
Annual Report on the Management of Central Government Debt of the Republic of Malta – 2023

Ministry for Finance

Treasury Department



MINISTERU GĦALL-FINANZI
Uffiċċju tal-*Accountant General*
IT-TEŻOR



MINISTRY FOR FINANCE
Office of the Accountant General
TREASURY DEPARTMENT

Our Ref:
Your Ref:

08th January 2025

The Hon. Clyde Caruana
Minister for Finance
Maison Demandols
South Street
Valletta, VLT 1102

Dear Minister,

Annual Report on the Central Government Debt - 2023

In terms of Article 36 of the Government Borrowing and Management of Public Debt Act (Cap. 575 of the laws of Malta), I am transmitting to you a copy of the Annual Report on the management of the central government debt for the year 2023 to be published and tabled in Parliament.

Yours sincerely,


Paulanne Mamo
Accountant General

CONTENTS

DEBT MANAGEMENT DIRECTORATE	1
Organisation and resources	1
Objectives and Legal Framework	1
Mandate.....	1
Legal Framework.....	2
Domestic Sovereign Debt Market Developments	3
Developments in the Euro Area Sovereign Debt Market during 2023	6
Malta Government Stocks and Debt Instruments Financing Remit in 2023	11
Financing Instruments and Operations used in Debt and Cash Management	11
Issuance Strategy	11
Implementation of the Government borrowing programme	12
Government Borrowing Operations	12
Malta Government Stocks.....	12
62+ Malta Government Retail Savings Bond.....	19
MGS Investor Distribution	21
MGS Maturity Profile	22
Malta Government Stocks Portfolio Composition	23
Cash Management	24
Treasury Bills.....	24
I. Issuance Strategy.....	24
II. Redemption Profile.....	26
III T-bill Investor Distribution	26
IV. Treasury Bill Yields.....	27
Foreign Loans	30
I. Support to mitigate Unemployment Risks in an Emergency (SURE) programme.....	30
II. European Investment Bank (EIB) Loan	30
III. Principal & Interest Repayments from Loan to Hellenic Republic	33

Cost of Borrowing.....	34
Central Government Outstanding Debt	36
Risk Management.....	37
The EU Emissions Trading System (EU ETS).....	40
Sinking Funds.....	41
Credit Ratings of the Republic of Malta in 2023	42
Highlights of Results for Fiscal Year 2023.....	45
Annex	46
Budgetary Central Government Outstanding Debt Securities & Debt Instruments as at 31/12/2023	46

LIST OF TABLES

Table 1 - Malta Government Stocks allocated during the year 2023	13
Table 2 – MGS Spread Over Bund in Primary Market.....	15
Table 3 – Participation & Allotment - February 2023 MGS Issuance	16
Table 4 – Participation & Allotment - July 2023 MGS Issuance	16
Table 5 – Participation & Allotment - September 2023 MGS Issuance	17
Table 6 – Participation & Allotment - November 2023 MGS Issuance	17
Table 7 - Participation in Malta Government Stock issues during 2023.....	18
Table 8 - Early Redemptions & Outstanding Malta Government Retail Savings Bonds	20
Table 9 - Early Redemptions of 62+ Malta Government Retail Savings Bonds in 2023	20
Table 10 - T-bills issued by tenor in 2023.....	25
Table 11 - T-bill borrowing rates	29
Table 12 - EIB Loan Characteristics.....	30
Table 13 - Composition of Total Foreign loans outstanding as of 31 December 2023	31
Table 14 - Foreign Loans outstanding as of 31 st December 2023	32
Table 15 - Loan to Hellenic Republic Principal Repayments in 2023	33
Table 16 - Budgetary Central Government Debt Interest Expense 2021 - 2023	35
Table 17 - Central Government Outstanding Debt as of 31 st December 2022 and 2023.....	36
Table 18 - Sinking Funds' Cash Balances and Investments in Government Debt Securities	41
Table 19 - Credit Ratings of the Republic of Malta.....	44

LIST OF CHARTS

Chart 1 - MGS Primary Market Yields & Maturities 2021-2023.....	14
Chart 2 - MGS Holder Distribution by Investor Type as of 31 st December 2023.....	21
Chart 3 - Outstanding MGS Maturity Profile as of 31 st December 2023.....	23
Chart 4 - T-bills issued and redeemed per month in 2023	25
Chart 5 - Outstanding Treasury Bills Redemption Profile as of 31 st December 2023	26
Chart 6 - Outstanding Treasury Bills Investor Distribution as at end 2023	27
Chart 7 - 3-month Euribor vs. Accepted 3-month T-bill rate 2023	28
Chart 8 - Distribution of Monthly MGS & 62+ MGSB Interest Payments - 2023	35

LIST OF ABBREVIATIONS

€STR	Euro Short-Term (Interest) Rate
62+ MGRSB	62+ Malta Government Retail Savings Bond
APP	Asset Purchase Programme
bps	basis points
CBM	Central Bank of Malta
CO ₂	Carbon Dioxide
CRAs	Credit Rating Agencies
DMD	Debt Management Directorate
ECB	European Central Bank
EEX	European Energy Exchange
EFSF	European Financial Stability Facility
EIB	European Investment Bank
ESA	European System of Accounts
ESM	European Stability Mechanism
EU	European Union
EU ETS	European Union Emissions Trading System
EU RRF	European Union Recovery and Resilience Facility
EUA	European Union Emission Allowance (Stationary installations)
EUAA	European Union Aviation Emission Allowance
EURIBOR	Euro Inter-Bank Offer Rate
FRN	Floating-Rate Note
GBMPDA	Government Borrowing and Management of Public Debt Act
GDP	Gross Domestic Product
GLF	Greece Loan Facility
IMF	International Monetary Fund
ISMA (Yield)	International Securities Market Association
MFSA	Malta Financial Services Authority
MGS	Malta Government Stock
MSE	Malta Stock Exchange
MTL	Medium-To-Long Term
NAO	National Audit Office
NGEU	Next Generation European Union
OIS (Rate)	Overnight Index Swap
PELTRO	Pandemic Emergency Longer-Term Refinancing Operations
PEPP	Pandemic Emergency Purchase Programme
SPL	Structural Programme Loan (EU Funds)
SURE	Support To Mitigate Unemployment Risks In An Emergency
T-Bills	Treasury Bills
WAC	Weighted-Average Coupon
WAM	Weighted-Average Maturity
WAR	Weighted-Average (Interest) Rate
WAY	Weighted-Average Yield
YTM	Yield-To-Maturity

DEBT MANAGEMENT DIRECTORATE

The Maltese Government's Treasury Department, amongst other responsibilities, manages the country's central government debt through its Debt Management Directorate (DMD). The directorate was established in December 2006 and is authorised by law to raise loans on behalf of central government, up to the statutory limits set by Parliament, as well as to manage the central government's debt portfolio. Moreover, sound public debt management policies and practices require robust legal underpinnings. To this effect, a comprehensive legal framework for central government borrowing and debt management was re-drawn by the directorate and eventually enacted by Parliament in July 2017. The Government Borrowing and Management of Public Debt Act (GBMPDA) (Cap. 575 of the Laws of Malta) came into force on 1st September 2017.

The DMD is responsible for performing the functions relating to the management of central government debt and the borrowing of money under Article 4, as contracted or issued in accordance with Articles 19 and 24 of the GBMPDA, and any other directions that may be given by the Minister for Finance.

Organisation and resources

The organisational structure of the DMD is very similar to that adopted by other debt management offices in developed countries. The directorate's operations are organized along three main functional lines or areas, namely Front, Middle and Back Office to ensure a clear division of responsibilities according to recommended international best practices.

The **Front Office** is typically responsible for the operational aspects of raising funds within the framework of the debt issuance policy and strategy. This comprises the issuance of government debt securities and instruments including the administration of competitive auctions; the **Middle Office** is responsible for maintaining databases of outstanding central government debt and its servicing, conducting risk analysis, compilation/preparation of reports and presentations, performing research related to government debt management, sovereign debt markets and financial instruments, providing advice on the design of government debt management policies and issuance strategies, as well as the more operational role of implementing risk controls as laid out in the medium-term debt management strategy; the **Back Office** is responsible for processing the servicing of central government debt, settlements and accounting for central government's debt and cash management transactions in the government's accounting system. The activities of the debt management directorate are audited by the National Audit Office (NAO) to ensure that central government's debt is managed and conducted in conformity with international best practice guidelines.

Objectives and Legal Framework

Mandate

In terms of Article 5 of the GBMPDA, the Minister responsible for Finance is vested with the Authority to borrow money on behalf of the government by entering into loan agreements, line of credit agreements, issuing debt securities or creation of any other debt instruments, either in local or any foreign currency.

The primary policy objective of the directorate's debt management strategy is:

“to minimise, over the long-term, the costs of meeting the government's financing needs, with due consideration to risk, such that, funds are raised in a prudent and cost-effective manner.”

To accomplish this primary mission, the Debt management directorate within the Treasury Department adheres to several principles, namely: (i) transparency, (ii) issue debt in a consistent and predictable pattern; (iii) accountability and (iv) fairness.

An additional objective pursued by the directorate is to support the development of the domestic money and debt capital market and its functioning.

Legal Framework

The Government Borrowing and Management of Public Debt Act (GBMPDA), which came into force on 1st September 2017, along with the underlying regulations issued under the said Act, and the Budget Measures and Implementation Act, give the Government the power to borrow money. The GBMPDA is based on international best practices with regards to Public Debt Management and aims to meet the principles of transparency, accountability and predictability and is also designed to achieve the required sovereign borrowing standards expected by oversight institutions.

Along with the annual Budget Measures Implementation (2021) Act, Cap. 608 of the Laws of Malta, during the year 2021 the borrowing requirements were met under the following primary and subsidiary legislation:

1. Government Borrowing and Management of Public Debt Act.
2. Malta Government Retail Savings Bonds Regulations.
3. Malta Treasury Bills Regulations; and
4. Malta Government Stocks Regulations.

Domestic Sovereign Debt Market Developments

The year 2023 saw the COVID-19 pandemic bowing out of the headlines as it was deemed largely under control by the World Health Organisation (WHO) and being replaced by persistently high inflation and global central banks' firm response. Locally, whilst COVID-19 support measures were completely phased out, the government was still shielding the economy from the consequences of decades high inflation through subsidised prices for fuels, utilities and selected imported cereal products. This policy had a substantial effect on government expenditure and therefore affected the budget deficit and borrowing requirement figures. During the Budget Speech delivered by the Minister for Finance in October 2022, the budget deficit for 2023 was estimated to amount to €979.9 million – a slight increase over the €954.6 million revised estimate for 2022. Notwithstanding the increase in absolute terms, the budget deficit-to-GDP ratio was expected to fall from 5.8% in 2022 to 5.5% by end 2023. Total borrowing requirements for 2023 increased by €400 million over the revised estimate for 2022, reaching €1.6 billion. This figure represented a new record mandate for the directorate. The difficult macroeconomic and debt capital market context already highlighted in the annual report for 2022 persisted during 2023: the surge in global inflation caused by the war in Ukraine and the rapid post-pandemic economic recovery, made fixed-coupon bond investments less attractive, whilst compelling the European Central Bank (ECB) to quickly unwind its easy monetary policy and start a forceful cycle of policy rate hikes. These conditions led to highly volatile bond prices and yields that made bond investors wary of taking on such risk. The historically high borrowing requirement, coupled with the high inflation environment and the unstable bond market conditions that unfolded since 2022 intensified the already significant challenges faced by the directorate, whose ultimate objective is to meet all the central government's financing and financial obligations in a timely manner, at the lowest possible cost over the medium-to-long-term, whilst also considering the risks involved.

In 2023 the directorate borrowed €1.39 billion through Malta Government Stock (MGS) issues (2022: €1.04 billion), rolled over €70 million of a 62+ Malta Government Retail Savings Bond (62+ MGRSB) and finalised a new loan with the European Investment Bank (EIB) amounting to €72 million, for a total of nearly €1.54 billion. The balance of the yearly funding requirement was raised via Treasury bills (T-bills). Slightly more than €697.6 million, or 50% of the total amount borrowed via MGS, were raised via medium¹ to long term² MGS (2022: €628.2 million or 60.1%), whilst the remaining €696.4 million were funded via short-term³ MGS, compared to €416.5 million in 2022. This last figure confirms investors' reluctance to buy medium and long term bonds due to their value's heightened sensitivity to interest rate changes. The persistently elevated supply of MGS to the domestic debt capital market, combined with rapidly rising yields (and therefore borrowing costs), inevitably led to higher borrowing rates compared to the preceding years. This occurred despite the fact that the weighted-average maturity (WAM) of new MGS issued in 2023 fell again to 7.98 years from 9.70 years in 2022. Consequently, the WAM of the MGS portfolio continued on its recent downward trend to 8.29 years as of 31 December 2023, compared to 9.01 years on 31 December 2022, which, however, is still relatively comfortable from a refinancing risk perspective.

72% of total new MGS issues in 2023 were allotted via the auction mechanism (slightly higher than €1 billion in value terms), compared to 66.4% or €693.8 million in 2022. In contrast to the previous 6 years, the rising interest rate/yield environment enabled the Treasury department to offer more MGS to retail investors. Retail applicants' share of new MGS issues in monetary terms rose as well in 2023, to €393.3 million (or 28%), from €350.9 million or 33.6% in 2022. In fact, three out of the four issues carried out during 2023 were combined issues open to both retail and institutional investors, with the last issue held in mid-October being the only MGS issue allotted through the auction mechanism only. In 2023, MGS issues accounted for

¹ Refers to MGS with a maturity falling between 7 years and 15 years.

² Refers to MGS with a maturity longer than 15 years.

³ Refers to MGS having a maturity longer than 1 year and shorter than 7 years.

90% total new medium to long-term debt issued (2022: 100%). The other 10% are nearly equally accounted for by the first 62+ Malta Government Retail Savings Bond (MGRSB) rollover offer, and the new 14-year EIB loan disbursed in December.

With regards to borrowing rates, the year 2023 has been a continuation of what started in July 2022: the ECB continued to tighten monetary policy regularly up to September, with the deposit rate doubling from 2% on 1st January 2023 to 4% by the 20 September meeting. The ECB then paused as inflationary pressures started to abate. This increase in policy rates, coupled with the considerable rise in MGS supply, was reflected in money and capital market rates and consequently in the coupon rates/yields conceded in T-bill and MGS issues carried out during the year. In line with the path of policy rates, the most expensive short-term MGS was allotted in the October auction, with the 3-year MGS sold at a weighted-average yield-to-maturity (YTM) of 4.0508% (most expensive short-term MGS issued in 2022: 5-year MGS at 3.1245% in October), whilst the cheapest was allocated in the February combined issue, where retail investors bought the 5-year MGS with a YTM of 3.2434% (2022: 0.7144%). Medium-term MGS interest rates ranged between 3.8622% in February (2022 low: 1.2959%) and 4.1204% (September) (2022 high: 4.0000%). In the September combined issuance's auction, the directorate issued a 15-year MGS with the highest YTM at 4.2379% (2022: 20-year MGS at 3.2466%), whilst in February the long-term MGS maturing in 2043 was allocated at the yearly low of 3.5946% (2022: 30-year MGS at 1.2619%). The MGS issue programme for 2023 was spread over four issuances, with around 75% of the total amount raised by the end of the third quarter of the year (2022: 51%).

The highly dynamic conditions that continued to characterise bond markets also in 2023 precluded the directorate from issuing any fungible MGS issues. This means that in 2023 the directorate issued nine new MGSs, with a new 20-year MGS issued in February and new 15-year bonds issued in July and September. The longest maturity new MGS offered to the market continued to gradually fall, as investors kept on indicating their unwillingness to expose themselves to the higher interest rate risk inherent to longer maturities. The overall bid-to-cover ratio for 2023 MGS issues was 1.72x, an improvement over the 1.36x recorded in 2022. More details about each MGS issue held in 2023 can be found on pages 11 to 17.

The money market also plays an important role for the DMD in carrying out its cash management function, to ensure sufficient funds are always available to cover any net daily central government cash shortfall. It is another important source of funding that helps ensure the government can meet all its borrowing needs and financial commitments in a timely manner, as and when they arise. During 2023 the government financed the remaining balance of the €1.6 billion borrowing requirements not raised via MGSs (€63.7 million) through T-bill issues (2022: €155.3 million). The capping of outstanding T-bills at any time, which was raised from €1 billion to €1.3 billion in June 2021, was maintained. During 2023 the directorate issued a gross nominal figure slightly higher than €2.20 billion in T-bills, compared to €2.51 billion in 2022, and redeemed €2.38 billion (2022: €2.26 billion), resulting in a net decrease of €175.1 million in outstanding T-bills by the end of the year under review, compared to an increase of €247.3 million in 2022. Since conventional monetary policy influences short-term interest rates most, short-term borrowing costs continued to climb considerably over the course of 2023. After nearly a decade, all accepted bids were allotted at positive interest rates. Weighted-average rates maintained the upward trajectory which started in July 2022, except for the months of July and August 2023, when due to two close MGS issues, T-bill borrowing requirements became minimal, enabling the directorate to issue low amounts at the most advantageous rates. The weighted-average interest rate on the 91-day and 182-day bills reached a plateau in the last month of the year, with the 3-month rate peaking and stabilising at 3.70% and the 6-month rate at 3.50%. By 31st December 2023, the 91-day bill WAR was at 3.09% (2022: 0.41%) and the WAR on issued T-bills read 3.11% (0.50% on 31st December 2022). In 2023 the Treasury department paid a total of €18.4 million in interest on short-term borrowing, in contrast to €0.65 million on T-bills issued at positive rates in

2022. Given the rapid and substantial increase in short-term interest rates, participation in T-bill auctions soared in 2023, with an overall bid-to-cover ratio of 5.49x compared to 2.37x in 2022. Indeed, during 2023 the directorate noted a drastic diversification of T-bill bidders and holders, away from the traditional domestic banking sector. In particular, the directorate observed significant new participation by resident individuals and domestic private non-financial companies, which enabled the directorate to reduce its dependence on one particular investor category.

Developments in the Euro Area Sovereign Debt Market during 2023

During January and February market participants' expectations of euro area interest rates initially moved substantially higher, owing to the ECB's December 2022 communication that additional policy tightening was needed to ensure a timely return of inflation to the 2% medium-term target. Subsequently, policy rate expectations were pared back amid market perception that inflationary pressures were easing following lower-than-expected inflation data and softening energy prices. By mid-March, expectations for policy rate increases largely receded owing to rising uncertainty sparked by difficulties at a few U.S. regional banks and a major Swiss financial institution, and their ramifications for inflation and growth. From mid-March to early May, euro area financial market developments were driven largely by waning concerns about the banking sector as well as by the ECB's monetary policy decisions. Market expectations for euro area policy rates rose during this period but remained lower than prior to the banking turmoil. Overall, during Spring euro area financial markets stabilized following the banking sector turmoil in the United States in early March. Sovereign bond markets were broadly insulated from banking sector events and spreads did not react to the ECB's announcement to discontinue APP reinvestments as of July 2023. As concerns about the economic impact of the banking turmoil gradually abated, market participants reappraised their inflation and monetary policy rate expectations.

On 2 February, the ECB decided to raise policy interest rates by 50 basis points (bps), from 2.00% to 2.50%, and it expected to raise them further. In view of high underlying inflation, the Governing Council pre-committed to raise interest rates by another 50 bps at its March meeting and asserted that it will then evaluate the subsequent path of its monetary policy on a meeting-by-meeting approach, based on incoming data. At the same meeting the ECB also decided on the modalities for reducing the Eurosystem's asset purchase programme (APP) holdings. The APP portfolio would be run down by €15 billion per month on average, from the beginning of March until the end of June 2023, and the subsequent pace of portfolio reduction would be determined over time. As concerns the pandemic emergency purchase programme (PEPP), the ECB restated its intention of reinvesting maturing securities until at least the end of 2024. The future roll-off of the PEPP portfolio would be managed to avoid interference with the appropriate monetary policy stance. The Governing Council would continue applying flexibility in reinvesting PEPP redemptions, with a view to countering risks to monetary policy transmission related to the pandemic.

On 16 March the ECB decided to increase its three key interest rates by 50 bps. According to the ECB, the elevated level of uncertainty reinforced the importance of a data-dependent approach to policy rate decisions, which would be determined by the inflation outlook considering incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. The Governing Council also announced that it was monitoring market tensions caused by banking sector turmoil in the US and Switzerland closely. It reassured that it stood ready to respond as necessary to preserve price and financial stability in the euro area. The ECB also reiterated that the euro area banking sector had strong capital and liquidity positions, and that its policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed to preserve the smooth transmission of monetary policy.

Overall, from the beginning of 2023 to mid-March, euro area risk-free rates and longer-term bond yields increased only slightly. €STR closely followed the changes in the ECB's deposit rate, which the Governing Council raised in February and March. However, towards mid-March, the elevated level of volatility sparked by difficulties at several regional US-based banks and Credit Suisse also created tension in euro area financial markets. The €STR forward curve moved significantly lower across tenors. That said, the €STR forward curve moved higher across maturities during the first quarter of 2023. During most of this period, the Overnight Indexed Swaps (OIS) forward curve, based on the €STR, increased significantly, reflecting firmer expectations of further interest rate hikes, driven by a stronger growth and core inflation outlook.

Over Q1 2023, long-term government bond yields broadly followed developments in risk-free rates and were subject to considerable volatility. The ten-year GDP-weighted euro area sovereign bond yield broadly tracked the ten-year euro OIS rate for most of the period. Amid swings related to macroeconomic news, the ten-year euro OIS rate and the ten-year GDP-weighted euro area sovereign bond rate increased substantially up to the end of February, before most of that increase was reversed amid rising market tensions in March. The rising market tensions led to a smaller drop in the ten-year OIS rate compared with the ten-year GDP-weighted sovereign bond yield. The ten-year German sovereign bond yield also showed a decline. Over January-March 2023, the ten-year euro area OIS rate and ten-year GDP-weighted average sovereign yield increased by 31 and 7 basis points, reaching 2.76% and 2.84%, respectively. Euro area sovereign bond yields moved broadly in line with risk-free rates for most of Q1 2023, with sovereign spreads narrowing somewhat towards the end of the period across countries. The ten-year GDP-weighted average government bond yield ended the first quarter of the year 24 basis points lower than in mid-December 2022. The decline reflected a tightening of sovereign spreads across countries. For instance, the Italian ten-year sovereign bond spread declined by 36 basis points, while the corresponding spreads for Greece and Germany declined by 28 bps.

Given the persistently high inflation, the ECB decided on 4 May to raise its three policy interest rates by another 25 bps. Headline inflation started declining from Spring, but core price pressures remained strong. Past rate increases were being transmitted forcefully to euro area financing and monetary conditions, although the time lags and strength of transmission to the real economy remained uncertain. The Governing Council restated that it would continue to follow a data-dependent approach to determine the appropriate level and duration of monetary restriction. Policy rate decisions would continue to be based on the Governing Council's assessment of the inflation outlook based on incoming economic and financial data, the dynamics of core inflation, and the strength of monetary policy transmission. In parallel, the ECB would keep reducing the Eurosystem's APP portfolio at the pre-announced pace and confirmed the discontinuation of APP reinvestments as of July 2023. Forward guidance on the management of the PEPP portfolio remained the same.

The ECB's May decision did not have a significant impact on market participants' policy rate path expectations. The most notable movement during Spring was the decline in the Greek sovereign bond spread following the first round of parliamentary elections on 21 May, which strengthened market participants' expectations of a possible credit rating upgrade to investment-grade status in the following months. The Greek ten-year sovereign bond spread fell by 60 bps during this period. However, lower than expected core and headline inflation data releases at the end of May slightly dampened higher policy rate expectations. Long-term sovereign bond yields started May below the level prior to the banking sector disorder in early March. The euro area GDP-weighted average ten-year sovereign bond

yield stood at around 2.90%, seeing little change from mid-March to early May and remaining somewhat below its level prior to the banking turmoil. Ten-year sovereign bond yields in the euro area generally moved in line with long-term risk-free rates, resulting in a stable spread over the euro area OIS rate of around 0.2 percentage points.

Generally, between mid-March and mid-June, the OIS forward curve rose at the very short end and priced in a peak rate of 3.8% for October 2023. Compared with the OIS forward curve prevailing before the Governing Council's May meeting, the mid-June forward curve showed a similar peak, but a more moderate decline in forward rates thereafter. The benchmark €STR closely followed the changes in the deposit rate, which the ECB raised from 2.50% to 3.00% in March, and to 3.25% in May. Overall, the €STR forward curve rose at the very short end, peaking at around 3.80% by mid-June – although this level was still lower than in early March before the onset of the banking turmoil. Euro area long-term risk-free rates only partially mirrored the increases in their US and UK counterparts and settled slightly higher than in mid-March.

Long-term risk-free rates in the euro area declined notably in mid-March as financial market participants reappraised their policy rate expectations in the aftermath of the banking turmoil. The ten-year GDP-weighted euro area sovereign bond yield stood at 3% in mid-March. From there, it fluctuated in a range of around 40 bps, ending June 10 bps higher, at 3.10%. Euro area sovereign bond yields moved broadly in line with developments in risk-free rates as sovereign spreads remained insulated from concerns over the banking sector, rating actions and the ECB's APP rundown decision. The GDP-weighted euro area average sovereign bond spread over the OIS rate based on the €STR increased only slightly over Q2 2023, echoing sovereign bond spreads, which remained broadly stable, in most jurisdictions. The main driver of the upward movement was the German ten-year sovereign bond spread, which increased by 12 bps to become less negative, in part reflecting a reversal of the flight-to-safety flows sparked by the banking sector turmoil.

By mid-June, inflation was coming down but was projected to remain too high for too long. Consequently, on 15 June the ECB decided to raise the three policy interest rates by 25 bps. Indicators of underlying price pressures remained strong, although some showed tentative signs of softening. The ECB revised up its core inflation projections for 2023 and 2024, owing to past upward surprises and the robust labour market. At the same time, the ECB noted that past rate increases were being transmitted forcefully to financing conditions and were gradually having an impact across the real economy: borrowing costs increased steeply and loan growth started slowing. Tighter financing conditions are a key reason why inflation is predicted to decline, as they are expected to increasingly dampen demand. The ECB reiterated its data-dependent approach to determining the appropriate level and duration of restrictive monetary policy, with focus on the inflation outlook, the dynamics of underlying inflation, and the strength of policy transmission. Finally, the ECB confirmed that it would discontinue APP reinvestments as of July 2023.

By late July, financial market developments were driven largely by revisions to the inflation outlook and the expected implications for monetary policy. Following the June ECB meeting, market expectations for euro area near-term policy rates rose on the back of central bank communication of a

tighter monetary policy stance. Sovereign bond yields in the euro area moved broadly in line with risk-free rates, without a visible impact from the ending of APP reinvestments at the end of June. Euro area near-term risk-free rates ended July broadly in line with levels seen before the June Governing Council meeting, after some intra-period moves. The €STR averaged 337 basis points over this period and closely followed the changes in the deposit facility rate. The OIS forward curve rose for short and medium-term maturities after the Governing Council's June monetary policy decision to raise the deposit facility rate by 25 basis points. This reflected market participants' expectations that policy rates would remain at higher levels for longer than previously expected. The average ten-year Euro area GDP-weighted sovereign bond yield stood at around 3.1%, just a few points below its level in mid-June, and overall, below the level seen prior to the banking sector turmoil earlier in the year.

At its meeting on 27 July the ECB decided to raise the three key ECB interest rates by another 25 basis points, as despite showing signs of declining, inflation was still expected to remain too high for too long. The Governing Council also decided to set the remuneration of minimum reserves at 0%. This decision is intended to preserve the effectiveness of monetary policy by maintaining the current degree of control over the monetary policy stance and ensuring the full pass-through of interest rate decisions to money markets. At the same time, it is expected to improve the efficiency of monetary policy by reducing the overall amount of interest paid on bank reserves in order to implement the appropriate policy stance.

During the summer months, euro area financial markets experienced little change overall. Euro area short-term interest rates increased as expectations of policy tightening firmed amid some upward pressures on the inflation outlook. These policy rate expectations were tempered by weaker real euro area growth data. As a result, by mid-September, the €STR forward curve peaked at around 4.0% in the first quarter of 2024, thus pricing in a moderate further tightening of monetary policy. Euro area long-term interest rates increased along with, but less than, market-based measures of inflation compensation as growth concerns weighed on government bond yields. Ten-year euro OIS rate increased by 14 basis points to around 3.0% during this period. The ten-year GDP-weighted euro area sovereign bond yield increased by a similar amount to 3.3%. Long-term interest rates across the euro area followed the evolution of market-based measures of inflation compensation, which rose largely on account of higher inflation risk premia. The inversion of the risk-free yield curve subsided slightly over the summer period but remained at historically high levels. Sovereign bond spreads were resilient to the negative macroeconomic surprises. The GDP-weighted euro area average sovereign bond spread over the OIS rate based on the €STR increased by 6 basis points over this period, to a level only moderately above that prevailing before the start of the ECB's monetary policy normalisation. Sovereign spreads in different jurisdictions rose unevenly, with the Italian and Spanish spreads recording the largest increases of 20 and 15 basis points, respectively. The sovereign bond markets showed resilience not only to the deterioration in the macroeconomic outlook but also to the reduced market presence of the Eurosystem. The absence of significant upward pressures on spreads, despite the end of APP reinvestments as of July 2023, and the usual summer trough in liquidity conditions, suggested that private investors were continuing to absorb the bonds no longer purchased by the Eurosystem without major difficulties. In order to reinforce progress towards its inflation target, the Governing Council decided at its 14 September meeting to raise the three key ECB interest rates by another 25 basis points to 4%.

During Autumn, financial market developments were dominated by spill overs from substantial fluctuations in US Treasury yields and lower than anticipated inflation releases in the euro area. By late October, developments in the euro area financial markets reflected expectations for a stable near-term policy rate path, while longer-term rates increased. Following the ECB's September monetary policy decision to raise the three policy interest rates by 25 basis points, the short end of the euro area risk-free curve varied only marginally, reflecting expectations by market participants that policy rates had reached their peak. Euro area longer-term risk-free rates stood noticeably higher than at the time of the September meeting, largely reflecting spill overs from the US market, albeit with some downward pressure following the escalation of tensions in the Middle East in early October. The €STR averaged 387 basis points between mid-September and late October. The OIS forward curve remained broadly stable for short-term maturities after the Governing Council's September monetary policy decision. The curve then suggested market expectations of a first 25 basis point cut in mid-2024, with an additional two 25 basis point cuts priced in by the end of 2024. Sovereign bond yields in the euro area increased in line with risk-free rates during the same period. The euro area GDP-weighted average ten-year sovereign bond yield stood at around 3.5%, about 25 basis points above its level in mid-September. Sovereign spread movements were very contained in this period, with the exception of the Italian spread, which widened somewhat, likely reflecting idiosyncratic factors related, mainly, to domestic 2024 budget news.

The Governing Council decided at its meeting on 26 October to keep the three key ECB interest rates unchanged. Inflation was still expected to stay too high for too long, and domestic price pressures remained strong. At the same time, inflation had dropped markedly in September, and most measures of underlying inflation continued to ease. Past interest rate increases continued to be transmitted forcefully into financing conditions, which were increasingly dampening demand and thereby helping push down inflation.

On 14 December, the ECB's Governing Council decided to keep the three key policy rates unchanged. While inflation had dropped in recent months, it was expected to pick up again temporarily in the near term. That said, according to the ECB's December macroeconomic projections, inflation was expected to decline gradually over the course of 2024, before approaching the Governing Council's 2% target in 2025. At the same meeting, the Governing Council also decided to advance the normalisation of the Eurosystem's balance sheet. It intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of the year, it intends to reduce the PEPP portfolio by €7.5 billion per month on average. Finally, the Governing Council reiterated its intention to discontinue reinvestments under the PEPP from the end of 2024. Following these (largely expected) announcements, the short end of the euro area risk-free curve varied only marginally, reflecting stable expectations for no change in ECB policy rates at the January 2024 meeting. By contrast, policy rate expectations over longer horizons fluctuated more markedly. Euro area sovereign bond yields moved in line with risk-free rates, which increased slightly. The PEPP portfolio announcement had no visible impact on sovereign bond yields. Sovereign spread movements across euro area jurisdictions were closely contained.

Malta Government Stocks and Debt Instruments Financing Remit in 2023

The Budget Speech delivered in October 2022 set the financing remit for the Debt Management Directorate for the year 2023. An annual borrowing requirement of €1.6 billion was approved by Parliament through the Budget Measures Implementation Act (Act No. XII of 2023) on 4th April 2023. During 2023, the Treasury department borrowed a total nominal amount of €1.39 billion through the issue of Malta Government Stocks (MGS) (2022: €1.04bn). Another €72 million were financed via a new bilateral loan from the European Investment Bank (EIB) (see pages 26-27 for more details) and the remaining balance was raised via Treasury bills. The funds raised were used to finance:

- the estimated Consolidated Fund deficit for 2023 of €979.9 million.
- the redemption of four (4) MGSs and one (1) 62+ MGRSB totalling €445.4 million; and
- changes in Central Government's debt portfolio, in line with Government's debt management policies.

Financing Instruments and Operations used in Debt and Cash Management

Issuance Strategy

The objective of the funding strategy is to minimize the borrowing costs of meeting the government's financing needs over the long-term, while keeping risk at an appropriate level. To achieve this policy objective, the DMD seeks to formulate a borrowing strategy which is resilient in the face of a wide range of economic and financial market conditions.

Until now, the Government's policy towards meeting its financing needs has been that of relying almost exclusively on issuing euro-denominated debt instruments in the domestic money and debt capital market. The debt security issuance strategy for the year 2023 was very similar to the strategy adopted in the second half of 2022, whereby almost all MGS issues were available for subscription to both retail and institutional investors. This was possible since policy rates, and consequently coupon rates, were rising and becoming more attractive for retail investors after nearly a decade of very low interest rates. 95.5% of the 2023 funding requirement was raised from the domestic money and debt capital markets through T-bill and MGS issues. The remainder was financed via a new EIB Loan. Slightly over €1 billion or 72% of total gross MGS issues in 2023 were funded through the competitive issuance mechanism (auctions) of Malta Government Stocks with minimum bids of €500,000, whilst €393.3 million were allotted to retail investors at fixed pre-announced offer prices (maximum application of €499,900). Almost all the debt instruments sold by the DMD in the domestic markets were of the marketable type, except for the June rollover of the 62+ Malta Government Retail Savings Bond (62+ MGRSB) – 2018 Issue. The successful 62+ MGRSB rollover offer meant that €70.1 million out of nearly €86 million due for reimbursement to investors remained in the government's bank account. Like past years, the conventional fixed rate MGS remained the primary instrument through which the directorate financed central government's borrowing requirements for the year.

During 2023, the DMD continued with its ongoing dialogue with the different financial market players and key stakeholders to better understand their investment needs and facilitate investors' planning in line with the principles of transparency, predictability and fairness adopted by the directorate. The DMD recognises the importance of collaborating with market players to design a financing programme that can be implemented effectively and efficiently.

The DMD's cash management strategy was designed to achieve the objectives of (i) ensuring that sufficient funds were always available to meet any government funding and financial commitments on a daily basis when they fall due (ii) contributing to the smooth implementation of the operational targets of fiscal policy and public debt management and (iii) sustaining activity in and support the development of the domestic Treasury bills market.

Implementation of the Government borrowing programme

In line with the annual borrowing plan published on 16 January 2023, the entire medium- to long-term borrowing programme for 2023 was financed through conventional fixed-rate MGS. The fixed-rate bonds issued were in the short, medium, and long-term maturity segments of the yield curve, to better meet the investment requirements of different investor categories. All MGSs are marketable debt securities listed and traded on the Malta Stock Exchange (MSE). The Malta Stock Exchange is licensed by the Malta Financial Services Authority (MFSA) to act as the Competent Authority to provide the services of a regulated market. In 2023, one MGS issue was offered via the auction mechanism only (October), mainly targeting banks, life insurance companies, fund management companies and other financial institutions, whilst the other three MGS issues were of a combined nature (i.e., available to both retail and institutional investors). The Malta Government Stocks issued during 2023 were issued under (i) the GBMPDA, (ii) the Malta Government Stocks Regulations and (iii) the Malta Government Stock General Prospectus. The Regulations and the General Prospectus were published in November 2018.

Government Borrowing Operations

Malta Government Stocks

The MGS funding programme for 2023 consisted of a total of four issues. Three issues (February, July, and September) were combined issues, open to both retail and institutional investors, as policy rates and yields continued to rise, becoming more attractive especially to retail investors. The last MGS issue held in October was, on the other hand, allotted through the auction mechanism and therefore was targeted mainly at institutional investors. Overall, 72% or slightly more than €1 billion of newly issued MGS during 2023 were allotted via the competitive auction mechanism. Compared to 2022, MGS issues in 2023 were even more skewed towards the short tenors (55%) than in 2022 (40%), whilst medium term tenors fell to 31% from 49% in 2022. Despite investors' clear preference for short-term bonds due to the dynamic interest rate environment, allotment to long-term maturities in 2023 rose to slightly higher than 14%, from nearly 11% in 2022. As already explained in the 2022 annual report, investors continued to exhibit understandable reluctance to buy long maturity bonds in a high inflation and rapidly shifting monetary policy environment, due to their heightened intrinsic price sensitivity. This led the directorate to refrain from offering long-term bonds, except for the February issue in which the Treasury department offered a new 20-year MGS. This issuance strategy resulted in a lower weighted-average maturity of new MGS issued for 2023, which stood at 8.0 years, compared to 9.7 years in 2022. This also had a knock-on effect on the weighted-average maturity (WAM) of the total outstanding MGS portfolio, which registered another reduction from 9.0 years on 31 December 2022 to 8.3 years by end 2023. As was the case during 2022, in 2023 the directorate issued only new MGSs, a total of nine, due to the continuously evolving conditions in the capital markets which made it difficult to tap existing MGSs (i.e., offer fungible issues). This continued to create a more fragmented MGS portfolio, but with bond coupons that reflected the dynamic context and market conditions that characterised the year 2023. The longest maturity new bond was issued in February and matures in 2043 (20 years) bearing a 4% coupon. In July and September, the longer maturity bonds offered to investors had a term to maturity of slightly more than 15 years, but with corresponding coupons that reached 4% and 4.30% respectively. The only medium term MGSs issued during 2023 were ten-year bonds offered in July and September with 3.75% and 4% coupons. As usual, these bonds were offered alongside short term bonds (3-

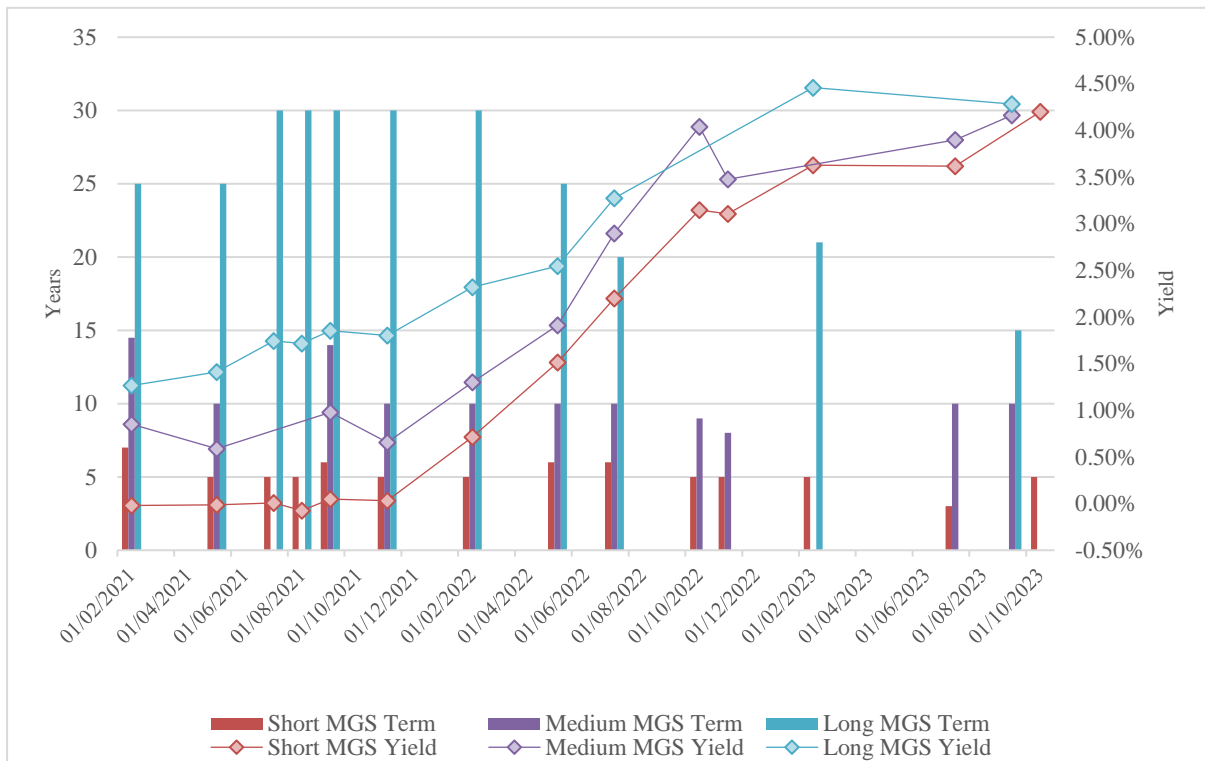
year and 5-year tenors) that mature in 2026 and 2028. **Table 1** illustrates the Malta Government Stocks allocated during 2023 in the four issuances launched during the year.

Table 1 - Malta Government Stocks allocated during the year 2023

Fixed Rate Stocks (€ million)				
Issuance Month	Short-term	Medium-term	Long-term	Total
February	243.4	-	105.8	349.2
July	175.6	155.5	68.5	399.5
September	-	280.5	23.1	303.6
October	341.9	-	-	341.9
TOTAL	760.9	436.0	197.4	1,394.3

Chart 1 overleaf illustrates the primary market **yields** conceded in respect of each fixed-rate MGS launched over the last three years. The bar graph represents the maturity segment of the stocks (left vertical axis) in respect of each respective issuance. The decades high inflation recorded also during the course of 2023 continued to put pressure on global central banks to implement tighter monetary policy, with the aim of getting inflation on a downward path towards their targets. This unavoidably affected debt capital market rates for all participants including sovereigns. The chart shows that the increase in interest rates paid on all the maturity points of the yield curve tapped in 2023 persisted, albeit at a decreased pace, as central banks were registering progress in taming high inflation. The only exception was the long-term yield, which fell from 4.46% in the February issue to 4.28% in September, although referring to different tenors (20-year vs. 15-year). The weighted-average rate on allotted long-term bonds rose from 1.31% in 2021 to 4.05% in 2023. In the case of medium-term MGS, rates accepted by the directorate ascended from an average rate of 0.73% in 2021 to 4.00% for 2023. Finally, the conceded primary market short-term debt weighted-average yields increased by 378 bps, from close to the zero percent level during 2020-2021 to 3.78% in 2023, confirming that this part of the curve was the most affected by the policy rate increases adopted by the ECB.

Chart 1 - MGS Primary Market Yields & Maturities 2021-2023



Note: For auctions where 2 long-term MGS were issued, the one with the longer tenor is always chosen.

Table 2 on the next page shows primary market MGS yield **spreads** on benchmark German government bonds ('Bund') of identical maturity for the past three years. For 2023, year-on-year spread comparisons refer to both retail issues and auctioned MGS, as retail investors were invited to participate in all bond issues except for the October 2023 issue. It is important to note that retail issues were restarted from July 2022 onwards, after an absence of 5 years. Over the course of 2023, the average primary market yield spreads on comparable benchmark Bunds fell for the long-term maturity issues categories, compared to 2022 spreads. Their 2023 average spread was 147 bps (retail) and 176 bps for auctions compared to 175 bps and 180 bps respectively in 2022. Turning to medium-term MGS issues, 2023 registered a lower average yield spread for retail bond issues, with a 44 bps decrease, from 175 bps in 2022 to 131 bps in 2023. On the other hand, for auctioned medium-term bonds, spreads rose from 137 bps in 2022 to 147 bps for 2023. Finally, the average primary market spread of short-term MGS issues in 2023 ascended as well for auctioned MGSs, by around 18 bps, from 98 bps in 2022 to 116 bps. Conversely, short-term MGS issues for retail applicants saw their yield spreads fall substantially, by 51 bps, from 127 bps in 2022 to 76 bps in 2023. Overall, MGSs allotted by auction in 2023 were relatively higher in terms of nominal amounts compared to retail allotments, with a ratio of nearly 2.3:1. Given that retail issues are invariably being priced at par (€100), the higher take-up from auctions meant more MGSs were being allotted at discounted prices (<€100) (higher yields) compared to retail issues. This was the main contributor to the higher yield spreads recorded in the short and medium term tenors in 2023. This factor was also reinforced by another fact already highlighted in the 2022 annual report, namely that investors (especially institutional ones) continued to require higher returns to expose their bond investments to high inflation and rising interest rates. In contrast to what happened in 2022, where the total interest expenditure incurred on MGS fell, the equivalent figure for 2023 rose, and the rising spreads from auctioned bonds were one of the contributing factors (see section on interest expenditure on page 31).

Table 2 – MGS Spread Over Bund in Primary Market

Year	Issuance	Short-term		Medium-term		Long-term	
		Retail	Auction	Retail	Auction	Retail	Auction
2021	Feb	-	+51bps	-	+96bps	-	+117bps
	May	-	+45bps	-	+67bps	-	+103bps
	July	-	+53bps	-	-	-	+136bps
	Aug	-	+69bps	-	-	-	+166bps
	Sep	-	+62bps	-	+108bps	-	+167bps
	Nov	-	+60bps	-	+90bps	-	+175bps
2022	Feb	-	+75bps	-	+109bps	-	+184bps
	May	-	+55bps	-	+93bps	-	+151bps
	Jul	+120bps	+142bps	+143bps	+190bps	+175bps	+205bps
	Oct	+133bps	-	+206bps	-	-	-
	Nov	-	+120bps	-	+156bps	-	-
2023	Feb	+77bps	+112bps	-	-	+158bps	+200bps
	Jul	+75bps	+79bps	-	+141bps	+144bps	
	Sep	-	-	+131bps	+153bps	+139bps	+151bps
	Oct	-	+156bps	-	-	-	-

Note: For auctions where 2 short term MGS were issued, the one with the longer tenor is always chosen.

Source: Deutsche Bundesbank (www.bundesbank.de) & DMD calculations.

The **first** MGS issuance for the year 2023 was held towards the end of February, via a combined issue. The amount on issue was €200 million, with an over-allotment option of a further €150 million. In this issuance, the Treasury offered two new fixed rate stocks namely (i) 3.50% MGS 2028 (VI) and (ii) 4.00% MGS 2043 (I). The Treasury department received nearly €179.2 million from retail applicants and €236.5 million in bids for the auction, therefore adding up to close to €415.7 million. These amounts translated into a bid-to-cover ratio of 2.08x. As usual, retail applications were accepted in full whilst €170 million were allotted via the auction mechanism. Slightly more than €87.9 million were applied for by retail investors in the short-term bond, whilst the remaining €200.5 million were taken up by institutional investors. Nearly €91.3 million of retail applications opted for the 20-year MGS, whereas the balance of €14.5 million in the 4.00% MGS 2043 (I) were raised through auction bids.

The retail offer price in the case of the (i) 3.50% MGS 2028 (VI) was €101.25, equivalent to a yield-to-maturity (YTM) of 3.24% and ISMA yield of 3.27% (ii) 4.00% MGS 2043 (II) was issued at par (€100.00), implying a YTM of 4% and ISMA of 4.04%. In the auction, the short-term bond was allotted at a weighted-average YTM of 3.59% and weighted-average ISMA yield of 3.63%. More details on the first MGS auction of the year are shown in **Table 3** overleaf.

Table 3 – Participation & Allotment - February 2023 MGS Issuance

Issuance	Security Issued	Auction		Retail		Total		
		Amount Bid	Amount Allotted	Amount Applied	Amount Allotted	Amount Bid/Applied	Amount Allotted	% Allotted
		€ million	€ million	€ million	€ million	€ million	€ million	
February	3.50% MGS 2028	200.5	155.5	87.9	87.9	288.4	243.4	84%
	4.00% MGS 2043	36.0	14.5	91.3	91.3	127.3	105.8	83%
	Total	415.7	236.5	349.2	170.0	415.7	349.2	84%

The **second** MGS issuance was held in mid-July and was composed of three new MGSs. The new 3-year MGS was available for subscription by both retail and institutional investors; a new 10-year bond was only offered to auction bidders; whilst the new 15-year MGS was offered to retail investors only. In this issuance, the Treasury department offered a new 3-year bond, the 3.55% MGS 2026 (V), a new 10-year bond, the 3.75% MGS 2033 (III) and a new 15-year MGS with a coupon of 4.00% maturing in 2038.

The amount on issue was €270 million, with an over-allotment option of a further €130 million. In this issuance the directorate allotted slightly more than €180 million to retail applicants, and €219.5 million out of a total of €389 million bid in the auctions. Nearly €175.6 million, or 44% of the total amount allotted, were raised by the new 3-year bond; €155.5 were allotted to the 3.75% MGS 2033 (III), and the remaining €68.5 million were allotted in the new long-term MGS. With a total nominal sum applied and bid of over €569 million, the issue registered a bid-to-cover ratio of 2.11x. The outcome of this auction clearly indicated again investors' preference for shorter term maturities, with nearly half the amount on issue (including the over-allotment option) being allotted in the new 3-year MGS. This trend was a continuation of the investor appetite that prevailed from mid-2022 onwards, amid the volatility caused by high inflation and consequently rising policy rates.

The 3.55% MGS 2026 was issued to retail investors at par, yielding an ISMA of 3.58%. In the auction, the new 3-year bond was allotted at a YTM of 3.59% and ISMA of 3.62%. The published pricing guidance in the case of the 3.75% MGS 2033 (III) was in the area of 71 bps over the interpolated euro mid-swap rate. The new 10-year bond was allotted at a weighted-average YTM of 3.86% and weighted-average ISMA yield of 3.90%, resulting in a spread of around 82 bps over the mid-swap. Also, the new 15-year MGS maturing in 2038 was offered to retail investors at par, implying a 4.04% ISMA yield. More details on investors' participation in the second issuance of the year is shown in **Table 4** below.

Table 4 – Participation & Allotment - July 2023 MGS Issuance

Issuance	Security Issued	Auction		Retail		Total		
		Amount Bid	Amount Allotted	Amount Applied	Amount Allotted	Amount Bid/Applied	Amount Allotted	% Allotted
		€ million	€ million	€ million	€ million	€ million	€ million	
July	3.55% MGS 2026	169.0	64.0	111.6	111.6	280.6	175.6	63%
	3.75% MGS 2033	220.0	155.5	n/a	n/a	220.0	155.5	71%
	4.00% MGS 2038	n/a	n/a	68.5	68.5	68.5	68.5	100%
	Total	389.0	219.5	180.0	180.0	569.0	399.5	70%

The **third** MGS issuance for the year was a combined issue open to both retail and institutional investors held in September. For this issue the DMD offered a new 10-year MGS, the 4.00% MGS 2033 (IV), and a new 15-year bond maturing in 2038 bearing a coupon of 4.30%, to borrow an amount of €260 million with an over-allotment option of a further €140 million. Offer prices to be paid for each stock by retail applicants were set at €100.75 for the ten-year bond, which translated into a YTM of 3.91% and an ISMA yield of 3.95%, whereas the new 15-year MGS was priced at €102.00, implying a YTM of 4.12% and an ISMA yield of 4.16%. The directorate's registrar received a total of 2,600 retail applications, summing slightly over

€81.6 million. Nearly €63.5 million worth of applications were lodged in the 10-year MGS and €18.1 million for the new 15-year bond, which were all accepted according to the established DMD policy which gives precedence to retail applicants over auction bids.

Through the auction mechanism the directorate allotted a total of €222 million, of which €217 million in the 4.00% MGS 2033 (IV) and €5 million in the new 15-year MGS. The 10-year MGS was allotted at a weighted-average YTM of 4.12% and a weighted-average ISMA yield of 4.16%. The new 15-year benchmark was allotted at a weighted-average YTM of 4.24% and weighted-average ISMA yield of 4.28%. Since this was a combined issuance, no prior price guidance was issued to the market. Total participation from both retail and institutional investors amounted to €327.1 million, translating into a bid-to-cover ratio of 1.26x. More details on this transaction are shown in **Table 5** underneath.

Table 5 – Participation & Allotment - September 2023 MGS Issuance

Issuance	Security Issued	Auction		Retail		Total		
		Amount Bid € million	Amount Allotted € million	Amount Applied € million	Amount Allotted € million	Amount Bid/Applied € million	Amount Allotted € million	% Allotted
Sept	4.00% MGS 2033	237.0	217.0	63.5	63.5	300.5	280.5	93%
	4.30% MGS 2038	8.5	5.0	18.1	18.1	26.6	23.1	87%
	Total	245.5	222.0	81.6	81.6	327.1	303.6	93%

The **fourth** and last MGS issuance for the year was held in mid-October, via a competitive auction intended for institutional investors. In this issuance, the directorate offered a new 3-year MGS with a coupon of 3.85% and the 3.95% MGS 2028 (VII). The amount on issue was €200 million, with an over-allotment option of a further €150 million. Through this issuance, the DMD raised another €341.9 million in funding, with €177.5 million allotted to the 3.85% MGS 2026 (VI) and the remaining €164.4 million in the new 3.95% MGS 2028 (VII), and therefore registering a bid-to-cover ratio of 1.76x. Total participation amounted to €351.9 million, with bids equally spread between the two MGSs on offer.

The published price guidance in the case of the (i) 3.85% MGS 2026 (VI) was in the area of 25 bps over the corresponding interpolated euro mid-swap rate, and (ii) 3.95% MGS 2028 (VII) was around the 55 bps level. The former was allotted at a weighted-average YTM of 4.05% and weighted-average ISMA yield of 4.09%, resulting in a spread of around 55 bps. The 15-year bond was allotted at a weighted-average YTM of 4.16% and a weighted-average ISMA yield of 4.20%, resulting in a spread of approximately 88 bps over the respective mid-swap rate. More details on the fifth MGS issuance of the year are shown in **Table 6** below.

Table 6 – Participation & Allotment - November 2023 MGS Issuance

Issuance	Security Issued	Auction		Retail		Total		
		Amount Bid € millions	Amount Allotted € millions	Amount Applied € millions	Amount Allotted € millions	Amount Bid/Applied € millions	Amount Allotted € millions	% Allotted
October	3.85% MGS 2026	177.5	177.5	n/a	n/a	177.5	177.5	100%
	3.95% MGS 2028	174.4	164.4	n/a	n/a	174.4	164.4	94%
	Total	351.9	341.9	n/a	n/a	351.9	341.9	97%

Table 7 - Participation in Malta Government Stock issues during 2023

Issuance Month	Amount on offer (€ million)	Participation (€ million)	Bid-to-Cover
February	200 + 150	415.7	2.08 x
July	270 + 130	569.0	2.11 x
September	260 + 140	327.1	1.26 x
October	200 + 150	351.9	1.76 x

62+ Malta Government Retail Savings Bond

For the second consecutive year, in the Budget Speech of October 2022, the Minister for Finance refrained from mentioning that part of the government's medium-to-long term borrowing programme for 2023 would be partly financed again via the issue of a 62+ Malta Government Retail Savings Bond (62+ MGRSB); a non-marketable financial investment product issued every year between 2017 and 2021. In fact, no new 62+ MGSB was issued in 2022. The aim of this initiative, conceived in 2016, was to offer a non-marketable savings product that pays an interest rate above the rate then paid by banks' savings and term deposit accounts, without exposing investors to interest rate risk that may cause losses on the capital invested. The targeted investors were individuals aged 62 years and over, who form an important segment of the retail MGS investor market. This sector of society was also being negatively affected by the then prevailing low interest rate environment. This debt instrument paid 3% p.a. interest over the course of five years. The amount invested could be redeemed entirely any time before its set maturity date, however the holder would give up three months' interest on the amount invested as penalty for the early redemption. The bonds were sold at face value (€100.00) and maintained their original value upon redemption after five years. Semi-annual payment of interest and of the principal upon maturity is electronically credited to a designated bank account.

Due to persistent demand from eligible investors, the Ministry for Finance took the decision to offer existing holders of the 62+ MGRSB – 2018 Issue, which was due to mature in June 2023, the possibility to rollover (re-invest) their holdings into a new 5-year 62+ MGRSB maturing in June 2028. The rollover offer registered good participation from eligible investors, with 81% of applications sent by the Treasury department accepting the offer. This meant that 10,249 holders out of 12,608 decided to rollover their holdings. In monetary terms, a total of nearly €70.1 million were re-invested into the new 62+ MGRSB – Issue 2023, out of the nearly €86 million due for re-imburement. From a cash management perspective, through this transaction the Treasury department paid only the balance which was not rolled over, that is, €15.9 million, to the 2,359 holders of the 62+ MGRSB – Issue 2018 that opted not to re-invest their holdings. With regards to cost of funding, since secondary market bond yields and consequently new MGS coupons continued to rise considerably during 2023, the new 62+ MGRSB – Issue 2023 bears a coupon of 3.60% p.a. instead of the 3% conceded on previously issued 62+ MGRSB, reflecting the prevailing 5-year MGS yield in the secondary market at the time of rollover.

During the year 2023, nearly €6.3 million worth of retail savings bonds were repaid prior to their set maturity date and subsequently cancelled from the MSE register (2022: nearly €6.9 million). These were in respect of retail savings bonds issued in 2018, 2019, 2020, 2021 and 2023. The early redemptions were either paid to applicants who wished to liquidate their investment or to the heirs of deceased retail savings bond holders through the *causa mortis* legal process.

At the end of 2023, non-marketable debt instruments in the form of government retail savings bonds made up 3.6% of total gross central government debt compared to 4.2% at the end of 2022.

Table 8 overleaf illustrates the outstanding amounts of 62+ Malta Government Retail Savings Bonds as of 31st December 2023.

Table 8 - Early Redemptions & Outstanding Malta Government Retail Savings Bonds

ISIN	Security	Redemption Date	Balance as of 31 December 2022	Early Redemptions in 2023	Balance as of 31 December 2023
			€	€	€
MT4000010036	62+ MGRSB – Issue 2018	19 Jun 2023	88,190,600	967,700	-*
MT4000010044	62+ MGRSB – Issue 2019	20 Mar 2024	95,382,500	2,037,200	93,345,300
MT4000010051	62+ MGRSB – Issue 2020	21 Jul 2025	92,651,800	1,715,100	90,936,700
MT4000010069	62+ MGRSB – Issue 2021	15 Oct 2026	98,945,400	1,438,700	97,506,700
MT4000010077	62+ MGRSB – Issue 2023	19 Jun 2028	-	138,000	69,954,200
Total			375,170,300	6,296,700	351,742,900

* Holders of the 62+ MGRSB – Issue 2018 were offered the possibility of re-investing their holdings on the date of redemption. Out of €85,971,100 outstanding, €70,092,200 chose to rollover their holdings into the new 62+ MGRSB – Issue 2023, whereas the remaining €15,878,900 were redeemed.

Table 9 - Early Redemptions of 62+ Malta Government Retail Savings Bonds in 2023

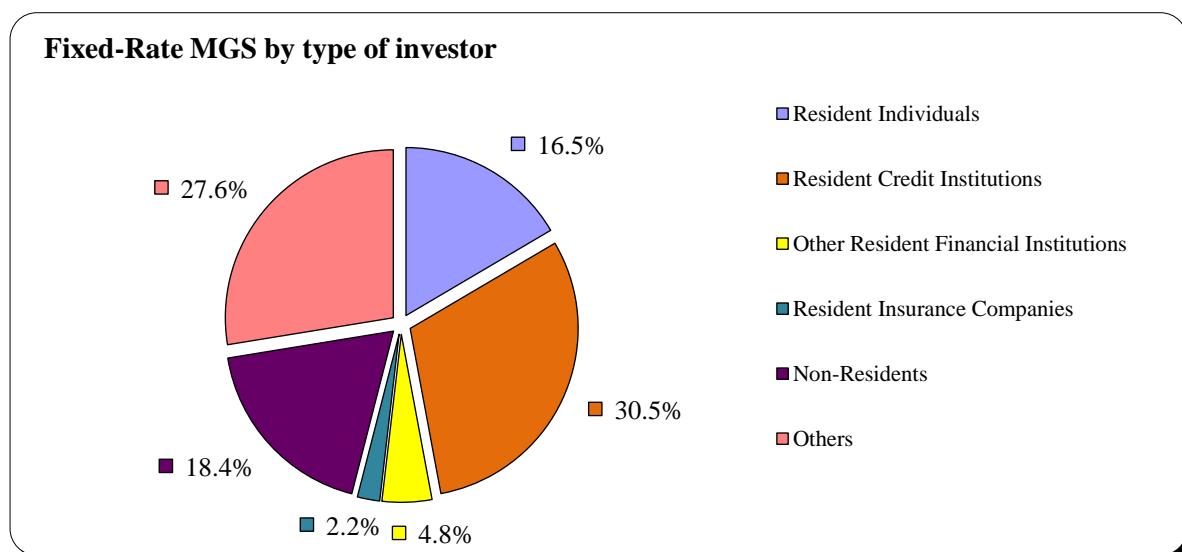
Early Redemptions	Causa Mortis	Total
€	€	€
1,197,900	5,098,800	6,296,700

MGS Investor Distribution

Chart 2 below shows the distribution of MGS holders among the different investor categories. MGSs remain overwhelmingly the largest component of central government debt, with 84.6% of gross total central government debt consisting of these securities as of the end of December 2023 (2022: 81.7%).

When compared to end 2022, resident individuals' holdings saw a 3.5 percentage point increase by 31 December 2023. This was due to the fact that, from the four MGS issues conducted during the year (excluding the 62+ MGRSB – Issue 2023), three issues were open for retail investor subscriptions given that yields/coupons became progressively more attractive to this investor category. Also, resident credit institutions' holdings registered an increase year-on-year, from 29.4% to 30.5%. The share of holdings of other resident financial institutions, which include resident fund management companies, decreased by 1 percentage point, from 5.8% to 4.8%, whilst that of resident insurance companies rose by 0.2 percentage points when compared to 2022. Non-resident ownership registered a 2.2 percentage point reduction in MGS holdings, reaching 18.4% at the end of 2023 (2022: 20.6%). Finally, the 'other' investor category, which is mainly composed of Central Bank of Malta (CBM) holdings for investment and market making purposes, and ECB quantitative easing holdings, but also includes minor domestic financial institutions, resident non-financial private entities, non-profit organisations, local governments, and public non-market units, also saw a fall in their holdings of MGS by another 1.7 percentage points when compared to 31st December 2022 and stood at 27.6%.

Chart 2 - MGS Holder Distribution by Investor Type as of 31st December 2023



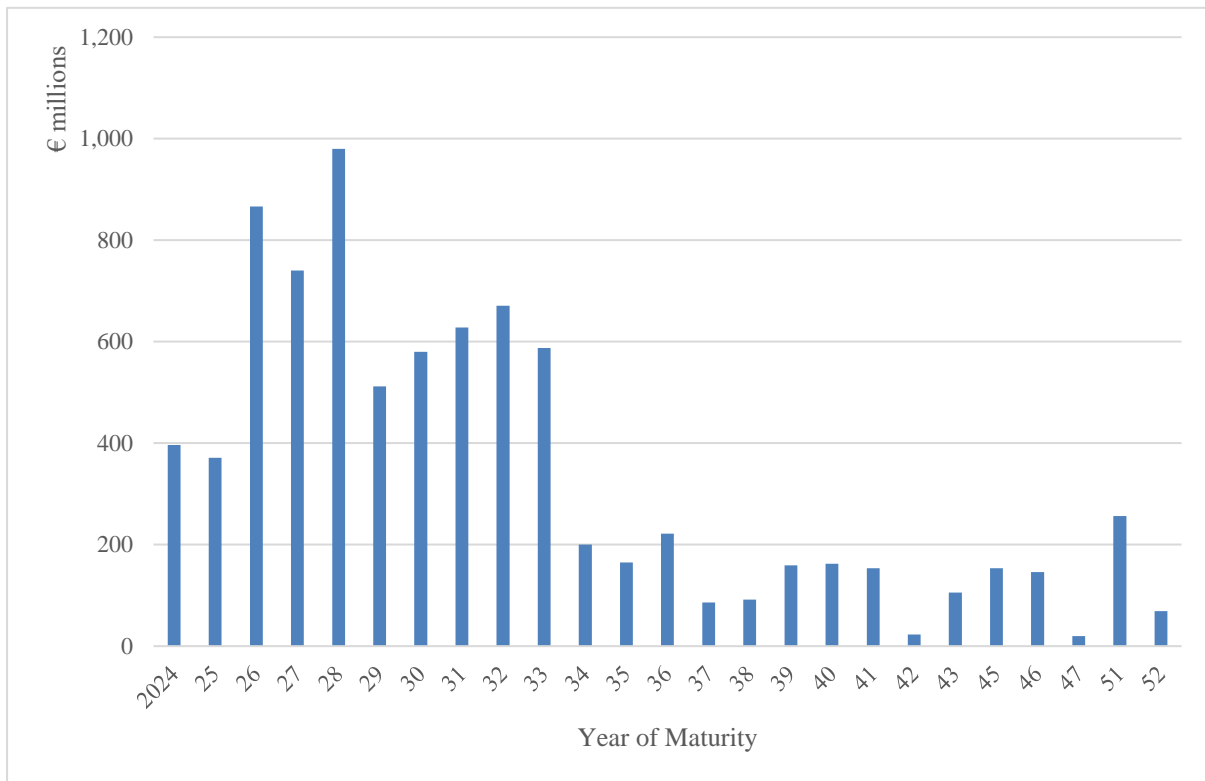
MGS Maturity Profile

Chart 3 overleaf shows the MGS redemption profile as of 31st December 2023. The gross outstanding nominal value of MGS as of 31st December 2023 stood at €8,344.4 million, an increase of 14.2% or € 1,037.2 million over the outstanding balance of the previous year. As at the end of 2023, the longest maturity MGS in issue is due for redemption in the year 2052.

At the beginning of 2023, the weighted-average maturity (WAM) of the MGS portfolio (excluding 62+ Malta Government Retail Savings bonds) stood at 9.0 years. By the end of the year, it fell again to 8.3 years, confirming the recent retail investor preference for shorter tenors given the prevailing adverse monetary policy conditions. In fact, the weighted-average maturity of new MGS issues in 2023 fell further to 8.0 years compared to 9.7 years in 2022. This change in retail investor preference for short-term MGS started to be observed since the directorate decided to re-open MGS issues to retail investors as interest rates commenced their recovery in mid-2022. As asserted in the 2022 annual report, high inflation and repeated policy rate hikes by the ECB made bond investments less attractive, due to lower real returns and heightened interest rate risk, especially for longer-dated fixed income debt securities. This may explain the change in retail investors' bond tenor inclination. Moreover, this development could also reflect another interesting fact: retail MGS investors may no longer be simply attracted by the high coupons of longer maturity bonds but may have become more sophisticated in analysing fixed income markets and their risks, possibly by increasingly resorting to professional financial advice. These developments, coupled with the long-established preference of banks for short-term bonds, have compelled the Treasury department to allot higher amounts in short-term tenors which are ultimately reflected in a falling outstanding MGS portfolio and new MGS WAM. Indeed, the directorate allotted 54.6% of the total new MGS issued in 2023 to short-term tenors (2022: 39.9%). A further 31.3% were placed in the medium-term maturity segment of the curve, compared to 49.4% in 2022. Notwithstanding this, the directorate still managed to increase the amount allotted to new long-term bonds in 2023 by 3.5 percentage points, from 10.7% in 2022 to 14.2% during the year under review.

However, compared to a year earlier, the skewness of the MGS portfolio on 31st December 2023 increased substantially, by 7 percentage points, from 33% to 40% of the portfolio maturing within the next five years. This means that the government's 5-year refinancing risk rose considerably compared to the preceding year.

Chart 3 - Outstanding MGS Maturity Profile as of 31st December 2023



The weighted-average coupon (WAC) of all new MGSs issued during 2023, predictably, rose again. The increase was less pronounced than that registered during 2022, despite the continuation of the restrictive monetary policy adopted by the ECB. In 2023 new MGS issues WAC was 3.81%, 92 bps higher than in 2022, which saw the new MGS WAC climb from 0.91% in 2021 to 2.89%. As reported for 2022, this increase occurred despite a lower weighted-average maturity (WAM) for newly allotted MGS, which confirms the pass-through of higher policy rates to debt capital markets, especially to the short-end of the yield curve. The tighter financial conditions were also reflected in the outstanding MGS portfolio WAC as of 31 December 2023, which rose as well to 2.65% from 2.40% at the end of 2022.

Malta Government Stocks Portfolio Composition

As of 31st December 2023, the outstanding MGS portfolio was entirely made up of fixed-rate stocks. By the same date, the proportion of Malta Government Stocks of the total gross central government debt portfolio increased to 84.6% from 81.7% in 2022. Total central government debt is defined as being composed of MGSs, T-Bills, 62+ MGRSB and bi-lateral loans from official foreign lenders, including SURE loans and the new EIB loan.

Cash Management

Treasury Bills

The directorate's main cash management objective is to ensure that sufficient funds are always available to meet any net weekly central government cash shortfall.

The DMD seeks to achieve this objective by working together with the Treasury department's Cash and Banking Operations unit, which provides the directorate with weekly cash inflow and outflow projections expected to hit the central government's public account held at the Central Bank of Malta (CBM). The directorate then conducts the operations needed to raise the required funding, primarily by holding weekly Treasury bill auctions based on the cashflow forecasts submitted by the Cash and Banking unit, and actual weekly debt servicing data produced by the DMD's middle office.

To this effect, at the beginning of every year, the Treasury department, through its debt management directorate, announces that it would carry out its **cash management activities** through the issuance of Treasury bills in different benchmark tenors, by auction on a weekly basis, with a focus on the benchmark 91-day Treasury bill. Such market operations are conducted in line with DMD's objective of minimising borrowing costs whilst operating within agreed risk parameters.

Throughout the year under review, the DMD held Treasury bill auctions regularly on a weekly basis. Being the only financing instrument used in cash management operations, the directorate made extensive use of T-bills to manage central government's cash balance at CBM, with the primary aim of smoothing any liquidity shortfalls arising from whichever weekly mismatch between government revenue inflows and expenditure outflows. In view of the expected significant government funding needs resulting from the energy and grain price subsidy policy, the maximum balance of outstanding T-bills was maintained at €1.3 billion during 2023.

I. Issuance Strategy

In accordance with its announced issuance strategy, the directorate offered a mix of tenors after considering market appetite whilst also maintaining an acceptable level of refinancing risk. Despite the substantial funding needs created by the continued and significant fiscal support provided by the government in response to the historically high inflation environment, which led to considerable issuance of T-bills for a fourth consecutive year, participation in T-bill auctions during 2023 increased compared to 2022's 2.37x. However, the increase registered in 2023 was substantial, with an overall bid-to-cover ratio of 5.49x, which translated into a total of nearly €12.1 billion nominal in bids. The reason behind this strong increase in participation in T-bill auctions, especially by retail investors, is again due to the rapid and considerable rise in money market rates driven by the ECB's restrictive monetary policy, which made T-bills a very attractive short-term investment opportunity with near-zero credit risk. The balance of outstanding T-bills at the end of 2023 stood at €671.6 million, €175.1 million lower than the corresponding figure for 2022. **Table 10** overleaf summarizes the aggregate T-bill issuances and redemptions per tenor for 2023. During 2023, the directorate issued an average of €42 million in T-bills per week (2022: €48 million per week) and redeemed an average of €45.7 million per week (2022: €43.5 million per week).

The implementation of the cash management plan followed past years' Treasury bills issuance strategy. In 2023 the issuance of Treasury bills remained concentrated in the 91-day benchmark, with 70.7% of total issuance allotted in this tenor (2022: 68.7%). Circa 24% of total issuance was allocated in 182-day bills (27% in 2022). 28-day T-bill issuances increased during 2023, from 0.1% in 2022 to 1.4% of the total amount issued. 273-day T-bill issues registered a slight decrease, from 2.7% in 2022 to 2.0% in 2023. Finally, 364-day tenor bill issues saw a 0.6 percentage point increase, from 1.7% of total nominal amount issued in 2022 to 2.3% in 2023.

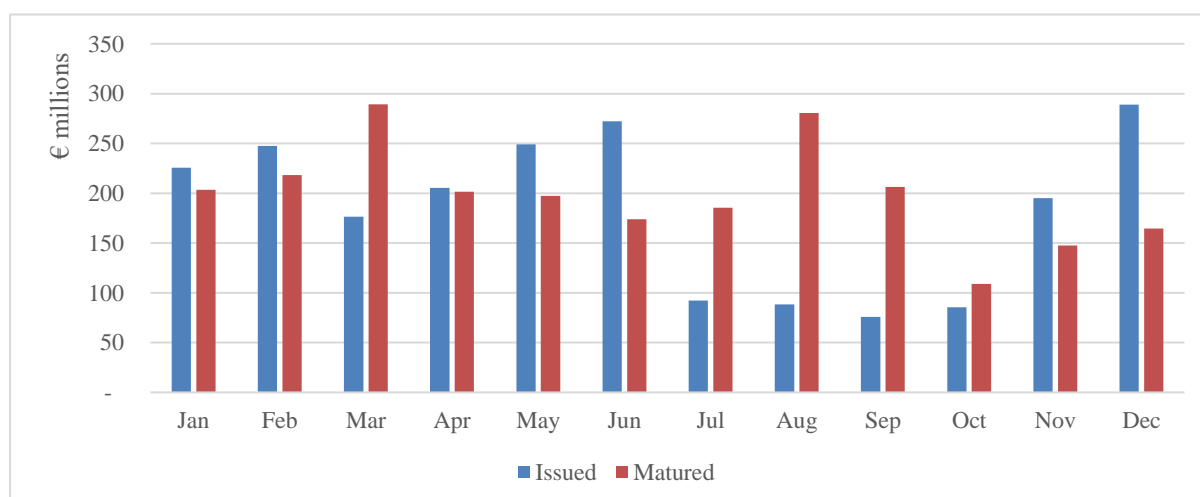
On balance, the increase in 364-day T-bill issuance was more than offset by the relative growth in 28-day bill issuance, and therefore the weighted-average maturity (WAM) on T-bills issued during 2023 fell again, from 124.9 days in 2022 to 121.6 days by the end of 2023. The WAM of T-bills redeemed during 2023 stood at 123.3 days, 9.7 days shorter than in 2022. As at 31 December 2023, the outstanding T-bill portfolio WAM was 81.6 days, 10.8 days longer than the 70.8 days registered at the end of 2022. Thus, T-bill refinancing risk at the end of 2023 was lower than on the same date of 2022.

Table 10 - T-bills issued by tenor in 2023

Tenor (days)	Issued (€ million)	% of Total	Redeemed (€ million)	% of Total
28	31.4	1.4	31.4	1.3
91	1,556.4	70.7	1,610.2	67.7
182	518.8	23.6	649.3	27.3
273	44.5	2.0	44.3	1.9
364	51.5	2.3	42.6	1.8
Total Issuance	2,202.62		2,377.69	

Chart 4 below shows gross nominal T-bill issuance and redemptions on a monthly basis for the year 2023. In general, periods of negative net issuance (redemptions higher than issues) follow MGS issues, which obviously lower the need for short-term borrowing. From a quarterly perspective, net redemptions were predominant during the third quarter of 2023 (July to September), a period which coincided with two MGS issues and consequently the short-term borrowing requirements during those months was very low. Similar situations arose after other MGS issues, specifically in March (following the February MGS issue) and in October, during which another MGS issue took place. The favourable cashflow situation in Q3 enabled the directorate to lower the balance of outstanding T-bills and therefore rollover/refinancing risk by close to €416 million. On the other hand, Q2 was the quarter which registered the highest quarterly net issuance at €153.8 million. The reason was that during that quarter the DMD did not issue new MGS but conducted only the 62+ MGRSB 2018 rollover (June). On a monthly basis, the highest net T-bill issuance was recorded in December, at slightly less than €124.2 million, followed by June at nearly €98.4 million. The lowest monthly net issuance (or highest net negative issuance) was registered in August and amounted to nearly €192.3 million. Overall, between 31st December 2022 and 31st December 2023, the T-bill outstanding balance fell by slightly more than €175 million, to reach €671.6 million, a 20.7% decrease. As of 31st December 2023, Treasury bills represented 6.8% of total gross central government debt compared to 9.5% as of 31 December 2022.

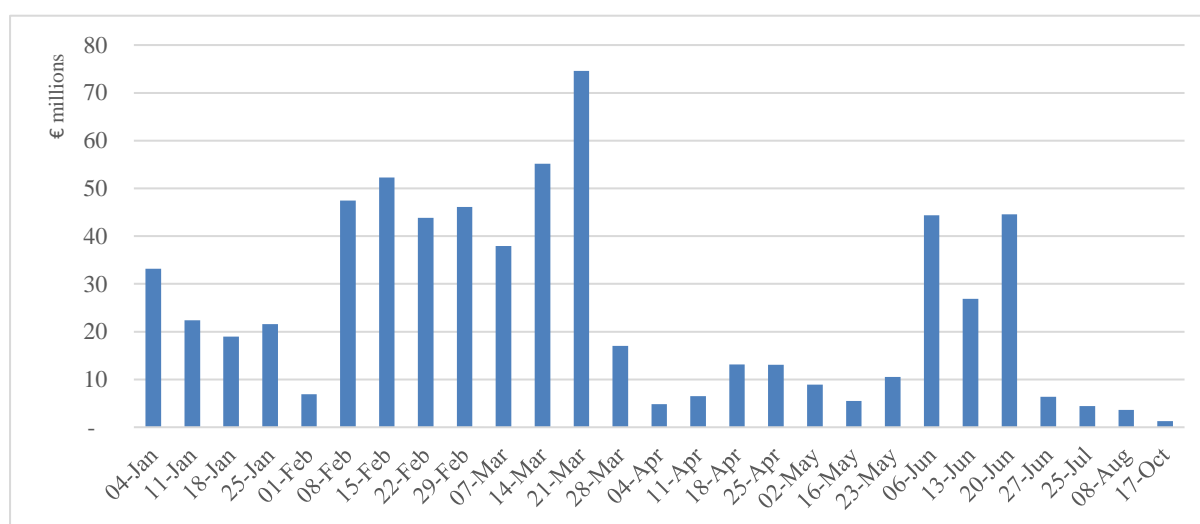
Chart 4 - T-bills issued and redeemed per month in 2023



II. Redemption Profile

Chart 5 shows how the outstanding balance of Treasury bills as of 31st December 2023 will be redeemed throughout 2024.

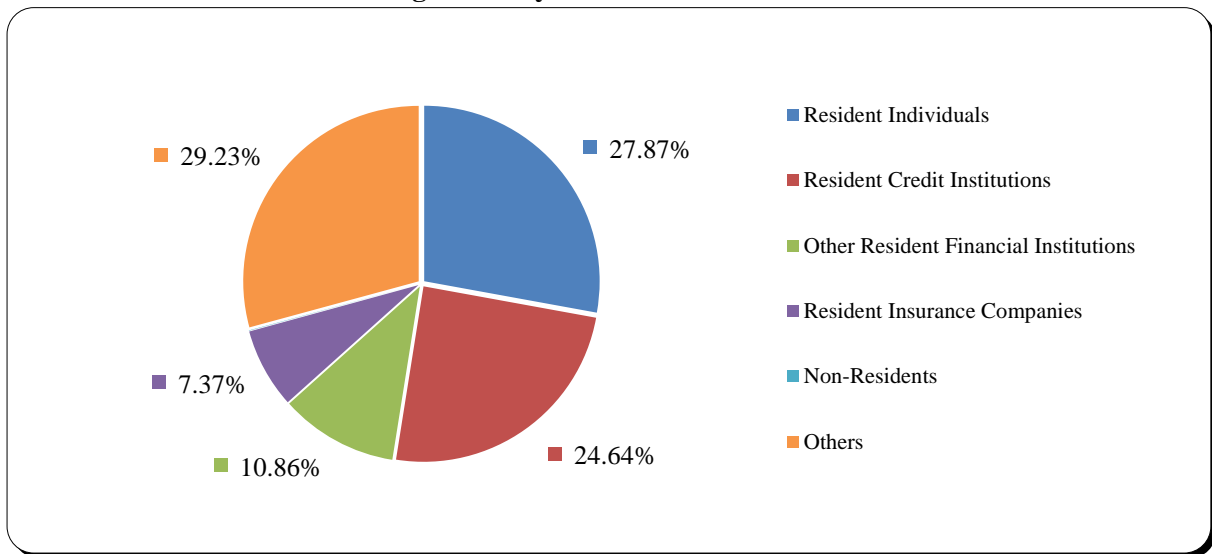
Chart 5 - Outstanding Treasury Bills Redemption Profile as of 31st December 2023



III T-bill Investor Distribution

During 2023, resident credit institutions lost their dominance as holders of Treasury bills. Their holding as at 31st December 2023 dropped sharply to 24.6% of the outstanding amount, from circa 85% a year earlier. For reasons already cited above, T-bill auctions attracted a much wider variety of investors during 2023, especially resident individuals and resident private and public non-financial corporations, which participated in Treasury bill auctions for the first time. Indeed, the biggest increase in holders was registered amongst resident individuals, which rose from 0.8% on 31 December 2022 to 27.9% by 31st December 2023 (including resident individuals who bid via the nominee system). Around 29% were collectively held by public non-market units, resident non-profit entities, resident non-financial private entities, and resident non-financial public entities (‘Others’ category in **Chart 6** overleaf), a 20 percentage point increase over end 2022 levels. Other resident financial institutions doubled their holdings in percentage terms as well, from nearly 5% on 31 December 2022 to 10.9% a year later. Resident insurance companies saw their holdings climb to 7.4% from 0.05%. The only other investor category that registered a fall in holdings were non-residents, whose share of holdings tumbled from 0.45% to 0.03%. Overall, this diversification in T-bill investors is beneficial for the Treasury department, as it reduced investor concentration risk and enabled the directorate to somewhat keep a lid on the rapidly rising cost of short-term borrowing through more competitive auctions.

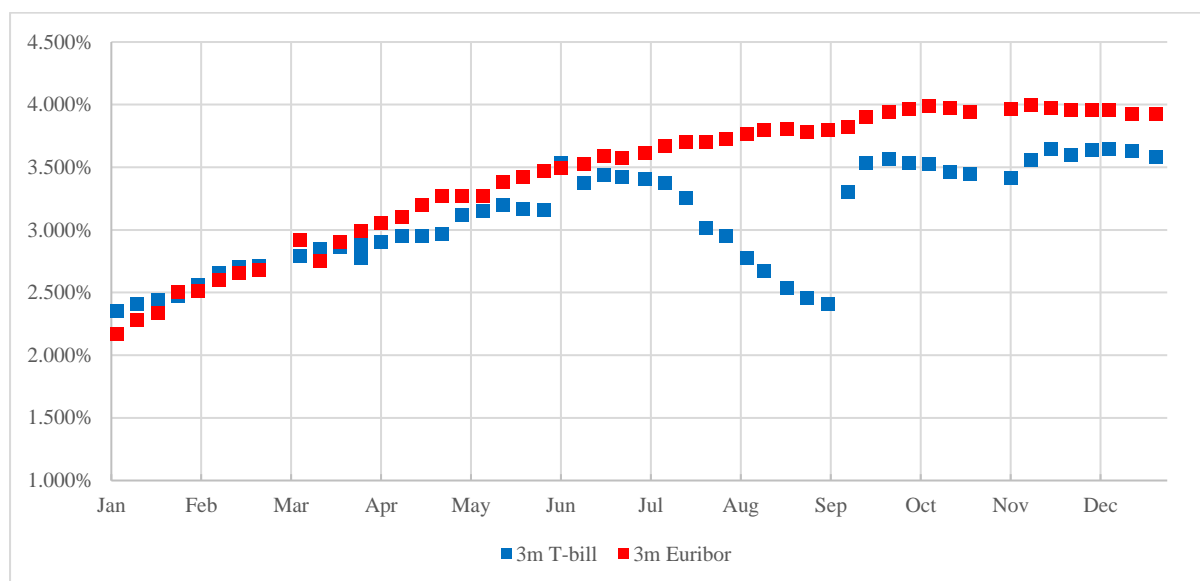
Chart 6 - Outstanding Treasury Bills Investor Distribution as at end 2023



IV. Treasury Bill Yields

The year 2023 was a continuation of the latter half of 2022 in terms of economic and money-market conditions. The persistently high inflation experienced during much of the year forced many central banks around the world, including the ECB, to continue raising policy rates rapidly and forcefully until signs of stabilisation in inflation rates started to emerge. In fact, during 2023 the ECB raised its policy rates by a cumulative 200 bps, with the deposit rate climbing from 2% in December 2022 to 4% by the end of September 2023, when the Governing Council decided to pause rate increases in light of indications that inflationary pressures were gradually subsiding. Nevertheless, this continued to have an immediate and significant impact on both the money and debt capital markets, but especially on the former. The market standard 3-month Euro Inter-Bank Offer Rate (EURIBOR) and the accepted 91-day Treasury bill yield are both plotted in **Chart 7** overleaf. The EURIBOR is a benchmark money market interest rate used to price various kinds of financial products like interest rate swaps, interest rate futures, savings accounts and mortgages. It is based on the average interest rates at which a large panel of European banks borrow funds from one another for short-term financing purposes.

Chart 7 - 3-month Euribor vs. Accepted 3-month T-bill rate 2023



Source: <https://www.emmi-benchmarks.eu/euribor-org/euribor-rates.html> & DMD calculations.

The chart above shows the steady increase in the 3-month Euribor during the first 9 months of the year, which mirrored the increasingly restrictive monetary policy conducted by the ECB. The euro money market benchmark started the year at the level of 2.172% and rose constantly until early October, where it stabilised around the 4% rate until the end of the year. The directorate allocated 91-day T-bills at weighted-average rates that were above the prevailing 3-month EURIBOR for the first two months of the year, with the highest spread being recorded for the 3rd January auction, at 18 bps. From then onwards, the Treasury department managed to allot 91-day T-bills at weighted-average rates that were below the 3-month EURIBOR, with the highest negative spread registered on the 5th September auction, at -139.7 bps. As already explained earlier, the substantial negative spreads registered between June and mid-September were the result of the June 62+ MGRSB rollover (which consisted of a cash outflow of around €16 million only) and two MGS issues, held in July and September, which raised a total of more than €700 million. The abundant cash balance in the public account during the summer months enabled the department to drastically reduce its short-term borrowing requirements during this period and therefore was able to issue low amounts of T-bills at the most advantageous rates. The lowest accepted 3-month T-bill WAR for 2023 was 2.354% (2022: -0.409%), registered for the first auction held on the 3rd of January, whereas the highest 91-day T-bill WAR was conceded on the 11th December auction at a rate of 3.646% (2022: 2.225%).

2023 was the first full year out of the last eight during which the Treasury department issued all T-bills at positive interest rates. In 2022 the central government paid €0.6 million in interest on T-bills that were issued at positive rates from mid-June onwards and which matured during the same year. The equivalent figure for the whole of 2023 stands at nearly €18.5 million. The WAR on accepted bids during 2023 was recorded at 3.106% compared to 0.500% for 2022.

On the next page **Table 11** shows the maximum and minimum accepted rates together with the weighted-average rate for all tenors.

Table 11 - T-bill borrowing rates

Tenor (months)	Max	Date	Min	Date	WAY
1	3.827%	28-Nov-2023	3.272%	31-Oct-2023	3.560%
3	3.646%	11-Dec-2023	2.354%	03-Jan-2023	3.090%
6	3.540%	21-Nov-2023	2.249%	29-Aug-2023	3.152%
9	3.635%	24-Oct-2023	2.702%	14-Aug-2023	3.147%
12	3.506%	17-Oct-2023	2.897%	08-Aug-2023	3.053%

Foreign Loans

Bilateral loan agreements with foreign official creditors are undertaken by the Maltese Government to finance specific large-scale capital projects. Typically, these non-marketable financing instruments are negotiated with foreign governments or supranational financial institutions at preferential interest rates with limited risk characteristics (fixed-rate loans).

I. Support to mitigate Unemployment Risks in an Emergency (SURE) programme

The commitment of European Union (EU) member states and institutions towards delivering significant joint fiscal support in response to the pandemic crisis led to the creation of the Support to mitigate Unemployment Risks in an Emergency (SURE) programme. The programme aims to provide funding to EU governments for employment support schemes set up in response to the recession caused by the coronavirus pandemic. The amounts lent to member states are funded through bonds issued by the European Commission, on behalf of all EU member states, on the international capital markets at favourable terms owing to the EU's high credit ratings. These favourable financing terms are then passed on to the beneficiary member states. This instrument gave the opportunity to the Maltese government to fund its wage supplement scheme and other COVID-19-related expenditures for 2020 and 2021 through loan agreements entered with the European Commission at low interest rates. No further loans were taken up through this instrument during 2022 and 2023 as COVID-19 support measures were phased out. The total amount borrowed through the SURE instrument adds up to €420 million. **Table 14** on page 32 gives details of each outstanding SURE loan.

II. European Investment Bank (EIB) Loan

On the 11th September 2023, the Ministry for Finance announced that it had reached an agreement with the European Investment Bank (EIB) for the disbursement of the sum of €72 million in the form of a 14-year, fixed-rate, bullet-maturity loan. This loan has been allocated under the Malta-EU Funds Co-Financing Agreement signed on the 23rd September 2016, for the 2014-2020 programming period.

The main characteristics of the loan are summarised in **Table 12** below.

Table 12 - EIB Loan Characteristics

Issue date:	11 th December 2023
Maturity date:	31 st August 2037
Loan type:	Fixed rate, bullet maturity loan
Rate of interest	3.717% p.a.
Nominal amount:	€72 million
Interest payment frequency:	Annual
Interest payment date:	31 st August

As at the end of 2023 there were eight foreign loans outstanding. In 2023, €0.13 million worth of principal were repaid in accordance with the pre-established loan amortization schedules for the EU 'Loan C' and Canadian government loan, resulting in a total end-of year outstanding balance of €492.5 million (2022: €420.6 million).

Total interest costs incurred during the year under review to service foreign loans amounted to €896,373 (2022: €951,591), with €246,000 of these paid with respect to the 15-year 0.20% SURE loan disbursed in March 2021, €120,000 for the 0.30% SURE loan maturing in 2050 and €525,000 paid in December 2023 in lieu of the 25-year 0.75% SURE loan interest payment due on the 4th of January 2024⁴. The remaining interest payment was disbursed with respect to the 1% EU Loan ‘C’ maturing in 2027, which amounted to €5,373 (2022: €6,471). As shown in **Table 13** below, 99.99% of the outstanding amount of foreign loans is denominated in euro, hence making exchange rate risk insignificant. **Table 14** on page 32 provides more detailed information on foreign loans due as at the end of 2023.

Table 13 - Composition of Total Foreign loans outstanding as of 31 December 2023

	EU Loan ‘C’	CAD Loan*	SURE 5 Year	SURE 30 Year	SURE 15 Year	SURE 8 Year	SURE 25 Year	EIB Loan	Total
Amount (€ Million)	0.45	0.01	80	40	123	107	70	72	492.46
%	0.1%	0.0%	16.2%	8.1%	25.0%	21.7%	14.2%	14.6%	100.0%

*At indicative ECB exchange rate for 31/12/2023.

⁴ Interest payments on SURE loans must be transferred to the European Commission’s ECB account 20 business days before the corresponding due date. Therefore, on a cash basis, the interest payment on the 0.75% SURE Loan 2047, due on 4th January 2024, was debited to the government’s CBM account in December 2023. Hence, this amount is included in the figure for total interest expenditure on foreign loans for 2023.

Table 14 - Foreign Loans outstanding as of 31st December 2023

Foreign Loan	Financing Purpose	Year of Issue	Original Amount Disbursed	Interest Rate	Date of Maturity	Balance due as at 31st December 2023
				%		€000's
European Union Loan C	Solid Waste Composting Project	1987	€3 million	1.00	15/9/2027	454.20
Government of Canada	Telephone cables and equipment	1974	CAD 1 million	0.00	31/3/2024	8.54
SURE Loan – Tranche 1	Support to mitigate Unemployment Risks in an Emergency	2020	€80 million	0.00	4/11/2025	80,000
SURE Loan – Tranche 1	Support to mitigate Unemployment Risks in an Emergency	2020	€40 million	0.30	4/11/2050	40,000
SURE Loan – Tranche 2	Support to mitigate Unemployment Risks in an Emergency	2021	€123 million	0.20	04/06/2036	123,000
SURE Loan – Tranche 3	Support to mitigate Unemployment Risks in an Emergency	2021	€107 million	0.00	04/07/2029	107,000
SURE Loan – Tranche 3	Support to mitigate Unemployment Risks in an Emergency	2021	€70 million	0.75	04/01/2047	70,000
EIB – EU Funds 2014-2020	Malta – EU Funds Co-Financing 2014-2020 (SPL)	2023	€72 million	3.717	31/08/2037	72,000

III. Principal & Interest Repayments from Loan to Hellenic Republic

Pursuant to a decision taken by the EU Council in May 2010, the Maltese government entered into a loan agreement with the Hellenic Republic to lend the latter €50.7 million in six tranches, over a period of three years, following the enactment of the “Government Borrowing and Granting of Loans to the Hellenic Republic Act 2010 (ACT III of 2010)”.

During 2023 Greece continued disbursing the scheduled quarterly interest payments covering all six outstanding loan tranches. As ECB policy rates rose consistently from mid-2022 onwards, the benchmark EURIBOR rates followed suit, and therefore affected interest receivable from the Greece loan. The interest rate structure of the Greece loan is calculated as a fixed 50bps spread over the prevailing 3-month EURIBOR rate, 3 months prior to the interest payment due date (i.e., interest rate is set three months in advance of interest payment date). In 2023 the directorate received slightly more than €1.5 million in interest from the Hellenic Republic (2022: €187,257) as the 3-month EURIBOR rate was now firmly in positive territory. €2.5 million in quarterly principal repayments which were originally due in 2023, were prepaid together with the scheduled 15 December 2022 capital and interest payment. On 15th December 2023 Greece effected another principal pre-payment, covering the amounts due in 2024 and 2025, together with the scheduled quarterly interest payment. Specifically, on this date the Treasury department received nearly €5.1 million in lieu of capital repayments originally due in 2024 and 2025, in addition to €465,595.61 in quarterly interest due in December 2023. **Table 15** below provides details of the capital repayments effected by the Hellenic Republic during 2023:

Table 15 - Loan to Hellenic Republic Principal Repayments in 2023

(all figures in euro)

	15 March 2023	15 June 2023	15 September 2023	15 December 2023*
Tranche 1	-	-	-	1,365,047
Tranche 2	-	-	-	611,918
Tranche 3	-	-	-	622,212
Tranche 4	-	-	-	1,043,402
Tranche 5	-	-	-	855,488
Tranche 6	-	-	-	570,325
Total	-	-	-	5,068,392

* On 15th December 2023, Greece paid in advance all principal repayments that were due in 2024 and 2025.

Cost of Borrowing

As displayed in **Table 16** on page 35, total interest expenditure incurred on central government debt in 2023 was close to €214.3 million. This represents a 23% increase over the interest outlay for 2022 (€173.6 million). The high annual funding requirements created by the effects of the pandemic and the war in Ukraine, combined with the rising cost of borrowing, inevitably led to substantially higher interest expenditure. The significant increase in interest outlay in 2023 was primarily due to a €26 million increase in MGS interest paid, which during 2022 recorded a decrease of €14.6 million. The increase reflected the full-year interest payments of more than €1 billion worth of bonds issued during 2022, the year during which the ECB started its rate hiking cycle. New MGS issued in the latter half of 2022, which amount to nearly €710 million, would have paid half the yearly interest due at most, and often on a pro-rata basis, in 2022. However, the entire amount of new MGS issued in 2022 paid a full year worth of interest in 2023. This has to be added to interest paid on the already existing stock of MGS and to interest paid by nearly €1.4 billion of new MGS issued in 2023, another year which saw rising yields/coupons.

Another debt component that contributed to the increase in interest expenditure are Treasury bills. The year 2023 registered a rise of €18 million compared to the 2022 figure, which was a low base still reflecting the effect of negative money-market rates that prevailed until early June of that year. As already explained above, 2023 was the year in which the directorate issued all T-bills at positive rates again, after the tighter monetary policy adopted by the ECB ended 7 years of negative short-term borrowing rates.

On the other hand, both the 62+ MGRSB and foreign loans exhibited lower interest costs in 2023. Interest expenditure on outstanding 62+ MGRSB fell by 3.1 million, whereas interest on foreign loans declined marginally, by €0.1 million. In the case of the former, the decline is due to the 62+ MGRSB – 2018 Issue having paid only one interest instalment before its rollover in June, while the new 62+ MGRSB – 2023 Issue also paid only one coupon, in December 2023, however on a lower outstanding amount than the former, despite bearing a higher interest rate. Total interest payments on foreign loans amounted to €896,373 in 2023, 5.8% less than in 2022. This reduction came about as a result of the lower outstanding balance of the amortised EU/EIB Loan ‘C’, and a lower annual interest payment on the 0.2% SURE Loan 2036, whose first annual interest payment disbursed in 2022 covered a period of more than one year. Total interest expenditure on SURE loans for 2023 amounted to €891,000. Annual interest on the new EIB bullet loan disbursed in December 2023 will start being paid from August 2024.

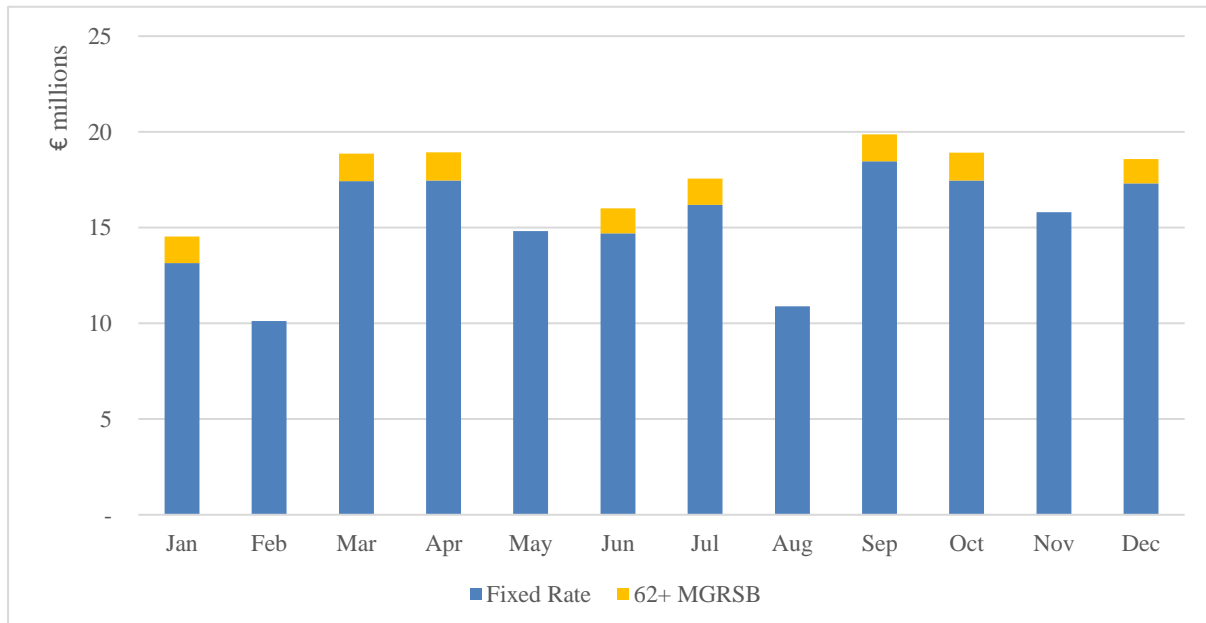
Table 16 - Budgetary Central Government Debt Interest Expense 2021 - 2023

	2021	2022	2023
	€ million	€ million	€ million
Local Loans			
Treasury Bills	0.0*	0.6**	18.5
Malta Government Stocks	172.4	157.8	183.8
Malta Government Retail Savings Bond	11.4	14.2	11.1
Sub-total (Local)	183.8	172.7	213.3
Foreign Loans	0.4 ¹	1.0 ²	0.9 ³
Total (Local + Foreign)	184.2	173.6	214.2

* During 2021 total interest received on T-Bills issued at negative rates maturing in 2021 and 2022 amounted to €3,054,055. (In the year 2021, the Treasury issued €1,904.2 million T-Bills)
** During 2022 total interest received on T-Bills issued at negative rates maturing in 2022 and 2023 amounted to €1,208,349. (In the year 2022, the Treasury issued €2,511.2 million T-Bills)
¹ Includes SURE Loan interest payment due on 4th January 2022, which is required to be transferred at least 20 business days prior to due date.
² Includes SURE Loan interest payment due on 4th January 2023, which is required to be transferred at least 20 business days prior to due date.
³ Includes SURE Loan interest payment due on 4th January 2024, which is required to be transferred at least 20 business days prior to due date.

The distribution of monthly aggregate semi-annual coupon payments is illustrated in **Chart 8** below.

Chart 8 - Distribution of Monthly MGS & 62+ MGSB Interest Payments - 2023



Central Government Outstanding Debt ⁵

Table 17 - Central Government Outstanding Debt as of 31st December 2022 and 2023

	2022	2023
	<i>€'000s</i>	<i>€'000s</i>
Local Loans		
Malta Government Stocks*	7,113,673	8,121,281
Malta Government Retail Savings Bonds	375,170	351,743
Treasury Bills*	821,695	671,622
Sub-Total: Local Loans	8,310,538	9,144,645
Foreign Loans	420,591	492,463
Total Debt	8,731,129	9,637,108
*Consolidated figures (i.e., net of MGS and T-bill holdings by the Special MGS Sinking Fund).		

As of 31st December 2023, the consolidated figure for total outstanding central government debt rose by nearly €906 million, or 10% (2022: +9% or €727.2 million). The bulk of the increase recorded in 2023 is due to the higher balance of consolidated outstanding MGS, which grew by nearly €1.01 billion, compared to the €604.8 million expansion registered in 2022. Also, the outstanding foreign loans component exhibited an increase of nearly €72 million in 2023, justified by the disbursement of the new EIB loan which has been slightly off set by the scheduled EU loan 'C' principal repayments. The persistently high funding requirements triggered by government support measures introduced in response to the pandemic and the war in Ukraine are inevitably leading to significant increases in outstanding MGS and therefore total outstanding debt. This trend of rising stock of debt is expected to continue in the medium term, as the substantial amounts of short-term MGS issued during the pandemic (2020-22) become due for redemption in 2025-26 (see MGS maturity profile on page 20), and the budget deficit is projected to only fall gradually over the same period. On the other hand, the first rollover of a 62+ MGRSB and early redemptions on the entire 62+ MGRSB portfolio lowered the outstanding amount of that debt instrument. As a result of the rollover of the 62+ MGRSB – 2018, the total outstanding amount of 62+ MGRSB shrank by close to €16 million, being the amount not re-invested by investors. Moreover, early redemptions on all series of 62+ MGRSB during the year totalled €6.3 million (2022: €6.9 million). Finally, the consolidated balance of outstanding T-bills for 2023 recorded a substantial €150 million drop compared to a year earlier, mainly driven by a lower than estimated actual consolidated fund deficit.

⁵ Excluding euro coins issued in the name of the Treasury Department and ESA re-routed debt.

Risk Management

Risk management is a strategic tool used by the Debt management directorate within the Treasury department in its day-to-day activities in order to achieve strategic debt management targets. This risk control function is situated within the directorate's middle office. Keeping risks at an acceptable level is key to succeed in reaching the objectives of prudent debt management and long-term debt sustainability. Although much of the focus is on seeking to optimize debt-financing decisions to balance borrowing costs with refinancing risks, other risks are not ignored. In pursuing its debt management activities, the DMD encounters and manages the following main types of risks: market risk, refinancing risk, funding risk, portfolio concentration risk and operational risk.

Market risk is the possibility that adverse changes in interest rates or foreign currency exchange rates could cause debt servicing costs to increase directly or could lead to miss an opportunity to reduce debt servicing costs. Market risk arises mainly (but not only) due to the need to roll-over (re-finance) maturing fixed-rate debt or re-fixing interest rates of Floating Rate Notes (FRNs). DMD's exposure to market risk originates mainly from interest rate risk, given that all marketable and nearly all non-marketable loans are denominated in the domestic currency. In fact, the DMD's exposure to exchange rate fluctuations is limited to a small foreign bilateral loan with the Government of Canada denominated in Canadian dollars (**Table 14** on page 32 for further details), and therefore such risk is insignificant.

The DMD is exposed to interest rate risk owing to its need to borrow from the money and debt capital markets to (i) manage the government's cash flow and (ii) finance the public sector borrowing requirements, respectively.

The outstanding level of Treasury Bills and weekly operations in the money market, which are necessary to manage the government's weekly cashflow, is a potentially major source of interest rate re-fixing risk. This was the case in 2023, as T-bills issued during the year were being allotted at progressively higher rates, in tandem with the gradually more restrictive monetary policy adopted by the ECB in light of high inflation.

The exposure to interest rate risk arising from the weekly cash management activities is managed by smoothing financing need spikes over a number of weeks, thus avoiding the need to borrow substantial amounts during weeks when revenue falls considerably short of expenditure. The practice of running a higher cash balance for a number of weeks as a buffer to absorb expected near future cash balance shortfalls or variations in cash flows reflects prudent risk management as well as helps keep bond issuance plans stable.

The market risk exposure arising from the re-issue of debt securities in the capital market is contained by adopting prudent risk management policies widely used by different government debt management offices/agencies. Over the years, the policy of issuing conventional fixed-rate debt in the domestic market has reduced market risk, as the refinancing of debt is rendered less prone to international capital market volatility and given the relatively more stable (buy-to-hold) nature of the domestic investor base. While reliance on the relatively small domestic debt capital market can generate some vulnerabilities, risks may be mitigated through the cultivation of a more diversified investor base. In fact, the directorate noted that in recent years there has been increased interest from foreign institutional investors in bidding for and holding Maltese government debt securities, whilst the higher interest rate environment attracted new bidders also during 2023, especially in T-bill auctions.

As much as possible, the DMD avoids issuances of medium- to long-term debt during times of market stress or volatility. The DMD monitors market conditions to identify the most appropriate time to tap the market, offering securities where there is demand for them, and consistently maintains a prudent degree of risk exposure. The fundamental notion of prudence is also manifested by the fact that the

government debt portfolio is overwhelmingly held in domestic currency and in conventional fixed-rate bonds.

Any changes in market conditions can affect the demand for government paper and therefore the borrowing cost. The Government Borrowing and Management of Public Debt Act (Cap. 575 of the Laws of Malta) provides the Government with the possibility of raising funds from the international debt capital market if such need arises.

It is to be noted that, as a matter of policy, the DMD does not enter into interest rate swap agreements or any other financial derivative contract to manage its interest rate risk exposure on its debt portfolio.

Refinancing Risk is the risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all due to prohibitively high interest rates or very low demand for government debt securities. To the extent that rollover risk is limited to the risk that debt might have to be rolled over at higher interest rates, including changes in credit spreads, it may be considered a type of market risk.⁶ This risk continued to materialise in 2023, however not due to any perceived higher credit risk on the part of the Maltese government, but simply because of the tighter monetary policy adopted by the ECB to counter decades high inflation. The DMD uses two important risk metrics to assess the structure of its debt portfolio and evaluate the risks associated with refinancing. These are the weighted-average maturity (WAM), which is used in combination with a metric that measures maturity concentration risk. The latter calculates the percentage of outstanding debt maturing within a particular number of years (1-year and 5-year time horizons). A higher WAM implies lower roll-over risk and the percentage of outstanding debt maturing within n years captures the near-term concentration of roll-over/refinancing risk.

The WAM of outstanding Malta Government Stocks (the major component of central government debt with 82% of total outstanding debt [made up of MGS, T-Bills, MGRSB and bi-lateral foreign loans]) rose gradually from 6.6 years at the end of 2010, to 8.3 years at the end of 2023. This was the outcome of a deliberate debt management policy and strategy intended to bring about an easing in the MGS redemption profile, thus limiting roll-over risk. The aim of the strategy was also to achieve such a goal at a reasonable increase in funding costs.

After the marginal fall in the 2022 outstanding MGS portfolio WAM when compared to 2021, by the end of 2023 this metric fell again, from 9.0 years to 8.3 years. As already stated above, this is due to investors' reluctance to invest in long-term fixed-rate debt securities given the high inflation and interest rate risk that persisted in 2023. Hence, the directorate was compelled to raise the required funding via the issuance of shorter maturity instruments that reduce the overall debt portfolio's WAM. That said, the DMD will continue using long-term maturity debt issuance as a prudent means of managing its MGS portfolio maturity profile and limiting potential future issuance volatility. The Debt management directorate will take every opportunity to meet demand for long-dated tenors by market participants.

Operational Risk is defined as the risk of loss (financial or non-financial) resulting from inadequate or failed internal processes, people, and systems, or from external events that impact an organisation's ability to operate its on-going business processes.⁷ Operational risk includes, among other things, the possibility of errors in transactions and breaches of legal requirements.

In order to minimise operational risks, the DMD adopts an organizational structure that separates the borrowing function, the policy setting and control function, and the back-office functions. It also follows reporting policies that increase transparency of operations.

⁶ 2003: International Monetary Fund and the World Bank Guidelines for Public Debt Management.

⁷ Basel II "International Convergence of Capital Measurement and Capital Standards: A Revised Framework", published by the Bank for International Settlements in June 2004.

The Debt Management Directorate keeps an operational logbook in electronic format, whereby the main events are logged in. This logbook is accessed by all officers involved in debt management operations. The main events included in this logbook are:

- 1) the payment of interest, whereby the whole process is recorded, from the date from when the MSE is instructed to issue the interest payment (4 weeks before interest payment is due), up to the final confirmation received from CBM that the interest payment data file was uploaded on their payment system. Any rejected interest payments or partial rejects/returns are followed up and payment is re-issued accordingly.
- 2) re-setting of interest rates on FRNs.
- 3) redemptions of debt securities.
- 4) the interest and capital repayment due dates for all foreign loans.
- 5) mergers and fungibility issues, and
- 6) notices that need to be sent to the MSE.

Such logbook is also complemented by using Gantt charts.

Funding Risk represents the possibility of there not being sufficient market demand for government debt security issues or a situation where government is not in a position of selling them at an acceptable price/yield. The DMD seeks to keep a relatively flat debt maturity profile, with an approximately equal nominal amount of debt securities outstanding across the maturity profile. An outstanding debt limit for each security, as well as an overall yearly outstanding debt level capping for each year is assigned to ensure that no redemption cliffs are created at any point during a financial year or across the total debt maturity profile. In this sense, the directorate has also in the past used bond exchange offers as a risk management tool to smoothen spikes in the MGS maturity profile. This helps to manage both funding and market risk.

Credit Risk is the risk associated with non-performing borrowers on loans or other financial assets or by a counterparty to a financial contract. The DMD is mainly responsible for the issuance of debt securities or for entering into loan/credit facility contracts to obtain funding for the central government, and therefore it creates liabilities for the central government. Consequently, the nature of its operations does not entail the assessment of credit risk. Moreover, since the Treasury department does not enter into interest rate swap agreements or any other financial derivative contracts to manage the risks inherent in its debt portfolio, such counterparty/credit risks do not arise.

Settlement Risk is the risk that a counterparty does not physically deliver a security as agreed in a contract, after the country (other counterparty) has already effected payment according to the same agreement. The Maltese DMD does not have any counterparties as defined by the IMF in its guidelines. In the case where successful bidders in Treasury bill or MGS auctions fail to pay the amounts due by the set settlement deadline, the Treasury department will not register the security in their name with the Malta Stock Exchange and also levy a penalty in accordance with the provisions contained in the Prospectus. Moreover, retail investors who subscribe for MGSs are required to settle payment instantly upon lodging their application with authorised financial intermediaries.

The EU Emissions Trading System (EU ETS)

During 2023, the Treasury department continued to fulfil its role as auctioneer on behalf of the Government of Malta for carbon dioxide (CO₂) emission allowances, under the European Union's Emissions Trading System (EU ETS) for Malta-based stationary installations (EUAs), and aviation activities (EUAAAs). The auctions are conducted by the European Energy Exchange (EEX). Malta's total share of auctioned allowances for the year 2023 was 537,000 (2022: 502,000), of which 502,500 allowances were in respect of EUAs and 34,500 in respect of EUAAAs.

During the year under review, 143 auctions for EUAs were held regularly on Monday, Tuesday, and Thursday of every week, whilst another 6 EUAA auctions were held on Wednesdays in roughly two-month intervals. Malta's 2023 share of the revenue generated from these auctions amounted to €44.6 million, which is €4.5 million higher than the figure registered for 2022.

Despite the general downward trend in the auction clearing prices noted from March 2023 onwards, the average EUA auction clearing price for 2023 rose compared to 2022, from €80.10 to €83.60 per tonne of CO₂. The highest auction clearing price reached €96.33 per tonne of CO₂ in the 28th February auction (2022: €97.51), whilst the lowest was registered at €66.49 for the last auction of the year on 18th December (2022: €57.91). The higher average auction clearing price combined with the higher total quantity of allowances auctioned contributed to the higher yearly auction proceeds. Stationary installation emission allowances still accounted for a very high percentage of total auction proceeds for 2023, with 94% or close to €41.8 million generated from EUA auctions (96% or €38.4 million in 2022), whilst the remaining €2.8 million were raised from Aviation emission allowance auctions, which were also one million euro higher than in 2022.

Sinking Funds

In December 2023, the directorate transferred the budgeted €30 million contribution to the Special MGS Sinking Fund. In terms of article 27 of the Local Loans (Registered Stock and Securities) Ordinance and article 59 of the Government Borrowing and Management of Public Debt Act, during 2023, the Treasury department invested part of this annual Sinking Fund contribution, proceeds from MGS redemptions and interest earned from MGSs held in this sinking fund in government debt securities. The budgeted total annual contributions of €50,000 in the foreign loans' Sinking Fund accounts for the EU/EIB Loan 'C' and the Canadian government loan were also effected in two equal tranches according to the pre-established schedules, in June and December. **Table 18** below shows the end-of-year bank account balances for the Special MGS and foreign loans' sinking funds, as well as the investments made by the Special MGS Sinking fund in Malta government debt securities.

Table 18 - Sinking Funds' Cash Balances and Investments in Government Debt Securities

	2022	2023
	€	€
Bank account balance – Special MGS Sinking Fund	117,833,842.39	147,241,506.89
Bank account balance in Sinking Fund linked to Foreign Loan in euro currency	411,120.71	348,920.70
Bank balance in Sinking Fund linked to Foreign Loan in foreign currency – Canadian dollars (C\$)	25,125 (C\$ 36,280.58)	9,298 (C\$ 13,613.79)
Special MGS Sinking Fund investments in Malta government debt securities (Nominal value)	218,554,300	223,076,500

Credit Ratings of the Republic of Malta in 2023

During 2023 the main credit-rating agencies conducted their routine reviews of the Maltese economy and public finances, which included changes and trends in public debt and its management. There were no changes to Malta's credit ratings and their outlooks during the year following the agencies' assessments. The following is a summary of rating and/or rating outlook developments which occurred during the year and salient points of the underlying rationales:

Scope Ratings GmbH announced the completion of a monitoring review of the Republic of Malta on 17th March 2023. The rating and outlook were kept at A+/Stable for long-term local- and foreign-currency issuer and senior unsecured debt and at S-1+/Stable on short-term local- and foreign-currency debt. According to Scope Malta's ratings *"are underpinned by the following credit strengths: i) the country's robust growth potential; ii) a record of effective fiscal consolidation, supported by strong growth, fiscal surpluses, and a favourable interest payment burden; and iii) a strong external position with a large net international creditor position, further bolstered by euro area membership."* On the other hand, the agency elaborates that Malta still faces challenges related to *"i) externally dependent, resource constrained economy, which poses long-term stability and sustainability risks; ii) fiscal risks related to an ageing population and government guarantees; and iii) lingering, albeit improving, institutional and administrative deficiencies related to governance and oversight in the financial sector."*

On 24th March 2023 **Fitch Ratings** affirmed Malta at 'A+' and kept the outlook 'Stable'. According to Fitch, *"Malta's rating is supported by high per-capita income and a pre-pandemic record of strong growth and sizeable debt reduction. These strengths are balanced against its large banking sector, the small size of its economy, which is highly vulnerable to external developments, and a recent deterioration in public finances with large fiscal deficits, which have led to a sharp increase in the moderate public debt burden"*. Fitch asserted that Malta *"had seen one of the largest increases in public debt since 2019 among 'A' rated peers, with debt increasing by around 15pp since 2019, reaching an estimated 55.3% of GDP by end-2022. At the time they expected "total general government debt to peak at slightly below 60% in 2024, in line with the government's goal to keep the public debt burden close to 60% of GDP. A relatively high potential growth rate between 3-4% would help support debt reduction in the medium to long term, even in the absence of large expenditure cuts or tax hikes. Risks from higher interest rates and a phasing out of the ECB's quantitative easing were expected to be mitigated by a long average maturity of marketable debt and a strong domestic investor base."*

On 14th April 2023, **DBRS Ratings GmbH (DBRS Morningstar)** confirmed Malta's Long-Term Foreign and Local Currency Issuer Ratings at A (high). At the same time, DBRS Morningstar confirmed Malta's Short-Term Foreign and Local Currency Issuer Ratings at R-1 (middle). The trend on all ratings was kept at 'Stable'. According to DBRS, *"Malta's A (high) rating is supported by its euro area membership, moderate level of public debt, solid external position, and Maltese households' strong financial position. On the other hand, Malta is a small and open economy, and therefore exposed to external demand or confidence shocks"*.

In their report DBRS note that *"Malta's economy rapidly recovered from the shock of the pandemic, helped by the government's support measures and a stronger-than-anticipated rebound in foreign tourism. The impact of the Russian invasion of Ukraine on the Maltese economy has been modest so far, partly because of Malta's limited economic and energy ties to Russia as well as the government's decision to freeze retail electricity and fuel prices. Growth is expected to decelerate in 2023, driven by*

the slowdown in Europe and the effects of elevated inflation on purchasing power. Malta's price-mitigating fiscal measures are also expected to slow the pace of fiscal consolidation. The fiscal deficit is expected to remain among the highest in the European Union (EU) during 2022 and 2023, in spite of strong revenue growth and the phase-out of coronavirus support"... "Malta's still-moderate public debt levels and positive growth dynamics partly mitigate risks stemming from the fiscal outlook". Nevertheless, DBRS Morningstar notes that "the government has so far not articulated a clear exit strategy for the untargeted energy subsidies, and a higher-for-longer global energy prices scenario could complicate the fiscal consolidation path". DBRS's medium to long term fiscal analysis concluded that "Malta's public finances are generally sound, but medium- to long-term challenges could stem from its contingent liabilities, changes in international taxation that affect the attractiveness of its tax system to foreign companies or increases in age-related spending".

On 15th September 2023 **Fitch Ratings** published their second rating review report on Malta. They affirmed Malta's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'A+' with a Stable outlook. In this report Fitch project that *"the fiscal deficit will remain sizeable at 5.0% of GDP in 2023 and 4.8% in 2024, exceeding the 'A' medians of 4.0% and 2.6%, respectively. The majority of pandemic measures (2.0% of GDP in 2022) will be phased out this year, but sizeable energy subsidies will continue to weigh on the budget balance, reaching an estimated total of almost 1.5% of GDP by year-end (2022: 2.3% of GDP)".* Their fiscal forecast also included 0.5% of GDP in restructuring costs for Air Malta. They forecast that public debt would remain relatively stable at 52.0% of GDP in 2023, (slightly below the 52.3% reported in 2022 and the forecast 'A' median of 54.0%). Fitch expect that general government debt will remain on a gradual upward path, reaching 56.0% of GDP by end-2027. According to their analysis, sizeable fiscal deficits are partially offset by continued strong nominal GDP growth.

DBRS's second review report on Malta for 2023 was published on October 13th. Malta's rating and outlook were confirmed at A (high) for long-term foreign and local currency debt and R-1 (middle) for short-term foreign and local currency debt. The report stated that *"Malta's economic performance remains strong, but growth is slowing amid a challenging external environment and high inflation".* On the fiscal front DBRS asserted that *"Malta's fiscal performance has deteriorated significantly in recent years. To a large extent, this has been due to the support measures to shield households and firms from the pandemic and the energy/cost-of-living shocks... The fiscal deficit is gradually declining but is still among the highest in the EU...Malta's debt ratio deteriorated but still leaves significant space to absorb shocks. The pandemic halted a period of steep reductions in Malta's public debt-to-GDP ratio. Nevertheless, DBRS Morningstar notes that the debt ratio is lower than previously anticipated, due to higher real growth and inflation, and remains well below the Maastricht benchmark of 60.0% of GDP and the EU average debt burden of 84.0% of GDP. Malta's moderate levels of public debt provide valuable space to support the economy if under stress. The government forecasts the debt ratio to gradually increase to 54.5% of GDP in 2024 as the projected primary deficits offset the debt-decreasing impact of the interest-growth differential."*

On 1st September **Scope Ratings** re-affirmed Malta's credit ratings at A+ and maintained the Stable outlook. The rating agency reiterated that Malta's strengths are strong potential growth, a record of prudent fiscal management and a solid external position. *"An externally dependent resource-constrained economy, contingent fiscal risks, institutional and administrative shortcomings are challenges".* With regards to fiscal policy, Scope asserts that *"strong growth and effective fiscal consolidation in the years leading up to the Covid-19 crisis helped Malta achieve one of the largest public debt reductions in the EU (-16pps of GDP over 2015-19), affording the government with*

sufficient fiscal space to provide large scale support to its economy throughout the Covid-19 and cost-of-living crises... Scope notes that fiscal performance since 2020 has consistently outperformed expectations thanks to strong economic growth and higher tax revenue, reflecting the authorities' conservative budgeting practices... The government's fiscal strategy is slowly turning towards strengthening the fiscal position without jeopardising the public investments needed for the green transition and national defence... Malta benefits from good growth prospects and a strong record of consolidation, which provide the country with solid foundations to rebuild fiscal buffers in the post-crisis period". Finally, "Scope foresees these factors to offset the impact of significant budget deficits on the public debt trajectory in coming years, with debt stabilising at 58% of GDP by 2024. Importantly, the interest payment burden will remain moderate and stable at below 1.3% of GDP over the forecast horizon despite the significant increase in the debt stock and markedly higher interest rates since 2019, reflecting Malta's long average maturity of debt of over eight years."

Moody's Ratings published their bi-annual credit opinion on the Government of Malta on 23rd May and 21st November. Their rating and rating outlook were kept at 'A2 - Stable'.

Standard & Poor's Global Ratings affirmed the 'A-' Local Currency Long-Term credit rating of Malta on 9th June and 8th December. The outlook remained 'Stable'.

Table 19 below depicts changes in credit ratings and/or outlooks of the Republic of Malta during 2023.

Table 19 - Credit Ratings of the Republic of Malta

Rating Agency	31 Dec 2023	31 Dec 2022
Moody's	A2/Stable	A2/Stable
Standard & Poor's Global Ratings	A-/Stable	A-/Stable
Fitch	A+/Stable	A+/Stable
DBRS Morningstar	A (High)/Stable	A (High)/Stable
Scope	A+/Stable	A+/Stable

Highlights of Results for Fiscal Year 2023

- Consolidated Central Government Debt (excluding currency in circulation & EFSF re-routed debt) as of 31st December amounted to €9.6 billion.⁸
- Gross outstanding balance of Malta Government Stocks as of 31 December amounted to €8,344.3 million.
- Gross issuance of Malta Government Stocks (excluding ex-Church Property Stocks) amounted to €1,394.2 million.
- Nominal Malta Government Stock redemptions amounted to €358.2 million.⁹
- Outstanding balance of 62+ Malta Government Retail Savings Bonds as of 31 December amounted to €351.7 million.
- Redemption of 62+ Malta Government Retail Savings Bond amounted to €87.2 million.¹⁰
- Gross outstanding Treasury Bills balance amounted to €671.6 million.
- Gross issuance of Treasury Bills amounted to €2.20 billion.
- Gross Treasury Bills redemptions amounted to €2.38 billion.
- Outstanding Foreign loans amounted to €492.5 million.
- Principal repayments of Foreign Loans amounted to €0.13 million.
- Total interest expenditure on Budgetary Central Government Debt for the year amounted to €214.3 million.
- Year-on-year increase in interest expenditure on Budgetary Central Government Debt amounted to €40.7 million (excluding interest earned on T-Bills allotted at negative interest rates/yields in 2022).
- Weighted-Average Maturity of the Malta Government Stocks Portfolio as of 31st December stood at 8.3 years.
- Weighted-Average Maturity of the Budgetary Central Government Debt Portfolio (excluding foreign loans) as of 31st December stood at 7.5 years.
- Weighted-Average Coupon of the Malta Government Stocks Portfolio as of 31st December stood at 2.65%.
- Weighted-Average Coupon of Malta Government Stocks issued in 2023 was 3.81%.
- Weighted-Average Yield conceded on newly issued Malta Government Stocks was 3.88%.
- Weighted-Average Maturity of new Malta Government Stocks issued was 8.0 years.
- Weighted-Average Yield on Allotted T-Bills was 3.11%.

⁸ Net of MGS holdings by the Special MGS Sinking Fund.

⁹ Excludes 10% Ex-Church Property MGS redemption premium.

¹⁰ Nominal figure. On a net/cash basis, out of a total of circa €86 million eligible for rollover, nearly €70.1 million were rolled over into the new 62+ MGRSB – Issue 2028 and therefore not disbursed. Close to €15.9 million were not rolled over and therefore redeemed.

Annex

Budgetary Central Government Outstanding Debt Securities & Debt Instruments as at 31/12/2023

Fixed Rate Malta Government Stocks

ISIN	Debt Security	Redemption Date	Nominal Capital €
MT0000012915	1.40% MGS 2024 (III)	29/07/2024	201,000,000
MT0000013061	0.30% MGS 2024 (IV)	11/10/2024	170,000,000
MT0000012303	3.30% MGS 2024 (I)	12/11/2024	24,051,100
MT0000012394	7.00% MGS 2024 (II)*	30/12/2024	1,135,000
MT0000013046	0.75% MGS 2025 (III)	17/07/2025	139,000,000
MT0000012956	0.50% MGS 2025 (II)	08/11/2025	230,200,000
MT0000012543	7.00% MGS 2025 (I)*	30/12/2025	2,007,900
MT0000013715	3.55% MGS 2026 (V) Retail	08/07/2026	111,564,200
MT0000013723	3.55% MGS 2026 (V) Institutions	08/07/2026	64,000,000
MT0000013301	0.10% MGS 2026 (IV)	20/07/2026	183,000,000
MT0000013822	3.85% MGS 2026 (VI)	05/08/2026	177,500,000
MT0000013012	0.40% MGS 2026 (II)	20/10/2026	165,600,000
MT0000013228	0.25% MGS 2026 (III)	18/11/2026	163,711,000
MT0000012675	7.00% MGS 2026 (I)*	30/12/2026	734,400
MT0000013103	0.80% MGS 2027 (III)	29/04/2027	183,400,000
MT0000012832	1.50% MGS 2027 (I)	15/06/2027	90,954,500
MT0000013400	0.90% MGS 2027 (V)	12/08/2027	110,000,000
MT0000013582	3.40% MGS 2027 (VI)	24/09/2027	128,344,400
MT0000013186	0.40% MGS 2027 (IV)	19/11/2027	226,300,000
MT0000012873	7.00% MGS 2027 (II)*	30/12/2027	1,096,800
MT0000013491	2.60% MGS 2028 (V)	22/05/2028	120,028,100
MT0000013665	3.50% MGS 2028 (VI)	07/07/2028	243,427,200
MT0000013434	1.70% MGS 2028 (IV)	04/08/2028	58,100,000
MT0000013830	3.95% MGS 2028 (VII)	08/08/2028	164,400,000
MT0000012055	4.80% MGS 2028 (I)	11/09/2028	107,029,500
MT0000012139	4.50% MGS 2028 (II)	25/10/2028	286,651,500
MT0000012907	7.00% MGS 2028 (III)*	30/12/2028	260,500
MT0000012923	1.85% MGS 2029 (III)	30/05/2029	286,500,000
MT0000012535	2.30% MGS 2029 (II)	24/07/2029	143,518,400
MT0000011958	5.10% MGS 2029 (I)	01/10/2029	79,144,900
MT0000012998	7.00% MGS 2029 (IV)*	30/12/2029	2,522,400
MT0000011651	5.25% MGS 2030 (I)	23/06/2030	440,165,700
MT0000013632	3.70% MGS 2030 (II)	25/11/2030	139,900,000
MT0000013020	1.00% MGS 2031 (II)	23/04/2031	255,000,000
MT0000013376	0.90% MGS 2031 (V)	11/07/2031	169,900,000
MT0000011883	5.20% MGS 2031 (I)	16/09/2031	201,343,600
MT0000013210	7.00% MGS 2031 (III)*	30/12/2031	212,000
MT0000013335	7.00% MGS 2031 (IV)*	30/12/2031	1,735,800
MT0000013616	4.00% MGS 2032 (VII)	30/03/2032	240,297,300
MT0000013442	2.10% MGS 2032 (IV)	15/04/2032	20,000,000

MT0000013418	1.60% MGS 2032 (III)	03/05/2032	58,400,000
MT0000012220	4.65% MGS 2032 (I)	22/07/2032	140,454,200
MT0000012337	4.45% MGS 2032 (II)	03/09/2032	153,111,700
MT0000013525	2.90% MGS 2032 (VI)	24/10/2032	57,720,300
MT0000013467	7.00% MGS 2032 (V)*	31/12/2032	677,400
MT0000012386	4.30% MGS 2033 (I)	01/08/2033	150,699,900
MT0000013749	3.75% MGS 2033 (III)	17/08/2033	155,500,000
MT0000013780	4.00% MGS 2033 (IV)	05/12/2033	280,469,500
MT0000013707	7.00% MGS 2033 (II)*	31/12/2033	1,078,200
MT0000012451	4.10% MGS 2034 (I)	18/10/2034	200,075,700
MT0000013194	1.00% MGS 2035 (II)	23/08/2035	144,200,000
MT0000012865	2.20% MGS 2035 (I)	24/11/2035	20,539,100
MT0000012642	2.50% MGS 2036 (I)	17/11/2036	221,733,100
MT0000013319	1.20% MGS 2037 (I)	13/05/2037	85,900,000
MT0000013756	4.00% MGS 2038 (I)	25/08/2038	68,484,800
MT0000013814	4.30% MGS 2038 (II)	15/11/2038	23,145,900
MT0000012774	2.10% MGS 2039 (I)	24/08/2039	159,102,100
MT0000012519	3.00% MGS 2040 (I)	11/06/2040	162,276,100
MT0000012725	2.40% MGS 2041 (I)	25/07/2041	153,669,800
MT0000013558	3.40% MGS 2042 (I)	26/08/2042	22,866,000
MT0000013699	4.00% MGS 2043 (I)	26/11/2043	105,752,300
MT0000013038	1.50% MGS 2045 (I)	22/10/2045	153,700,000
MT0000013202	1.40% MGS 2046 (I)	20/08/2046	145,800,000
MT0000013459	2.60% MGS 2047 (I)	27/09/2047	20,000,000
MT0000013368	2.00% MGS 2051 (II)	10/07/2051	129,100,000
MT0000013293	1.80% MGS 2051 (I)	28/08/2051	127,164,700
MT0000013426	2.40% MGS 2052 (I)	13/08/2052	69,000,000
Total			8,344,357,000

Malta Government Retail Savings Bonds

ISIN	Debt Security	Redemption Date**	Nominal Capital €
MT4000010044	62+ MG Savings Bond - Issue 2019	20/03/2024	93,345,300
MT4000010051	62+ MG Savings Bond - Issue 2020	21/07/2025	90,936,700
MT4000010069	62+ MG Savings Bond - Issue 2021	15/10/2026	97,506,700
MT4000010077	62+ MG Savings Bond - Issue 2023	19/06/2028	69,954,200
Total			351,742,900

Malta Government Treasury Bills

ISIN	Debt Security	Redemption Date	Nominal Capital €
MT3400010349	364 Day T-Bill (16.02.23 - 15.02.24)	15/02/2024	21,130,000
MT3400010356	364 Day T-Bill (23.03.23 - 21.03.24)	21/03/2024	12,330,000
MT3400010364	364 Day T-Bill (20.04.23 - 18.04.24)	18/04/2024	13,150,000
MT3300011165	273 Day T-Bill (11.05.23 - 08.02.24)	08/02/2024	19,701,000
MT3200014103	182 Day T-Bill (06.07.23 - 04.01.24)	04/01/2024	14,123,000

MT3200014111	182 Day T-Bill (13.07.23 - 11.01.24)	11/01/2024	9,558,000
MT3200014129	182 Day T-Bill (20.07.23 - 18.01.24)	18/01/2024	4,101,000
MT3300011173	273 Day T-Bill (27.07.23 - 25.04.24)	25/04/2024	13,060,000
MT3200014137	182 Day T-Bill (03.08.23 - 01.02.24)	01/02/2024	6,893,000
MT3400010372	364 Day T-Bill (10.08.23 - 08.08.24)	08/08/2024	3,599,000
MT3300011181	273 Day T-Bill (17.08.23 - 16.05.24)	16/05/2024	5,477,000
MT3200014145	182 Day T-Bill (24.08.23 - 22.02.24)	22/02/2024	2,010,000
MT3200014152	182 Day T-Bill (31.08.23 - 29.02.24)	29/02/2024	2,500,000
MT3300011199	274 Day T-Bill (20.09.23 - 20.06.24)	20/06/2024	1,850,000
MT3200014160	182 Day T-Bill (28.09.23 - 28.03.24)	28/03/2024	4,000,000
MT3100017164	91 Day T-Bill (05.10.23 - 04.01.24)	04/01/2024	19,067,000
MT3200014178	182 Day T-Bill (05.10.23 - 04.04.24)	04/04/2024	4,836,000
MT3100017172	91 Day T-Bill (12.10.23 - 11.01.24)	11/01/2024	12,861,000
MT3200014186	182 Day T-Bill (12.10.23 - 11.04.24)	11/04/2024	6,512,000
MT3100017180	91 Day T-Bill (19.10.23 - 18.01.24)	18/01/2024	14,880,000
MT3400010380	364 Day T-Bill (19.10.23 - 17.10.24)	17/10/2024	1,295,000
MT3100017198	91 Day T-Bill (26.10.23 - 25.01.24)	25/01/2024	21,602,000
MT3300011207	273 Day T-Bill (26.10.23 - 25.07.24)	25/07/2024	4,414,000
MT3200014194	182 Day T-Bill (02.11.23 - 02.05.24)	02/05/2024	8,907,000
MT3100017206	91 Day T-Bill (09.11.23 - 08.02.24)	08/02/2024	27,779,000
MT3100017214	91 Day T-Bill (16.11.23 - 15.02.24)	15/02/2024	31,177,000
MT3100017222	91 Day T-Bill (23.11.23 - 22.02.24)	22/02/2024	41,802,000
MT3200014202	182 Day T-Bill (23.11.23 - 23.05.24)	23/05/2024	10,559,000
MT3100017230	91 Day T-Bill (30.11.23 - 29.02.24)	29/02/2024	43,637,000
MT3100017248	91 Day T-Bill (07.12.23 - 07.03.24)	07/03/2024	37,931,000
MT3200014210	182 Day T-Bill (07.12.23 - 06.06.24)	06/06/2024	44,400,000
MT3100017255	91 Day T-Bill (14.12.23 - 14.03.24)	14/03/2024	55,165,000
MT3200014228	182 Day T-Bill (14.12.23 - 13.06.24)	13/06/2024	26,903,000
MT3100017263	91 Day T-Bill (21.12.23 - 21.03.24)	21/03/2024	62,263,000
MT3200014236	182 Day T-Bill (21.12.23 - 20.06.24)	20/06/2024	42,729,000
MT3100017271	90 Day T-Bill (29.12.23 - 28.03.24)	28/03/2024	13,027,000
MT3200014244	181 Day T-Bill (29.12.23 - 27.06.24)	27/06/2024	6,394,000
		Total	671,622,000

*Redemption of Ex-Church Property Stocks can take place on any date between 1st January and 31st December of the year indicated.

**Bondholders may redeem the whole amount invested prior to the redemption date set in the Prospectus subject to the conditions laid out in it.