

One of the fastest-growing economies in Europe

General Information

GDP	USD9.6428bn (World ranking 136, World Bank 2015)
Population	0.43mn (World ranking 171, World Bank 2015)
Form of state	Republic
Head of government	Joseph MUSCAT
Next elections	June 2018, legislative



Strengths

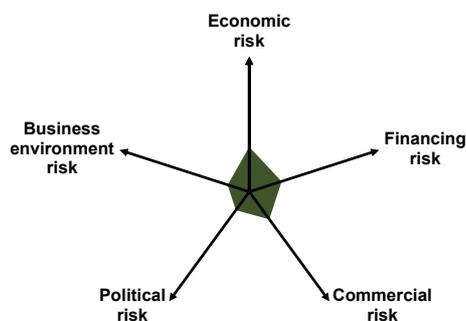
- Strong economic growth and robust employment growth
- Investor-friendly tax regime with considerable tax exemptions and incentives which compensate for a relatively high corporate tax rate of 35%
- Improvement in public finances and households and corporates' debt
- English-speaking productive workforce, relatively low labor costs compared to other EU members

Weaknesses

- Growing size of the financial and banking sector in a context of protracted low interest rates, weak credit growth, and legacy NPLs
- High export dependence, especially on electrical machinery and equipment (mainly semiconductors) and petroleum
- High trade openness entails a vulnerability to an unstable external environment
- Listed by the OECD as a tax haven, albeit a 'cooperative' one

Country Rating

A1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Egypt	19% 1	14% Russia
China	8% 2	14% China
Germany	7% 3	13% South Korea
Italy	6% 4	10% Italy
United Kingdom	5% 5	4% Germany

By product (% of total)

Exports	Rank	Imports
Refined Petroleum Products	34% 1	30% Ships
Electronic Components	18% 2	29% Refined Petroleum Products
Pharmaceuticals	11% 3	5% Aeronautics
Electrical Apparatus	4% 4	3% Non Ferrous Metals
Miscellaneous Manuf. Articles	3% 5	2% Electronic Components

Source: Chelem (2015)

Economic Overview

GDP growth well above eurozone average

Malta's economic growth is expected to reach a robust 4.5% rate in 2016. It is driven to the most part by domestic demand. GDP growth has slowed down from a buoyant 8% average rate in 2014-15 but remains well above the eurozone average of +1.7%.

With one of the lowest unemployment rates in Europe (below 5%), the Maltese labor market continues to perform strongly. This should support private consumption increase in the coming quarters as well as an accommodative fiscal and monetary policy.

Companies should continue to benefit from enhanced competitiveness and a better pricing power

Inflation is following the European upward trend and is expected to pick up to 1.7% in 2017. This should help firms' turnover to recover after a -1.9% decline in 2016. Turnover remains -8% below the 2008 peak, while the Eurozone average stands at -1.5%.

Traditional sectors improved their competitiveness thanks to a fall in the real labor cost. At the same time new labor-intensive, export-oriented activities emerged. The economy's diversification has reduced its capital and import intensity, leading to a significant improvement in the current account balance (to above 6% of GDP in 2016).

Improving public finances and increased efforts to refine banks' asset quality

Robust growth and adjustment measures are expected to bring the 2017 fiscal deficit down to -0.7% of GDP, well below the budget target. Lower interest expenditures have in part helped this adjustment. Public debt should fall further in 2017, to 60% of GDP.

Domestic banks remain well-capitalized and enjoy good profitability levels. The quality of assets continues to improve and measures have been implemented to reduce the burden of non-performing loans (NPLs) which stood at 48.6% of total loans in December 2016).

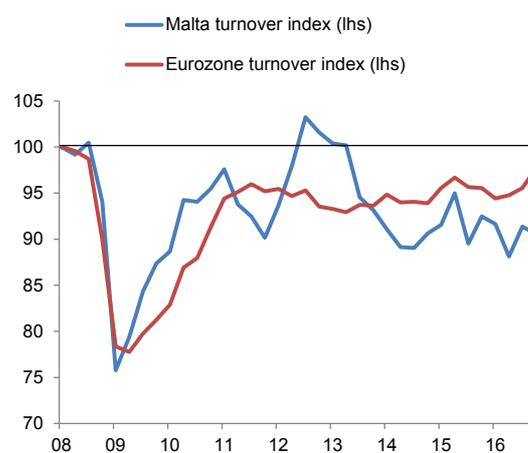
Bad debt restructuring of is ongoing and has already stimulated credit supply. However, the latter remains subdued, notably when it comes to non-financial corporations. This could explain the plateau in firms' turnover and profitability.

Figure 1 - Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	7.4%	4.5%	4.0%	3.4%
Inflation (%, yearly average)	1.2%	0.9%	1.7%	1.5%
Fiscal balance (% of GDP)	-1.4%	-1.0%	-0.7%	-0.6%
Public debt (% of GDP)	64%	62%	60%	58%
Current account (% of GDP)	3.4%	6.3%	7.7%	7.5%

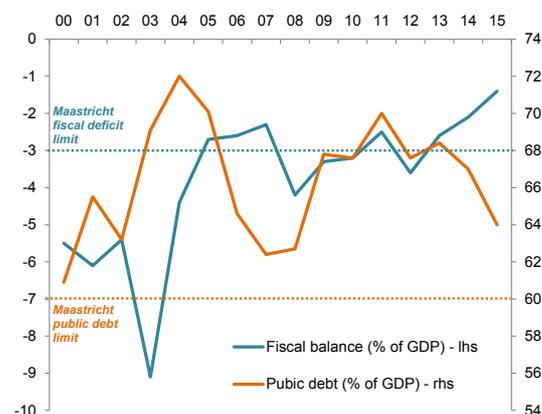
Sources: IMF, Euler Hermes

Figure 2 - Non-financial corporations turnover



Sources: Eurostat, Euler Hermes

Figure 3 - Fiscal deficit vs public debt



Sources: Eurostat, Euler Hermes

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