- Rising housing prices have boosted concerns over the potential for property market imbalances. Bank lending has focused on mortgages, which has increased the concentration of property-related loans and thus the banks' exposure to the sector. The non-financial corporate sector has increased its reliance on non-bank financing.

Political Risk: Low

- Malta is a member of the European Union. Its legal system, governmental structure, and judicial system are considered stable and relatively efficient.
- Snap elections were held in June 2017 and Prime Minister Joseph Muscat won a second term. Muscat's Labor Party won an absolute majority in parliament and will be able to pass legislation with few obstacles.
- Lowering government debt and balancing the budget remain government priorities. Fiscal consolidation efforts and additional revenues have helped bring down the deficit.
- Advantageous tax rates for foreign companies have served as a powerful investment attraction. However, with rising international pressure to enhance tax transparency, Malta's tax incentives might be further scrutinized.
- Infrastructure development has not maintained the same pace as economic expansion and population growth, a situation that, if not addressed, could limit future growth. Improving infrastructure will be a key government focus in the near future.

Financial System Risk: Moderate

- The Malta Financial Services Authority (MSFA) regulates both the insurance and the financial services industries. Regulation generally complies with European Union requirements.
- Banks are well capitalized and profitable. Despite an improvement in asset quality, high legacy corporate non-performing loans remain a challenge for the banking sector.
- Access to credit by small and medium-sized enterprises is expected to improve, owing to the creation of the new Malta Development Bank. This bank, fully owned by the government, aims to supplement the lending activities of commercial banks to launch investment projects.