

Malta retains A+ Rating by Fitch

This article was prepared following the issuance of a report developed by the Credit Ratings Agency, Fitch. The contents of this article have been put together to inform the Bank's customers of the salient facts and conclusions published within the report. The article naturally contains a high degree of reference to the report prepared by Fitch. Link to the report prepared by Fitch: <https://www.fitchratings.com/research/sovereigns/fitch-affirms-malta-at-a-outlook-stable-10-07-2020>

Malta has retained its A+ rating and outperforms the 'A' median on the World Bank governance indicators, according to a report by ratings agency Fitch.

Fitch forecasts Malta's real GDP to contract by 6.9% in 2020, a moderate downward revision from the last review in April (5.9%), with declining net exports playing a significant role. The tourism sector suffered a large contraction in the second quarter of 2020, owing to continued traveling restrictions. As of April, tourism overnight stays collapsed to under 10,000 stays (871,000 in April 2019), according to Eurostat data. Malta's government plans on fully lifting traveling restrictions on 15 July, notes Fitch, but nevertheless it expects only a slow recovery in the second half of the year and for international tourism arrivals and hotel occupancy to remain below 2019 levels in 2021 and 2022.

While the government plans on introducing vouchers for residents to spend on domestic tourism, this might have a limited effect, said the ratings agency, as foreign tourism represents around 97% of total stays in the high-season. The tourism sector contributed to about 13% of GDP in 2018, excluding indirect effects and 15% of employment in 2020, according to the OECD. "While there are still material downside risks to growth forecasts, we now believe risks to be more balanced," Fitch said.

Malta's medium-term potential growth remains strong and well above the Eurozone average, at 3.0%-3.5%.

While loss of foreign labour due to the pandemic is expected to generate negative migration for 2020, this should be temporary and reversed once conditions improve. Fitch forecasts growth to rebound to 4.1% in 2021, before easing to 3.6% in 2022.

Public debt will stabilize in 2021-2022 close to 60% of GDP, Fitch said.

The agency estimates the general government balance will deteriorate to a deficit of 9.2% of GDP in 2020, from 8.2% in April's review and from a surplus of 0.5% in 2019.

Sparkasse Bank Malta plc