

# NATIONAL STRATEGY

2025-2035

for Poverty Reduction  
and Social Inclusion.



## Measuring Poverty and Determining a Minimum Income for a Quality of Life and Decent Living for Low-Income Households in Malta

Working Paper to the National Strategy for Poverty Reduction and Social Inclusion: 2025-2035

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<b>ABSPO</b>	Measuring and Monitoring Absolute Poverty
<b>ADI</b>	Adjusted disposable income
<b>ALMP</b>	Active Labour Market Policies
<b>AROPE</b>	At-risk of Poverty or Social Exclusion
<b>AROP or AROP-60</b>	At-risk of Poverty or At-risk of Poverty with a 60% median income threshold
<b>AROP</b>	At-risk of Poverty or Social Exclusion Indicator
<b>ARPT</b>	At-risk of Poverty Threshold
<b>CBM</b>	Central Bank of Malta
<b>CEE</b>	Central and Eastern Europe
<b>CM</b>	CARITAS Malta
<b>COLA</b>	Cost of Living Allowance
<b>DCB</b>	Deficiency Contributions benefit
<b>DESI</b>	Digital Economy and Society Index
<b>ECOICOP</b>	European Classification of Individual Consumption According to Purpose (
<b>EHCR</b>	Extended Headcount Ratio
<b>EU</b>	European Union
<b>GDHI</b>	Gross Disposable Household Income
<b>GNMP</b>	Guaranteed Minimum Pension
<b>GP</b>	General Practitioner doctor
<b>GWU</b>	General Workers Union
<b>HBS</b>	Household Budget Survey
<b>LB</b>	Leaving no one Behind
<b>LN</b>	Legal Notice
<b>LPR</b>	Liquid Potential Resources
<b>LWC</b>	Low Wage Commission
<b>LWI</b>	Low Work Intensity
<b>IWB</b>	In Work Benefit
<b>IWP</b>	In Work Poverty
<b>MAB</b>	Minimum Annual Budget
<b>MCA</b>	Maltese Competent Authority
<b>MCESD</b>	Malta Council for Economic and Social Development
<b>MD</b>	Material Deprivation
<b>MEB</b>	Minimum Essential Budgets
<b>MEBDL</b>	Minimum Essential Benefit for a Decent Living
<b>MIS</b>	Minimum Income Schemes
<b>MS</b>	Member State
<b>MSD</b>	Material and Social Deprivation
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>NAO</b>	National Audit Office
<b>NEC</b>	Not Elsewhere Classified
<b>NEI</b>	National Equivalised Income
<b>NLI</b>	National Living Income
<b>NMW</b>	National Minimum Wage
<b>PPP</b>	Purchasing Power Parity
<b>RPI</b>	Retail Price Index
<b>SA</b>	Social Assistance
<b>SCG</b>	Senior Citizen's Grant
<b>S/E</b>	Self-employed
<b>SEPM</b>	Supplemental Expenditure Poverty Measure
<b>SDG</b>	Sustainable Development Goals

<b>SILC</b>	Statistics on Income and Living Conditions
<b>SMD</b>	Severe Material and Social Deprivation Rate
<b>SMMF</b>	Social Metrics Measurement Framework
<b>SMSD</b>	Severe Material and Social Deprivation Rate
<b>SNA</b>	System of National Accounts
<b>STiK</b>	Social Transfers in Kind
<b>SUP</b>	Single Unmarried Parent
<b>TOB</b>	Tapering of Benefits
<b>UA</b>	Unemployment Assistance
<b>WP</b>	Widow's Pension



## 01. Defining poverty

Poverty and social exclusion are interlinked with inequality but cannot be reduced to income inequalities alone. Poverty is a situation in which inequalities leave some people so far away from the social mainstream that the deprivations they experience push them below what are viewed as basic standards. Poverty is often operationalised and measured in income or consumption poverty. Poverty lines can be defined based on absolute needs or relative social standards prevailing in a given society at a given time.<sup>1</sup>

While poverty is a relatively static definition of disadvantage, social exclusion can be seen as both a process and an outcome. As a process, it pushes certain individuals to the margins of their society. It prevents their full participation in relevant social, economic, cultural, and political activities. As an outcome, social exclusion denotes the status and characteristics of the excluded individual.<sup>2</sup>

From a social researcher's point of view, poverty is a complex phenomenon influenced by many factors and can be studied from many different perspectives. **Appendix 01** presents different methods of measuring poverty. These are synthesised in **Table 01**.

**Table 01: Different Approach to Poverty Measurement<sup>3</sup>**

Unidimensional	Monetary	Income Based	Absolute poverty lines	National thresholds specific for individual countries in the national currency	1 Cost of basic needs
				Internationally comparable thresholds	2 Subsistence minimum
			Relative poverty lines	Share of the media (or mean) income	3 Severely poor with income below 1.9 PPS
					4 Just poor' with income below 3.1 PPS
			Absolute poverty lines	National thresholds specific for individual countries in the national currency	5 Relative low income below 50% or 60% median income
6 Relative low income anchored at a fixed point in time					
Relative poverty lines	Share of the media (or mean) income	7 Weakly relative poverty line			
		Absolute poverty lines	National thresholds specific for individual countries in the national currency	8 Cost of basic needs	
9 Subsistence minimum					
Relative poverty lines	Share of the media (or mean) income	10 Severely poor with income below 1.9 PPS			
		11 Just poor' with income below 3.1 PPS			
Food Energy Intake (FEI)			12 Relative low income below 50% or 60% median income		
			13 Relative low expenditure anchored at a fixed point in time		
Multidimensional	Deprivations		14 Weakly relative poverty line		
			15 Nationally specific FEI based poverty rates		
Multidimensional	Multi dimensional poverty estimates	Official national or international poverty indices	16 Indicator dashboards		
			17 Indices of multiple deprivation, including material and severe		
			18 Multidimensional poverty index		
Official national or international poverty indices			19 Severely poor		
			20 Moderately poor		

<sup>1</sup> Pg 10, Guide on Poverty Measurement, UNECE, UN, 2017.

<sup>2</sup> Ibid.

<sup>3</sup> Pg 19, Ibid.



The EU AROPE poverty indicator does not take into account social transfers in kind (STiK), which is consumption that is saved from expenditure carried out by households through free provision of welfare services in health, education, care for the elderly, etc., with obvious implications on poverty.

## 02. Global Events Impacts' on Poverty and Income in the European Union and in Malta

The Europe Union (EU), including Malta, suffered significantly following the COVID-19 pandemic-induced economic slowdown. The war in Ukraine resulted in significant inflationary challenges. Generally, the economic, social, poverty and income developments across the EU since then can be summarised as follows:

01. After two decades of low inflation, the COVID-19 pandemic and supply-chain bottlenecks caused prices to rise in 2021. This trend was exacerbated by the Russian war of aggression against Ukraine in early 2022, and the resulting impact on energy and food markets. Inflationary pressures started in 2021. Inflation averaged 9.2%, spiking energy, food, and transport prices.<sup>4</sup> The Figure below shows the inflation rate (harmonised index of consumer prices – (HICP)). In 2023, the inflation rate started to go down. The Euro area annual inflation is expected to be 2.4% in March 2024, down from 2.6% in February 2024. Services are expected to have the highest annual rate in March 2024 (4.0%, stable compared with February), followed by food, alcohol and tobacco (2.7%, compared with 3.9% in February), non-energy industrial goods (1.1%, compared with 1.6% in February) and energy (-1.8%, compared with -3.7% in February).<sup>5</sup>

In March 2023, inflation in Malta stood at 7.1%, falling to 3.7% by the end of the year. The three lowest average salaries were in the highest increase in the price component relating to food and non-alcoholic beverages (which carries the greatest weight in the overall inflation calculation), reaching 9.5%. In March 2024, this fell to 3.0%, estimated to be 2.7% in April 2024.

**Table 02: Euro Area Inflation Rate: March 2024 and Estimate for April 2024<sup>6</sup>**

	Annual rate							Monthl y rate
	Mar 23	Oct 23	Nov 23	Dec 23	Jun 24	Feb 24	Mar 24	Mar 24
Malta	7.1	4.2	3.9	3.7	3.7	3.0	2.7e	1.1e

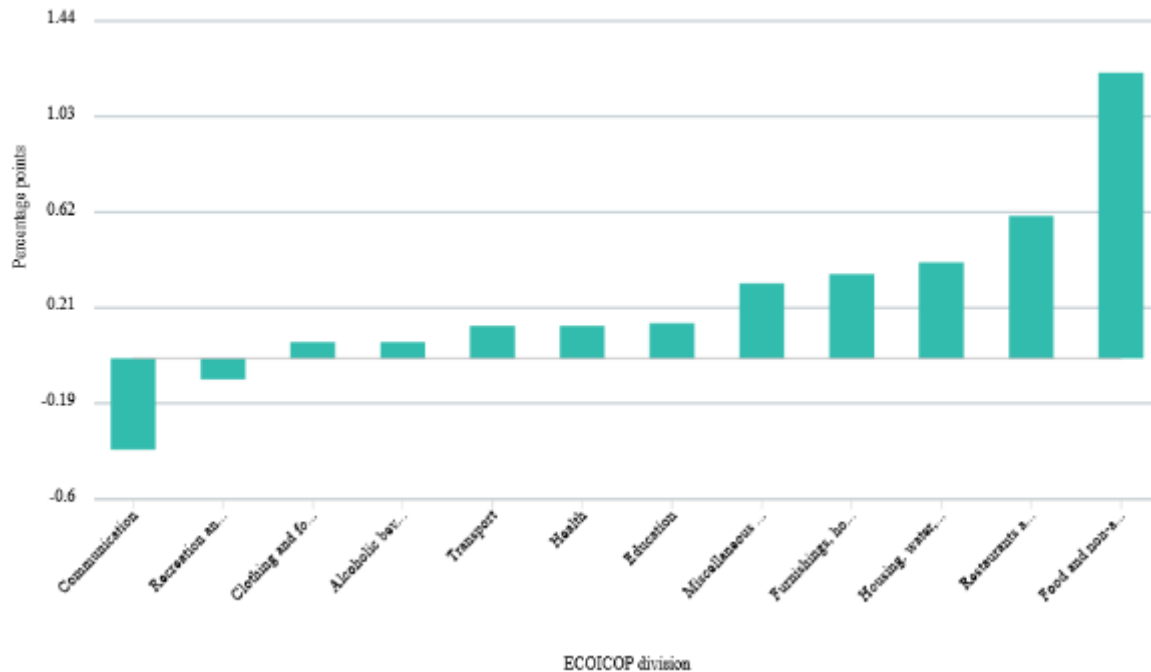
<sup>4</sup> Pg 21, Employment and Social Developments in Europe 2023, Directorate-General for Employment, Social Affairs and Inclusion Directorate F, European Commission, July 2023.

<sup>5</sup> Eurostat. Accessed on 12<sup>th</sup> April 2024: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-03042024-ap>.

<sup>6</sup> Ibid.

**Figure 01** presents the contribution to the February 2024 inflation rate by the 12 European Classification of Individual Consumption According to Purpose (ECOICOP) main divisions. The highest contributor, by far, 1.22, is food and non-alcoholic beverages. The inflation rate in Malta in February 2024 was 0.4 percentage points (p.p.) compared to the average in the Euro Area, which stands at 2.6%.<sup>7</sup>

**Figure 01: Contribution to the February 2024 inflation rate by the 12 ECOICOP main divisions – Malta (%)<sup>8</sup>**



To alleviate pressure on disposable income resulting from the inflation impact arising from the food and non-alcoholic beverages, the government introduced a scheme with food importers and retailers in January to guarantee stability in the pricing of essential foods. The scheme is based on over 400 essential types of food goods set at 15% less than the recommended retail price on 31st October 2023.

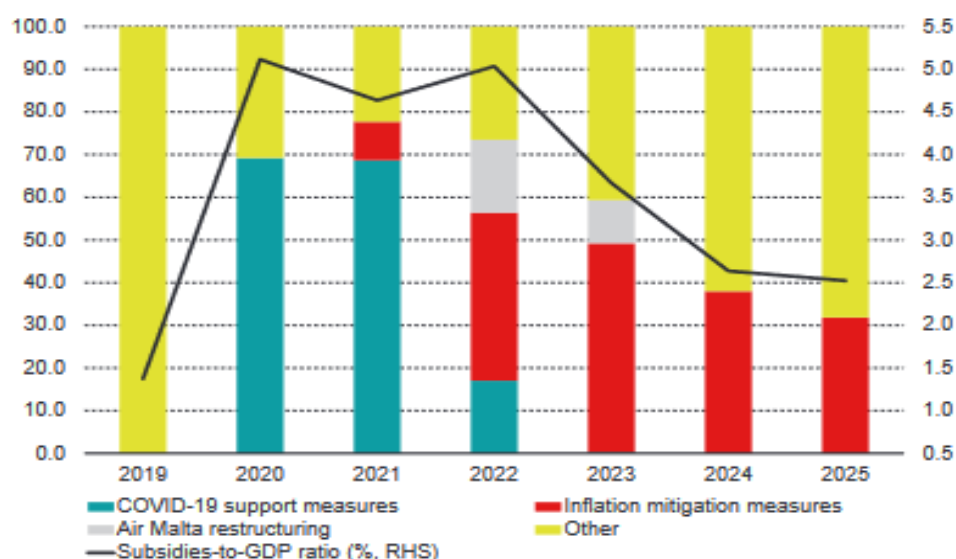
- The third largest component of inflation, 0.41 p.p., is the housing, water, electricity, gas, and other fuels index. This increase is spurred by the private rental market (discussed in the Working Paper on Poverty Reduction and Social Inclusion (PSRI) 2025-2023 titled 'Affordable and Social Housing'). As shown in Figure 02, most outlays on subsidies between 2020 and 2023 were in support measures related to COVID and the energy price shock. In these three years, such outlays averaged around 73% of total subsidies. The energy inflation mitigation **measures** will also cover 2024.<sup>9</sup>

<sup>7</sup>Harmonised Index of Consumer Prices (HICP): February 2024, NR 050/2024, Release Date: 18 March 2024, National Statistics Office. Accessed on 12<sup>th</sup> April 2024: <https://nso.gov.mt/harmonised-index-of-consumer-prices-hicp-february-2024/>

<sup>8</sup> Ibid.

<sup>9</sup> Pg 2, The composition of government subsidies, Article published in the Outlook for the Maltese Economy 2023:2, pp. 14-15, Central Bank of Malta, 2023.

Figure 02: Composition of Subsidies (% of total)<sup>10</sup>



Source: Author's estimates.

03. Price surges negatively affected the recovery of households' real income growth in 2022 across the EU. The Gross Disposable Household Income<sup>11</sup> (GDHI) per capita growth in the EU was negative in Q3 2022, at -0.5%, and again in Q4, at -0.4%, driven by a negative year-on-year change in the weight of the real compensation of employees and the self-employed.<sup>12</sup> Economic inflation pressures increased financial distress among lower-income households. Across the EU, reported financial distress of households increased from 12.5% in December 2021 to 15.8% in December 2022. As one of its components, the share of adults reporting having to draw on savings to meet daily needs also rose, from 9.1% in December 2021 to 11.8% in December 2022. Broken by incomes, in December 2022, 27% of lower-income households reported financial distress (up from 23.3% in 2021), compared to 7.4% of households in the top-income quartile (up from 5.5% in 2021). The share of households reporting an inability to face unexpected financial expenses also increased in 2022, at 31.5%, compared to 30.2% in 2021. Similarly, the share of households reporting difficulties in making ends meet increased from 11.3% in 2021 to 12.2% in 2022, the same level recorded in 2020.<sup>13</sup>

The same trend is seen in Malta. A paper by the Central Bank of Malta (CBM) titled 'The cost of inflation: how has the recent surge in inflation impacted lower-income households in Malta?' posits that the gap between the inflation experienced by the top 25% earners and the lowest 25% earners increased sharply since the beginning of 2022 and exceeded the historical gap of around 0.2 p.p.<sup>14</sup>

<sup>10</sup> Ibid.

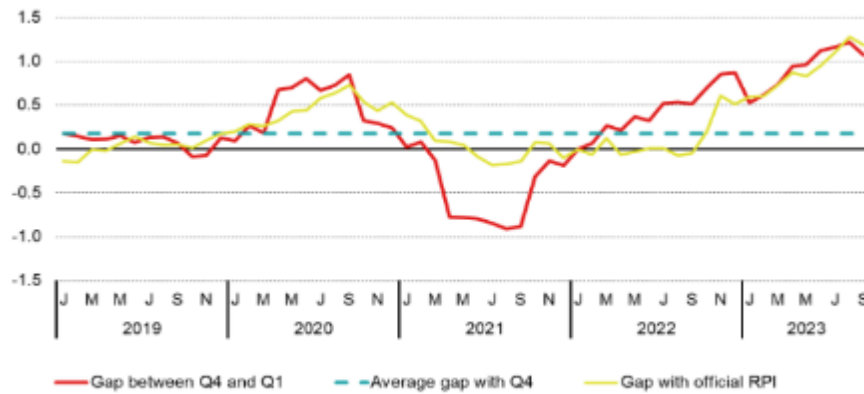
<sup>11</sup> The Real Gross Disposable Household Income is an aggregate measure approximating households' overall living conditions by focusing on the income that households are able to spend.

<sup>12</sup> Social Situation, Poverty, and Income Developments, Main economic, labour market and social developments, European Commission. Accessed on 12<sup>th</sup> April 2024: <https://op.europa.eu/webpub/empl/esde-2023/chapters/chapter-1-4-1.html#chart-1.16>.

<sup>13</sup> Ibid.

<sup>14</sup> Pg 13, Grech, G, A, Borg, I and Antonaroli, V., The cost of inflation: how has the recent surge in inflation impacted lower income households in Malta?, Policy Note, Central Bank of Malta, 2024.

**Figure 03: Inflation difference between the lowest and highest income quintile and the official Retail Price Index (%)<sup>15</sup>**

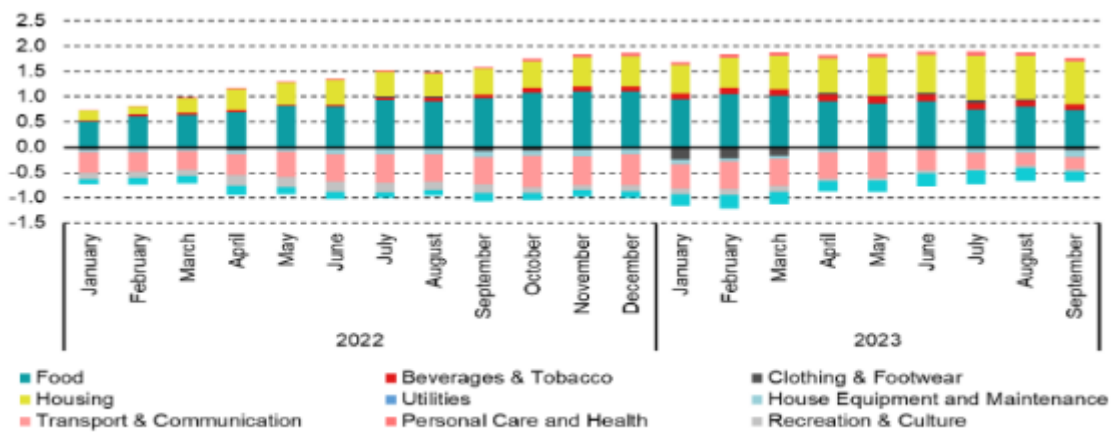


Source: Own workings based on Darmanin (2021).

This paper adds that the gap with the official Retail Price Index (RPI) has also risen sharply, which implies that lower-income households experienced higher inflation when compared to the average household.<sup>16</sup> Despite some easing in overall inflation during the first nine months of 2023, the paper argues that the gap between the lowest and highest income groups continued to gather pace and peaked in August 2023 at 1.2 p.p.<sup>17</sup> Similarly, when compared with the official RPI, the gap stood at 1.3 p.p. in August 2023 – with the gaps being the second highest gaps experienced since 2013.<sup>18</sup> The very high inflation gap implies that the recent surge in inflation is extremely burdensome for low-income households, which experienced a peak inflation rate of 7.9% in December 2022.<sup>19</sup>

This paper concludes that initially, the gap between the lowest and highest income group since 2022 has been primarily driven by food inflation, which, given that it has a higher share in the lowest income consumption basket, it has a higher share in the lower income households to had a more burdensome impact on lower-income households. Rent inflation was also high, which impacted the inflation gap.<sup>20</sup>

**Figure 04: Decomposition of the Inflation Gap between the Lowest and the Highest Income Quartile (Contributions)<sup>21</sup>**



Source: Own workings based on Darmanin (2021).

<sup>15</sup> Pg 14, Ibid.

<sup>16</sup> Pg 13, Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

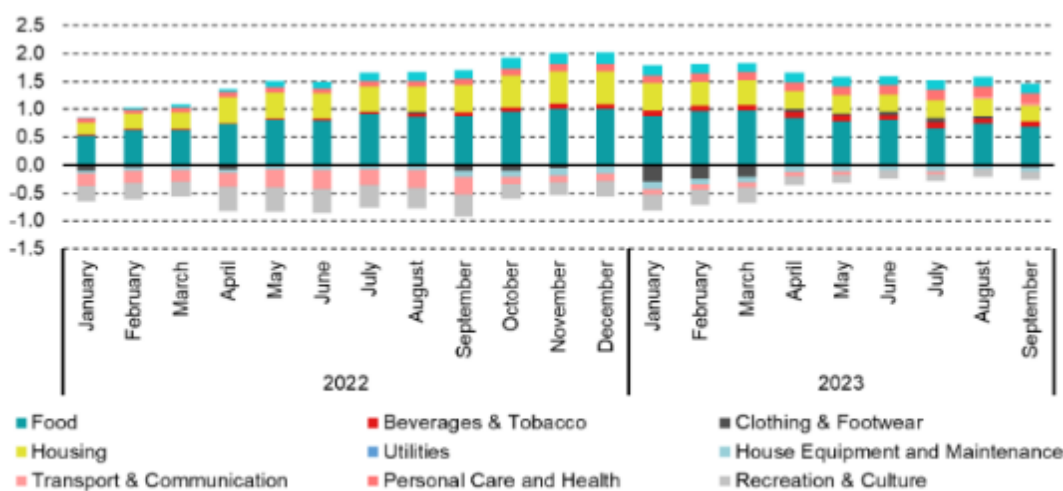
<sup>19</sup> Ibid.

<sup>20</sup> Pg 14, Ibid.

<sup>21</sup> Pg 15, Ibid.

04. The afore-referenced CBM paper (2024) concludes that retired households experienced higher inflation than non-retired households: the inflation experience of the retired household is very similar to that of lower-income households, discussed above, as the largest driver of the inflation gap when compared to non-retired households was the persistently high food inflation, followed by housing goods and services.<sup>22</sup>

**Figure 05: Decomposition of the Inflation Gap between retired and non-retired households (Contributions)<sup>23</sup>**



Source: Own workings based on Darmanin (2021)

05. **Table 02** compares average salaries for occupational groups in Malta for 2022 and 2023. All of the categories, other than that of elementary occupations, experienced an increase in 2023 on average. The highest was experienced in the Managers occupational group (+€178) and the lowest in the plant and machine operators group (+€11). The average wage for elementary occupations decreased by €39.

**Table 03: Average Salaries in Malta for 2022 and 2023 by Occupational Group<sup>24</sup>**

Occupational group	Males		Females		Total	
	Average (€) - 2022	Average (€) - 2023	Average (€) - 2022	Average (€) - 2023	Average (€) - 2022	Average (€) - 2023
	October-December 2023					
Managers	2,705	2,976	2,925	2,930	2,781	2,959
Professionals	2,476	2,612	2,323	2,303	2,397	2,456
Technicians and associate professionals	1,931	1,856	1,609	1,808	1,809	1,838
Clerical support workers	1,426	1,500	1,406	1,489	1,414	1,493
Service and sales workers	1,452	1,417	1,113	1,228	1,223	1,303
Skilled agricultural, forestry and fishery workers	:	:	:	:	:	:
Craft and related trades workers	1,392	1,540	:	:	1,382	1,517
Plant and machine operators, and assemblers	1,399	1,424	1,347 <sup>a</sup>	1,288 <sup>a</sup>	1,388	1,399
Elementary occupations	1,206	1,204	1,070	993	1,160	1,120
<b>Total</b>	<b>1,858</b>	<b>1,905</b>	<b>1,699</b>	<b>1,747</b>	<b>1,787</b>	<b>1,837</b>

<sup>22</sup> Pg 16, Ibid.

<sup>23</sup> Pg 17, Ibid.

<sup>24</sup> Accessed on 12<sup>th</sup> April 2024: <https://nso.gov.mt/wp-content/uploads/NR-048-2024-T11.xlsx>.

The three lowest average salaries were in the elementary category - €13,444, the service and sales workers - €15,637, and the plant and machine operators - €16,793.<sup>25</sup> The **poverty line for 2022** is established at **€10,893** (2022 figure provided by NSO). The National Minimum Wage (NMW) in Malta in 2024 and 2023 increased from €192.73 to €213.54 weekly – bringing it to €11,104 annually. This is only €211, or 1.9% above the poverty line. The average wage in 2023 for a person holding an elementary occupation is €1,120 monthly (lower by €40 per month compared to 2022) – annually €13,440. The average wage for the elementary category is €2,461 higher, or 18%, than the poverty line and €2,336, or 21.0%, higher than the NMW.

Wages are indexed to prices through the Cost of Living Allowance (COLA). The COLA, however, is awarded with an n-1 time lag and hence does not alleviate household income pressures when inflation impacts their disposable income.<sup>26</sup> The afore-referenced CBM paper states that the NMW kept up with inflation during the period before the surge in inflation in 2022, even when accounting for the higher inflation experienced by lower-income households, and households with children experienced a sharp increase in income with the introduction of the In-work Benefit (IWB).<sup>27</sup> **Table 03** shows the growth in the real value of wages between 2021 and 2022: all wages lost some value in 2022, reflecting that the low-income household inflation rate in 2022 stood at 6.2%, while COLA for that year stood at just €1.74.<sup>28</sup>

**Table 04: Evolution of real wages between 2014 and 2022 (Percentage changes)<sup>29</sup>**

	Growth between 2014 and 2021			Growth between 2021 and 2022			
	Weekly rate exclusive of bonuses	Weekly rate inclusive of bonuses	Weekly rate inclusive of child benefits*	Weekly rate exclusive of bonuses	Weekly rate inclusive of bonuses	Weekly rate inclusive of child benefits*	Weekly rate inclusive of benefits & ADCL**
Single minimum wage	0.0	-0.4	22.8	-5.0	-5.0	-3.8	-1.8
Married minimum wage	0.4	-0.4	12.6	-4.9	-5.0	-4.4	NA

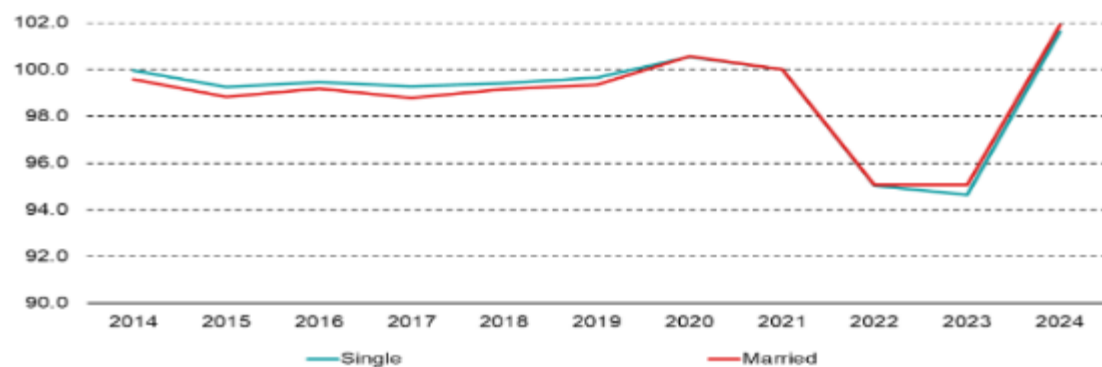
Source: Social Security Department, Own workings.

\*These child benefits are assumed to accrue to a single or married household with two children.

\*\* The additional COLA mechanism only affects single minimum wage earners.

Nevertheless, if one evaluates the performance of the NMW between 2014 and **exclusive** of other benefits, the NMW, in real terms, remained flat between 2014 and 2021 and fell sharply in 2022 and 2023.

**Figure 06: Projected national minimum wage rates (Index of minimum wages, 2021 = 100)<sup>30</sup>**



Source: Own workings.

<sup>25</sup> EU-SILC 2022: Salient Indicators NR103/2023 Release Date: 13 June 2023, National Statistics Office. Accessed on 12<sup>th</sup> April 2024: <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.

<sup>26</sup> The matter of a minimum income basket for low income households is discussed at length latter in this paper.

<sup>27</sup> Pg 22, Grech, G, A, Borg, I and Antonaroli, V., The cost of inflation: how has the recent surge in inflation impacted lower income households in Malta?, Policy Note, Central Bank of Malta, 2024.

<sup>28</sup> Pg 23, Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Pg 25, Ibid.

A recent KPMG report titled 'Malta's Economic Outlook' also concludes that real wages have been stagnant in real terms, stating that the average wage increased from €18,254 to €18,359 between 2018 and 2023 despite that nominal wages increased from €18,967 to €22,032 during the same period.<sup>31</sup> The report adds that in 2022, workers earned on average €20,953, increasing to €22,032 in 2023 with, however, "slightly more than the increase of €1,079 was eaten away by rising prices, leaving workers worse off in terms of purchasing power ... result[ing] [in] a reduction in real wages, with the latter falling by an average of 0.06% in 2022, and 0.46% in 2023."<sup>32</sup>

The CBM paper (2024) states, as shown in Figure 05, that the COLA awarded for 2024 is the highest ever given, persons on the NMW are expected in 2024 to have their "losses erased and recoup purchasing power ... [and the] several increments have been given in terms of the higher NMW".<sup>33</sup> The paper concludes that the fact that the additional COLA mechanism is now "computed as a top-up to the COLA for all those earning less than the median equivalised income, and is based on an estimate of the inflation rate computed based on the consumption basket of retired or low-income households ... should ensure that the effective purchasing power of low-income households is better protected and that any loss due to spikes in inflation that affect them most are only temporary."<sup>34</sup>

06. **Table 05** presents the growth of pensions in real value between 2013 and 2021 and 2021 and 2022. It is important to note that persons on a minimum pension benefit from a Supplementary Allowance (SPA), from 2015, a Deficiency Contributions benefit (DCB) was awarded to non-pensions who reached the statutory retirement rate but had less than the 10 years contributory qualifying person. A Senior Citizen's Grant (SCG) is given to a person who is 75 plus.

**Table 05: Evolution of the real value of pensions (percentage changes)<sup>35</sup>**

	Growth between 2013 and 2021				Growth between 2021 and 2022			
	Weekly rate inclusive of bonuses	Inclusive of DCB	Inclusive of SPA and DCB	Inclusive of SPA, DCB, and SCG	Weekly rate inclusive of bonuses	Inclusive of DCB	Inclusive of SPA and DCB	Inclusive of SPA, DCB, and SCG
Single minimum pension	17.4	NA	18.1	17.6	-3.2	NA	1.2	1.5
Married minimum pension	15.2	19.4	22.0	21.0	-3.4	-2.1	0.4	0.8
Maximum married pension	1.4	3.9	NA	6.1	-4.2	-3.3	NA	-1.4

Source: Social Security Department; Own workings.

\* Real value is obtained by deflating nominal pensions with the retired household inflation rate.

As presented in Table 05, pensions also show that real wages lost value in 2022. This results from the fact that, as with wages, COLA is a backwards-looking mechanism, and whilst the inflation rate for a pension household reached 6.3% in 2022, the COLA stood at €1.75. This was complemented by a larger COLA of €5, which was insufficient to compensate for inflation in 2022.<sup>36</sup> Additionally, other statutory bonuses not indexed to COLA declined in real terms.<sup>37</sup>

The report, however, states that when all benefits are considered, minimum pensions experience an increase in real value. This is presented in **Figure 06** below. Concerning maximum pensions, their real value deteriorated in 2022 and is expected to deteriorate further in 2023, as the increments received were insufficient to compensate for inflation. The report concludes, however, that the increase in the weekly rate and the CLBO (Cost of Living Bonus) by €15 in

<sup>31</sup> Pg 6, Malta's Economic Outlook, KPMG, March 2024.

<sup>32</sup> Pp 6-7, Ibid.

<sup>33</sup> Pg 26, Grech, G, A, Borg, I and Antonaroli, V., The cost of inflation: how has the recent surge in inflation impacted lower income households in Malta?, Policy Note, Central Bank of Malta, 2024.

<sup>34</sup> Pg 26.

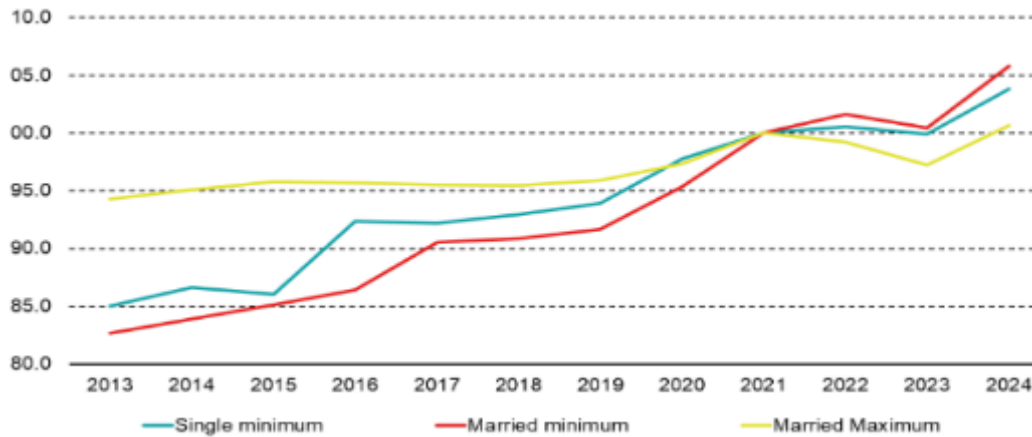
<sup>35</sup> Pg 20, Ibid.

<sup>36</sup> Pg 19, Ibid.

<sup>37</sup> Pg 20, Ibid.

2024 and the modification of the additional COLA mechanism to cover more households should see the real value of maximum pensions exceed 2021 levels slightly in 2024.<sup>38</sup>

**Figure 07: Project real value of pensions (Index of pensions inclusive of bonuses, SPA, DCB, SCG, deflated with retired inflation rate)<sup>39</sup>**



07. Since the reopening of the economy after the COVID-19 pandemic, private consumption in Malta has strongly recovered, with consumption exceeding pre-pandemic levels by 2022 and acting as one of the main drivers for economic growth.<sup>40</sup> During the first three quarters of 2023, growth in private consumption averaged 8.0% year-on-year, though this started to decrease somewhat in 2023.<sup>41</sup> Nevertheless this stands in sharp contrast to developments in real disposable income, estimated to have declined slightly during the first three quarters of 2023.<sup>42</sup> During the COVID-19 pandemic, households and individuals accumulated excess savings during this period, as they were forced to cut back on spending, while fiscal measures such as the wage supplement scheme supported incomes between 2020 and 2022, based on percentage of disposable income were estimated to have amounted to 8.0%, 6.4% and 1.3%, respectively.<sup>43</sup>

Of interest is that the CBM shows that households in the bottom half of the distribution held most of the excess savings from 2020 to 2022, at 46.0%, 49.2% and 65.9%, respectively, followed by middle and upper middle-income households, and the richest 10% of households held a small share of excess savings with 2022 having a negative share of -5.0%.<sup>44</sup>

Post-COVID-19 pandemic consumption rose very sharply during 2021 and 2022, driven by all categories of consumption, especially restaurants and hotels.<sup>45</sup> Counter to 2021 and 2022, the largest contributor to growth in domestic consumption in 2023 was not restaurants and hotels but rather driven by miscellaneous goods and services, including expenditure on personal care, insurance, and financial services, among others and then followed by restaurants and hotels, and recreation and culture.<sup>46</sup>

**Figure 08: Distribution of Excess Savings (deviation from the pre-pandemic trend; percentages of disposable income)<sup>47</sup>**

<sup>38</sup> Pg 21, Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Pg 1, Recent developments in private consumption and forecast implications, Article published in the Outlook for the Maltese Economy 2024:1, pp. 6-10, Central Bank of Malta, 2023.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> Pg 2, Ibid.

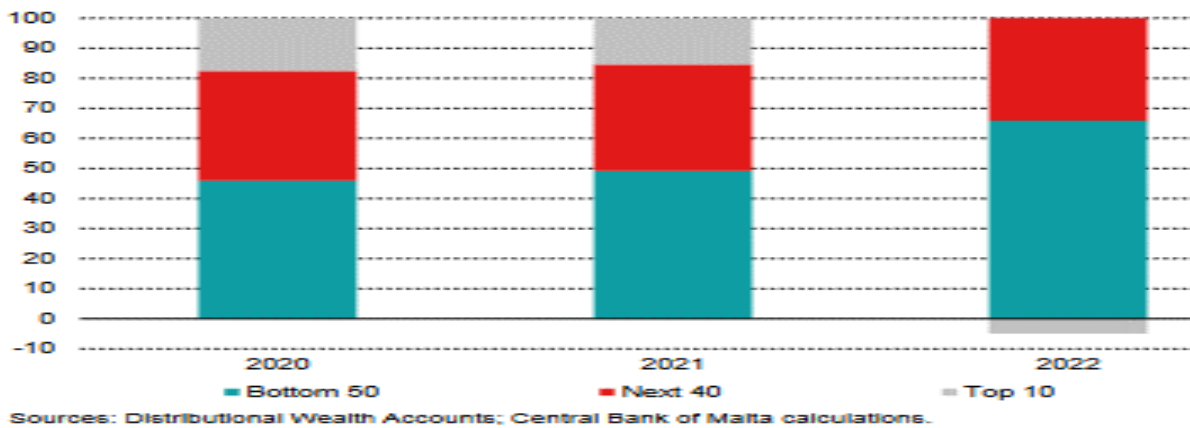
<sup>44</sup> Pg 3, Ibid.

<sup>45</sup> Pg 2, Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

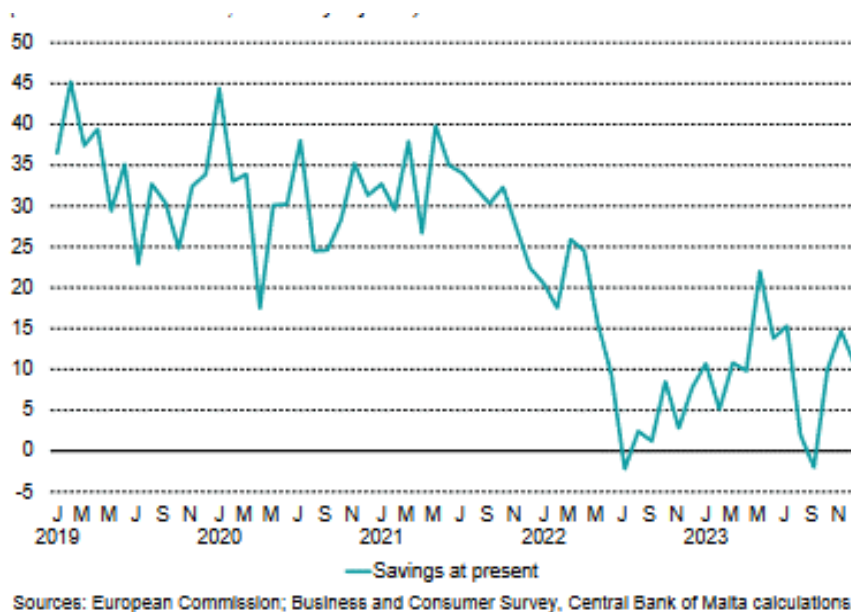




The CBM, whilst stating that most categories of consumption remained very resilient during 2023 despite the high inflationary environment, observes declines in certain categories, mainly in spending on housing, water, electricity, food and non-alcoholic beverages, household equipment and routine household maintenance, which contributed negatively to growth in consumption during the first three quarters of 2023.<sup>48</sup> The CBM posits that this may reflect the relatively high inflation related to these categories.<sup>49</sup>

Nevertheless, these excess savings are being depleted, with the savings ratio in 2023 falling significantly below the 2019 levels – at the end of 2023, present savings (demeaned) stood at 10.7, significantly below 2019 levels, averaging 33.3.<sup>50</sup> This strongly suggests that households have used the excess savings accumulated during the pandemic and their regular savings to smoothen consumption.<sup>51</sup>

**Figure 09: Present Savings (demeaned net balances; seasonally adjusted)<sup>52</sup>**



The CBM forecasts that in 2024, the saving ratio should begin to stabilise real consumption growth to decline from a high of 10.8% in 2022 to 3.6% whilst the growth of real disposable income to accelerate marginally in 2024 and stabilise at around 3.8% between 2024 and 2026.<sup>53</sup>

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> Pg 4, Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Pg 5, Ibid.

The savings ratio is expected to stabilise at 22.1%, rendering it close to the average of the last 10 years.<sup>54</sup>

07. In a challenging context, income inequality in the EU has decreased. Eurostat's estimates of the average income quintile share ratio for the top and bottom quintiles (S80/S20) for the EU 27 MS for 2022 show that this fell by 0.25 p.p from 4.99 in 2021 to 4.74. This is also 0.15 p.p. lower than in 2020. The S80/S20 for Malta experienced a similar pattern during this period. 2022 this fell by 0.25 p.p. from 5.03 in 2021 to 4.75. The S80/20, however, in 2022 is 0.06 p.p. higher than 2020.<sup>55</sup>
08. The AROPE rate remained relatively stable in 2022 across MS. The average AROPE rate in the EU was 21.6% in 2022, similar to the previous years (21.7% in 2021 and 21.6% in 2020). This stability also confirms the crucial role of social protection and social inclusion policies in ensuring socioeconomic resilience to shocks, including Russia's war of aggression against Ukraine.<sup>56</sup> Social transfers play an important role in reducing poverty. Overall, the impact of social transfers on poverty reduction remained broadly stable since 2015 across MS but rose to unprecedented levels in 2021 (2020 incomes) (37.1%) and remained elevated in 2022 (2021 incomes).<sup>57</sup> Concerning Malta, the AROPE indicator and rates will be discussed in detail in the forthcoming section of the report.

## 02. The Social Protection Landscape

Malta's social protection system is composed of policies and programmes introduced to address certain risks against a person's wellbeing during their life journey – during which they may face health, injury, and housing impacts, amongst others, that will render them vulnerable. Malta's social benefits can be classified under 8 categories. These are:<sup>58</sup>

- (a) Sickiness/Health care: Income maintenance and support in cash in connection with physical or mental illness, excluding disability. Health care is intended to maintain, restore or improve the health of the people protected, irrespective of the origin of the disorder.
- (b) Disability: Income maintenance and support in cash or kind (except health care) are connected to the inability of physically or mentally disabled people to engage in economic and social activities.
- (c) Old Age: Income maintenance and support in cash or kind (except health care) in connection with old age.
- (d) Survivors: Income maintenance and support in cash or kind in connection with the death of a family member.
- (e) Family/Children: Support in cash or kind (except health care) in connection with the costs of pregnancy, childbirth, adoption, bringing up children and caring for other family members.
- (f) Unemployment: Income maintenance and cash support in connection with unemployment.
- (g) Housing: Help towards the cost of housing.
- (h) Social exclusion is not elsewhere classified (NEC: Benefits in cash or kind (except health care) specifically intended to combat social exclusion that is not covered by one of the other functions.

The social protection outlay covering the above categories increased from €1,711,245, or 16.2% of the Gross Domestic Product (GDP) in 2016 to € 2,622,031, or 20.1% of GDP in 2020. **Figure 10** presents the social protection outlay for 2020.

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<sup>54</sup> Ibid.

<sup>55</sup> Social Situation, Poverty, and Income Developments, Main economic, labour market and social developments, European Commission. Accessed on 12<sup>th</sup> April 2024: <https://op.europa.eu/webpub/empl/esde-2023/chapters/chapter-1-4-1.html#chart-1.16>.

<sup>56</sup> Eurostat. Accessed on 15<sup>th</sup> April 2024: <https://ec.europa.eu/eurostat/databrowser/view/tessi180/default/table?lang=en>.

<sup>57</sup> Ibid.

<sup>58</sup> Pp 8-9, Social Protection, REFERENCE YEARS 2016–2020, National Statistics Office, 2022.

Figure 10: Malta's Social Protection Outlay - 2020<sup>59</sup>

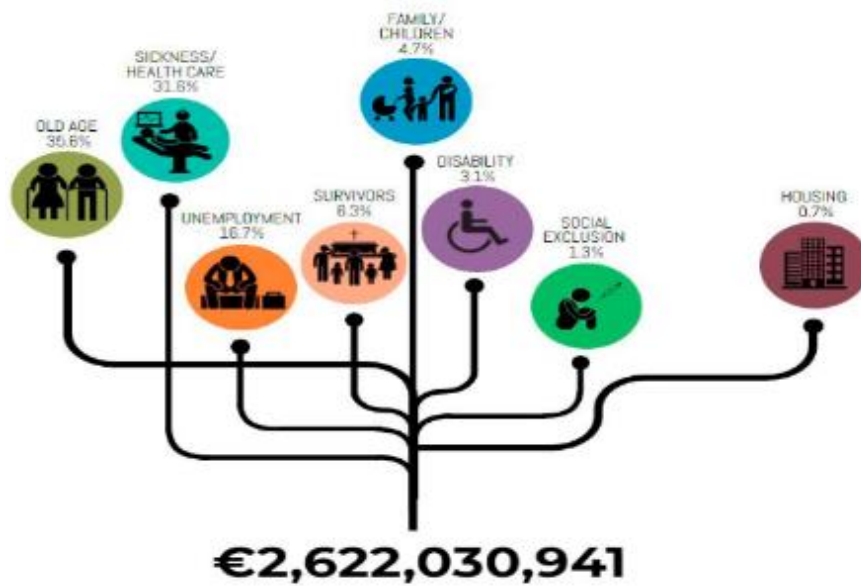
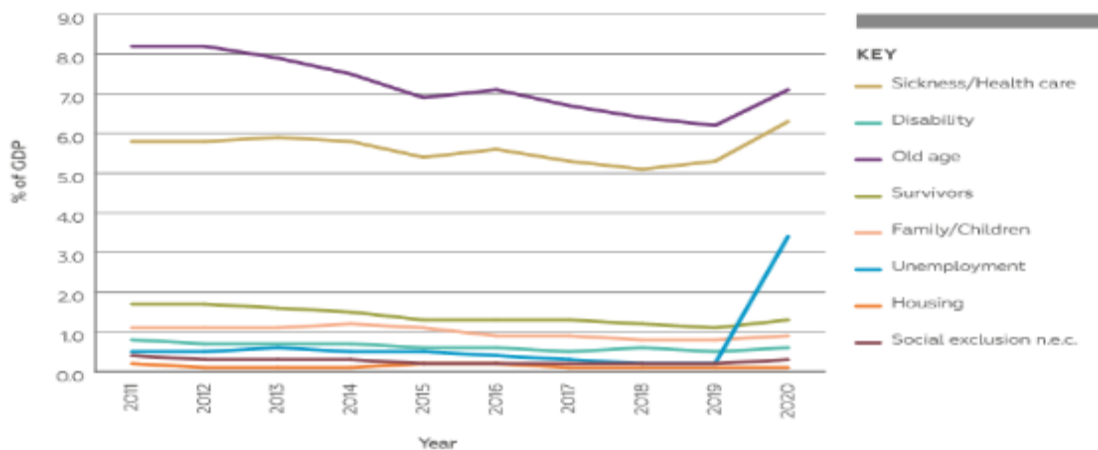


Figure 11 presents the social gross expenditure as a percentage of GDP from 2011 to 2020. The largest expenditure was in the Old age category, followed by Sickness/Health care – in both cases, a downward trend in expenditure peaked in 2019 before it shot up in 2019. In 2019, expenditure on unemployment significantly shot up. This is likely to result from the Government's COVID-19 pandemic support measures.

Figure 11: Social gross expenditure by ESSPROS function (as a percentage of GDP): 2011-2020<sup>60</sup>



Cash benefits covered 64.0% of the 2020 social expenditure, with the remaining share allocated to benefits-in-kind. Non-means-tested benefits accounted for 92.7% of the total social outlay, with 64.3 % of non-means-tested benefits being paid in cash. Likewise, cash benefits formed the largest share of Malta's means-tested social expenditure, with 60.5% classified under this category.<sup>61</sup>

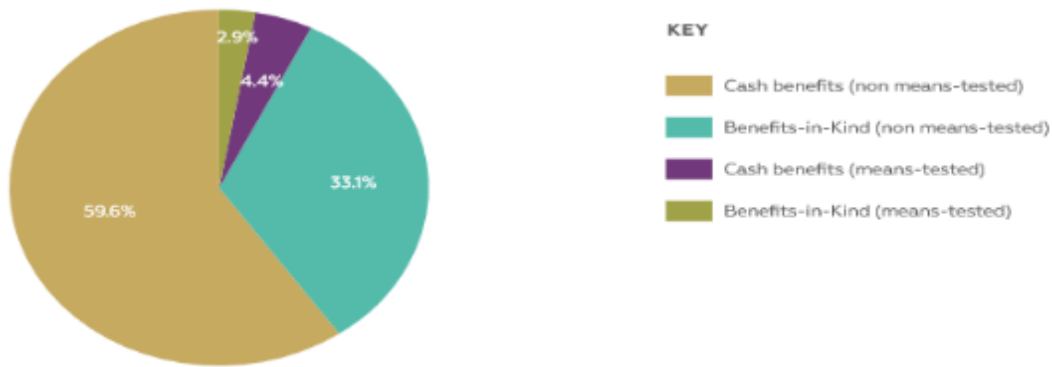
Figure 12: Social Protection Expenditure by type and means-testing: 2020<sup>62</sup>

<sup>59</sup> Pg 11, Ibid.

<sup>60</sup> Pg 12, Ibid.

<sup>61</sup> Pg 13, Ibid.

<sup>62</sup> Ibid.



**Table 06** presents the benefits of social protection under the different categories of social protection.

**Table 06: % of Social Protection Measures 2019 and 2020 under the 8 categories<sup>63</sup>**

Category	% of Social Protection	
	2019 %	2020 %
<b>Sickness / Health</b>		
Social Security Contributory Benefits Social Security Non-Contributory Benefits	2.5	2
Hospitals and Other Health Care Facilities	29.6	26.1
Non-Profit Institutions Serving Households	0.1	0.1
Appogg	0.1	0.0
Sickness Days - Employers' Expenditure	4.2	3.3
<b>Disability</b>		
Social Security Contributory Benefits / Social Security Non-Contributory Benefits	2.3	1.9
Care of the disabled		
Personal Injuries Scheme	0.4	0.2
Non-Profit Institutions Serving Households	0.3	0.3
Appogg		
Bus Fare Subsidy		
Care of the Elderly and the Disabled	1,1	0.9
Treasury Pensions		
<b>Old Age</b>		
Social Security Contributory Benefits / Social Security Non-Contributory Benefits	31.9	26.6
Non-Profit Institutions Serving Households	0.1	0.1
Telephone Rent Rebate	0.1	0.1
Bus Fare Subsidy	0.2	0.1
Pensioners' Gozo Ferry Boat Subsidy	0.1	0.1
Care of the Elderly and the Disabled	5.8	4.9
Treasury Pensions	4.9	3.8
<b>Survivors</b>		
Social Security Benefits	7.7	6.3
Treasury Pensions Survivors	0.1	0.1
<b>Family / Children</b>		
Social Security Benefits	3.3	2.7

<sup>63</sup> Pp 28-109, Ibid.

Family and Social Welfare	1.8	1.4
Family Services by Appoġġ	0.3	0.2
Energy Benefit	0.2	0.2
Non-profit child and family services	0.1	0.1
<b>Unemployment</b>		
Social Security Contributory Benefits / Social Security Non-Contributory Benefits	0.8	0.6
Non-Profit Institutions Serving Households		
Jobplus	0.2	0.3
Water and Electricity Exclusion Benefits	0.1	0.1
MDD/MSCL/MSY Voluntary Retirement Scheme	0.1	0.0
<b>Housing</b>		
Subsidies	0.8	0.7
<b>Exclusion Benefits</b>		
Social Security	0.4	0.4
Appoġġ	0.1	0.1
Sedqa	0.1	0.1
LEAP	0.1	0.1
Open Centres	0.1	0.1

In the European Union (EU), poverty is defined as “individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member State (MS) in which they live” (Council of the European Communities, 1975). The indicator applied in the EU to measure poverty is the at-risk of poverty or social exclusion indicator (AROPE).

The AROPE corresponds to the sum of persons who are:<sup>64</sup>

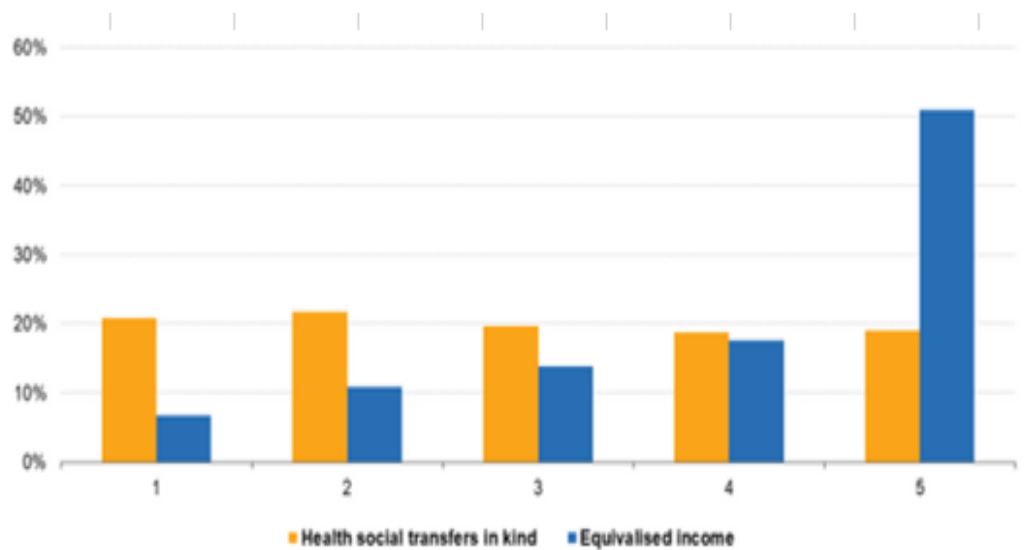
- At risk of poverty (as indicated by their disposable income):
- Face material deprivation (MD).
- Live in a household with very low work intensity.

This means that social transfers in kind (STiK) offered in Malta, as presented in **Table 06 are not considered** when determining the level of poverty. The following example – the impact of social transfers in kind on income distribution and equality clearly shows that in 2019 (data extracted in 2022), health STiK (discussion of STiK and its measurement is presented in **Appendix 02**) improved the distribution of household income across quintiles in most of the EU MS. The absence of STiK worsened income inequality.<sup>65</sup>

<sup>64</sup> Pg 4, Levref, M., Poverty in the Europe Union: The crisis and its aftermath, In-depth analysis, European Parliamentary Research Services, Members' Research Service, PE 579.099, European Parliament, 2016.

<sup>65</sup> Accessed on 23<sup>rd</sup> April 2024: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact\\_of\\_health\\_social\\_transfers\\_in\\_kind\\_on\\_income\\_distribution\\_and\\_inequality#Impact\\_of\\_health\\_STiKs\\_on\\_income\\_distribution](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact_of_health_social_transfers_in_kind_on_income_distribution_and_inequality#Impact_of_health_STiKs_on_income_distribution).

**Figure 13: Proportion of health social transfers in kind and the share of disposable income by income quintile, EU 2019<sup>66</sup>**

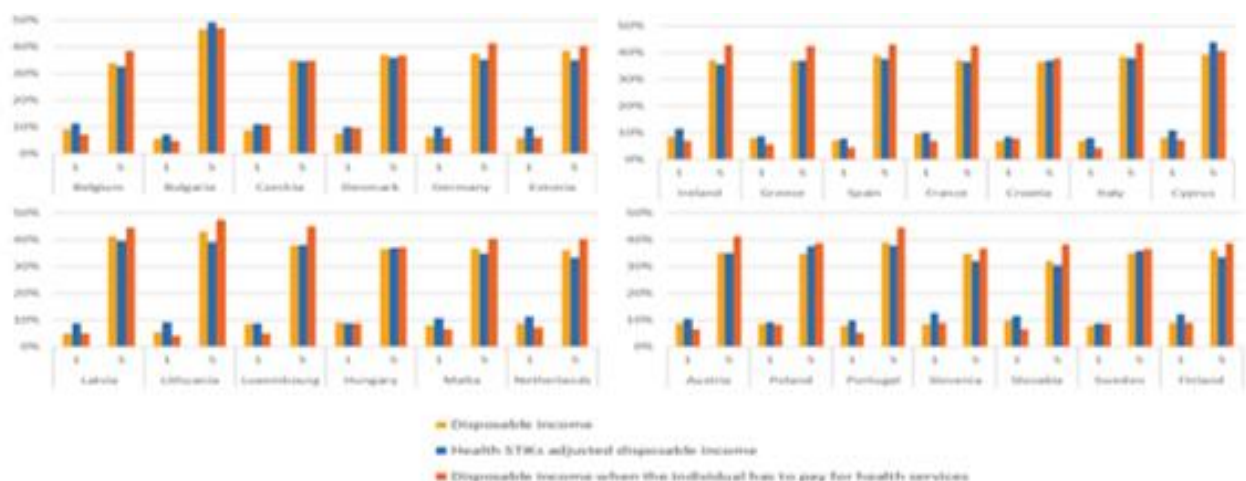


Note: data for Romania is not available.  
 Source: Eurostat's computations using EU-SILC 2019 data, ECFIN health cost profiles 2019 data, and National Accounts COFOG 2019 data.

**Figure 14** shows, for each of the EU Member States (except Romania), the disposable income share distribution - for the first and fifth quintiles - distinguishing between three cases:<sup>67</sup>

- (a) Disposable income distribution.
- (b) Health STiK adjusted disposable income distribution (disposable income and health STiKs).
- (c) Disposable income distribution when the individuals do not receive health STiKs and, therefore, have to pay for these services from their pocket.

**Figure 14: Income share for 1<sup>st</sup> and 4<sup>th</sup> Quintiles - %, 2019<sup>68</sup>**



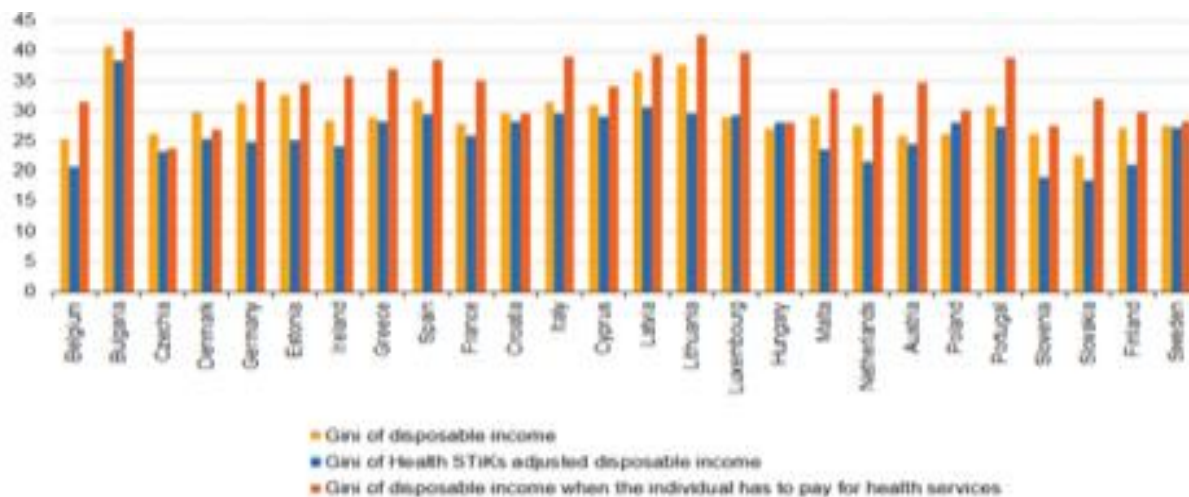
Note: data for Romania not available  
 Source: Eurostat's computations using EU-SILC 2019 data, ECFIN health cost profiles 2019 data, and National Accounts COFOG 2019 data.

<sup>66</sup> Ibid.  
<sup>67</sup> Ibid.  
<sup>68</sup> Ibid.

As shown in **Figure 14**, the share of disposable income is lowest in the first quintile and highest in the fifth quintile for all three cases considered. In almost all countries, including Malta, there is a reduction in the difference between the first and last quintile of the income distribution when the population receives health social transfers in kind, indicating an increase in equality.<sup>69</sup>

**Figure 15** assesses the impact of STiKs on the Gini index. As can be seen, Malta experiences a considerable reduction in the Gini index, hence higher equality in disposable income.

**Figure 15: Gini Coefficient on the Impact of STiKs on Income Distribution<sup>70</sup>**



Source: Eurostat's computations using EU-SILC 2019 data, ECFIN health cost profiles 2019 data, and National Accounts COFOG 2019 data

### 03. Understanding Poverty in Malta

Poverty is multifaceted and complex, necessitating close collaboration by different ministries in drafting and implementing policies that impinge on alleviation. Currently, the 'National Strategic Policy for Poverty Reduction and Social Inclusion 2014-2024' is Malta's main policy on poverty and addresses the subject through a focus on six dimensions: income and benefits, employment, education, health and environment, social services, and culture.

The policy defines people as living in poverty if their financial, material, social and personal resources preclude them from having a standard of living that is commonly regarded as the average norm by Maltese society, with the most vulnerable considered to be children, older persons, persons with disability, unemployed persons and the working poor.

The Figure below presents the poverty and exclusion dimensions that the Strategy addresses. A mapping exercise of the key objectives, poverty alleviation, and inclusion measures is attached.

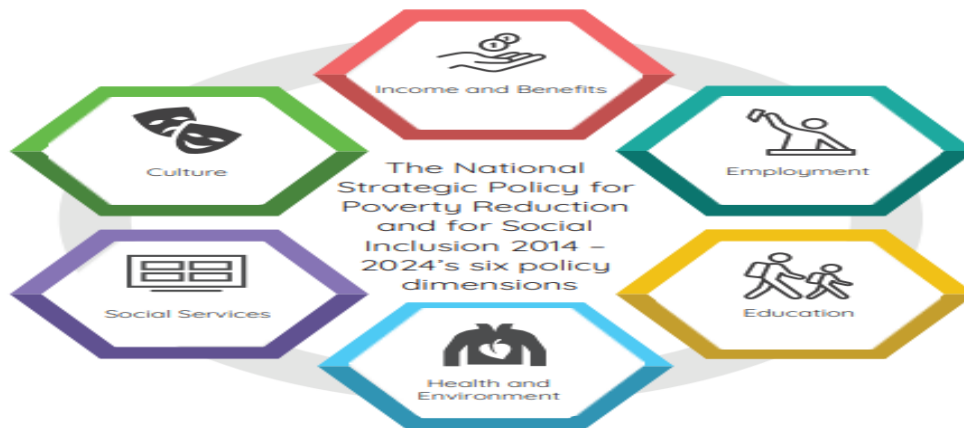
The main objective of the policy is to increase the disposable income of vulnerable groups, thereby raising their standard of living. It is noted in the document that this could be partly achieved through the consolidation of social services promoting social solidarity and social cohesion. Better quality employment opportunities and initiatives that create employability were also sought, with measures providing inclusive further and higher education. Other factors, namely, equal access to quality health care, a health and well-being-promoting environment and the improvement of accessibility and participation in cultural activities, were also believed to create the necessary environment for higher income. The policy uses 2013 statistics as a baseline and measures progress against this data.<sup>71</sup>

<sup>69</sup> Ibid.

<sup>70</sup> Ibid.

<sup>71</sup> Pg 47, A review of implementation of Sustainable Development Goal 1: Malta's efforts at alleviating poverty, National Audit Office, December 2020.

**Figure 16: Poverty and Exclusion Dimensions Addressed by the National Strategic Policy for Poverty Reduction and Social Inclusion 2014-2024**



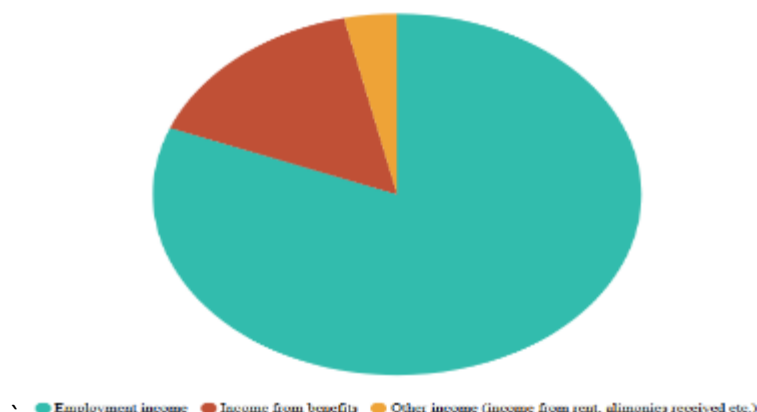
As an MS, Malta applies AROPE as the primary indicator to measure poverty. The AROPE indicator comprises three variables: relative monetary poverty, material and social deprivation and low work intensity. These are discussed below.

(a) Component 01 of AROPE: At-Risk of Poverty Indicator (AROP)

The largest AROPE component is the AROP rate. It represents the share of people living in households with an equivalised disposable income below 60% of the national median. AROP is, therefore, a relative monetary measure of poverty that focuses on household income compared to the prevailing national norm. Another important feature of AROP is that it represents a variable standard over time. Tied to 60% of the national (equivalised) median income, AROP poverty lines move in synch with the income position of the centremost household. This has strong implications for poverty measurement over longer periods, especially when compared with anchored poverty indicators representing a fixed standard over time.

The average gross household income for 2022, derived from EU Statistics on Income and Living Conditions (SILC) 2022 (with the reference calendar year being 2021), is €43,186. This is an increase of €2,923 or 7.3% on the 2021 average gross household income, which stood at €40,263. The average household disposable income in 2022 was €34,814 – an increase of 6.8% or €2,225 in 2021. **Figure 17** below presents the average household gross income distribution. 81% is from employment income, 15.5% is from other benefits, whilst 3.5% is from other sources such as dividends, rents, etc.

**Figure 17: Household Gross Income Distribution from EU-SILC 2022<sup>72</sup>**



<sup>72</sup> <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.



The at-risk-of-poverty threshold (ARPT) is 60% of the median national equivalised income (NEI). EU-SILC respondents whose NEI falls below this threshold are considered at-risk-of-poverty (ARP). The ARPT derived from EU-SILC 2022 was estimated at €10,893, 6.6% higher than the previous year.

Based on the income year 2021, the number of AROP persons living in Malta was estimated at 85,797 or 16.7% of the target population.<sup>73</sup> As shown in the Table below, the S80 / S20 ratio fell by 0.2 p.p. between 2021 and 2022, whilst the Gini Coefficient by 0.1 p.p.

**Table 07: Main household income and at-risk-of-poverty indicators from EU-SILC 2022<sup>74</sup>**

Main household income	2021			2022		
	Average household gross income (€)	40,263			43,186	
Average household disposable income (€)	32,590			34,814		
	Value (€)	No. of persons below the threshold	% persons below the threshold	Value (€)	No. of persons below the threshold	% persons below the threshold
Total number of persons living in households	N/A	507,822	N/A	N/A	512,838	N/A
Median National Equivalised Income (NEI)	17,036	253,780	50.0	18,155	256,451	50.0
40% median NEI	6,814	23,288	4.6	7,262	18,704	3.6
50% median NEI	8,518	45,016	8.9	9,078	42,822	8.4
60% median NEI	10,222	85,754	16.9	10,893	85,797	16.7
70% median NEI	11,925	124,417	24.5	12,709	127,429	24.8
<b>Indicators</b>	<b>Value</b>			<b>Value</b>		
Gini coefficient (%)	31.2			31.1		

**Table 08** below presents the AROP of households by type. The ARP rates for households with and without dependent children were 15.3% and 18.1%. Members of single-parent households were noted to be more susceptible to being AROP, with 43.3% of these having an equivalised disposable income below the ARPT. Members of one-person households with an age of 65 years or more and members of households with two adults and three or more dependent children were also more prone to being at-risk-of-poverty.<sup>75</sup>

**Table 08: At-risk-of-poverty rates by household type from EU-SILC 2022<sup>76</sup>**

Household type	2021	2022	
	%	%	Number of persons below the threshold
<b>All households</b>	<b>16.9</b>	<b>16.7</b>	<b>85,797</b>
<b>Households without dependent children</b>	<b>17.1</b>	<b>18.1</b>	<b>47,649</b>
<i>Of which:</i>			
One-person household under 65 years of age	27.3	27.6	8,833
One-person household, 65 years old and over	35.6	42.0	11,329
Two adults, no dependent children, both under 65 years of age	11.0	10.0	6,579

<sup>73</sup> Ibid.

<sup>74</sup> [https://nso.gov.mt/wp-content/uploads/NR103\\_2023\\_Table4.xlsx](https://nso.gov.mt/wp-content/uploads/NR103_2023_Table4.xlsx).

<sup>75</sup> Ibid.

<sup>76</sup> [https://nso.gov.mt/wp-content/uploads/NR103\\_2023\\_Table6.xlsx](https://nso.gov.mt/wp-content/uploads/NR103_2023_Table6.xlsx).

Two adults, no dependent children, at least one adult aged 65 or more	28.0	30.6	17,646
Other households without dependent children	4.0	4.0	3,262
<b>Households with dependent children</b>	<b>16.6</b>	<b>15.3</b>	<b>38,149</b>
<i>Of which:</i>			
Single-parent household, one or more dependent children	44.8	43.3	6,796
Two adults, one dependent child	10.9	10.4	8,187
Two adults, two dependent children	17.4	17.1	9,401
Two adults, three or more dependent children	37.4	39.8	6,924
Other households with one or more dependent children	10.8	8.3	6,841

An increase was recorded in the AROP for retired and inactive persons for the reference year compared to the previous EU-SILC. On the other hand, there was a decrease in the AROP for those employed, while the unemployment rate remained the same as that in the previous year.<sup>77</sup>

**Table 09: At-risk-of-poverty rates among persons aged 18 and over by most frequent activity status and sex from EU-SILC 2022<sup>78</sup>**

Most frequent activity status	Sex	2021	2022
		%	
Employed	Males	8.8	9.2
	Females	5.0	4.0
	<b>Total</b>	<b>7.3</b>	<b>7.1</b>
Unemployed	Males	[38.0]	:
	Females	:	:
	<b>Total</b>	<b>[35.7]</b>	<b>[35.7]</b>
Retired	Males	25.9	27.7
	Females	17.1	21.5
	<b>Total</b>	<b>23.2</b>	<b>25.8</b>
Other inactive persons	Males	33.2	34.1
	Females	34.0	34.3
	<b>Total</b>	<b>33.9</b>	<b>34.3</b>

At a district level, the distribution of persons under the ARP threshold is uneven across the Maltese Islands. The figure below shows how AROP evolved across districts since 2008. Between 2008 and 2018, the district with the highest level of AROP was the Southern Harbour. In 2022, this was no longer the case, with the Northern Harbour district having the largest share of ARP persons followed by the Northern district.

<sup>77</sup> <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.

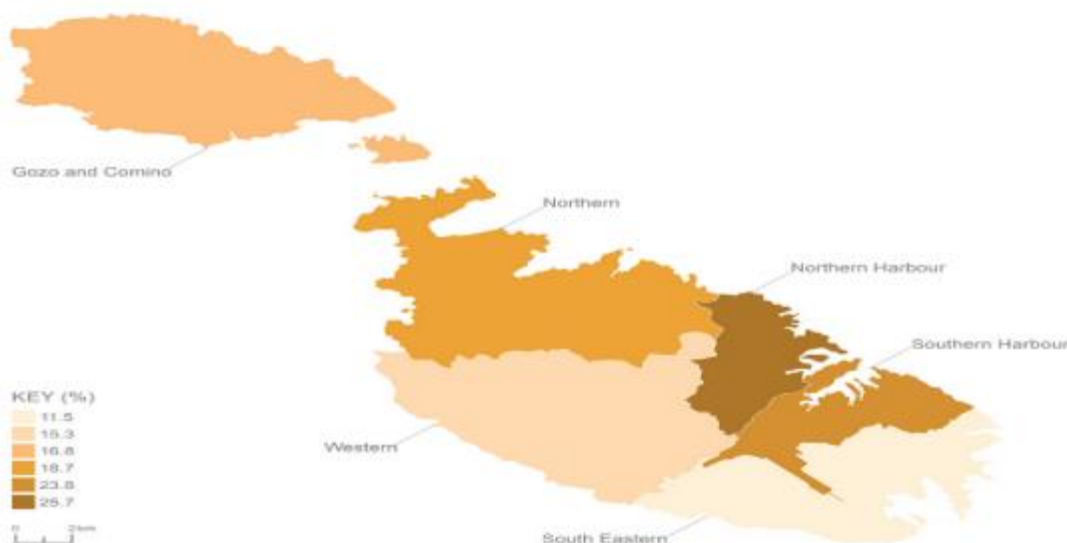
<sup>78</sup> [https://nso.gov.mt/wp-content/uploads/NR103\\_2023\\_Table8.xlsx](https://nso.gov.mt/wp-content/uploads/NR103_2023_Table8.xlsx).



Replace worn-out clothes with some new (not second-hand) ones	6.0	6.3	27,449	+0.3
Two pairs of properly fitting shoes (including a pair of all-weather shoes)	6.1	6.6	28,644	+0.3
Get-together with friends/family (relatives) for a drink/meal at least once a month	7.7	7.0	30,578	-0.7
Regularly participate in a leisure activity	10.4	10.9	47,781	+0.5
Spend a small amount of money each week on yourself	11.8	12.3	53,790	+0.5
Internet connection for personal use at home	2.5	1.6	6,972	-0.9
<b>Persons materially and socially deprived (lacking at least five items out of the 13 material and social deprivation items)</b>	<b>9.8</b>	<b>9.6</b>	49,329	-0.2
<b>Persons severely materially and socially deprived (lacking at least seven items out of the 13 material and social deprivation items)</b>	<b>5.4</b>	<b>4.9</b>	25,370	-0.5

The Northern Harbour district registered the highest rate of AROPE persons, at 25.7%. The South Eastern district recorded the lowest AROPE rate, at 11.5%.

**Figure 19: Distribution of the at-risk-of-poverty or social exclusion (AROPE) rate by district: 2022**



(c) Component 03 of AROPE: Low Work Intensity

The third AROPE component focuses on the share of persons living in households with very low work intensity. A very low-work-intensity (LWI) household is defined as working-age members working less than 20% of their combined full-time working potential during the annual income reference period. The LWI indicator is thus the most indirect AROPE sub-component that targets households' capacity for adequate social participation through their labour force status and participation.

The ARP rate among persons living in households with at least one member aged 0-64 decreased as the household work intensity increased. 73.3% of persons living in households with very low work intensity were found to be at-risk-of-poverty in EU-SILC 2022.<sup>82</sup> This is presented in **Table 06**.

<sup>82</sup> <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.

**Table 11: At-risk-of-poverty rates by work intensity of household (population aged 0 to 64)<sup>83</sup>**

Work intensity (WI)	2021	2022
	%	
Very high work intensity (0.85<WI<=1)	5.1	4.6
High work intensity (0.55<WI<=0.85)	4.7	7.2
Medium - Low work intensity (0.2<WI<=0.55)	33.9	34.9
Very low work intensity (0<=WI<=0.2)	71.7	73.3

A 2022 report by the EC and Social Protection Committee titled 'The 2022 Minimum Income Report' states that poverty is deeper among people living in quasi-jobless households, at around 37% in the EU in 2020 (income year 2019) for the 18–64 year-old population. For this group, Romania, Italy, Bulgaria, Latvia and Slovakia register the widest poverty gaps (all above 50%), with some deterioration in most of them. The indicator is lower than 20% in the Netherlands and Finland, while it stands at 30% in Malta.<sup>84</sup>

**Figure 20: Poverty gap for the population aged 18–64 quasi-jobless households: Change 2018-2020<sup>85</sup>**



The Report shows that since 2015, the benefit recipient rate<sup>86</sup> has increased constantly in the EU, reaching almost 80% of the population at risk of poverty in quasi-jobless households. It ranges from below 60% in Romania and Croatia to above 95% in Ireland, Finland, France and Denmark.<sup>87</sup> Malta, at 90%, ranks well above the EU 27 average.

<sup>83</sup> [https://nso.gov.mt/wp-content/uploads/NR103\\_2023\\_Table7.xlsx](https://nso.gov.mt/wp-content/uploads/NR103_2023_Table7.xlsx).

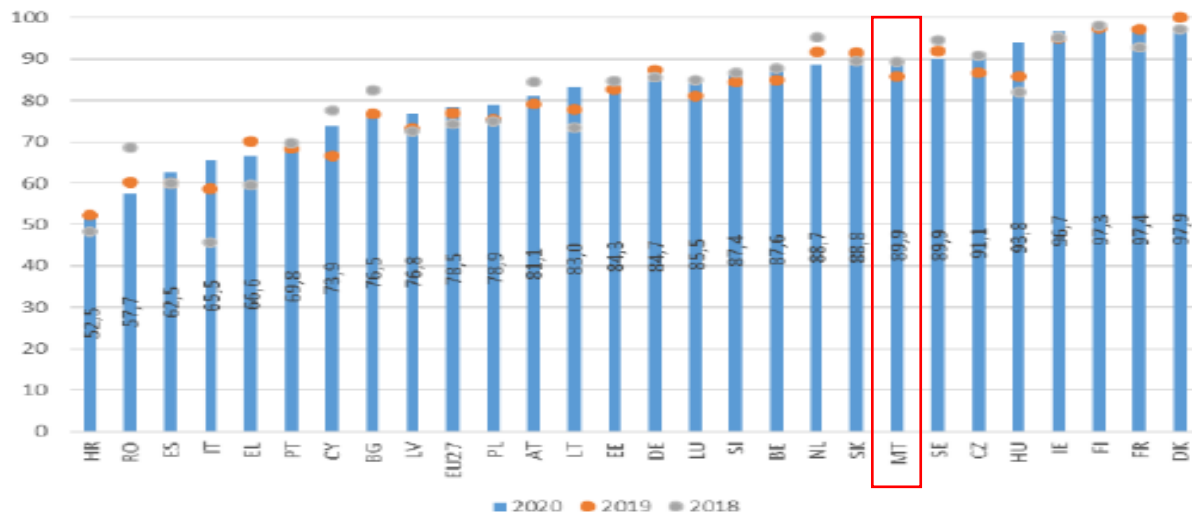
<sup>84</sup> Ibid.

<sup>85</sup> Ibid.

<sup>86</sup> The benefit recipient rate measures the share of working-age individuals receiving any benefits (other than old age benefits) among people (a) AROP (b) living in households with very low work intensity and (c) population AROP and living in households with very low work intensity is the only indicator that allows to assess the performance of MS in terms of offering income support provision to individuals and households AROP. It provides complementary information to other performance indicators and accounts for lower coverage – due in particular to tighter eligibility rules – or lower takeup of benefits.

<sup>87</sup> The 2022 Minimum Income Report, Joint Report prepared by the Social Protection Committee and the European Commission, Volume I, Directorate-General for Employment, Social Affairs and Inclusion, Directorate D - Social Rights and Inclusion, Unit D.1 - Social Policies, Child Guarantee, SPC, European Commission, 2022.

Figure 21: Benefit Recipient Rate for the population aged 18–64 in quasi-jobless households (2015–2019)<sup>88</sup>



(d) Comparison of Poverty Indicators

Figure 22 compares the growth indices of the ARPT, the ARP rate and the AROPE rate from 2015 to 2022. As can be seen, the AROPE index fell by 10 points from 100 to 90, while the ARP rate, marginally fluctuating, is back to 100. On the other hand, the ARPT increased by 34 points to 134.

Figure 22: Comparison of the at-risk-of-poverty threshold, the at-risk-of-poverty rate and the at-risk-of-poverty or social exclusion rate in index form (EU SILC 2015 – 100)<sup>89</sup>

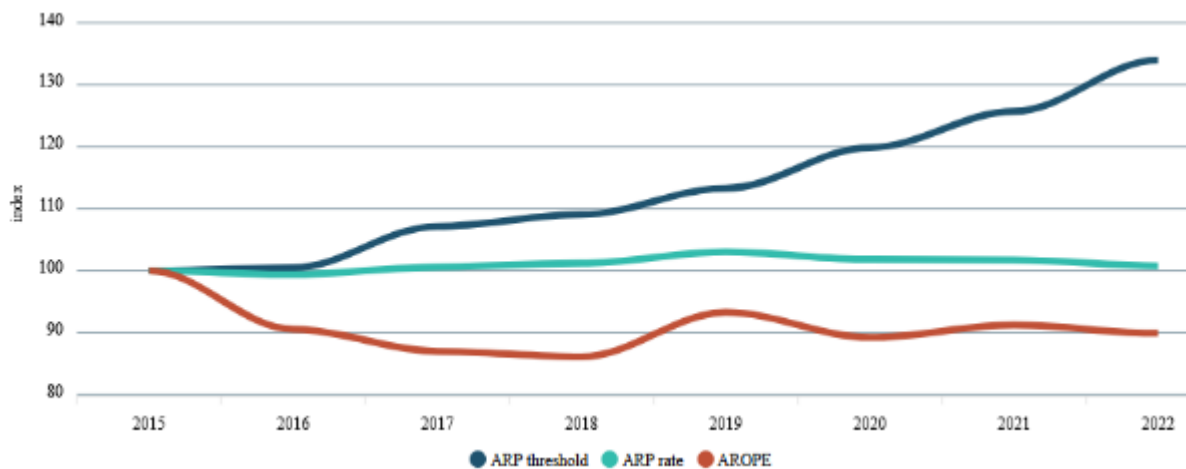
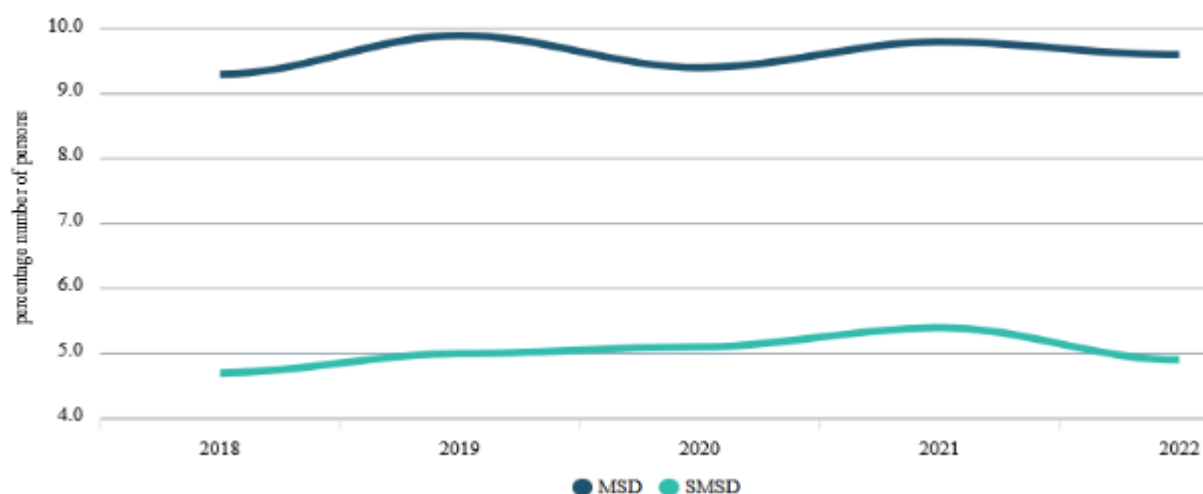


Figure 23 compares the MSD and SDMD indicators for EU-SILC 2022 with 2018. As can be seen, the MSD indicator is 0.3 p.p. at 9.6% higher than in 2018, where it stood at 9.3%. It peaked in 2019 at 9.9%. Concerning the SSMDS, this increased by 0.2 p.p. from 4.7% to 4.9% over the period – having peaked at 5.4% in 2021.

<sup>88</sup> Ibid.

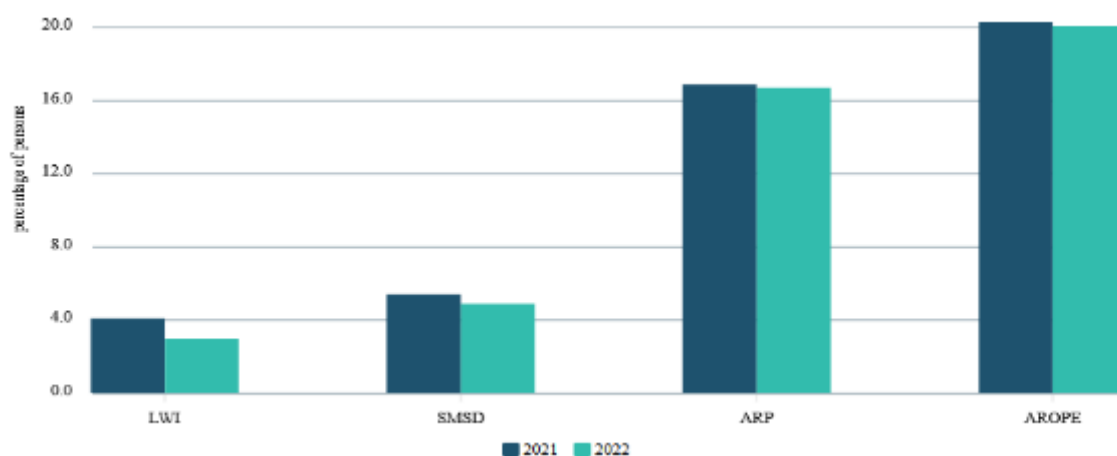
<sup>89</sup> <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.

**Figure 23: Comparison between the Material and Social Deprivation (MSD) and Severe Material and Social Deprivation (SMSD) rates between 2018 and 2022<sup>90</sup>**



**Figure 24** compares the AROPE indicators for Malta for 2021 and 2022. All of the indicators demonstrate a marginal decrease in 2022 compared to 2021.

**Figure 24: Comparison of AROPE Indicators for 2021 and 2022<sup>91</sup>**



#### **04. Multi-dimensional Poverty and People Left Behind according to the AROPE Framework in Malta and Member States in the European Union**

Leaving no one behind (LB) constitutes a central cross-cutting focus of the 2030 sustainable development agenda, which recognises that the dignity of the individual is fundamental and that the United Nations (UN) Sustainable Development Goals (SDG) should be met for all nations, people and all segments of society. The LB principle seems to respond to concerns that require a broader conception than poverty, addressing inequality explicitly.

Multi-dimensional poverty is estimated based on three indicators mentioned in the AROPE rate. The AROPE rate and the average measure of LB for 2017 for each country are reported in **Figure 20**. The two measures are positively correlated.

<sup>90</sup> <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.

<sup>91</sup> <https://nso.gov.mt/eu-silc-2022-salient-indicators/>.

The analysis shows that the greater the LB measure, the closer to 1, the more pressing the problem of leaving people behind. Malta is positioned in the cluster below 0.35 - ranking 6<sup>th</sup>.

Figure 25: AROPE and Leaving No One Behind Measure - 2017<sup>92</sup>

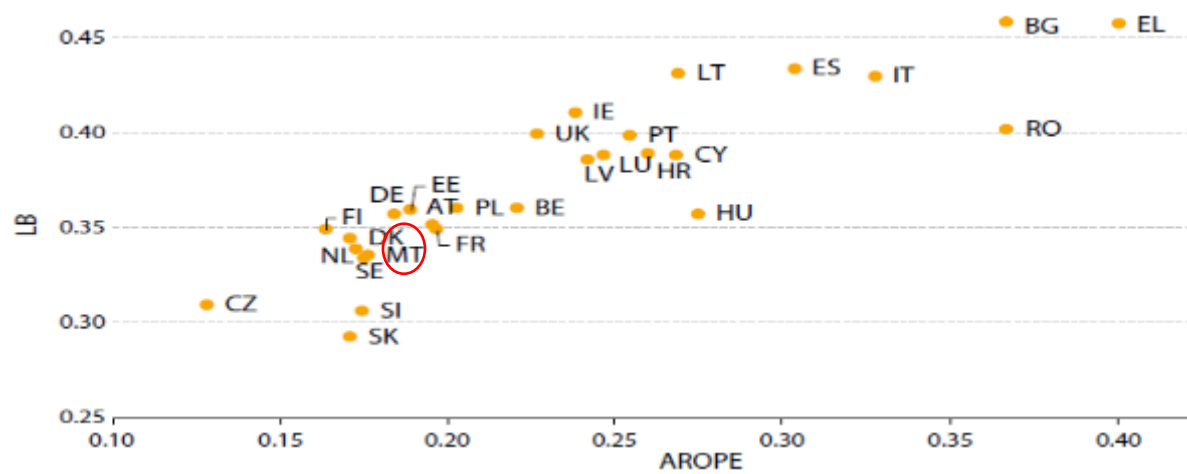


Figure 26 measures the degree of being LB in each dimension. In most countries, leaving people behind is highest in the income dimension, followed by work intensity, while its extent is lowest for material deprivation. This figure presents the MS in ascending order of the overall LB measure. Malta ranks 5<sup>th</sup> at the lower end of the range. When comparing the LB 2013 with the LB 2017, the range of impacts across the MS was from +0.03 (Luxembourg) to -0.11 (Ireland). Concerning Malta, the impact was marginal, falling from 0.36 to 0.34 - an overall change of 0.02.<sup>93</sup>

Figure 26: The Leaving No One Behind Measure by Dimensions - 2017<sup>94</sup>

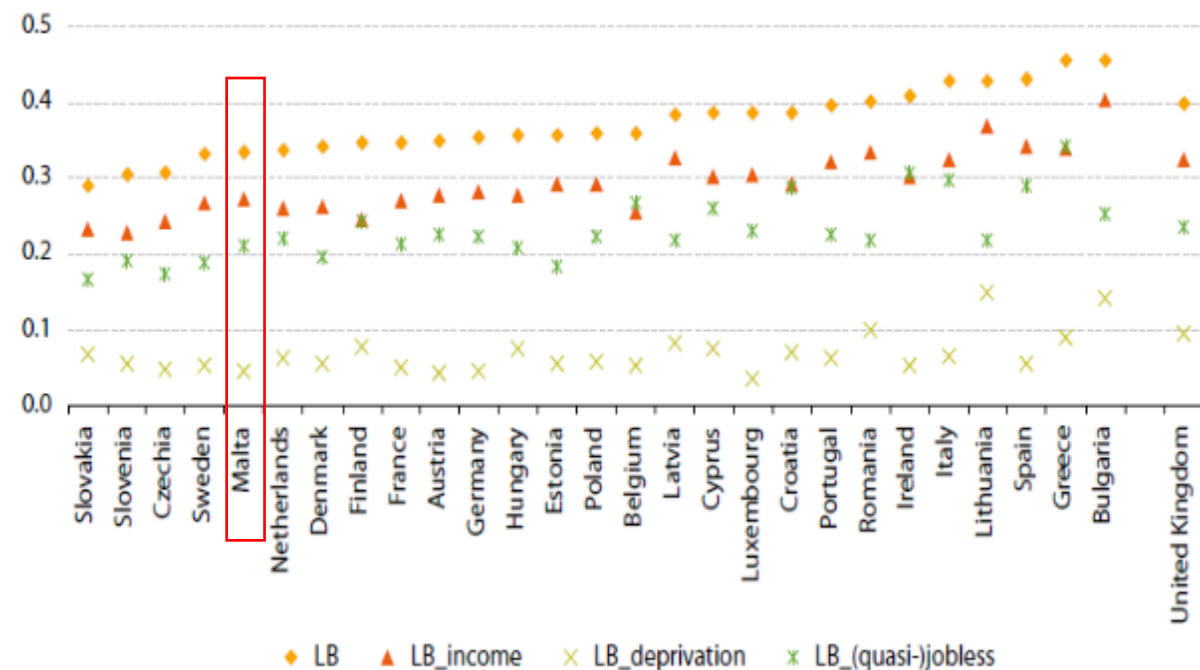


Figure 27 shows the average degree to which women and men are LB, indicating that mean values of the LB measure for women are slightly but not significantly greater than for men. Malta falls within this pattern.

<sup>92</sup> Pg 107, Pp 103-107, Guio, A. M. (ed) et al, Improving the understanding of poverty and social exclusion in Europe, 2021 Edition, Statistical Working Paper, Eurostat, European Commission, 2021.

<sup>93</sup> Pg 110, Ibid.

<sup>94</sup> Pg 108, Ibid.



Figure 27: The Leaving No One Behind Measure by Gender - 2017<sup>95</sup>

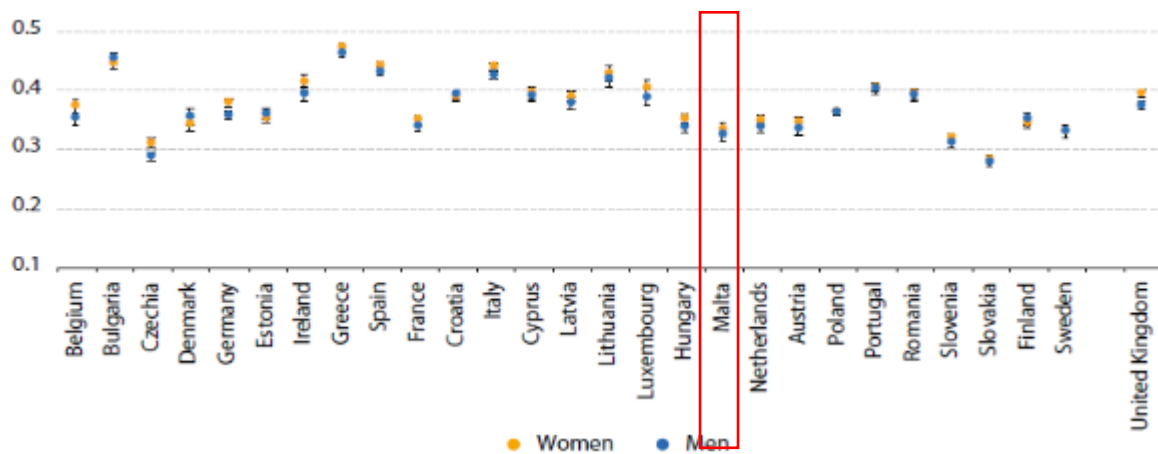
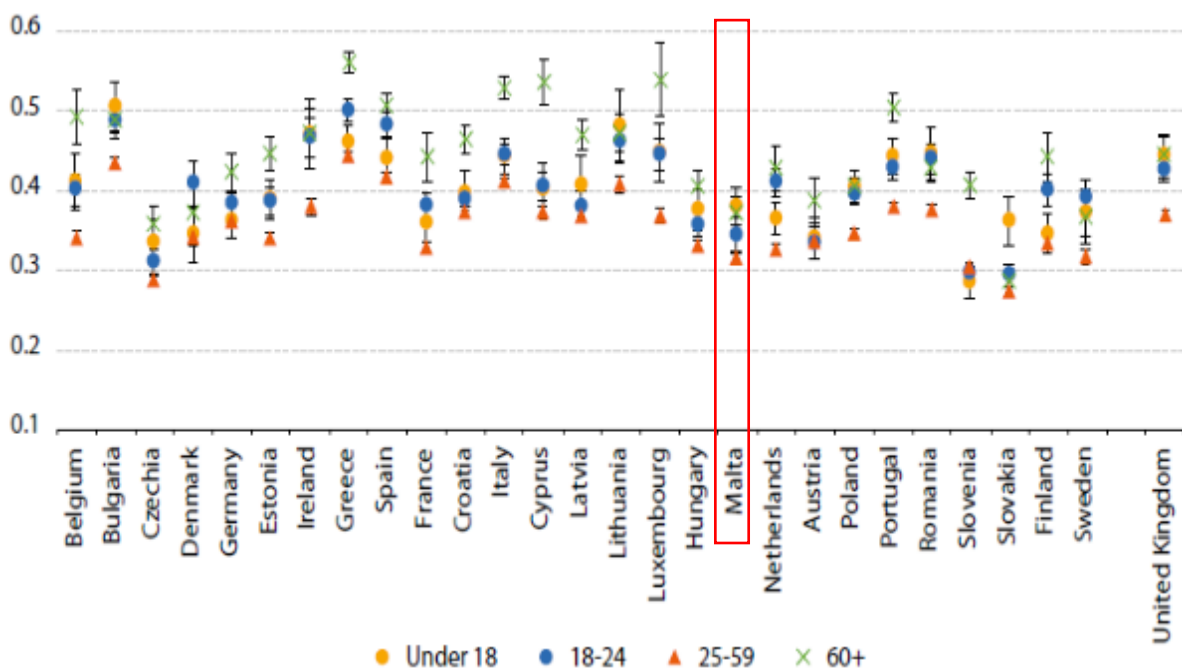


Figure 28 presents persons categorised by four age groups: under 18, between 18 and 25, between 25 and 60, and 60 or over. The oldest group has the most LB, while those between 25 and 59 have the least. Differences are not always significant, but this order exists in almost all countries.

Figure 28: The Leaving No One Behind Measure by Age - 2017<sup>96</sup>

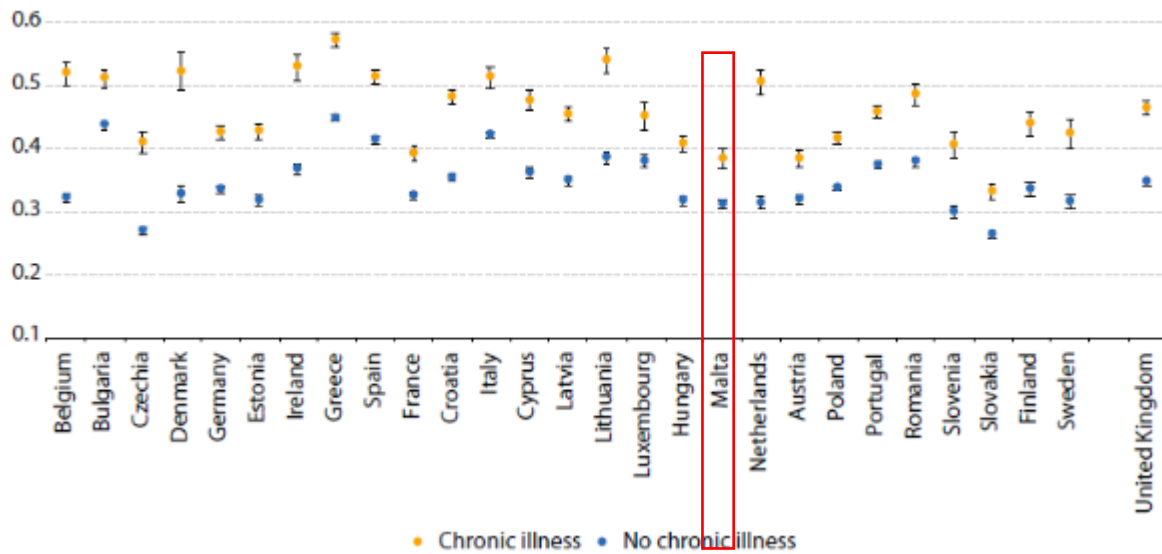


Health limitations are also a crucial determinant when it comes to falling behind. People suffering from chronic illnesses or conditions are significantly more LB than those without these limitations. As shown in Figure 29, Malta is consistent with this observation, as are all of the MS. The range in Malta's case between the impact of chronic and not chronic illness is at a lower end than that experienced by other MS.

<sup>95</sup> Pg 108, Ibid.

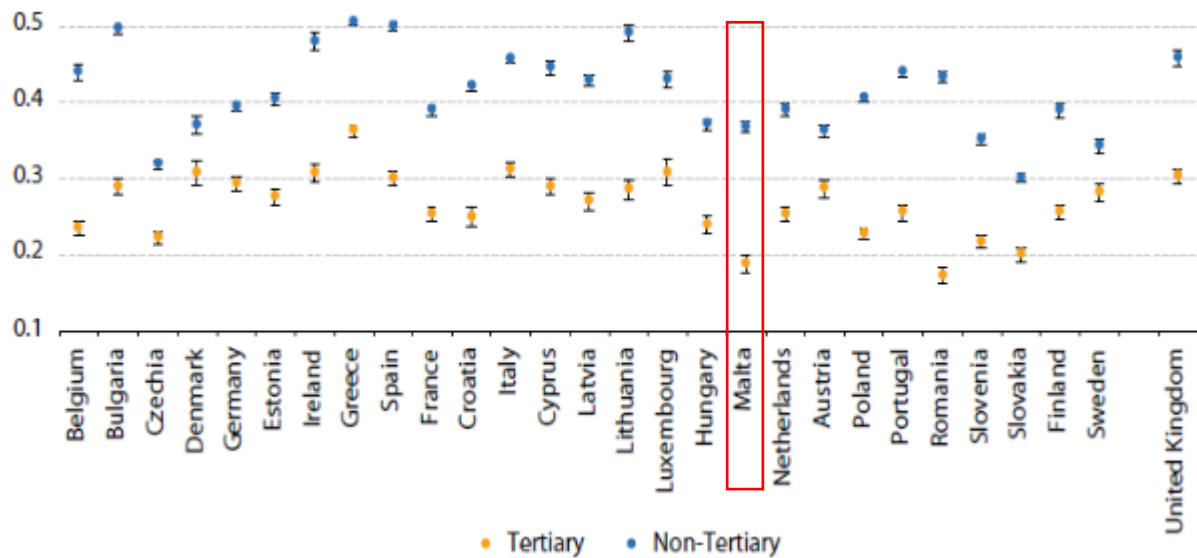
<sup>96</sup> Ibid.

Figure 29: The Leaving No One Behind Measure by Health Status - 2017<sup>97</sup>



Education is an effective way of avoiding being LB. Individuals with high educational attainment (tertiary education) are significantly less behind than those with low educational attainment (lower than tertiary education). **Figure 30** confirms that educational attainment has a considerable impact, as is the case in Malta, on the degree to which individuals are LB, even though the intensity of the effect differs amongst countries.

Figure 30: The Leaving No One Behind Measure by Education Attainment - 2017<sup>98</sup>



<sup>97</sup> Pg 114, bid.

<sup>98</sup> Pg 114, bid.

## 05. Minimum Income Schemes in Malta and their Impact

### (a) Non-Contributory Benefits Minimum Income Schemes

Minimum income schemes (MIS) are non-contributory, means-tested schemes that provide a last-resort safety net for people with insufficient means to ensure a dignity-living life. Effective minimum income schemes are not only about the adequacy of benefits but also include the delivery of inclusive labour market policies and access to high-quality social inclusion services. The efficient design and integration of the three strands provide a springboard for activation and social inclusion. Minimum income schemes are part of national social protection systems, and they play an important role in reducing and preventing poverty, social exclusion, inequality and social insecurity.<sup>99</sup>

The efficacy of MIS in achieving its targets – mostly the fight against poverty and social exclusion – depends on a set of characteristics which compose those schemes. In assessing the capacity of MIS to support the poor, research suggests that:<sup>100</sup>

- (a) Primarily, the focus should first be on key aspects of these schemes and then specifically on the eligibility requirements – which affect benefits coverage.
- (b) Benefit amount – which affects the capacity of the scheme to alleviate poverty.

These two dimensions of schemes impact the main output dimensions of the MIS -:<sup>101</sup>

- (a) Coverage is the share of individuals in need (e.g., those in AROP or SMD or those considered in need according to national judgements) who are entitled to the benefit.
- (b) Adequacy – that is the amount received by beneficiaries, evaluated concerning a 'decent life' line (e.g. concerning the AROP line or other possible thresholds based on a reference budget approach and expressed through the cost of a basket of goods and services considered as necessary in order not to be socially excluded).

Regarding benefit amounts, MISs are top-up benefits since they complement household resources (incomes) to a certain threshold. Thus, the adequacy (or generosity) depends on where such a threshold is set, for instance, how far from the AROPE line it is. However, adequacy is not easy to assess since, on the one hand, MIS often provide benefit packages (including several cash and in-kind transfers) which are difficult to compare among households and countries. Coverage and adequacy of MIS jointly contribute to an output dimension crucial in the economic debate: the total amount of a country's expenditure on MIS.<sup>102</sup>

**Figure 31** presents the net income of minimum income recipients as a percentage of the AROP threshold (smoothed over 3 years) decomposition by income component (income year 2019). When looking at the decomposition of the net income by components, it appears that at the EU level (non-weighted average), the core minimum income benefits represent 43% of the poverty threshold, or 73% of total income), housing benefits represent 17% of the poverty threshold, 29% of the total income, and income tax represents 1% of the poverty threshold (2% of total income). In some MS, the main income component is the housing benefit (Latvia, Poland, Finland). There are a few MS where housing support is not provided through benefits in monetary terms (Belgium, Bulgaria, Hungary, etc.). Income taxes are significant only in Denmark and Luxembourg.<sup>103</sup> In Malta, the minimum income benefits constitute over 15% of net income.

<sup>99</sup> The 2022 Minimum Income Report, Joint Report prepared by the Social Protection Committee and the European Commission, Volume I, Directorate-General for Employment, Social Affairs and Inclusion, Directorate D - Social Rights and Inclusion, Unit D.1 - Social Policies, Child Guarantee, SPC, European Commission, 2022.

<sup>100</sup> Pg 77, Raitano, M, et al., Fighting poverty and social exclusion: Including through minimum income schemes, Policy Department for Economic, Scientific and Quality of Life Policies, Directorate General for Internal Policies, European Parliament, 2021.

<sup>101</sup> Ibid.

<sup>102</sup> Ibid, 78.

<sup>103</sup> The 2022 Minimum Income Report, Joint Report prepared by the Social Protection Committee and the European Commission, Volume I, Directorate-General for Employment, Social Affairs and Inclusion, Directorate D - Social Rights and Inclusion, Unit D.1 - Social Policies, Child Guarantee, SPC, European Commission, 2022.

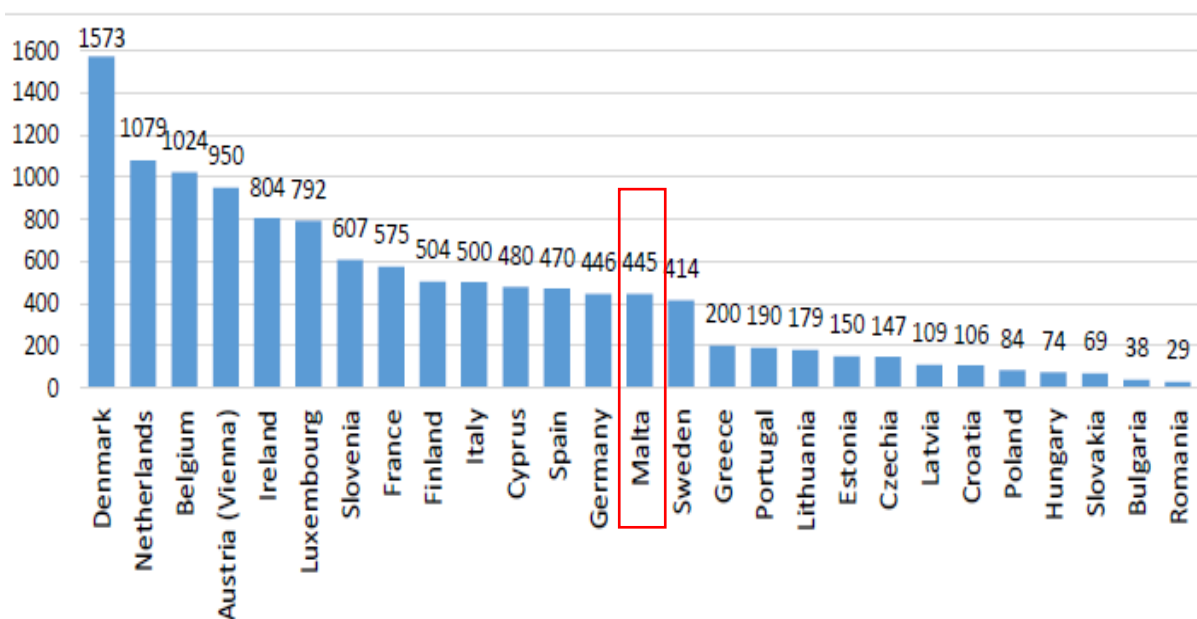
**Figure 31: Net income of minimum income recipients as % of AROP threshold (smoothed over 3 years) – decomposition by income component (income year 2019)**



The maximum level of benefits provided by the various MISs across the EU is generally based on household income and composition, with very few exceptions. **Figure 17** shows the maximum nominal values granted to beneficiaries (also used for the means test) under the main MIS. These do not account for complementary benefits, such as housing or other relevant income support, which are accounted for in the adequacy indicators in each MS. The reported values are based on information from the country fiches.

In Malta, this is estimated to be €445 per month, at the lower end, preceded only by Sweden, concerning MS, where the monthly nominal level of core benefits starts at €400. It is, however, significantly higher than that of the next range of MS, where the highest monthly nominal level starts at €200, including 12 MS primarily from central and eastern Europe.<sup>104</sup>

**Figure 32: Nominal monthly level of core MI benefit scheme (EUR, rounded), single-person households (2021)<sup>105</sup>**



<sup>104</sup> Ibid.

<sup>105</sup> Ibid.

**Table 12** compares MS with how the AROPE-60 rate reduces when various welfare transfers are added to household disposable income. Concerning Malta, the following AROP reductions are noted:

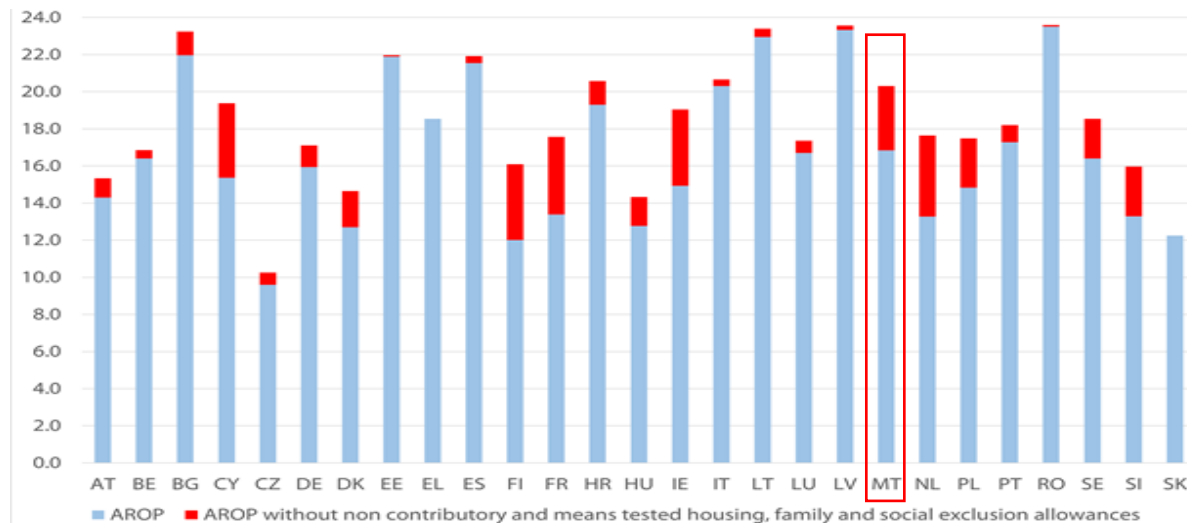
- Transfers other than pensions: 5.2 p.p.
- Housing, family and social exclusion allowances: 3.7 p.p.
- Non-contributory and means-tested housing, family and social exclusion allowances: 3.5 p.p.
- Non-contributory and means-tested social exclusion allowances: 2.5 p.p.

**Table 12: Effect of various types of welfare transfers on the incidence of AROP-60 in 2017 (p.p.)<sup>106</sup>**

	AROP reductions due to			
	Transfers other than pensions	Housing, family and social exclusion allowances	Non-contributory and means tested housing, family and social exclusion allowances	Non-contributory and means tested social exclusion allowances
MT	5.2	3.7	3.5	2.5

In Malta, as shown in **Figure 33**, a non-negligible reduction in the incidence of relative poverty emerges when these benefits are considered – for example, the decrease in the AROP rate exceeds 3.5 p.p. when non-contributory and means-tested housing, family and social exclusion allowances are included.

**Figure 33: Incidence of AROP-60 with and without non-contributory and means-tested cash welfare benefits in 2017 (% values)<sup>107</sup>**



**Table 13** below shows that the share of beneficiaries covered by non-contributors and social exclusion allowances in Malta is 39%. This increases by 11.4% to 50.4% when means-tested housing and family benefits are included.

<sup>106</sup>Pg 82, Raitano, M, et al., Fighting poverty and social exclusion: Including through minimum income schemes, Policy Department for Economic, Scientific and Quality of Life Policies, Directorate General for Internal Policies, European Parliament, 2021.

<sup>107</sup> Pg 83, Ibid.

**Table 13: Share of recipients of non-contributory and means-tested cash welfare in 2017 (in % of the total population)<sup>108</sup>**

	Share of beneficiaries of non-contributory and means tested housing, family and social exclusion allowances	Share of beneficiaries of non-contributory and means tested social exclusion allowances
MT	50.4%	39.0%

**Table 14** cross-references AROP-60 with the different welfare transfers concerning Malta.<sup>109</sup> The following is to be noted:

- When considering a non-contributory and means-tested family, housing and social exclusions, persons categorised as 'non-poor among recipients' are 75.3%, and those categorised as 'not recipients among those in poverty' are 26%.
- When considering AROP-60 and non-contributory and means-tested social exclusion allowance, persons categorised as 'non-poor among recipients' are 77.3%, and those categorised as 'not recipients among those in poverty' are 47.4%.

**Table 14: Cross Referencing AROP-60 and reciprocity of non-contributory and means-tested cash welfare benefits in 2017**

	Cross between AROP-60 and non-contributory and means tested family, housing and social exclusion allowances		Cross between AROP-60 and non-contributory and means tested social exclusion allowances	
	Not recipients among those in poverty	Non poor among recipients	Not recipients among those in poverty	Non poor among recipients
MT	26.0%	75.3%	47.4%	77.3%

**Table 15** replicates cross references concerning Malta with SMD. The following is to be noted:<sup>110</sup>

- When considering a non-contributory and means-tested family, housing, and social exclusions, persons categorised as 'non-poor among recipients' are 11.7%, and those categorised as 'not recipients among those in poverty' are 95.1%.
- When considering AROP-60 and non-contributory and means-tested social exclusion allowance, persons categorised as 'non-poor among recipients' are 25.5%, and those categorised as 'not recipients among those in poverty' are 94.9%.

**Table 16: Cross between SMD status and reciprocity of non-contributory and means-tested cash welfare benefits in 2017**

	Cross between SMD and non-contributory and means tested family, housing and social exclusion allowances		Cross between SMD and non-contributory and means tested social exclusion allowances	
	Not recipients among those in poverty	Non poor among recipients	Not recipients among those in poverty	Non poor among recipients
MT	11.7%	95.1%	28.5%	94.9%

<sup>108</sup> Pg 85, Ibid.

<sup>109</sup> Pg 86, Ibid.

<sup>110</sup> Pg 87, Ibid.

## (b) Making Work Pay Schemes

A crucial aspect of MIS relates to their links with employment policies and individual incentives to be active. The economic literature has noted that means-tested benefits might disincentivise labour supply. The reason for such a disincentive to work is a commonly observed economic phenomenon known as the poverty trap. In this situation, an unemployed person is demotivated from pursuing activities that result in monetary remuneration. Since the loss of social benefits counteracts such actions, this results in a net gain which is either negligible or even negative.<sup>111</sup> This is likely to result in structural unemployment.

In 2014, the Government of Malta enacted a host of Active Labour Market Policies (ALMPs) called Making Work Pay to bring structural changes to the labour market. The National Employment Policy identified a structural obstacle concerning the employment of certain social aid beneficiaries, in particular, persons benefitting from Social Assistance (SA), Single Unmarried Parents (SUP) or Unemployment Assistance (UA) benefits. The Tapering of Benefits (TOB) Scheme was purposely enacted to unlock this stalemate since people who benefit from SA, SUP or UA experience a “tapering out” of their benefits upon successful employment. The TOB is granted three years to beneficiaries who either become gainfully occupied or engaged in self-employment as long as they earn the National Minimum Wage (NMW) or more.<sup>112</sup> Initially, the tapering, in addition to the pay (or profits) from their gainful employment, was set so that they continue to receive 65% of their main benefits in the first year, 45% in the second year, and 25% in the third year. The 2023 budget set tapering levels at 75% for the first year, 55% for the second year, and 35% for the third year.

The TOB, thus, seeks to increase the opportunity cost of inactivity, resulting in an upward shift in personal drive and motivation towards full-time employment.<sup>113</sup> Eligibility was initially granted to beneficiaries who would have benefited for 12 months in the previous 36 months from UA, SA or SUP upon entering the programme; i.e. as soon as they start paid employment, their benefit is tapered down gradually over three years as explained above. The percentage paid to beneficiaries is calculated only on the main benefit (UA, SA, SUP), while the other ancillary benefits (bonuses) are terminated. The tapered benefit is paid every four weeks in arrears and is deposited directly in a bank account. This benefit is not taxable. The percentage of the tapered benefit is calculated based on the benefit rate applicable to the date of application.<sup>114</sup>

Additionally 2015, the In Work Benefit (IWB) Scheme was introduced. The objective of the IWB scheme was to improve the economic situation of low-to-medium-income households, where married couples and single parents are employed and have dependent children up to 23 years of age. As an anti-poverty measure, the IWB Scheme was extended to one-earner families in 2016 but with lower rates than dual-earner families to retain the incentive for the second parent to work and earn a higher benefit rate. Benefits are payable per child and are calculated solely on net income from employment. The benefit rates are pegged to a range of income thresholds and are intended to incentivise beneficiaries in employment. The rates were increased after its introduction, and the range of income thresholds broadened. This IWB Scheme does not apply to those who are receiving the TOB.

**Table 16** presents movements amongst the beneficiaries following the introduction of the TOB and IWB. SA beneficiaries (by 45.7% or 4,929 beneficiaries) and the UA beneficiaries (by 92.4% or 4,002 beneficiaries). Counter to this, there was an increase in the TOB beneficiaries, peaking at 2,539 in 2017 before falling to 970, and an increase in IWB Scheme beneficiaries, reaching 5,368 by 2021. The unemployment rate fell from 6.1% in 2013 to 2.9% in March 2023.<sup>115</sup>

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<sup>111</sup> Pg 5, Analysis of the Tapering of Benefits Scheme, Jobplus, 2018.

<sup>112</sup> Ibid.

<sup>113</sup> Pg 9, Ibid.

<sup>114</sup> Pg 10, Ibid.

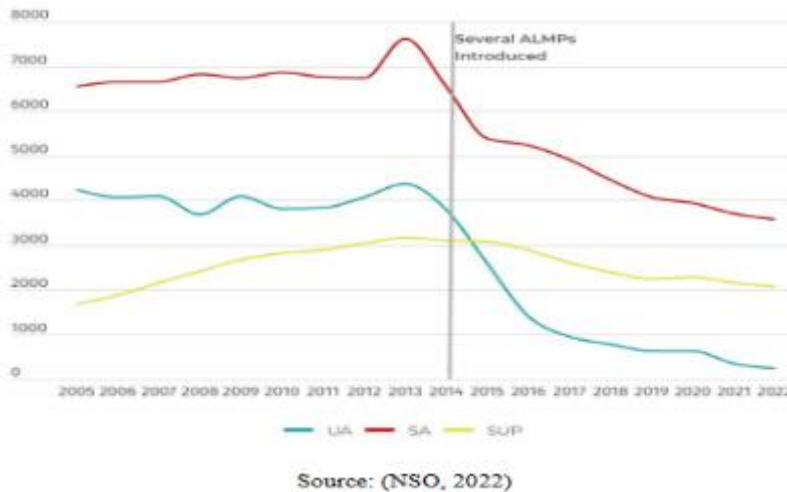
<sup>115</sup> <https://nso.gov.mt/unemployment-rate-march-2023/>.

**Table 16: Impact of Tapering of Benefits and In-Work Benefits Schemes Respectively<sup>116</sup>**

	Social Assistance Beneficiaries	Unemployment Assistance Beneficiaries	Tapering Beneficiaries	In Work Beneficiaries
<b>2013</b>	10,784	4,330		
<b>2014</b>	9,639	3,791	497	
<b>2015</b>	8,445	2,570	1,659	1,359
<b>2016</b>	8,110	1,391	2,482	2,294
<b>2017</b>	7,494	939	2,539	2,973
<b>2018</b>	6,840	766	1,958	4,514
<b>2019</b>	6,315	613	1,572	4,857
<b>2020</b>	6,209	626	1,099	3,573
<b>2021</b>	5,855	328	970	5,368

Not captured in **Table 16** above is the impact of the TOB on SUPs. The impacts on SUPs can be seen in **Figure 34** below. The number of SUPs following the introduction of the TOB by 2022 fell from 3,000 to 2,000 persons.

**Figure 24: Number of Beneficiaries: SA, SUP, UA and TOB<sup>117</sup>**



A study carried out by the CBM on the impact of the TOB scheme concludes that:<sup>118</sup>

- It doubles the probability of finding employment after a benefit spell for an eligible individual.
- It's effect is least powerful for SA beneficiaries, although the improvement is still considerable – at 67.3%.

<sup>116</sup> Pg 10, Cremona, G., Unemployment through Social Activation and Participation, Department of Social Security, ISSA Conference, 2022.

<sup>117</sup> Pg 7, Sant, K, The Impact of Malta's Tapering of Benefits Scheme of Employment, WP/07/2023, Central Bank of Malta.

<sup>118</sup> Pp 22-23, Ibid.



- SUP beneficiaries experience the largest gains from the TOB, with more than double the probability of finding employment.
- Positive job-finding effects from the TOB are mostly enjoyed by younger age cohorts, whilst no markedly different impact between males and females is found.
- Gozo residents experience the largest improvement in terms of job-finding/
- It positively impacts job-finding rates of Technicians & Associate Professionals most, with the highest skilled individuals – Managers – enjoying the least benefits from the scheme.
- Self-employed (S/E) individuals are less likely to enter employment after a benefit spell. The TOB appears to have boosted the chances of them doing so by more than non-S/E individuals.
- The chance of job termination drops by 11.8 p.p. for eligible individuals.
- Once the TOB ends, it is no different from its impact during the first 36 months, showing that its impact is robust in the medium term.
- It helped SUP beneficiaries the most to move into employment, and such beneficiaries then experience a 48.8% higher chance of job terminations when compared to their SA counterparts.
- No statistically significant difference exists between age groups or genders, showing that the TOB impacted different age groups and genders similarly regarding job tenure.
- It improves the chances of Technicians & Associate Professionals moving into employment and their job tenure the most.
- Eligible Plant and Machine Operators & Assemblers experience a higher probability of returning to unemployment when compared to the eligible baseline population.
- S/E individuals previously on benefits are more likely to remain employed once they find such employment; employees eligible for the TOB experience better job-tenure effects than their S/E counterparts.

The CBM paper underlines that whilst it found the TOB to be “very successful”, the TOB effect does not change in the medium-term, though this finding is constrained by a short post-TOB sample period.<sup>119</sup>

## **06. Establishing a Minimum Essential Budget for Decent Living in Malta**

Several defining studies have been conducted in Malta to determine what constitutes a Minimum Essential Benefit for Decent Living (MEBDL). The key benchmark report has been the MEBDL carried out by CARITAS Malta. Two other important recent studies in this regard are those issued by the National Audit Office (NAO) and the General Workers Union (GWU) carried out with RETHINK and MOVIMENT GRAFFITTI. The findings of these studies are presented hereunder.

### **(a) CARITAS Malta Minimum Essential Benefit for a Decent Living 2023**

The MEBDL study seeks to identify and price a basket of goods and services for three types of low-income families to live a basic but decent quality life and holistic well-being. The baseline established in this study is that the primary determinants of whether a household can achieve decent living are the basket's quality and cost. Therefore, the study looks at developing an objective measure for a minimum income to guarantee simple, healthy, sustainable living for low-income households and keep vulnerable families at the centre of the research. The research looks at three family configurations: 2 adults and 2 children, 1 adult and 2 children and an elderly couple age 65+. The MEBDL study, therefore, is

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<sup>119</sup> Pg, 23, Ibid.

considered to identify the 'monetary' aspects of the social protection floor of these three household types.<sup>120</sup>

The 2020 MEBDL sought to determine how the minimum essential budgets (MEB) align with the income of the three low-income household types studied with forms of benefits received – (a) Unemployment Benefit (UB) or SA; (b) NMW and IWB; (c) NMW and TOB; and (d) Guaranteed Minimum Pension (GNMP) or Widow's Pension (WP). **Table 12** shows that in households with two adults and two dependent children, or one adult with two dependent children where the income consists of UB / SA together with applicable allowances / benefits, the annual MEB is not reached.

The deficit is €3,455.66 yearly for the four-member family and €1,044.12 yearly for the three-member family. These are substantial amounts, especially for the 2 adults and 2 children. In either case, the household's quality of life will be severely compromised, with certain elements of the basket having to be sacrificed to purchase essential items for subsistence or essential activities for health.<sup>121</sup>

**Table 17: Minimum Essential Budget for Decent Living and Households with Dependent Children Receiving the National Minimum Wage or Social/Unemployment Assistance**

	MEBDL	One NMW + IWB+ Other Benefits	One NMW + TB +Other Benefits	SA / UB and other Benefits	WP + Other Benefits	One GNMP + Other Benefits	Two GNMPs+ Other Benefits
Annual in €							
<b>2 Adults + 2 Children</b>	13,946.78	13,344.86	16,609.44	10,491.12			
<b>Single Parent + 2 Children</b>	11,038.12	14,790.98	16,260.52	9,994.0			
<b>Widow + 2 Children</b>	11,038.12				11,880.44		
<b>65+</b>	<b>8,156.67</b>					<b>9,752.08</b>	<b>17,669.6</b>

Four editions have been carried out (2012, 2016, and 2020) – the latest edition being the Mini MEBDL 2023. As discussed earlier, global upheavals impacted Malta negatively – resulting in a sharp increase in price inflation of many essential items, such as foods for medicines and healthcare. These two categories respectively constituted the highest and one of the highest (respectively) proportions of the cost of the MEBDL basket for low-income families.

In 2022, CARITAS updated the cost of these two categories in a mini version of the MEBDL. **Table 18** presents the price impacts between 2020 and 2023 in these categories. This study showed a high increase in the cost of the two MEBDL categories since 2020.

<sup>120</sup> Pp 86-87, Piscopo, S., Bonello, A., and Gatt, A., A minimum essential budget for a decent living – A research study focusing on three low income household categories – 2020, 2020. Accessed on 6th November 2023: <https://www.caritasmalta.org/wp-content/uploads/2021/02/Caritas-MEBDL.pdf>.

<sup>121</sup> Pg 87, Ibid.

Table 18: 2023 Mini CARITAS MEBDL Impact on Food and Medicine Prices when Compared to 2020<sup>122</sup>

		Food	YoY Price Increase	YoY% Increase	Medicines & Health Care	YoY Price Increase	YoY% Increase
		€	€	%	€	€	%
2 Adults +2 children	Monthly	719.5			32.37		
	Annually	8,634.0	248.4	2.96	388.4	33.1	9.3
1 Adult +2 children	Monthly	542.49			20.5		
	Annually	6,506.9	194.5	3.08	245.8	30.1	24.2
65+	Monthly	362.3			49.8		
	Annually	4,346.4	131.5	3.12	598.1	35.4	6.3

(b) National Audit Office Minimum Annual Budget (based on the CARITAS Malta 'Minimum Essential Budget for 2020' Adjust to reflect 2023 Impacts)

The National Audit Office (NAO) recently conducted a performance audit titled 'Ensuring Fair Non-Contributory Social Benefits and Safeguarding Against Related Fraud'. In this audit, the NAO drew up a Minimum Annual Budget (MAB) designed for a family household consisting of two adults and two children, ensuring their ability to lead a decent life. This budget is based on the afore-referenced 2020 CARITAS Malta study but adjusted to costs to reflect the situation in 2023, including the impact of inflation. The NAO estimates the MAB for 2023 to be €15,185. This MAB is presented in **Figure 35** below.

Figure 35: Minimum Annual Budget for a Family to Live a decent life<sup>123</sup>



The MAB takes into account the following social transfers in kind (StiK):<sup>124</sup>

- The 7-day, home-prepared food menu includes 3 daily meals and 2 in-between snacks. Cost of food factored in 'Fund for European Aid to the most Deprived and State Funded Food Distribution Schemes'.

<sup>122</sup> Piscopo, S., and Bonello, A., MiniMEBDL: Focusing on three low income household categories, CARITAS Malta, 2023. Accessed on 6th November 2023: <https://www.caritasmalta.org/wp-content/uploads/2023/07/MiniMEBDL-2023-REPORT.pdf>.

<sup>123</sup> Pg 13, Performance Audit: Ensuring fair Non Contributory Social Benefits and safeguarding against related fraud, National Audit Office, 2023.

<sup>124</sup> Pp 13-14, Ibid.

- Two yearly visits to a General practitioner doctor were also included for school-age children. It was assumed that no family member had any serious or chronic health issues and/or disability.
- Children qualify for assistance under Scheme 9 of the National School Support Services. Therefore, they would qualify to benefit from either a grant for basic stationery at the start of the educational year, a school uniform, or a free daily packed lunch.
- Children will use the provided free state school transport. CM's study included the cost of each family member's Tal-Linja card.
- Use of free public transport.

The NAO sought to determine whether such a household could meet the MAB through social transfers of non-contributory income. **Table 20** below presents the income such a household is estimated to receive if its disposable income completely depends on non-contributory income social transfers.

**Table 20: Maximum Disposable Income of a family living off income-based Social Benefits**

Non Contributory Benefits	Rates	Social Benefits income
		€
<b>Social / Unemployment Assistance</b>	€121.08*52	<b>6,296</b>
<b>Social Assistance</b>	(€8.15*3)*52	<b>1,271</b>
<b>Special Bonus</b>	€3.12*52	<b>162</b>
<b>6 monthly bonus</b>	(€24.08*52)*2	<b>270</b>
<b>Children allowance</b>	€160*2	<b>2,504</b>
<b>Supplementary Children Allowance</b>	(€75*4)+€65+€59+€30	<b>320</b>
<b>Energy Benefit</b>		<b>454</b>
<b>Additional COLA</b>		<b>1,200</b>
<b>Benefit Income</b>		<b>12,478</b>

The NAO concludes that based on its estimates, such a household will not be able to meet the MAB if it is completely dependent on income-based social benefits by €2,707 or 17.8%.

(c) National Living Income Benchmark by the General Workers Union, MOVIMENT GRAFFITTI and RETHINK

The study underlines that rising In-Work Poverty (IWP) seems to have resulted from Malta's economic boom this past decade, fuelled by the importation of economic migrants. IWP is estimated to have increased by 13.5% between 2012 and 2017.<sup>125</sup> The study seeks to produce an estimate for a National Living Income benchmark (NLI). The NLI is defined as the net annual income required for a household in Malta to afford a decent standard of living for all household members.<sup>126</sup> For the study, 'a decent standard of living' is defined as an income above the minimum subsistence level.<sup>127</sup>

<sup>125</sup> Pg 8, Gravina, J., Gravina, D., Marmara, V., Xerri, K., and Azzopardi, A, J., A proposal towards the definition and estimates of the National Living Income in Malta 2022, General Workers Union together with MOVIMENT GRAFFITTI and RETHINK.

<sup>126</sup> Pg 9, Ibid.

<sup>127</sup> Ibid.

The study, in its design, reviewed the afore-referenced MEBDL. The household needs baskets applied by the two studies generally converge. The main distinction lies in MEBDL 2020's focus on the essential minimum "for low-income households to live healthily, simply yet with dignity." In contrast, NLI, baselining on relative poverty, opts for a cross-sectional view of Maltese households' prevailing expenditure trends without delimitations to specific income categories.

As a result, NLI's findings approximate MEBDL 2020's findings, mostly in the lower income categories. NLI's findings come significantly close to MEBDL 2020 when the latter introduces the Augmented Basket, which includes using a private vehicle, eating out at least once a month, and payment for accommodation at commercial rates.

The NLI estimates for the various types of households are presented in **Table 16**. The second column indicates a range for the cost of decent living for the household based on the top cut-off points of the 40<sup>th</sup> and 50<sup>th</sup> percentiles of the equivalised expenditure distribution. This can be interpreted as the net NLI. The third column indicates the NLI per household, that is, the level of income required for all household members to afford a decent life. This can be interpreted as the gross NLI.

**Table 21: Estimates of National Living Income by Type of Household<sup>128</sup>**

Type of Household	Cost of Decent Living	National Living Income
		€
Single, no children	10,535 – 12,476	12,226 – 14,864
Single, one child	13,695 – 16,219	16,160 – 20,099
Single, two children	16,855 – 19,962	21,078 – 26,018
Couple, no children	15,802 – 18,715	17,704 – 21,316
Two parents, one child	18,962 – 22,457	21,084 – 25,746
Two parents, two children	22,123 – 26,200	25,300 – 30,734

(d) Comparing the Three Research Studies

**Table 22** compares three research studies concerning the minimum level of income benchmark setting a minimum level income benchmark for a quality of life and decent living as discussed above. Of the three benchmarks, if one had to compare the family household type of two parents and two children, the minimum income level basket is the basic needs established by the MEBL research, at €14,229, followed by the MAB carried out by the NAO at €15,185. The NLI basket at €22,123 is significantly higher than either basket.

<sup>128</sup> Pg 6, Ibid

**Table 22: Comparison of the Three Research Studies determining a Minimum Level of Income Benchmark for a Quality of Life and Decent Living (\*Adjusted to include 2023 mini MEBL)**

Consumption	Research	Single parent with two children	Two parents and two children	Couple 65 years +
		€		
<b>Basic needs</b>	MEBDL	11,263*	14,229*	8,323*
<b>Augmented basket (excluding rent)</b>	MEBDL	13,045*	16,132*	9,667*
<b>Augmented basket (including rent)</b>	MEBDL	22,199*	25,285*	18,067*
<b>Total – 40th percentile</b>	NLI	16,855	22,123	15,802
<b>Total – 50th percentile</b>	NLI	19,962	26,200	18,715
<b>MAB including StiLK</b>	NAO		15,185	

## 07. Reforms to the National Minimum Wage

The National Agreement on the NMW agreed to by the social partners in 2017 introduced measures relating to existing employees on the minimum wage who have been with the same employer for more than a year as of the date of signing of this agreement:

01. Employees on a minimum wage will, upon completion of the first year of employment with the same employer, be entitled to mandatory increases (over and above Cost of Living Allowance (COLA) adjustments for 2017, 2018 and 2019) of €3 per week in the second year of employment, and upon completion of the second year, to an additional €3 per week.
02. Employees earning more than the basic minimum wage will still be entitled to the portion of the increases mentioned in Point 1 during the second and third years of employment. This will place such employees on the minimum established wage for the second and third years.
03. For existing employees on the minimum wage who have been with the same employer for more than a year, as of the date of signing of this agreement, this measure will be introduced as follows:
  - (a) With effect from 1<sup>st</sup> January 2017: up to a maximum of €3 per week adjustment as per Point 2 above.
  - (b) In 2018: up to a maximum of €3 per week adjustment as per Point 2 above.
  - (c) In 2019, the balance will reach an increase of €6 in the minimum wage provided the same employer has employed the employee for three years or more.

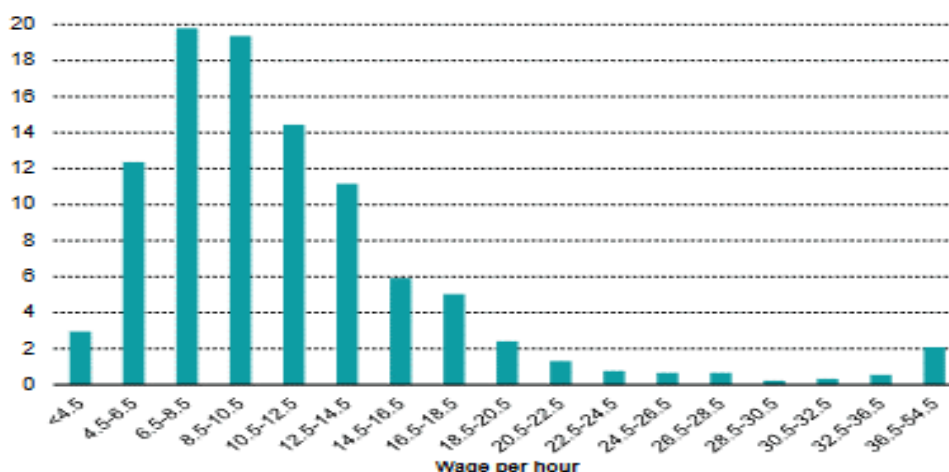
As shown in Table 18, the NMW stood at €192.73 for those older than 18, which amounted to 28% of the average weekly wage.

**Table 23: National Minimum Wage in 2023**

Age	NMW Per Week	NMW Annual
	€	
Over 18 years	192.73	10,022
Age 17 years	185.95	9,653.8
Under 17 years	183.11	9,521.7

A paper by the CBM titled 'The effect of a rise in the minimum wages on average wage growth' shows that based on the Household Finance and Consumption Survey (HFCS) sample data, the proportion of persons earning the NMW in 2020 (€4.48 per hour) stood at slightly below 3% of the total sampled employees. Moreover, these data showed that around 40% of sampled employees earned between €6.50 and €10.50 per hour.<sup>129</sup>

**Figure 36: Distribution of Compensation per hour in 2020 (percentage of employment)<sup>130</sup>**



Sources: HFCS; Central Bank of Malta calculations.

In 2023, the Government, through Legal Notice (LN) 66 (2023), set up the Low Wage Commission (LWC). The objectives of the LWC were to<sup>131</sup>:

- (a) Determine whether the minimum wage shall need reviewing.
- (b) Ensure that minimum wages are set at an adequate level.
- (c) Define the national criteria constituents of the minimum wage.
- (d) Consider trends in the price level and increases in a number of selected collective agreements for employees on low-level grades.
- (e) Specifically ascertain that any change in the minimum wage is affordable regarding sectoral vulnerabilities, competitiveness, and productivity gains.
- (f) Ensure minimum wage adequacy and the timely and effective involvement of the social partners in reviewing and evaluating the adequacy of the minimum wage.

<sup>129</sup> Pg. 2, The effect of a rise in the minimum wages on average wage growth, Article published in the Projections 2023:4, pp. 7-9, Central Bank of Malta.

<sup>130</sup> Ibid.

<sup>131</sup> Low Wage Commission Regulations, 2023, L.N. of 2023. Accessed on 7th November 2023: <https://legislation.mt/eli/ln/2023/66/eng>.

Following discussions by the Malta Council for Economic and Social Development (MCESD) on the findings of the LWC, an agreement was reached that the NMW will increase from 2024 to 2027, as presented in **Table 24**.<sup>132</sup>

**Table 24: Increase in the National Minimum Wage (\*Without COLA Adjustment)<sup>133</sup>**

Year	Basic National Minimum Wage	Cost of Living Adjustment	Total per week	Total Annual
	Per Week			
	€			
2024	200.73	12.81	213.54	11,104
2025	203.73	As appropriate		10,594*
2026	206.73	As appropriate		10,750*
2027	210.73	As appropriate		10,958*

<sup>132</sup> Department of Industrial and Employment Relations. Accessed on 7th November 2023: <https://dier.gov.mt/en/employment-conditions/wages/pages/national-minimum-wage.aspx>

<sup>133</sup> Minimum wage will rise to €213.54 per week as from 1 January, The Malta Independent, 26<sup>th</sup> October 2023. Accessed on 7th November: <https://www.independent.com.mt/articles/2023-10-26/local-news/The-minimum-wage-will-rise-to-213-54-per-week-by-the-1st-of-January-6736255915>



<b>Objective Poverty</b>	
By applying an objective focus, an analysis of both absolute and relative poverty is carried out.	
<b>Absolute poverty</b>	<p>It is defined as a situation in which the individual's basic needs are not covered. In other words, there is a lack of basic goods and services (normally related to food, housing and clothes). This concept of poverty is strongly linked to deprivation and can be applied to all countries or societies. A person considered poor under this criterion is classified similarly worldwide. It is extremely difficult to develop ways of measuring absolute poverty.<sup>134</sup></p> <p><b>Absolute Poverty Line:</b> reflects the value of the resources needed to maintain a minimum level of welfare.<sup>135</sup> The aim is to measure the cost of purchasing a basket of essential products (goods and services), which allows a person to reach minimum levels of satisfaction regarding basic needs.<sup>136</sup> One of the characteristics of absolute poverty lines is that results can be taken from them sensitive to economic development. However, this is shared homogeneously amongst the population.<sup>137</sup> For example, suppose there is an increase in income levels in a society, even though this increase is distributed homogeneously amongst the population. In that case, the percentage of poor people calculated with absolute poverty lines will decrease.<sup>138</sup></p>
<b>Relative Poverty</b>	<p>From this perspective, a person is considered poor in a disadvantaged situation, either financially or socially, regarding other people in their environment.<sup>139</sup> This idea of poverty is closely linked to the notion of inequality. Following this last criterion, the classification between poor people and those who are not poor depends on the development of the society under study: it cannot be transferred to a different society.<sup>140</sup></p> <p><b>Relative Poverty Line:</b> classifies people in the society under study into two groups: (a) the most disadvantaged, (b) the poor, and (c) the rest.<sup>141</sup> Suppose there is a homogenous income increase in a society, for example, a rise of 5% in the income of all households. In that case, the relative poverty lines provide the same poverty rates before and after this rise: the poverty threshold will be greater, but the proportion of poor people will remain the same<sup>142</sup>. The number of poor people depends on the relative position of each household or individual. If these relative positions are maintained, the relative poverty lines do not reflect changes that could result in economic development shared equally.<sup>143</sup> For the percentages of poor people calculated with this type of line to diminish, it is necessary for there to be changes in income distribution.<sup>144</sup></p>

<sup>134</sup> Pg 5, Poverty and its measurement: The presentation of a range of methods to obtain measures of poverty, Instituto Nacional de Estadística.

<sup>135</sup> Ibid.

<sup>136</sup> Ibid.

<sup>137</sup> Ibid.

<sup>138</sup> Ibid.

<sup>139</sup> Ibid.

<sup>140</sup> Pg 1, Ibid.

<sup>141</sup> Pg 5, Ibid.

<sup>142</sup> Ibid.

<sup>143</sup> Ibid.

<sup>144</sup> Ibid.

<b>Persistent or long-term poverty<sup>145</sup></b>	<p>Poverty is not a static phenomenon; however, a person's situation may change with time, moving in and out of poverty. It is, therefore, essential to carry out dynamic poverty studies that consider changes and transitions and analyse a population over a sufficiently long enough period, not only during specific years but in an isolated way.</p> <p>Eurostat defines a person as considered persistently poor if they have been classified as poor in the last year and at least during two of the three previous years.<sup>146</sup> This concept of long-term poverty avoids transitory poverty situations, which do not generally cause changes in the living conditions of households.</p>				
<b>Subjective poverty</b>	<p>Information on the opinion of the individuals or households and their situation is used. This way of understanding poverty influences households' subjective view of their financial situation as opposed to the objective focus that only uses observable and measurable variables.<sup>147</sup></p> <p><b>Subjective poverty lines:</b> Subjective poverty lines are based on the opinion held by individuals on themselves concerning society as a whole: that is, the concept of poverty used in these lines to divide the population into poor and not poor is based on households' and individuals' perceptions of what it is to be poor.<sup>148</sup> When using this focus for measuring poverty, it is assumed that "each individual is the best judge of their situation", and the opinions of value implicit in the relative poverty measures, choice of threshold, use of equivalence scales, etc., are avoided.<sup>149</sup></p>				
<b>Multi-dimensional deprivation</b>	<p>It is closely linked to social exclusion and is related to deprivation or the lack of access to certain goods and services considered necessary for society, whether a basic need or not: poverty is measured with non-monetary variables and deprivation indicators, using breakdowns of these indicators to construct poverty measures.<sup>150</sup> This type of multi-dimensional deprivation has also been called severe poverty.<sup>151</sup> These different ways of perceiving and measuring poverty offer a different perspective on the same phenomenon.<sup>152</sup> The different approaches provide varied and rich information that should be combined to obtain the most complete general view possible. For example, even though the isolated use of relative poverty measures provides data on the percentage of people in worse monetary conditions than other citizens, it does not explain whether the most basic needs of these people considered to be poor are met or feel excluded.<sup>153</sup> Therefore, the joint use of absolute and relative measures will help to achieve a greater understanding of poverty.<sup>154</sup></p> <p>Eurostat applies the following indicators for MS:</p> <table border="1" data-bbox="491 1541 1391 1709"> <tr> <td colspan="2" data-bbox="499 1552 1383 1608"><b>Definition</b></td> </tr> <tr> <td data-bbox="499 1619 722 1709"><b>Material and Social Deprivation</b></td> <td data-bbox="730 1619 1383 1709">In 2017, a set of new Material and Social Deprivation (MSD) indicators were adopted by all the European Union (EU) Member States (Guio,</td> </tr> </table>	<b>Definition</b>		<b>Material and Social Deprivation</b>	In 2017, a set of new Material and Social Deprivation (MSD) indicators were adopted by all the European Union (EU) Member States (Guio,
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<b>Material and Social Deprivation</b>	In 2017, a set of new Material and Social Deprivation (MSD) indicators were adopted by all the European Union (EU) Member States (Guio,				

<sup>145</sup> Pg 17, Ibid.

<sup>146</sup> <https://ec.europa.eu/eurostat/databrowser/view/tespm150/default/table?lang=en>.

<sup>147</sup> Pg 3, Poverty and its measurement: The presentation of a range of methods to obtain measures of poverty, Instituto Nacional de Estadística.

<sup>148</sup> Pg 19, Ibid.

<sup>149</sup> Pg 19, Ibid.

<sup>150</sup> Pg 3

<sup>151</sup> Ibid.

<sup>152</sup> Ibid.

<sup>153</sup> Ibid.

<sup>154</sup> Pg 4, Ibid.

	<p><b>Severe Materially and Socially Deprived<sup>155</sup></b></p>	<p>2017). The new indicators are Material and Social deprivation (MSD) and Severe Material and Social Deprivation (SMSD). These indicators are based on 13 items: 7 household items and 6 personal items. These are listed below.</p> <p>A household is considered to be facing MSD if they cannot afford at least 5 or more of the 13 deprivation items listed below.</p> <p>A household is considered to face SMSD if they cannot afford at least 7 of 13 deprivation items.</p> <p><b>At a Household Level</b></p> <ul style="list-style-type: none"> <li>○ Households cannot face unexpected financial expenses.</li> <li>○ Households cannot pay for one week's annual holiday away from home.</li> <li>○ Arrears on mortgage or rent payments, utility bills, hire purchase instalments or other loan payments.</li> <li>○ Households cannot afford a meal of meat, chicken, fish, or vegetarian equivalent every second day.</li> <li>○ Households cannot keep their home adequately warm in winter.</li> <li>○ Households cannot afford a car.</li> <li>○ Households cannot replace worn-out furniture.</li> </ul> <p><b>At an Individual level</b></p> <ul style="list-style-type: none"> <li>○ A person cannot replace worn-out clothes with new ones.</li> <li>○ A person cannot afford to have two pairs of properly fitting shoes.</li> <li>○ People cannot afford to spend a small amount each week on themselves ("pocket money").</li> <li>○ A person does not have regular leisure activities.</li> <li>○ A person cannot get together with friends/family for a drink/meal at least once a month.</li> <li>○ No access to an internet connection at all.</li> </ul>
	<p><b>Persistent material deprivation rate</b></p>	<p>Enforced inability to pay for at least three (material deprivation) or four (severe material deprivation) of the items mentioned earlier in the current year and at least two out of the preceding three years. Its calculation requires a longitudinal instrument, through which the individuals are followed over four years.</p>

<sup>155</sup> [https://nso.gov.mt/wp-content/uploads/News2022\\_071.pdf](https://nso.gov.mt/wp-content/uploads/News2022_071.pdf).

## 01. Introduction

Social transfers can be defined as regular non-contributory payments, in cash or in-kind (for example, food or vouchers), made by government or NGOs to individuals or households to decrease chronic or shock-induced poverty, addressing social risk and/or reducing economic vulnerability.<sup>156</sup>

Like all other EU MS, Malta adopts the AROPE indicator to measure poverty and social exclusion. As mentioned in the main body of this Working Paper, the EU does not consider STiK, which is consumption saved from expenditure related to social welfare (health, education, care for the elderly, etc.) carried out by households, with obvious implications on poverty.

The NAO in a publication in December 2020 titled 'A review of the implementation of Sustainable Development Goal 1: Malta's efforts at alleviating poverty'. The NAO report quotes the Maltese Competent Authority (MCA) as stating that whilst it:

"... noted that although the EU's definition of poverty and its tools for measurement could be seen as more comprehensive than those of the UN, the EU's capture of the situation only provided a partial snapshot of the real situation. ... the selected criteria do not consider important variables such as the benefits of a free health care system, the accessibility to medicines, and a free educational system that extends from the primary to the tertiary levels, among others. ... that these benefits form an essential part of the well-being of the Maltese population and must be adequately measured and assessed to provide a holistic picture of the situation of poverty in Malta."<sup>157</sup>

The report adds that the MSPC agreed with the MCA, adding that:

"... although education and health services in Malta are provided at no charge at the point of use, these costly services do not feature in the EU SILC's poverty measurement despite the saved expenditure registered by the benefitting households. For example, if a household in Malta had a weekly income of €180, while a household in another member state had a weekly income of €220, according to the EU SILC, the household in the other member state would be in a better financial position than that in Malta. However, if one were to consider the social transfers in kind, the household in Malta would be in a better financial position than the other household. Moreover, the MFCS noted that if one considers the social transfers in kind for older persons, which include free healthcare, free medication, free nappies, and heavily subsidised services, including long-term care, then the income of pensioners would almost be double what they receive. Yet these benefits in kind are not captured in the EU SILC."<sup>158</sup>

The NAO noted that whilst:

"... social benefits had reduced the incidence of poverty in Malta by slightly less than the EU average. According to the Report, in 2018, social transfers (excluding pensions) reduced the risk of poverty by 30.6 per cent (compared to 33.2 per cent in the EU)".<sup>159</sup>

## 02. Methodological Approach to Applying for Social Transfers in Kind to Determine Poverty

STiKs are an important source of household income, especially for households at the lower end of the income distribution. Households receive STiK (for education, health, child care, long-term care etc.) from governments or non-profit organisations or 'non-cash' as goods and services provided by the government and non-profit institutions that benefit individuals but are provided free or at subsidised

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<sup>156</sup> Pg 12., Devereux, S., et al., Evaluating the targeting effectiveness of social transfers: a literature review, CSP WP 012, Centre for Social Protection and the Institute of Development Studies, 2015.

<sup>157</sup> Pg 41, A review of implementation of Sustainable Goal 01: Malta's effort at alleviating poverty, National Audit Office, 2020.

<sup>158</sup> Ibid.

<sup>159</sup> Pg 219, Ibid.

prices.<sup>160</sup> Household disposable income is the income remaining in a household after deducting taxes, which the household can spend or save. It comprises of two components – being:<sup>161</sup>

- 01: Monetary income indicators based on disposable income are widely used to analyse poverty and inequality. People are considered at [AROP](#) (monetary) when their equivalised disposable income is below the AROP threshold. The EU sets this at 60 % of the national median disposable income after social transfers.
02. Non-monetary: The AROPE indicator does not consider non-monetary income received in the form of STiK. STiK is considered through the Adjusted disposable income (ADI) indicator. The ADI brings the monetary (disposable) and non-monetary income components together. The ADI is more likely to be equally distributed than disposable income. International statistical manuals recommend using ADI when analysing the total redistributive effect of government interventions in the form of benefits and taxes on household income. It should be noted non-monetary income whether consumed or not, cannot be saved or transferred to another individual.

There are difficulties in measuring the incidence and value of STiK. The OECD identifies the issues in **Table 01**.<sup>162</sup>

**Table 01: Approaches used to distribute the aggregate value of government services among individuals**<sup>163</sup>

<b>What services should be included?</b>	The boundaries of what can be included under the "public services" heading to households are ill-defined. Major items of public expenditure such as education and health are certainly included, but <i>a priori</i> , any public expenditure – directly or indirectly – benefits households, from spending on military equipment to operating costs of institutions. Most studies have focussed on more limited sectors of activity – notably education, health and certain other social expenditures – where services provided confer a personal benefit upon users.
<b>How to value government services to households?</b>	Public services are typically provided outside market settings. Because of the lack of market prices, these services are generally valued at their production cost in the national accounts system – which, in most cases, is further limited to labour costs, i.e. excluding costs for using capital equipment. Most studies on the distributive impacts of government services value these at their production costs.
<b>How to distribute the aggregate value of government services among individuals?</b>	The household surveys typically used to assess income distribution often provide limited information on each individual and household's actual use of different government services. This implies that most attempts to 'individualise' these benefits rely on imputation techniques and are therefore exposed to errors. Most studies of the distributive impact of public health care services base the distribution of their aggregate value across individuals not on their actual use but rather on characteristics of individuals (e.g. age, gender, education or income) and households (for example, presence of children, work status of other adults in the family) – that is on the assumption that the probability that a person will access these services is the same as that prevailing for other individuals with the same characteristics.
<b>Should the value of government services be attributed to</b>	Most studies of income distribution use the household as the unit within which resources are pooled and (equally) shared by individuals (that is, individuals have attributed the income of the household where they live after an adjustment for different needs across households of different sizes).

<sup>160</sup> Pg 16, Canberra Group Handbook on household income statistics, United Nations Economic Commission for Europe, United Nations, 2011.

<sup>161</sup> Accessed on 23<sup>rd</sup> April 2024: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact\\_of\\_health\\_social\\_transfers\\_in\\_kind\\_on\\_income\\_distribution\\_and\\_inequality#Impact\\_of\\_health\\_STiKs\\_on\\_income\\_distribution](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact_of_health_social_transfers_in_kind_on_income_distribution_and_inequality#Impact_of_health_STiKs_on_income_distribution).

<sup>162</sup> Pp, 225-226, Growing Unequal? OECD, 2008.

<sup>163</sup> Ibid.

<b>individuals or the household in which they live?</b>	
<b>Redistribution over what period?</b>	The benefits of government services to individual users may not be limited to the moment they are consumed but extend to the long term (e.g. education services enhance students' future earnings). However, accounting for these long-term benefits requires life-cycle models whose assumptions (in terms of preferences and risk aversion) are often ad hoc.

Given measurement challenges, STiK is often excluded from the welfare measures used for poverty statistics.<sup>164</sup> The Canberra Handbook presents two approaches that may be applied to distribute the aggregate value of government services. These are presented in **Table 02**.

**Table 02: Insurance approach and actual consumption approach**

<b>Actual Consumption Approach</b>	The value of STiK should be allocated to the actual users of the service. However, in some cases, e.g. health care, this option may be less appropriate, as it ignores the greater needs of being ill. Using the actual consumption approach for health care would imply that sick people are, all other things being equal, better off than healthy people because they receive more health care services.
<b>Insurance Value Approach</b>	Used for allocating the monetary value of health care services to individuals. The insurance value of coverage to each person is imputed based on specific characteristics (such as age, sex and socio-economic status, although mostly age group has been used). The insurance value is the amount that an insured person would have to pay so that the third-party provider (in this case, the government) would have just enough revenue to cover all claims for such persons. However, the insurance value approach does not entirely solve the issue of considering differences in needs.

The UN guidebook on poverty data disaggregation identifies the following issues in the measurement of STiK:<sup>165</sup>

- If STiK is included in resources, appropriate equivalence scales must be given special consideration. (Recommendation 21).
- While the measurement of STiK continues to pose serious challenges, it is important to develop a mechanism to consider them when estimating poverty and the impact of these transfers on poverty estimates. Supplemental or alternative poverty measures are important tools for illustrating the impact of these transfers on economic well-being. STiK can be particularly relevant for comparisons between different welfare systems, where STiK are more important than cash transfers in one country (or group) in another. (Recommendation 23-a).
- Figures on total STiK should be presented together with poverty measures wherever possible as a useful indicator in its own right. (Recommendation 23-b).
- STiK should be included in the poverty measurement if their value can be empirically estimated on a household or individual level with sufficient precision. STiKs for food, shelter, clothing, and utilities are particularly relevant for poverty measurement. Some countries also make provisions for health care and education. If STiK is included in the resource measure, this may affect the equivalence scale. (Recommendation 23-c).

<sup>164</sup> Pg 16, Canberra Group Handbook on household income statistics, United Nations Economic Commission for Europe, United Nation, 2011.

<sup>165</sup> Pg 167, Poverty Measurement: Guide to data disaggregation, UNECE, United Nations, 2020.

- If poverty headcounts of relevant groups change by 10% after STiK, some consideration in the poverty measure is highly advisable. If the measurement is very poor or its effect on poverty profiles is within the margin of sampling error, STiK should not be included in poverty measures. (Recommendation 23-d).
- Given the unavoidable and essentially arbitrary methodological choices regarding the valuation and distribution of STiK, these need to be fully transparent in regularly updated quality reports. In any case, users should be allowed to assess poverty measures with and without adjustments for STiK. (Recommendation 23-e).
- STiK can be valued at equivalent insurance cost, actual consumption, or as a mix. Its total value and estimated number of recipients must be assessed against administrative data on the total public cost on STiK. (Recommendation 23-f).
- Caution is needed when analysing STiK and its potential distributive consequences. If STiK is included in the resource measure, its value must be capped and, by all means, should not exceed the poverty threshold. (Recommendation 23-g).
- If the value of STiK received is too difficult to obtain, deducting out-of-pocket expenses from the resource measure is a viable alternative. In such a situation, however, some poor individuals who have already curtailed certain expenditures may eventually appear non-poor. (Recommendation 23-h).

### **03. Case Studies on the Impact of Social Transfers in Kind in the UK and Finland: Micro-level Measurement and Distribution Impact**

Further to the review of the impact of health social transfers in kind on income distribution and inequality discussed in the main body of this Working, three other case studies of the impacts of STiK relating to the UK, Finland and Ireland are reviewed.

#### **03.1 Impact of Social Transfers in Kind in the UK and Finland: Micro-level Measurement and Distribution Impact**

A paper titled 'Social Transfers in Kind in the United Kingdom and Finland: Micro-level Measurement and Distributional Impact' describes the methods and the distributional impacts based on country-level sources in the UK and Finland.<sup>166</sup> The study states that a common benchmark best applicable for both the UK and Finland is reviewing STiK transfers included in the Household Budget Surveys (HBS) based on the System of National Accounts (SNA): as this results in a higher degree of comparability, conceptually and operationally than non-harmonised national survey sources.<sup>167</sup> The SNA defines STiK as goods and services provided by the government and NGOs to households, either free or at prices that are not economically significant, which in principle is the same as in the Canberra Group Handbook of Income Statistics.<sup>168</sup>

The SNA includes social transfers in-kind in the extended income and consumption concepts. In consumption, STiK equals the difference between actual individual final consumption and household final consumption expenditure. On the income side, the value of social transfers in kind equals the difference between disposable and adjusted disposable income.<sup>169</sup> On the income side, the value of social transfers in kind equals the difference between disposable and adjusted disposable income. This is presented in the Table below.<sup>170</sup>

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<sup>166</sup> Tonkin, R., et al., Social Transfers in Kind in the United Kingdom and Finland: Micro-level Measurement and Distributional Impact, Paper Prepared for the IARIW 33rd General Conference Rotterdam, the Netherlands, August 24-30, 2014.

<sup>167</sup> Ibid.

<sup>168</sup> Pg 4, Ibid.

<sup>169</sup> Pg 5, Ibid.

<sup>170</sup> Pp 4-6, Ibid.

**Table 03: STiK under the National Accounts and Household Budgetary Survey**

National Accounts	Household Budgetary Survey
<b>Consumption</b>	
Final consumption expenditure of households (national concept)	Household consumption expenditure
Actual individual final consumption	Actual final consumption
STiK	STiK
- STiK % of household consumption	- STiK % of household consumption
<b>Income</b>	
Gross disposable income	Disposable Income
Gross adjusted disposable income	Extended Income
STiK - (received)	STiK - (received)
- % of gross disposable income	- % of disposable income
STiK - received-paid	
- % of gross disposable income	

Tonkin et al. examine the measurement of two major social transfers - education and health - in the United Kingdom and Finland.

#### Impact of STiK on Income Inequality Measures

In the Finnish HBS, with the modified OECD scale, the Gini coefficient drops from 0.251 to 0.215 or 14.3% if health services are imputed based on the insurance approach. If the actual consumption approach is used, the Gini falls slightly less (11.2 %). If the SNA scale is used, the relative reduction in the Gini is slightly larger for both measures of adjusted disposable income. For the UK, the Gini for adjusted disposable income is 20.8% lower than the one for disposable income (falling from 0.328 to 0.260) when using the modified OECD scale. When the SNA scale is adopted, the reduction rate is 21.8%.<sup>171</sup>

**Table 04: Impact of STIK Income Inequality Measures Gini Coefficient - UK and Finish HBS 2012<sup>172</sup>**

	UK		Finland	
	Modified OECD	SNA	Modified OECD	SNA
<b>Baseline: disposable cash income</b>	0.328	0.348	0.251	0.271
<b>Adjusted disposable income 1*</b>	0.260	0.272	0.251	0.222
<b>- Reduction</b>	-20.8%	-21.8%	-14.3%	-18.1

<sup>171</sup> Pg 26, Ibid.

<sup>172</sup> Ibid.



Adjusted disposable income (education and health care* only)*	0.260	0.273	0.215	0.224
- Reduction (education and health care only)	-20.5%	-21.6%	-14.3%	-17.3%
Adjusted disposable Income 2**			0.223	-15.1%
- Reduction				
<b>Partial effects:</b>				
- Cash+education	-9.9%	-11.5%	-7.2%	-10.4%
- Cash+insurance based health care	-11.5%	10.8%	-8.1%	-7.7%
- Cash+actual use of healthcare			-4.2%	-4.0%
- Cash+social services			-0.5%	-1.2%
- Cash+housing subsidies	-0.1%	-0.1%		
- Cash+bus subsidies	-0.4%	-0.3%		
- Cash+rail subsidies	0.0%	0.0%		

Notes: \* Insurance-based health care \*\* FI: total STiK with the actual health care use.

#### Impact of Stik on Relative Income Poverty

The Table below compares poverty rates based on adjusted disposable income. The impact of including STiK on this whole population is very noticeable, with the largest impact on the UK. Including STiK within income but retaining the OECD-modified equivalisation scale reduced the headline rate to 9.7% in the UK (a 39% reduction in the at-risk-of-poverty rate). This was around 1 p.p. lower than the Finnish rate for the same measure (10.8%, a relative reduction of 17.6%). The effect of applying the SNA equivalisation scale was relatively small for the overall population, reducing the relative AROP for adjusted disposable income to 9.2% in the UK and 9.9% in Finland.<sup>173</sup>

**Table 05: Relative at-risk-of-poverty rates: UK and Finland 2012<sup>174</sup>**

	UK		Finland	
	Modified OECD	SNA	Modified OECD	SNA
<b>Disposable Income</b>				
HBS (2012)	15.8	18.0	13.1	14.5
<b>Adjusted disposable income</b>				
HBSAdjusted 1 (2012)	9.7	9.2	10.8	9.9
- poverty rate reduction (cf disposable)	38.6%	41.5%	17.6%	24.4%

<sup>173</sup> Pp 27-28, Ibid.

<sup>174</sup> Pg 28, Ibid.

### 03.2 Non-Cash Social Transfers in Primary Health Care Services: Ireland

Access to health services, including General Practitioner doctor (GP) visits, relies on payment. However, access to medical services (such as GP) visits, drugs and surgery) may be provided free through the General Medical Services (GMS) scheme. Cardholders are exempt from certain payments. Eligibility for medical cards and GP cards are means tested based on income, with some applicants eligible due to poor health conditions. Eligibility for GP visit cards is also means tested. However, respondents aged 70 and above are automatically eligible and drawn into the scheme, as well as children aged under six. For people not meeting the means test for a medical card or a GP visit card, they might still be eligible if such refusal has for consequence that they (or their dependents) have "undue hardship" or it is "unduly burdensome" to get GP services from their resources.

The medical card covers a wide range of medical services such as free or reduced-cost GP, public out-patient and in-patient services, prescribed drugs and medicines, and dental, optical, aural, and maternity services. The GP visit card covers GP visits but does not cover hospital charges and prescribed drugs (unless covered by the Drug Payment Scheme).

Section 3.5 of the study presents the methodology applied by the research in estimating the monetary value of medical and GP visit cards. The research concludes the following:<sup>175</sup>

- Vulnerable social risk groups: More likely to hold a medical or GP visit card, compared to working-age adults - This was especially true when we limited our sample to children under 16.
- Social class: The most vulnerable class groupings were likelier to hold a medical or GP visit card than higher social class groups. Again, this result became more apparent when we limited our sample to children under 16.
- Poverty and deprivation: Medical card and GP visit card holders lived in households with higher rates of deprivation when compared to the households without these cards.
- Cardholders live in households with higher income poverty levels than households without cards.
- Consistent poverty was higher in households with cards when compared to households without cards. This was also true when the sample was limited to children under 16.
- Generally, households with medical cards and GP cards are from more vulnerable backgrounds than households without such cards, suggesting that coverage of the cards is generally good.

The simulated modelling impact of the medical and GP cards on deprivation resulted in the following important conclusions:<sup>176</sup>

01. Although the effect was weak, the transfer had a positive effect in that it limited the deprivation of medical and GP visit cardholders, if only by a fraction of a per cent.
02. Most importantly, the medical and GP visit cards impact social risk, and social class impact shows that it has the greatest benefit to the most vulnerable holders.

### 03.3 Cash and Non-Cash Social Transfers regarding Childcare Support Schemes - Ireland

Ireland has implemented several childcare support schemes aimed at aiding families with young children; some are universal in that they focus on all families with children under five years of age, and others are aimed specifically at vulnerable groups that likely need additional assistance from the state.

The study finds that differences in deprivation tied to social risk and social class can be explained by differences in income, debt, other resources, household composition, and the number of children in the home. It posits that the research finds that social risk groups with young children are the most likely to cite deprivation in the home. Although the study suggests that the cash equivalent of childcare supports

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<sup>175</sup> Pp, 103-104, Maitre, B., et al., , Research by the Department of Social Protection (Ireland) and the Economic & Social Research Institute, Ireland, 2020.

<sup>176</sup> Pg, 105.

has a minor effect on deprivation, it notes that vulnerable groups experience the largest deprivation reduction derived from these supports compared to working-age adults with children under five. This result also emerges for social class groups, especially the unemployed. While there are class differences in material deprivation, the benefits of childcare support are particularly pronounced among unemployed and lower social class groups.<sup>177</sup>

Section 4.6 of the study presents the methodology applied by the research in estimating the value of childcare support.<sup>178</sup> The research concludes the following:<sup>179</sup>

- Differences in deprivation tied to social risk and social class can be explained by differences in income, debt, other resources, household composition, and the number of children in the home.
- Social risk groups with young children are the most likely to cite deprivation in the home.
- The cash equivalent of childcare support has a minor effect on deprivation. The researchers note that vulnerable groups experience the largest deprivation-reduction derived from these supports compared to working-age adults with children under five. This result also emerges for social class groups, especially the unemployed. While there are class differences in material deprivation, the benefits of childcare support are particularly pronounced among unemployed and lower social class groups.

The overall conclusions of the study are the following:<sup>180</sup>

- Tied transfers and support services have a variable but positive effect in limiting the chance of deprivation.
- Vulnerable social risk and social class groups are the most likely to benefit from transfers and services, compared to groups better insulated from poverty and social exclusion, like those in the highest social class grouping.
- The benefits examined in the study had the expected impact in reducing deprivation, so they have a role in reducing social exclusion. Although transfer programmes are expensive, they reduce deprivation and help facilitate a "customary life", especially for lone parents and the unemployed.
- The social risk groups benefitting most from the schemes in the simulations remain those most deprived (lone parents and households where an adult has a disability). While transfers limit these groups' deprivation, they are more likely to face deprivation than the remaining groups, even after transfers are considered.

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<sup>177</sup> Pp133, Ibid.

<sup>178</sup> Pg 123, Ibid.

<sup>179</sup> Pg, 133, Ibid.

<sup>180</sup> Pp 150-151, Ibid.

<b>Equal opportunities and access to the labour market</b>	Education, training and life-long learning	Everyone has the right to quality and inclusive education, training and life-long learning to maintain and acquire skills that enable them to participate fully in society and successfully manage transitions in the labour market.
	Gender equality	(a) Equality of treatment and opportunities between women and men must be ensured and fostered in all areas, including regarding participation in the labour market, terms and conditions of employment and career progression.  (b) Women and men have the right to equal pay for work of equal value.
	Equal opportunities	Regardless of gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation, everyone has the right to equal treatment and opportunities regarding employment, social protection, education, and access to goods and services available to the public. Equal opportunities for under-represented groups shall be fostered.
	Active support to employment	(a) Everyone has the right to timely and tailor-made assistance to improve employment or self-employment prospects. This includes the right to receive support for job search, training and re-qualification. Everyone has the right to transfer social protection and training entitlements during professional transitions.  (b) Young people have the right to continued education, apprenticeship, traineeship or a job offer of good standing within 4 months of becoming unemployed or leaving education.  (c) Unemployed people have the right to personalised, continuous and consistent support. The long-term unemployed have the right to an in-depth individual assessment at 18 months.
<b>Fair working conditions</b>	Secure and adaptable employment	(a) Regardless of the type and duration of the employment relationship, workers have the right to fair and equal treatment regarding working conditions, access to social protection and training. The transition towards open-ended forms of employment shall be fostered.  (b) Per legislation and collective agreements, the necessary flexibility for employers to adapt swiftly to changes in the economic context shall be ensured.  (c) Innovative forms of work that ensure quality working conditions shall be fostered. Entrepreneurship and self-employment shall be encouraged. Occupational mobility shall be facilitated.

<sup>181</sup> <https://europe-solidarity.eu/documents/social-pillar-goteborg.pdf>.

		(d) Employment relationships that lead to precarious working conditions shall be prevented by prohibiting abuse of atypical contracts. Any probation period should be of reasonable duration.
	Wages	<p>(a) Workers have the right to fair wages that provide for a decent standard of living.</p> <p>(b) Adequate minimum wages shall be ensured in a way that provides for the satisfaction of the needs of the worker and his / her family in the light of national economic and social conditions whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented.</p> <p>(c) All wages shall be set transparently and predictably according to national practices and respecting the autonomy of the social partners.</p>
	Information about employment conditions and protection in case of dismissals	<p>(a) Workers have the right to be informed in writing at the start of employment about their rights and obligations resulting from the employment relationship, including the probation period.</p> <p>(b) Before any dismissal, workers have the right to be informed of the reasons and be granted a reasonable notice period. They have the right to access effective and impartial dispute resolution and, in case of unjustified dismissal, a right to redress, including adequate compensation.</p>
	Social dialogue and involvement of workers	<p>(a) The social partners shall be consulted on developing and implementing economic, employment and social policies according to national practices. They shall be encouraged to negotiate and conclude collective agreements in relevant matters while respecting their autonomy and the right to collective action. Where appropriate, agreements concluded between the social partners shall be implemented at the level of the Union and its Member States.</p> <p>(b) Workers or their representatives have the right to be informed and consulted in good time on matters relevant to them, in particular on the transfer, restructuring and merger of undertakings and collective redundancies.</p> <p>(c) Support for increased capacity of social partners to promote social dialogue shall be encouraged.</p>
	Work-life balance	Parents and people with caring responsibilities have the right to suitable leave, flexible working arrangements and access to care services. Women and men shall have equal access to special leaves of absence to fulfil their caring responsibilities and be encouraged to use them in a balanced manner.
	Healthy, safe and well-adapted work environment and data protection	<p>(a) Workers have the right to a high level of health and safety protection at work.</p> <p>(b) Workers have the right to a working environment adapted to their professional needs, which enables them to prolong their participation in the labour market.</p> <p>(c) Workers have the right to protect their personal data in employment.</p>

<b>Social protection and inclusion</b>	Childcare and support for children	(a) Children have the right to affordable early childhood education and good quality care.  (b) Children have the right to protection from poverty. Children from disadvantaged backgrounds have the right to specific measures to enhance equal opportunities.
	Social protection	Regardless of the type and duration of their employment relationship, workers and, under comparable conditions, the self-employed have the right to adequate social protection.
	Unemployment benefits	The unemployed have the right to adequate activation support from public employment services to (re)integrate into the labour market and adequate unemployment benefits of reasonable duration in line with their contributions and national eligibility rules. Such benefits shall not constitute a disincentive for a quick return to employment.
	Minimum income	(a) Workers and the self-employed in retirement have the right to a pension commensurate to their contributions and ensuring an adequate income. Women and men shall have equal opportunities to acquire pension rights.  (b) Everyone in old age has the right to resources that ensure living in dignity.
	Health care	Everyone has the right to timely access to affordable, preventive and curative health care of good quality.
	Inclusion of people with disabilities	People with disabilities have the right to income support that ensures dignity, services that enable them to participate in the labour market and society, and a work environment adapted to their needs.
	Long-term care	Everyone has the right to affordable long-term care services of good quality, particularly home care and community-based services.
	Housing and assistance for the homeless	(a) Access to good-quality social housing or housing assistance shall be provided for those in need.  (b) Vulnerable people have the right to appropriate assistance and protection against forced eviction.  (c) Adequate shelter and services shall be provided to the homeless to promote their social inclusion.
	Access to essential services	Everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need.

	Headline Indicator	Secondary Indicators	SDG
Equal Opportunities	Adult participation in learning during the last 12 months**	Tertiary education attainment	4. Quality Education
	Share of early leavers from education and training	Underachievement in education (including in digital skills**)	5. Gender equality
	Individuals' level of digital skills	Participation of low-qualified adults in learning**	10. Reduced inequalities
	Youth NEET rate (15—29)	Share of unemployed adults with a recent learning experience**	
	Gender employment gap	A gap in underachievement between the bottom and top quarter of the socio-economic index (PISA)**	
	Income quintile ratio (S80/S20)	The gender gap in part-time employment	
		Gender pay gap in unadjusted form	
Fair Working Conditions		Income share of the bottom 40% earners (SDG)**	
	Employment rate	Activity rate	8. Decent work and economic growth
	Unemployment rate	Youth unemployment rate	
	Long-term unemployment rate	Employment in current job by duration	
	GDHI per capita growth	Transition rates from temporary to permanent contracts	
		Share of involuntary temporary employees**	
		Fatal accidents at work per 100,000 workers (SDG)**	
	In-work-at-risk-of-poverty rate		
Social Protection and Inclusion	AROPE	AROP	1. No poverty 3. Good health and well-being
	At-risk-of-poverty rate or exclusion for children (0—17)**	SMSD	
	Impact of social transfers (other than pensions) on poverty reduction	Persons living in a household with a very low work intensity	
	Disability employment gap**	Severe housing deprivation (owner and tenant)	
	Housing cost overburden**	Median at-risk of poverty gap**	
	Children aged less than 3 years in formal childcare	Benefit recipients rate [share of individuals aged 18—59 receiving any social benefits (other than old-age) among the population AROP]**	
	Self-reported unmet need for medical care	Total social expenditure by function (% of GDP): Social protection, healthcare, education, long-term care**	
		Coverage of unemployment benefits [among short-term unemployed]**	
		Coverage of long-term care needs**	

<sup>182</sup>Pg 43, The European Pillar of Social Rights Action Plan, European Commission, 2021. <https://op.europa.eu/webpub/empl/european-pillar-of-social-rights/downloads/KE0921008ENN.pdf>.

		Aggregate replacement ratio for pensions	
		Share of the population unable to keep home adequately warm (SDG)**	
		Connectivity dimension of the Digital Economy and Society Index	
		Children from age 3 to mandatory primary school age in formal childcare**	
		Out-of-pocket expenditure on healthcare	
		Healthy Life Years at Age 65: Women and men	
		Standardised preventable and treatable mortality (SDG)**	

\*\* New indicator compared to a current version of the Scoreboard (in brackets the framework where it is currently used)

Note - breakdowns of the social scoreboard indicators by age group, gender, country of birth, and disability status will be used to complement the analysis where relevant.



Absolute poverty refers to a situation where an individual or household falls below a fixed threshold of consumption or income that represents constant purchasing power over commodities. Whereas relative poverty describes a circumstance in which one cannot afford social participation or life experiences that most members of society take for granted, the absolute poverty threshold typically represents the cost of universal basic needs common to all individuals. This does not mean that absolute poverty is synonymous with extreme poverty. This latter denotes an extreme level of material deprivation and social exclusion that permeates all areas of one's life. While it is undoubtedly a universal absolute standard, most poverty thresholds represent considerably higher benchmarks.<sup>183</sup>

One such criterion is the ability to afford consumption items deemed essential by most target population members. This is the basis for conceptualising material and social deprivation in EU or the Organisation for Economic Cooperation and Development (OECD) countries, and absolute poverty lines are suitable expressions of the minimum monetary equivalent of acquiring or utilising the deprivation items in question. In addition, absolute poverty lines are liable to change across time and space. Over time, regular adjustments are needed to maintain a constant living standard due to short-term price variations and purchasing standards.

ABSPO (Measuring and Monitoring Absolute Poverty) modelling aims at producing an income- or expenditure-based measure of poverty. ABSPO poverty lines are expressed in monetary terms and represent the minimum out-of-pocket cost of satisfying individuals' and households' basic needs in their place of residence. They are directly comparable to households' disposable income (or an appropriate welfare aggregate) reported in national and European household surveys for poverty measurement purposes. The advantages of using a monetary perspective are:<sup>184</sup>

- Income is a powerful proxy of individuals' well-being and command over resources and life.
- An income-based ABSPO measure complements the current EU measurement framework as a contextualisation tool for monetary and non-monetary AROPE indicators.
- Monetary absolute measures have the highest potential for effective policy use and relevance.

The following presents the structure and contents for reference budgets for ABSPO measurement across MS.

- (a) **Food:** Food expenditures represent the expenditure category where ABSPO implementation closely aligns with the ISTAT methodology. Both feature nutrition-based healthy food reference budgets for a wide range of individual types based on age and gender subject to regional price differentiation. The three main modelling components are the specification of the reference baskets, their pricing and the eventual economies of scale adjustment for their household-level use.<sup>185</sup>
- (b) **Housing Expenditure:** Figure 01 presents housing-related expenditure in MS. Housing-related expenditures represent 23.5% of European households' total spending as of 2019, making it the largest expenditure category. Since affordable housing is scarce and housing costs can make up as much as one-third of poorer households' spending, the reliable calculation of the minimum housing thresholds is a prerequisite for sound absolute poverty measurement.<sup>186</sup>

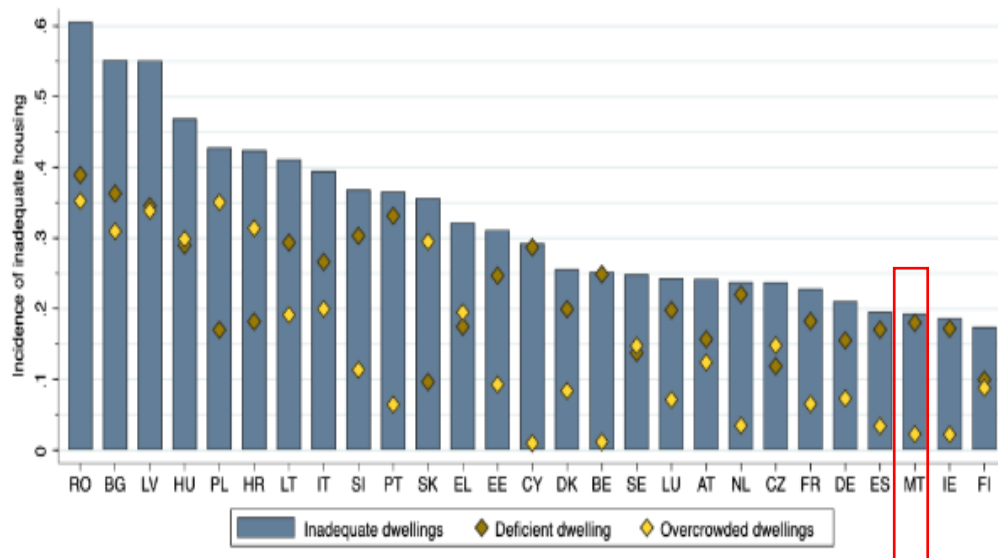
<sup>183</sup> Pp 6-7, Balint, M., et al, Measuring and monitoring absolute poverty (ABSPO), JRC Technical Report, Directorate B: Growth and Innovation, Unit B1: Finance and Economy, EC, 2021.

<sup>184</sup> Pp 35, Ibid.

<sup>185</sup> Pg 65, Ibid.

<sup>186</sup> Pg 68, Ibid.

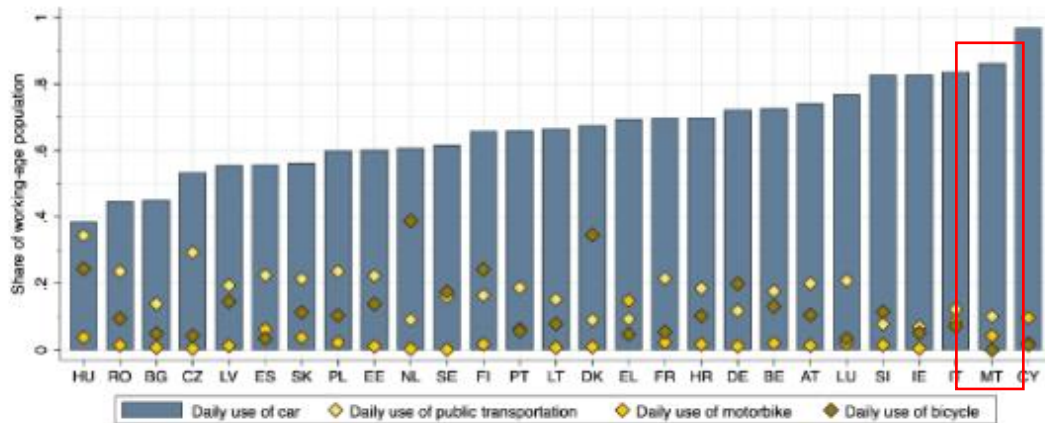
Figure 01: Incidence of Inadequate Housing by Country<sup>187</sup>



Notes: Own calculations based on 2015 EU-SILC data. Figures represent the share of households living in inadequate housing, measured as the union of those living in either deficient (i.e. poor amenities) or overcrowded dwellings according to Eurostat definitions.

- (c) **Transport:** Figure 02 presents transport-related expenditure in MS. While much of individuals' transportation activity takes place in service of justifiable basic needs (e.g. daily commute to school or workplace, daily chores, leisure activities and social gatherings), prevailing patterns of mobility are far from ideal, efficient or frugal enough to be considered as a basis for minimum budget calculations.<sup>188</sup>

Figure 02: Daily use of different modes of transportation by country<sup>189</sup>



Notes: Own calculations based on microdata from the Eurobarometer survey 79.4 (2013), and in particular its special module on "Attitudes of Europeans towards urban mobility" (SEB 406). The figures represent the share of working-age population (aged 25-64) that reports daily use of various modes of transportation as of 2013.

- (d) **Health:** Out-of-pocket health expenditures amount to 4.4% of households' total spending in the EU as of 2019 and thus represent a relatively minor financial burden for the typical household. However, this is not necessarily true for vulnerable segments of the population, such as the elderly, the

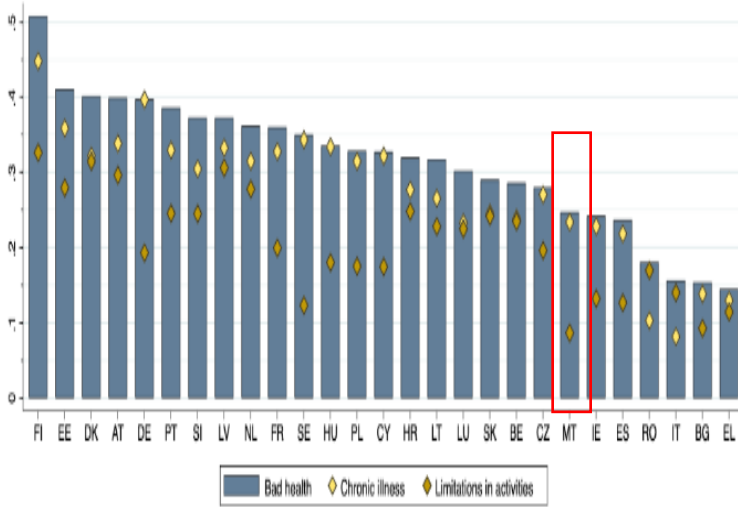
<sup>187</sup> Pg 69, Ibid.

<sup>188</sup> Pg 74, Ibid.

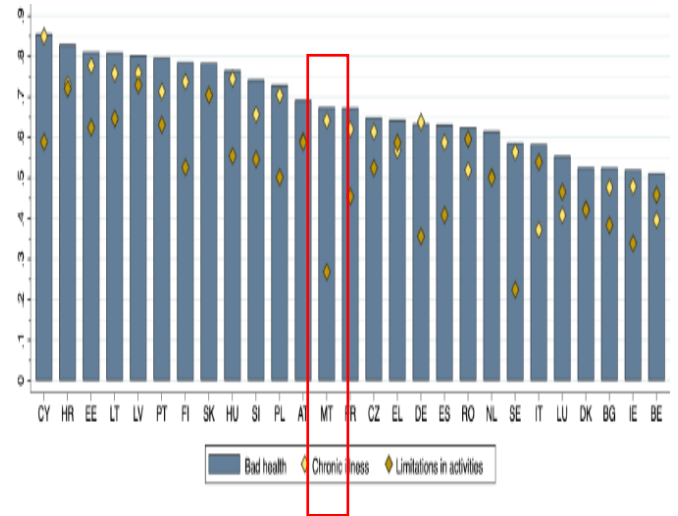
<sup>189</sup> Pg 75, Ibid.

chronically sick or those suffering from health-related limitations in daily activities.<sup>190</sup> **Figure 03.1** presents the incidence of bad health across MS, and **Figure 03.2** amongst the elderly population.

**Figure 03.1: Incidence of Bad Health – 2015<sup>191</sup>**

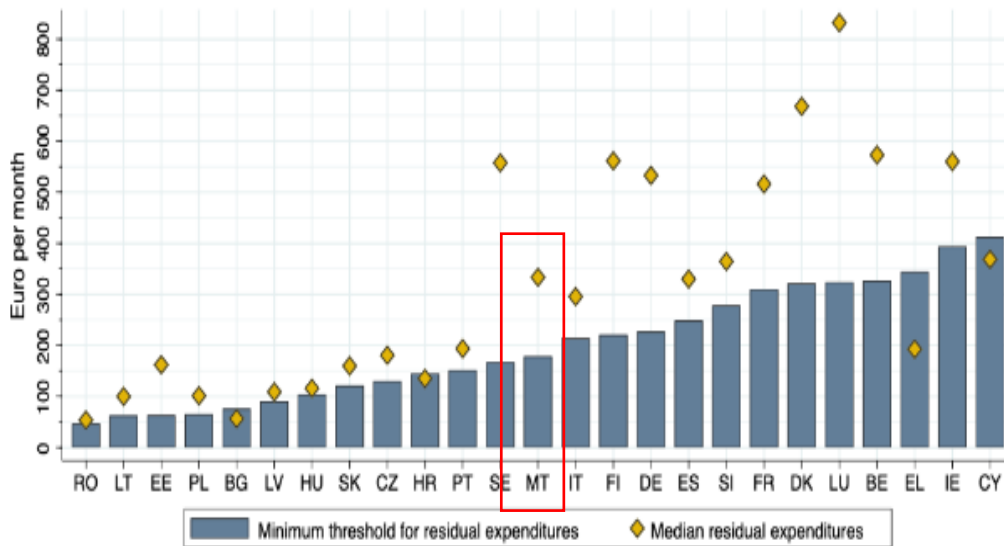


**Figure 03.2: Elderly persons – 2015<sup>192</sup>**



(e) **Residual expenditures:** Represent a category that accounts for all expenditure classes that are part of the selected welfare aggregate and are not considered elsewhere.<sup>193</sup> Residual expenses across MS are presented in **Figure 04**.

**Figure 04: ABSPO minimum residual expenditure thresholds by country - 2015<sup>194</sup>**



Notes: Own calculations using data from the 2015 wave of the EU-SILC and the EU-HBS, as well as official HICP information by Eurostat. Figures denote the representative national average of equivalised household-specific thresholds as of 2020. Austria and the Netherlands are missing due to lack of relevant data.

<sup>190</sup> Pg 79, Ibid.

<sup>191</sup> Pg 81, Ibid.

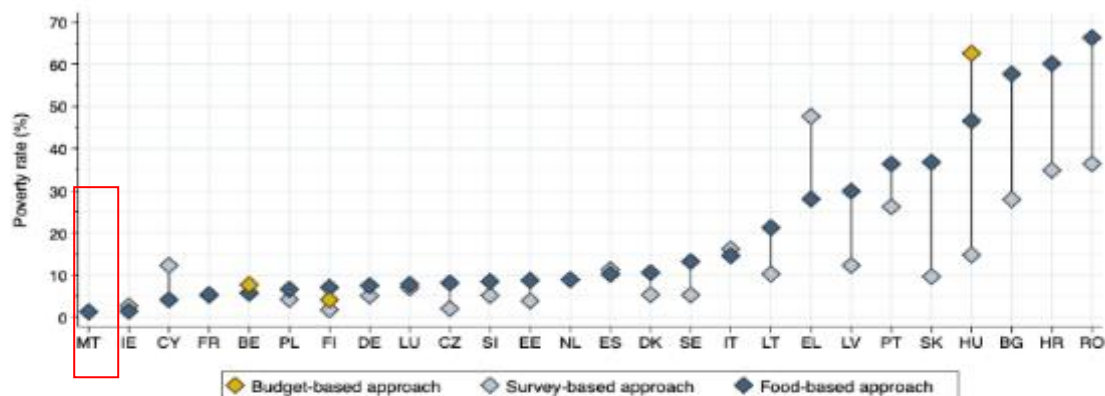
<sup>192</sup> Ibid.

<sup>193</sup> Pg 86, Ibid.

<sup>194</sup> Pg 89 Ibid.

**Figure 05** below presents the ABSPO poverty rate by MS. This reveals that the poverty rate estimates are rather sensitive to changes in the underlying poverty thresholds. Despite the relative similarity of these latter within countries, the corresponding poverty rates are rather divergent: the poverty rate associated with the survey-based and food-based approaches are 13.1% and 19.7%, respectively, in a typical MS. At the same time, differences in the poverty thresholds have little or no effect on the absolute poverty rates in richer EU15 countries where the estimated poverty levels show remarkable stability. This underscores an important empirical regularity of poverty measurement: the sensitivity of poverty rates to changes in the poverty line increases with the poverty rate itself.

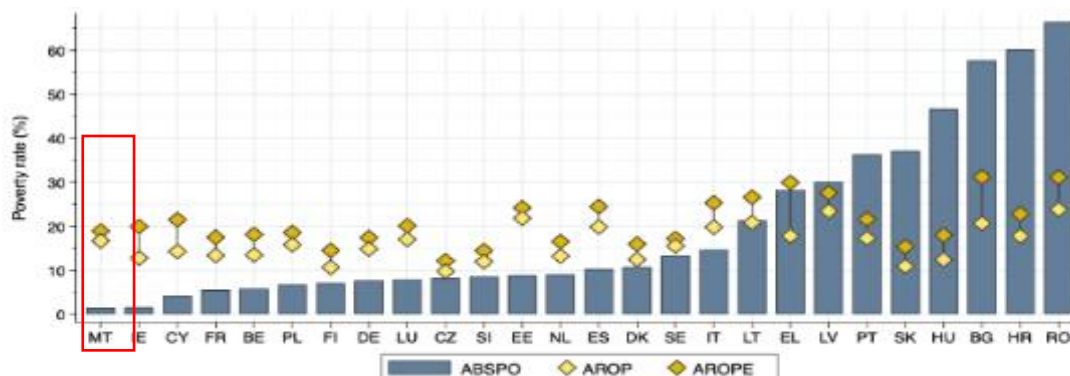
**Figure 05: ABSPO poverty rates based on different measurement approaches by country - 2018<sup>195</sup>**



Notes: Figures are based on ABSPO calculations and refer to 2018 values. Poverty rates are calculated as the representative share of households whose relevant welfare aggregate is lower than the relevant customised ABSPO poverty line. The exact mixture of data sources and methodologies used are presented in Chapters 3-7 of this Report as part of the relevant thematic discussion therein. Data for Austria are missing.

**Figure 06** shows that applying different measurement perspectives can lead to highly different poverty outcomes at the national level. In particular, ABSPO poverty rates are much more variable across MS, ranging from 1.5% in Ireland and Malta to more than 60% in Romania. AROPE and AROP rates are much more evenly distributed across countries and range between 12-31% and 10-24%, respectively. Regarding absolute poverty, MS tend to fall into two distinct groups. At the same time, most EU15 countries are characterised by absolute poverty rates below 10% and inferior to corresponding AROP and AROPE rates. On the other hand, MS in central and eastern Europe experience absolute poverty on a significantly larger scale, over 20% and above the corresponding AROP and AROPE rates.<sup>196</sup>

**Figure 06: Comparison of ABSPO, AROP and AROPE poverty rates by MS**



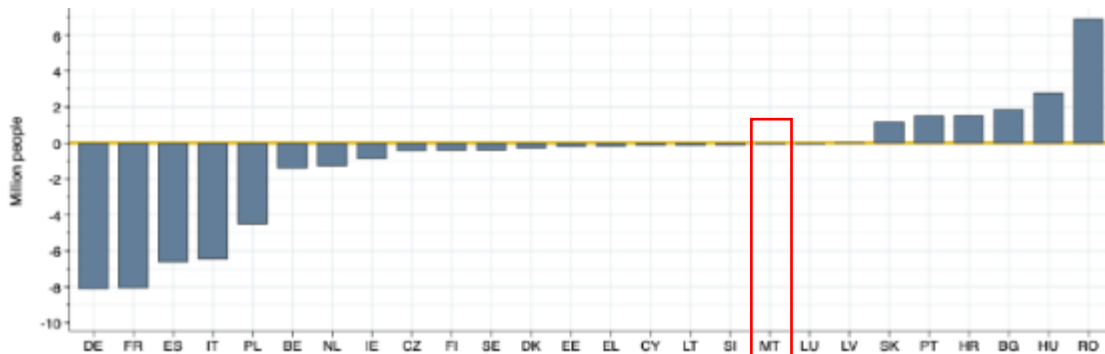
Notes: Figures are based on ABSPO calculations and refer to 2018 values. The presented normalised poverty rates represent the ratio between the relevant group-specific and national poverty rates, calculated as the share of households whose relevant welfare aggregate is lower than the customised HH-specific ABSPO poverty line based on EU-SILC data. The exact mixture of intermediate data sources and methodologies used are presented in Chapters 3-7 of this Report as part of the relevant thematic discussion therein. Figures for Austria are missing due to data unavailability. The relevant national AROP and AROPE figures are based on official Eurostat data.

<sup>195</sup> Pg 150, Ibid.

<sup>196</sup> Pg 153, Ibid.

Figure 07 presents the absolute numerical difference between the size of ABSPO and AROPE poor populations in each MS as of 2018. It highlights the sensitivity of the national makeup of the European poor to measurement choice. It also shows the importance of considering the absolute number of poor populations in each MS to fully understand the anatomy of poverty and social exclusion at the EU level.<sup>197</sup>

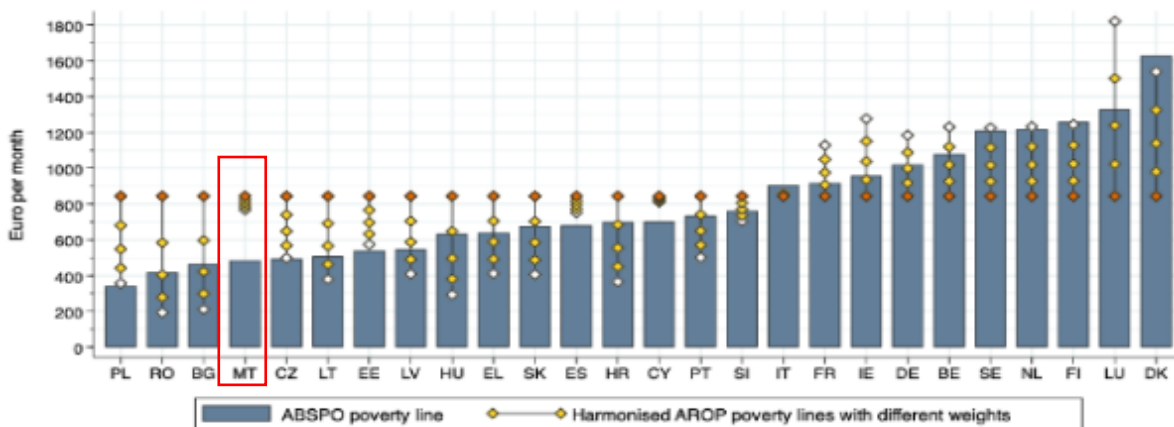
Figure 07: Difference between the number of ABSPO and AROPE poor by country - 2018<sup>198</sup>



Notes: Figures are based on ABSPO calculations and refer to 2018 values. Figures for Austria are missing due to data unavailability. The relevant national AROP and AROPE used for the underlying calculations are based on official Eurostat data.

Figure 08 presents the statistical relationship between ABSPO poverty lines and relative thresholds derived from the EU-wide income distribution. The most widely used variants are calculated as the weighted average (geometric mean) of the respective national and common EU-wide AROP thresholds. Accordingly, the harmonised AROP poverty lines for different weight combinations (that is, based on 0%, 25%, 50%, 75% and 100% loadings for the EU-wide component) and the resulting monthly (equivalised) thresholds alongside the ABSPO poverty line are plotted in the Figure below. It shows that, in most MS, the ABSPO poverty line is between the national AROP poverty line (white marker) and a hypothetical EU-wide poverty line (orange marker).<sup>199</sup>

Figure 08: The relationship between ABSPO and harmonised EU-wide AROP poverty lines - 2018<sup>200</sup>



Among the non-monetary AROPE components, material and social deprivation indicators are the more important ones for contextualisation. Like ABSPO indicators, they employ a needs-based absolute perspective to identify households that cannot satisfy their basic needs for a decent life. Figure 09 presents the ABSPO and MSD indicators side-by-side across the EU. ABSPO and MSD indicators correlate highly across MS. It also shows that, in EU countries with significant incidences of deprivation, ABSPO rates are consistently higher than severe and standard MSD rates. This appears consistent with

<sup>197</sup> Pg 154, Ibid.

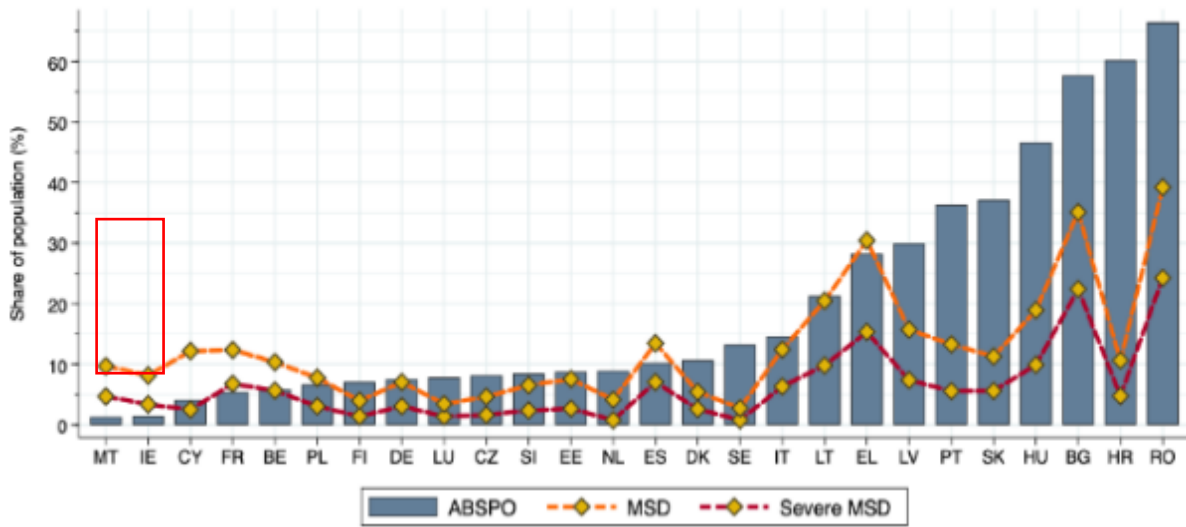
<sup>198</sup> Ibid.

<sup>199</sup> Pg 156, Ibid.

<sup>200</sup> Ibid.

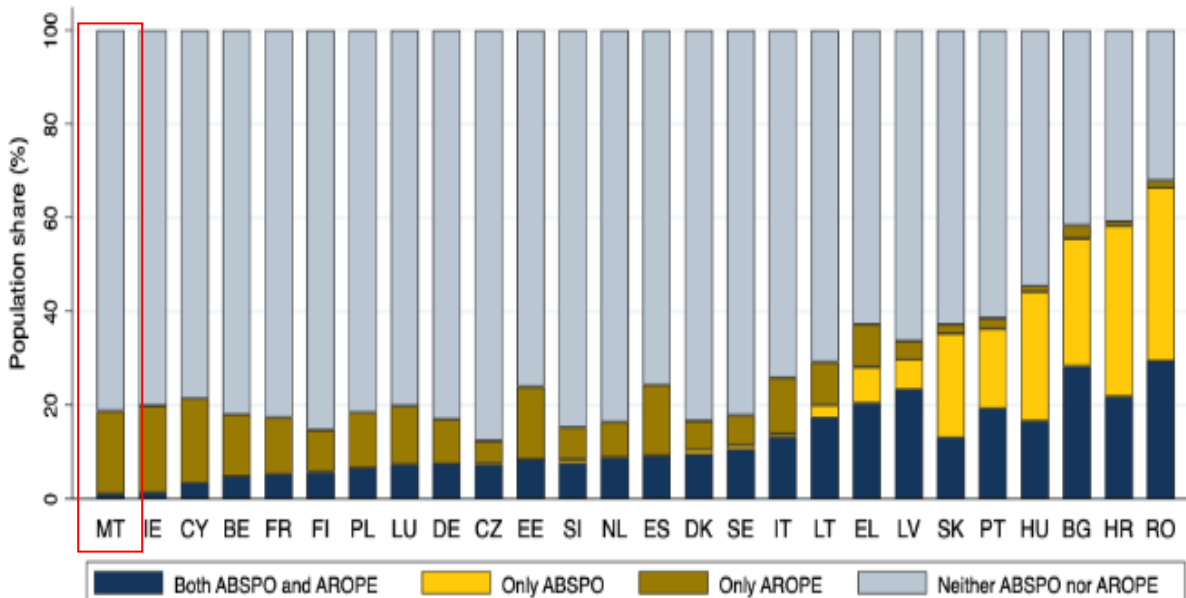
ABSPO thresholds representing the joint affordability of households' basic needs, as opposed to the deprivation indicators meant to identify cases of substantial departure from this standard.<sup>201</sup>

**Figure 09: The relationship between ABSPO and MSD and SMSD - 2018<sup>202</sup>**



**Figure 10** breaks down the overall population of EU countries according to their poverty status based on the ABSPO and AROPE indicators. It shows that, in most MS, the larger ABSPO population in most Central and Eastern Europe (CEE) countries entirely assimilates the smaller AROPE population – and the opposite is true in most EU15 countries.

**Figure 10: The overlap between ABSPO and AROPE populations at the national level - 2018<sup>203</sup>**



<sup>201</sup> Pg 157, Ibid.

<sup>202</sup> Ibid.

<sup>203</sup> Pg 165, Ibid.

The principal criticism of the AROP indicator refers to its use as an indicator of poverty, as defined earlier in this paper:<sup>204</sup>

- Although collected in all European countries through a single instrument (EU-SILC), the full harmonisation of the definition for each income component is difficult to reach.
- The AROP indicator measures income inequalities rather than a direct measure of poverty. In particular, other elements, such as the available wealth, could influence the living standards of a given household (income poor vs. wealthy).
- Cross-country comparisons of relative poverty measures such as AROP have to be done carefully for several reasons, among which:
  - Relative poverty levels must be analysed jointly with national poverty thresholds to avoid misinterpretations.
  - Using a standard equivalised income scale across the EU is a normative approach that does not always reflect the actual “cost” of children or the available resources.
  - The underlying concept of household income does not include imputed rent (the money that one saves on full (market) rent by living in one’s accommodation or in an accommodation rented at a price that is lower than the market rent or rent-free) as well as the value of self-produced goods for own consumption.
- The risk of the poverty threshold is related to the general income level and its distribution over the whole population. This threshold may, therefore, change in various directions from one year to another when individual incomes change suddenly, as has occurred since the beginning of the economic crisis in many countries.
- The focus on the monetary side also excludes the concept STiK (education, health, childcare, etc.), which – depending on the relative generosity of national social systems – may have a different impact on disposable Income.

Additionally, according to the indicator, poverty seems to evolve in counterintuitive ways during periods of strong economic growth – indicating increased poverty levels while the purchasing power of the poor increases, as well as during periods of rapid economic decline, when the indicator suggests falling or barely increasing poverty rates, even if the living conditions of the poor have deteriorated in many respects.

This issue is currently solved by having a dashboard of indicators, which often tell conflicting stories about the distribution of poverty in the EU and how it evolves. In particular, the dashboard of indicators includes the level of the at-risk-of-poverty threshold corrected for price differences across countries, the AROP, the median relative AROP gap, and the at-risk-of-poverty rate with the poverty threshold anchored at a point in time. Each of these stands out for capturing a particular notion of the poverty concept: the notion that the level at which one’s income is judged to be low matters, the notion that more income in a context of high living standards is required in order not to be poor, the notion that the intensity of poverty matters, and the notion that when living standards change very quickly, the income required for having a minimum acceptable way of life may not change as quickly as changes in the median income suggest.<sup>205</sup>

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<sup>204</sup> The measurement of poverty and social inclusion in the EU: achievements and further improvements, Working paper 25, Eurostat, EC, 2013.

<sup>205</sup> Pg 19, Ibid.

### (a) The Extended Headcount Ratio

Goedemet et al. (2020) propose a new measure for poverty in EU countries - the Extended Headcount Ratio (EHCR). This consists of:

- A fixed line and its threshold capture the minimal cost of purchasing food, housing and other essentials at a basic level.
- A floating line is meant to capture the cost of goods and services essential for adequate social participation in a more encompassing way, and its threshold is set at 60% of median income whenever this is higher than the fixed threshold level.

The measure aggregates income shortfalls below these lines coherently using the extended headcount ratio. The model applies the equivalent disposable household income as the income measure. This equals the sum of all after-transfer incomes of all household members, net of taxes and social contributions, divided by the modified OECD equivalence scale of the household. To apply the fixed line, incomes are compared across countries regarding purchasing power. Regarding expenditure, a budget is estimated to cover the consumption domains - food for a healthy diet and minimum adequate housing - mentioned for a reference family of two adults and two children.

The EHCR indicator overcomes the limitations / criticisms applied by the current EU indicator as it addresses the following:<sup>206</sup>

01. The understanding that one's risk of being poor is, in some circumstances, affected by one's relative position in the income distribution is currently captured by the AROP indicator.
02. The notion that the poverty threshold level in real terms is essential contextual information for comparing one country to the next is currently captured by expressing the AROP threshold in purchasing power standards (PPS). This international currency directly compares the number of goods and services that can be bought at the threshold level).
03. The notion that when median income increases or falls relatively quickly, it is relevant to assess poverty with the same poverty threshold – in constant prices for several years in a row – is currently captured by the AROP indicator with the poverty threshold anchored at a fixed moment in time.
04. The notion that the severity of poverty matters: having an income further below the poverty line is worse than having an income closer to the poverty line is currently monitored by the median at-risk-of-poverty gap.
05. It ties in with the “irreducible core of absolute deprivation” concept inherent to the poverty concept.
06. It ties in with the arguments made in the literature that the EU should include indicators of extreme poverty and real income growth at the bottom of the income distribution, which the EC seeks to address with the ABSPO (absolute poverty) indicator discussed above.

The Figure below shows each country's fixed and floating threshold (in PPP), contrasting this with the 5<sup>th</sup>, 10<sup>th</sup>, 20<sup>th</sup> and 50<sup>th</sup> percentiles in 2017. In almost all countries, the floating threshold is close to the 20<sup>th</sup> percentile or slightly below, which implies that AROP-60 does not vary much across EU countries. In contrast, there is a much larger heterogeneity for headcounts below the fixed threshold.<sup>207</sup>

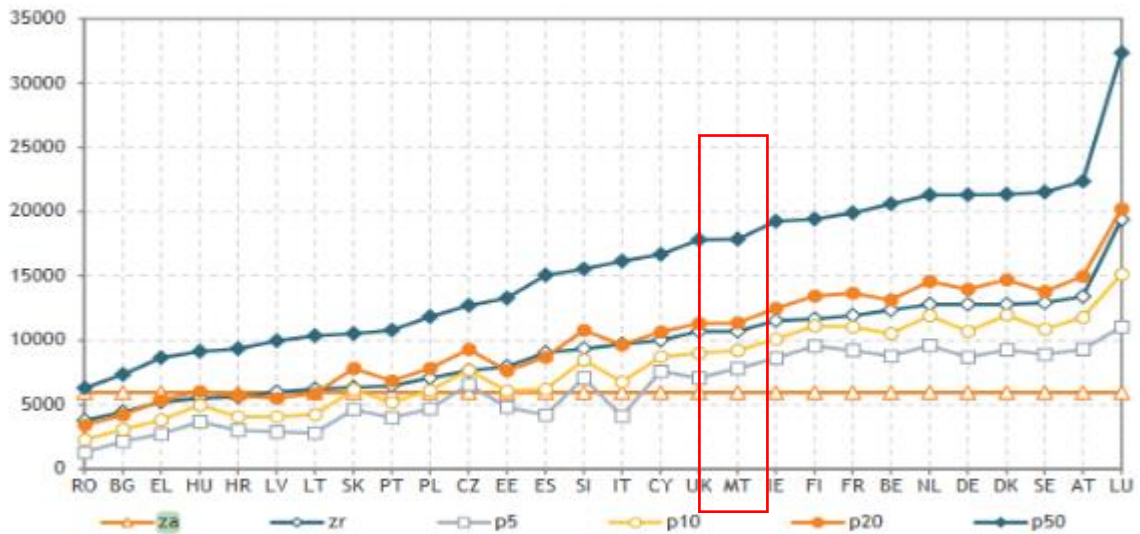
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<sup>206</sup> Pg 3, Ibid.

<sup>207</sup> Pg 12, Ibid.



Figure 01: Poverty thresholds and percentiles of the income distribution in 2017<sup>208</sup>



Source: EU-SILC 2018 UDB (release March 2020) and own calculations.

The EHC aggregates the number with an income below the fixed threshold with those only below the floating threshold. To do so, shortfalls below the fixed threshold are counted as one, while shortfalls below the floating threshold are counted in proportion to the shortfall from the threshold. The application of the EHC indicator suggests that for comparisons across countries, it performs well in reflecting the main concerns related to the measurement of poverty highlighted above and integrates coherently the insights for which, otherwise, at least four separate indicators are required. Compared to AROP-60, the EHC indicator reflects more closely changes in the AROP indicator with the threshold anchored in time, especially in a context of rapid economic change.<sup>209</sup>

Figure 02: The at-risk-of-poverty rate, the extended headcount ratio and HCF in 2017<sup>210</sup>



Note: Countries sorted by EHC. Error bars indicate 95% confidence interval. Note that for HC<sub>F</sub> and EHC many error bars are 'hidden' by the graph marker.

<sup>208</sup> Ibid.

<sup>209</sup> Pg 21. Ibid.

<sup>210</sup> Ibid.

## (b) The Supplemental Expenditure Poverty Measure

Many economists prefer consumption as a measure of poverty because it directly measures the flow of goods and services a household receives and, therefore, directly measures its economic well-being. It is also often regarded as a better measure of permanent income and frequently considered the best long-term measure of economic well-being. On the other hand, Fitzgerald et al. (2022) argue that consumption measures make consumption a poor indicator of poverty given that:

- (a) A correct measure of consumption should include service flows from home, vehicles, and other durables.<sup>211</sup> Yet those service flows are illiquid and cannot be purchased with cash, food, clothing, or other components of the minimum bundle needed to satisfy basic needs: for example, almost 40% of US low-income families are homeowners, making the illiquidity of housing service flows particularly important to such families.<sup>212</sup> More generally, a household with a large fraction of its total consumption in service flows is arguably more liquidity-constrained to buy the minimum bundle than a household with the same total consumption but financed entirely through cash purchases.<sup>213</sup>
- (b) Suppose the conventional wisdom is correct that low-income households neither save nor borrow; thus, in this case, consumption should equal income, aside from measurement problems, and both income and consumption poverty measures should produce the same poverty rate regardless of which is used because income equals consumption.<sup>214</sup> However, if intertemporal flows are possible — usually implied by the economic concept of permanent income in the first place — then consumption flows over more than one period must be included since different households may allocate their consumption differently over time.<sup>215</sup> For example, a family with income just below the poverty threshold may decide to borrow on its credit card for a major purchase, raising its consumption above that threshold. In contrast, another family with the same income may choose not to borrow. The first family will be counted as non-poor, and the second will be counted as poor by a single-period consumption measure, even though they have the same income and command over resources. One family chooses to allocate its income to consumption in different periods than the other. Consumption in a given single period does not represent permanent income. Income may be a better measure of command over resources if it is constant or fluctuating less than consumption.<sup>216</sup>

The new poverty measure, the Supplemental Expenditure Poverty Measure (SEPM), proposed by Fitzgerald and Moffitt (2022), is intended to address both the conceptual and measurement issues with current income and poverty measures.<sup>217</sup> However, unlike the consumption poverty concept, this model considers how much a household spends to measure its resources: for example, if a household spends €1,000 a month from whatever source, one can consider this as available to spend on the minimum bundle.<sup>218</sup> Almost by definition, those monies could have been spent on that bundle instead of whatever they were spent on.<sup>219</sup> Using total spending as a measure of resources also differs from consumption measures because the latter typically exclude spending on items regarded as savings and investments (e.g., cash contributions to pension plans or education and training expenses).<sup>220</sup> From a resource viewpoint, those expenditures could have been spent on the minimum bundle and, therefore, were available to the family to have done so if they had wished. They should have been included in a measure of resources available.<sup>221</sup> The measure proposed is closer in concept to income poverty measures because both are attempts to measure the resources available to a household.<sup>222</sup>

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<sup>211</sup> Pg 256, Fitzgerald, L., and Moffitt, R., *The Supplemental Expenditure Poverty Measure: A New Method for Measuring Poverty*, Brookings Papers on Economic Activity, Spring 2022: 253–286, 2022.

<sup>212</sup> Ibid.

<sup>213</sup> Ibid.

<sup>214</sup> Pg 257, Ibid.

<sup>215</sup> Ibid.

<sup>216</sup> Ibid.

<sup>217</sup> Pg 258, Ibid.

<sup>218</sup> Ibid.

<sup>219</sup> Ibid.

<sup>220</sup> Pg 258, Ibid.

<sup>221</sup> Ibid.

<sup>222</sup> Ibid.

The mode measures the liquid potential resources (LPR) of a household based on the following formula:<sup>223</sup>

$$LPR = \text{Current expenditures} + \text{Additional available liquid assets} + \text{Additional liquid borrowing.}$$

Data relating to wealth by gross income and wealth quintiles in Malta is presented in **Appendix 08**.

**(c) Social Metrics Framework Model**

This model defines poverty as “the experience of having insufficient resources to meet needs ... there are several different dimensions [of poverty] along which ‘needs’ and ‘resources’ could be characterised ... [that the] measure of poverty [is to be focused] on the extent to which the material resources that someone has available to them now are sufficient to meet the material needs that they currently have”.<sup>224</sup>

As well as measuring the incidence of poverty, the Social Metrics Measurement Framework’s (SMMF) measurement framework is directed to provide a deeper understanding of the factors that affect the experience of poverty, influence the future likelihood of poverty, or are consequences that flow from being in poverty:<sup>225</sup>

- Depth of poverty: To assess how far above / below the poverty line families are. This will allow an understanding of the scale of families' tasks in moving out of poverty and how close others (above the poverty line) are to falling into poverty.
- Persistence of poverty: To assess how long families have been in poverty so that poverty's escalating impact can be considered and tackled.
- The lived experience of those in poverty: To assess a range of factors and characteristics that impact a family’s experience of poverty, make it more likely for them to be trapped in poverty and / or are likely predictors of their poverty experience.

These are presented in **Figure 03**.

**Figure 03: Social Metrics Measurement Framework**<sup>226</sup>



The SMMF is designed to develop a new measure of resources that move beyond the traditional focus on income.<sup>227</sup> The motivation for this was the fact that many families have access to non-income material resources (e.g. liquid assets) or need to spend a portion of their resources on outgoings over which they have no short-term control (inescapable costs like housing and childcare) - given that such a framework provides a far more accurate picture of the extent to which families can meet their day-to-day needs.<sup>228</sup>

<sup>223</sup> Pg 268, Ibid.

<sup>224</sup> Pg 17, Measuring Poverty 2020: A report by the Social Metrics Commission, UK, 2020.

<sup>225</sup> Ibid.

<sup>226</sup> Ibid.

<sup>227</sup> Pg 20, Ibid

<sup>228</sup> Ibid.

The approach on which the SMFM is developed is based on the assessment of the total weekly resources that families have available to meet their needs to create a new measure of resources available - that is:<sup>229</sup>

- All post-tax earnings and income sources, including all benefit and tax credit income.
- Liquid assets available for immediate use (considered total stock of liquid assets divided by 52).
- A deduction of inescapable family-specific recurring costs that families face from housing and childcare.
- A deduction of inescapable extra costs of disability.
- A measure of obligated debt repayments.

The SMMF includes the components presented in **Table 01**.

**Table 01: Further Building Blocks of the Social Metrics Measurement Framework**

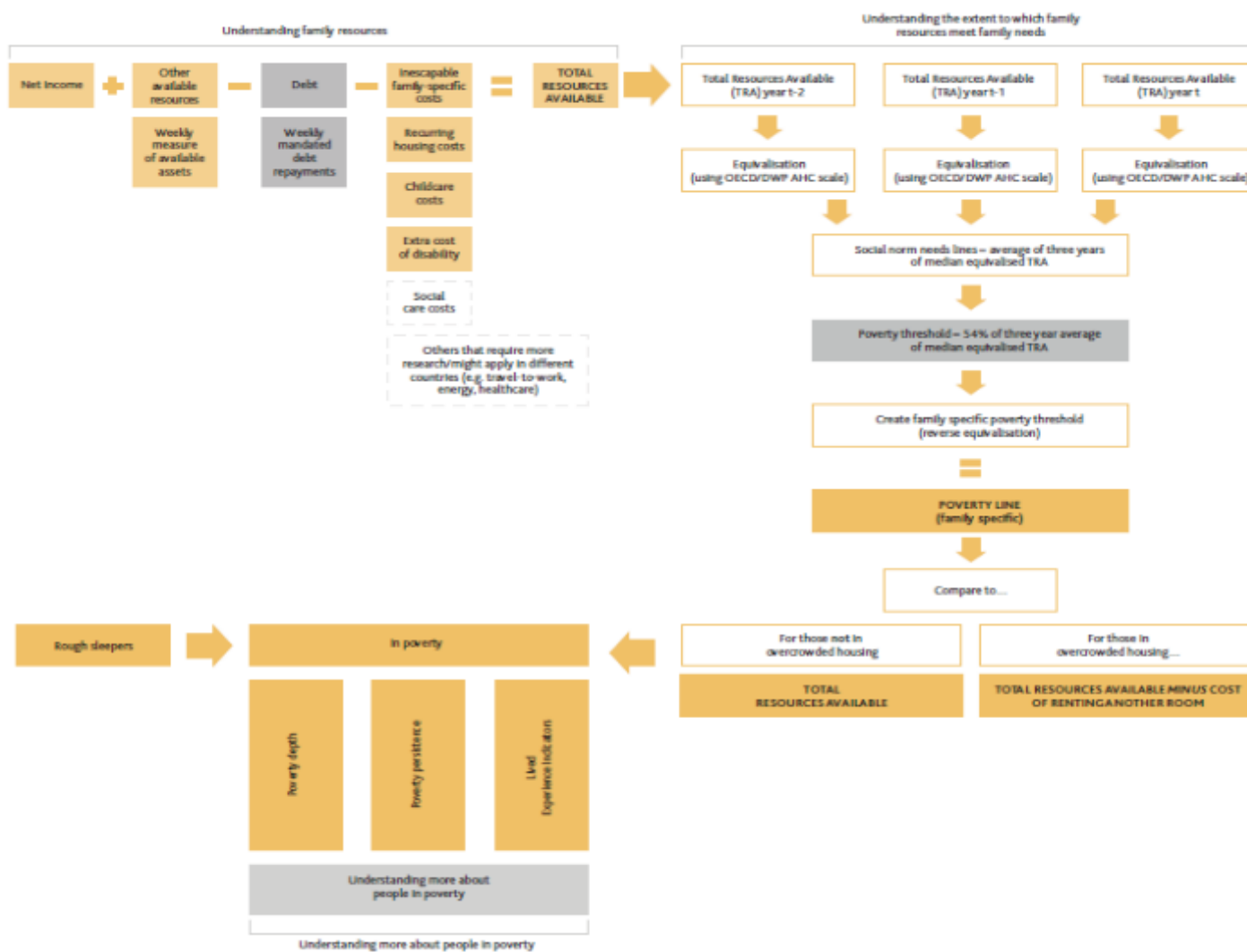
The build blocks on which the SMMF is based. <sup>230</sup>	
<b>Equivalisation</b>	Developed a new equivalisation for the UK.
<b>Poverty Line</b>	Developed a benchmark for social norms in society and then set a threshold beneath this that reflected the poverty situation. Applying a three-year smoothed measure of social norms better reflects that social norms and expectations will take time to adapt to changes in overall economic conditions.
<b>Depth of Poverty</b>	Created a measure of the depth of poverty that:  Reflects how far each family in poverty is below the poverty line; and  Captures and reports on families that are just above the poverty line.
<b>Poverty Persistence</b>	Created a measure of poverty persistence that matched the approach used by the OECD/ONS. This means that a family would be judged to be in persistent poverty if: <ul style="list-style-type: none"> <li>○ They were in poverty this year; and</li> <li>○ Had also been in poverty for two of the previous three years.</li> </ul>
<b>Lived Experience of Poverty</b>	Based on a range of factors not captured by a measure of poverty, depth and persistence. These were grouped under five domains: <ul style="list-style-type: none"> <li>○ Family, relationships and community;</li> <li>○ Education;</li> <li>○ Health;</li> <li>○ Family finances; and</li> <li>○ Labour market opportunity.</li> </ul>

The SMMF is presented in **Figure 04**. The Social Metrics Commission’s 2020 report on poverty in the UK is based on the SMMF.

<sup>229</sup> Ibid.

<sup>230</sup> Pp 20-22, Ibid.

Figure 04: The Social Metrics Measurement Framework



## Sample of Means of Successful Claimants for Means-Tested Benefits

Appendix 07

A review, carried out in 2016, of a sample of 1,317 case files of persons who submitted a claim for a means-tested benefit across different types of non-contributory benefits shows that the number of persons who did not have any means, and hence no bank account, ranged from a maximum of 81.44% for the HP benefit to a minimum of 24.17% for the Old Age pension.

**Table 01: Profile of Claimants for Means-Tested Benefits Concerning Means<sup>231</sup>**

	UA	SA	AP	HP	SKA	Total Sample
<b>Sample</b>	<b>626</b>	<b>508</b>	<b>116</b>	<b>97</b>	<b>117</b>	<b>1,317</b>
	%	%	%	%	%	
No form of means	47.18	53.35	24.14	81.44	36.75	
Some form of savings	52.82	45.87	71.55	18.56	49.57	
HHs with savings great than €10,000	10.02	1.57	8.62	1.03	3.42	
Own domicile	45.72	28.74	16.38	0.00	19.66	
Own a garage	2.51	0.98	0.86	0.00	1.71	
Own a summer residence	1.67	0.00	0.86	0.00	0.85	
Own other property	1.25	0.39	0.86	0.00	1.71	
Own land	0.63	0.20	0.86	0.00	0.85	
Own a motor vehicle	53.86	24.02	7.76	0.00	2.56	

A further sample of successful claimants for means-tested benefits showed that out of 834 case file reviews, 454, or 54.4%, had no means and, hence, bank accounts.

**Table 02: Profile of Successful Claimants for Means-Tested Benefits Concerning Means<sup>232</sup>**

	SA	UA	AP	Pink Card	HP	SKA
<b>Sample</b>	<b>268</b>	<b>98</b>	<b>116</b>	<b>138</b>	<b>97</b>	<b>117</b>
No form of Means	150	47	28	117	79	43
Some form of Financial Assets	114	40	83	21	18	58
Median Financial Assets	€ 601.00	€ 735.00	€ 1,903.00	€ 551.00	€ 640.75	€ 2,677.93
Highest Financial Assets	€ 13,554.00	€ 13,278.00	€ 14,150.00	€ 16,305.00	€ 20,970.00	€ 18,702.91
Lowest Financial Assets	€ 0.20	€ 12.00	€ 2.50	€ 3.69	€ 41.94	€ 2.00
Full possession of a House of	36	18	19	2	0	23
Own a part of a House of Residence	7	5	9	0	1	1
Own a garage	1	3	1	0	0	2
Own a Summer Residence	0	0	1+1 in part	0	0	1
Own Other Property	0	2	1+3 in part	0	0	2
Own Land	1	0	1	1	0	1
Own a Motor Vehicle	44	35	9	3	0	3

<sup>231</sup> Spiteri Gingell, D. Reforming the Means Test: Final Recommendations by the Single Means Testing Working Group, Office of the Permanent Secretary, 2016.

<sup>232</sup> Spiteri Gingell, D. Reforming the Means Test: Single Means Test Mechanism, Office of the Permanent Secretary, 2016.

Table 01: Median Value of Household Income<sup>233</sup>

Household Characteristics	Employee Income	S/E Income	Income from Pensions	Regular Social Transfers	Income from Financial Investment	Rental Income	Other	Total Gross HH Income
<b>Gross Income Quintile</b>	€	€	€	€	€	€	€	€
<b>Less than 20</b>	-	-	8,421	1,029	300	-	-	<b>9,497</b>
<b>Btw 20 and 40</b>	16,000	-	12,690	1,027	300	-	-	<b>17,550</b>
<b>Btw 40 and 60</b>	25,000	17,500	11,120	462	200	-	896	<b>29,716</b>
<b>Btw 60 and 80</b>	39,697	13,250	11,913	1,194	100	-	1,500	<b>44,049</b>
<b>Btw 80 and 100</b>	63,533	17,500	9,861	901	300	8,000	8,000	<b>71,291</b>
<b>Net Worth Quintile</b>	€	€	€	€	€	€	€	€
<b>Less than 20</b>	21,141	-	8,421	1,895	50	-	1,600	<b>14,922</b>
<b>Btw 20 and 40</b>	29,989	-	9,038	1,027	50	-	-	<b>28,717</b>
<b>Btw 40 and 60</b>	35,500	15,000	10,656	901	150	-	-	<b>30,177</b>
<b>Btw 60 and 80</b>	34,000	14,953	11,925	901	300	-	1,718	<b>32,106</b>
<b>Btw 80 and 100</b>	46,496	17,500	12,622	450	680	5,400	8,600	<b>45,950</b>
<b>All Households</b>	<b>32,000</b>	<b>15,000</b>	<b>10,149</b>	<b>901</b>	<b>300</b>	<b>4,050</b>	<b>1,600</b>	<b>29,716</b>

<sup>233</sup> Pg 50, Antonaroli, V., et al, Household finance and consumption survey in Malta: Results from the Fourth Wave, WP/01/2023, Central Bank of Malta, 2023.

**Table 02: Conditional Median Value of Household Real Assets<sup>234</sup>**

Household Characteristics	Main Residence	Other Real Estate	S/E Business	Vehicles	Valuable	Total Real Assets
<b>Gross Income Quintile</b>	€	€	€	€	€	€
Less than 20	250,000	62,500	-	3,000	1,000	<b>178,000</b>
Btw 20 and 40	270,000	150,000	-	3,800	1,000	<b>276,000</b>
Btw 40 and 60	250,000	170,000	-	6,000	800	<b>258,000</b>
Btw 60 and 80	300,000	175,000	-	8,000	2,000	<b>305,500</b>
Btw 80 and 100	350,000	200,000	100,000	17,500	3,750	<b>424,000</b>
<b>Net Worth Quintile</b>	€	€	€	€	€	€
Less than 20	-	-	-	3,750	500	<b>4,300</b>
Btw 20 and 40	175,000	-	-	6,250	1,000	<b>176,750</b>
Btw 40 and 60	250,000	75,000	-	8,000	1,000	<b>270,000</b>
Btw 60 and 80	375,000	160,000	-	7,500	2,000	<b>392,500</b>
Btw 80 and 100	500,000	337,500	147,709	10,000	5,000	<b>781,028</b>
<b>All Households</b>	<b>300,000</b>	<b>175,000</b>		<b>6,600</b>	<b>1,750</b>	<b>300,000</b>

<sup>234</sup> Pg 51, Ibid.



**Table 03: Conditional Median Value of Household Financial Assets<sup>235</sup>**

Household Characteristics	Deposits	Securities	Mutual Funds & Listed Shares	Voluntary Pension & Life Insurance	Other	Total Financial Assets
<b>Gross Income Quintile</b>	€	€	€	€	€	€
<b>Less than 20</b>	8,750	17,500	-	-	-	<b>9,100</b>
<b>Btw 20 and 40</b>	9,050	18,154	10,000	-	-	<b>16,050</b>
<b>Btw 40 and 60</b>	8,750	10,000	22,000	14,500	-	<b>12,000</b>
<b>Btw 60 and 80</b>	15,000	6,250	31,000	-	-	<b>22,500</b>
<b>Btw 80 and 100</b>	20,000	10,000	35,000	36,000	-	<b>37,500</b>
<b>Net Worth Quintile</b>	€	€	€	€	€	€
<b>Less than 20</b>	5,000	-	-	-	-	<b>6,000</b>
<b>Btw 20 and 40</b>	6,250	17,500	-	-	-	<b>6,250</b>
<b>Btw 40 and 60</b>	17,500	7,000	6,000	-	-	<b>20,000</b>
<b>Btw 60 and 80</b>	15,000	9,500	13,000	-	-	<b>27,500</b>
<b>Btw 80 and 100</b>	36,600	17,500	37,500	31,000	-	<b>64,500</b>
<b>All Households</b>	<b>11,800</b>	<b>10,140</b>	<b>17,500</b>	<b>29,000</b>	<b>29,000</b>	<b>16,800</b>

<sup>235</sup> Pg 52, Ibid.

Table 04: Median Value of Total Assets<sup>236</sup>

Household Characteristics	Total Assets
<b>Gross Income Quintile</b>	<b>€</b>
Less than 20	175,000
Btw 20 and 40	269,000
Btw 40 and 60	278,500
Btw 60 and 80	340,000
Btw 80 and 100	489,950
<b>Net Worth Quintile</b>	<b>€</b>
Less than 20	10,050
Btw 20 and 40	188,500
Btw 40 and 60	306,300
Btw 60 and 80	437,500
Btw 80 and 100	883,750
<b>All Households</b>	<b>311,900</b>

<sup>236</sup> Pg 53, Ibid.

Table 05: Conditional Median Value of Household Liabilities<sup>237</sup>

Household Characteristics	House Mortgage	Other Mortgage Debt	Total Mortgage Debt	Non-Mortgage Debt	Total Debt	Total Repayments
<b>Gross Income Quintile</b>						
Less than 20	-	-	-	-	-	
Btw 20 and 40	-	-	-	-	17,600	
Btw 40 and 60	70,000	-	70,000	900	50,000	<b>400</b>
Btw 60 and 80	97,000	-	110,000	4,570	66,000	<b>550</b>
Btw 80 and 100	70,000	-	98,000	2,000	60,000	<b>660</b>
<b>Net Worth Quintile</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Less than 20						
Btw 20 and 40	70,000		68,000	3,680	60,000	<b>400</b>
Btw 40 and 60	60,000		69,000	5,000	43,100	<b>416</b>
Btw 60 and 80	60,000		60,000	3,578	40,000	<b>500</b>
Btw 80 and 100	70,000		110,000	2,000	32,000	<b>700</b>
<b>All Households</b>	<b>65,000</b>	<b>130,000</b>	<b>73,000</b>	<b>3,578</b>	<b>45,000</b>	<b>499</b>

<sup>237</sup> Pg 54, Ibid.

Table 06: Median Value of Total Net Wealth<sup>238</sup>

Household Characteristics	Total Assets
<b>Gross Income Quintile</b>	<b>€</b>
Less than 20	159,000
Btw 20 and 40	253,450
Btw 40 and 60	265,100
Btw 60 and 80	303,500
Btw 80 and 100	453,314
All Households	
<b>Net Worth Quintile</b>	<b>€</b>
Less than 20	8,250
Btw 20 and 40	171,500
Btw 40 and 60	273,750
Btw 60 and 80	420,000
Btw 80 and 100	870,050
All Households	<b>273,600</b>

<sup>238</sup> Pg 55, Ibid.

Table 07: Conditional Median Value of Household Liabilities<sup>239</sup>

Household Characteristics	Debt Payments to Gross HH Income	Debt to Gross HH Income	Mortgage Payments to Gross HH Income	Debt to Gross HH Wealth	House Mortgage to Loan Value	Liquidity to Gross HH Income
<b>Gross Income Quintile</b>	€	€	€	€	€	€
Less than 20	-		-	-	-	<b>80.15</b>
Btw 20 and 40	-	123.51	-	5.55	-	<b>48.47</b>
Btw 40 and 60	15.76	178.17	17.44	20.62	32.50	<b>40.01</b>
Btw 60 and 80	13.16	138.61	13.61	19.82	33.33	<b>29.85</b>
Btw 80 and 100	10.39	84.91	10.26	9.99	27.27	<b>3-74</b>
<b>Net Worth Quintile</b>	€	€	€	€	€	€
Less than 20	-	-	-	-	-	<b>18.52</b>
Btw 20 and 40	15.76	200.45	16.01	31.87	40.0	<b>20.79</b>
Btw 40 and 60	10.71	86.86	10.71	14.95	23.0	<b>41.70</b>
Btw 60 and 80	13.19	119.02	13.19	9.82	20.0	<b>48.47</b>
Btw 80 and 100	13.55	29.43	15.11	2.98	15.0	<b>121.88</b>
<b>All Households</b>	<b>12.38</b>	<b>122.32</b>	<b>13.56</b>	<b>14.89</b>	<b>29.33</b>	<b>41.26</b>

<sup>239</sup> Pg 56, Ibid.

Table 08: Household Expenditure

Household Characteristics	Food Consumption at Home	Food Consumption Outside of the Home	Total Food Consumption	Utilities	Holidays	Total Consumption	Payment to Third Parties
<b>Gross Income Quintile</b>	€	€	€	€	€	€	€
Less than 20	4,800	600	4,800	1,200	800	7,020	
Btw 20 and 40	4,800	960	6,000	1,320	700	8,760	
Btw 40 and 60	6,000	1,200	7,200	1,800	1,000	10,800	
Btw 60 and 80	6,000	1,200	8,400	1,800	1,200	11,964	
Btw 80 and 100	8,400	1,800	10,200	2,040	1,200	14,400	
<b>Net Worth Quintile</b>	€	€	€	€	€	€	€
Less than 20	4,800	900	5,400	1,560	940	8,400	
Btw 20 and 40	5,400	1,200	6,600	1,560	1,000	9,000	
Btw 40 and 60	6,000	1,800	7,200	1,656,	1,000	10,800	
Btw 60 and 80	6,000	1,440	8,400	1,560	1,500	9,600	
Btw 80 and 100	7,200	1,800	9,000	1,800	1,000	12,000	
<b>All Households</b>	<b>6,000</b>	<b>1,200</b>	<b>7,200</b>	<b>1,644</b>	<b>1,000</b>	<b>9,600</b>	<b>3,000</b>