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POVERTY, SOCIAL EXCLUSION AND LIVING CONDITIONS IN MALTA: AN ANALYSIS USING SILC

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POVERTY, SOCIAL EXCLUSION AND LIVING CONDITIONS IN MALTA: AN ANALYSIS USING SILC

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The Maltese economy has undergone a strong and job-rich expansion in recent years. In addition, a number of fiscal incentives have been introduced to tackle social exclusion, such as childcare reforms and other initiatives focussing on active inclusion in the labour market.

Although GDP provides a reliable measure of economic activity in a country, it fails to provide information about the distribution of wealth and the living standards of a population. In a 2009 report, the European Commission pointed out that "*for all of its shortcomings, GDP is still the best single measure of how the market economy is performing. But GDP is not meant to be an accurate gauge of longer term economic and social progress and notably the ability of a society to tackle issues such as climate change, resource efficiency or social inclusion*".[2]

The European Union measures poverty using information from the EU Statistics on Income and Living Conditions (EU-SILC).[3] SILC is an annual EU-wide survey collecting micro-data on income, poverty, social exclusion, housing, labour, education and health. In Malta, the survey is compiled by the National Statistics Office (NSO), with the sample being extracted from a database based on the latest Census.[4] More than 4,000 households are interviewed per year, of which 75% are re-interviewed in the following year.

Poverty and social exclusion

A widely used poverty indicator that is collected through the SILC is the "at-risk-of-poverty or social exclusion" rate (AROPE). The definition of poverty under AROPE is an aggregation of three measures, which are: (i) the at-risk-of-poverty (ARP) rate, measuring monetary poverty; (ii) the severe material deprivation rate (SMD), measuring resource poverty; and (iii) the low work intensity (LWI) rate, measuring unutilised labour potential.

An individual falling under any one of these poverty categories is considered as being at risk of poverty or social exclusion. However, these measures are not mutually exclusive, meaning that it is possible for an individual to fall under more than one measure. This is exemplified in Chart 1, which shows the profile of AROPE in Malta in 2016. In total, 85,000 individuals were at risk of poverty or social exclusion, of which 50,000 suffered from monetary poverty, 8,000 from severe material deprivation, and 6,000 from low work intensity. Meanwhile, there were 21,000 persons who experienced a combination of two or more forms of poverty.

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[1] Prepared by Jude Darmanin. Mr Darmanin is an economist in the Economic Analysis Office of the Central Bank of Malta. Helpful comments by Dr Aaron G. Grech, Mr Brian Micallef, and Ms Rita Schembri are gratefully acknowledged. Any errors, as well as the views expressed in this article, are the author's sole responsibility.

[2] European Commission (2009), "GDP and Beyond".

[3] Eurostat (2014), "Living conditions in Europe". Also see: http://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion#Publications.

[4] Further information is available from: https://nso.gov.mt/en/nso/Sources_and_Methods/Unit_C1/Living_Conditions_and_Culture_Statistics/Pages/Statistics-on-Income-and-Living-Conditions.aspx.

Chart 2 provides a cross-country comparison of AROPE rates across the euro area. In 2016, the AROPE rate in Malta stood at 20.1%, which is below the euro area average of 23.1%. When compared with 2010, this indicates a drop of 1.1 percentage points, which compares rather favourably with other Member States, the majority of which experienced an increase in poverty rates during the same period.

Charts 3, 4, and 5 allow us to obtain a general profile of poverty and social exclusion in Malta as at 2016, by demography, activity status and household type. A number of stylised facts emerge from these charts.

In terms of gender, the poverty gap between males and females is almost identical. This suggests no gender imbalance in terms of risk of poverty, which could relate to factors such as the recent surge in the female participation rate in the labour market and the large number of female graduates in tertiary education.

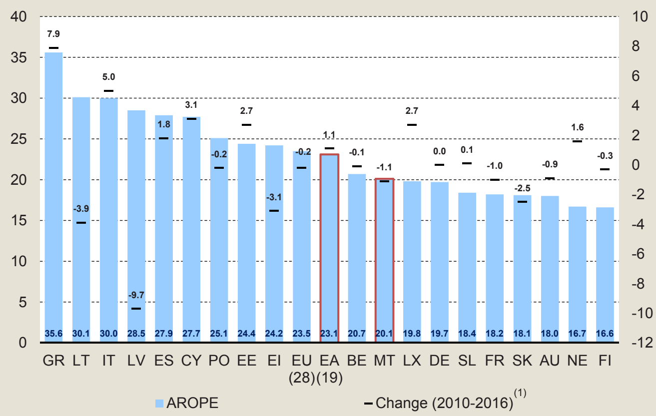
The importance of work and a stable income in alleviating poverty is highlighted in the AROPE rate for employed persons, which at 7.6% compares very favourably with the figures for the unemployed (61.7%) and for the inactive (34.2%). Similarly, persons of working age (18-64) are less at risk of poverty than their older and younger counterparts.

Education also has a significant impact on a person's poverty

Chart 1
PROFILE OF AROPE IN MALTA BY POVERTY DEFINITION (2016)
(thousands)

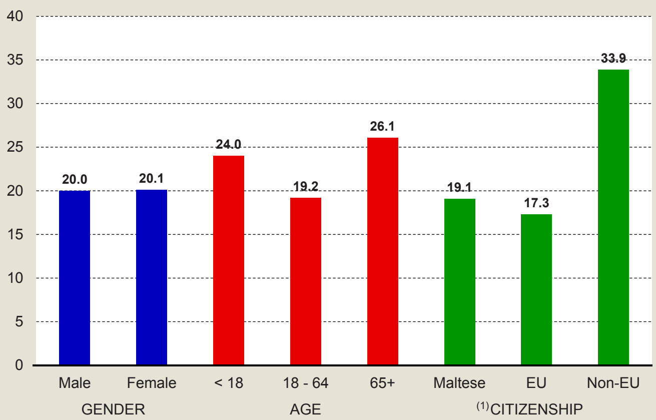
Source: SILC (Eurostat).

Chart 2
PEOPLE AT RISK OF POVERTY OR SOCIAL EXCLUSION
(AROPE rate as a % of total population)
(% change between 2010 and 2016)[(1)]



(1) On secondary axis.
Source: SILC (Eurostat).

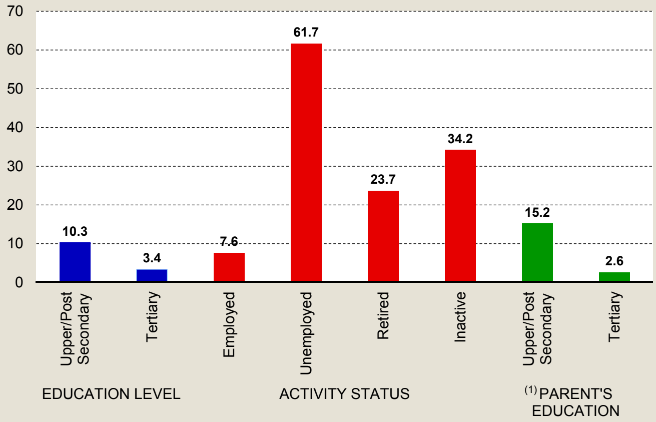
Chart 3
AROPE RATE IN 2016 BY DEMOGRAPHIC
(% of total population)
(% of population aged 18+)[(1)]



Source: SILC (Eurostat).

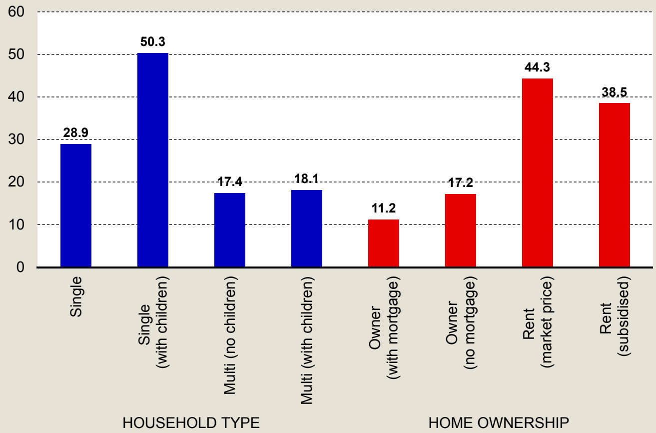
risk. Persons with a tertiary education are much less likely to fall below the poverty thresholds than persons with a secondary or lower level of education. The impact of education is also generational, meaning that persons born to parents with a lower education level are more likely to fall below the poverty threshold. This could point to an issue of intergenerational mobility[5], suggesting that children born into families with higher-than-average income have a sizeable advantage over their less fortunate peers.

Chart 4
AROPE RATE IN 2016 BY ACTIVITY AND MAXIMUM EDUCATION
(% of population aged 18+)
(% of population aged less than 18)(1)



Source: SILC (Eurostat).

Chart 5
AROPE RATE IN 2016 BY HOUSEHOLD
(% of households)



Source: SILC (Eurostat).

In terms of household type, on average, a single person is more likely to be at risk of poverty or social exclusion than one who is partnered. This could reflect the impact of multiple incomes within two person households or the fact that certain categories of single person households, such as single parents or widowers, could be more at risk. Another interesting observation is that, in two-person households, having dependent children does not increase the risk of poverty by much when compared to households without dependent children. Again, the increased number of households with multiple bread-winners could play an important factor in this observation. On the other hand, being a single person with dependent children drastically increases the risk of poverty.

Home-owners have a lower risk of falling below the AROPE threshold than tenants. Interestingly, the poverty risk of home-owners with an ongoing mortgage is slightly less elevated than that of home owners with no mortgage; this may be due to the latter category including retired persons, who, as shown in Chart 3, have a higher AROPE rate than their working age counterparts. Furthermore, the likelihood of being granted a home loan generally depends on having a stable income, which would put the person in question at a lower risk of poverty. In terms of tenants, both those renting at market prices and those renting at subsidised prices have a

5 Intergenerational mobility is the likelihood that a person moves out of his parents' income quintile. See Carroll, D. & Chen, A. (2016), "Income Inequality Matters, but Mobility Is Just as Important", Federal Reserve Bank of Cleveland.

higher poverty rate compared to home owners.[6] Below-market rents mainly reflect pre-1995 rental lease agreements, which according to the Census, primarily consist of older and retired households whose main source of income is pensions.

Components of the AROPE rate

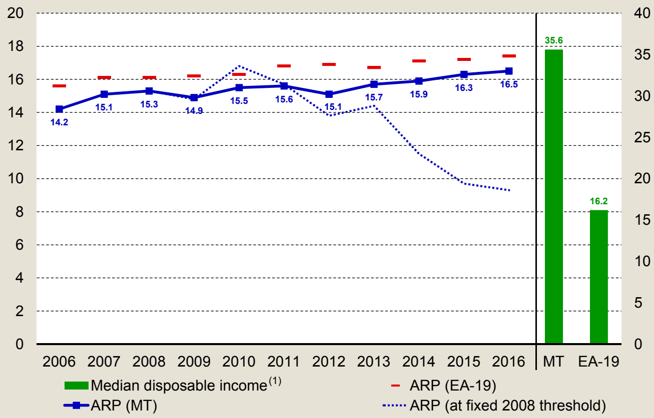
At-risk-of-poverty rate

The ARP rate is a measure of monetary poverty. It is defined as the share of people with a disposable income below the at-risk-of-poverty threshold, normally set at 60% of the national median equivalised disposable income after social transfers.[7,8] In this regard, poverty is measured as a relative concept that takes into account changes in the standard of living, as opposed to an absolute definition focusing solely on a fixed threshold.

Chart 6 illustrates dynamics in this measure of poverty in recent years. Throughout the past decade, the ARP rate in Malta has stood consistently below that in the euro area, reaching 16.5% of the population in 2016. Nonetheless, there has been a slow but steady increase in monetary poverty rates over time.

However, a closer look at the figures suggests that these dynamics are due more to a statistical effect rather than an increase in the number of low income earners. One feature of the ARP rate is that the median income threshold changes every year. In the case of Malta, which has recently experienced a rapid increase in the median income, this statistical practice tends to overstate monetary poverty, caused by a strong increase in the threshold itself within a short period of time. Indeed, median disposable income in Malta rose by 35.6% between 2008 and 2016, the third largest increase in the euro area and dwarfing the 16.2% average increase in the bloc (see Chart 6). One common method of overcoming this issue is calculating the ARP rate using a fixed income threshold. As Chart 6 shows, fixing the threshold at 2008 levels gives a completely different picture of monetary poverty in Malta over the years, with the ARP rate declining steadily to 9.3% by 2016.[9]

Chart 6
AT-RISK-OF-POVERTY IN MALTA
(at-risk-of-poverty as a % of total population)
(% growth in median disposable income between 2008 and 2016; unweighted average for EA-19)[(1)]



(1) On secondary axis.
Source: SILC (Eurostat).

Moreover, more detailed data by age group shows that the increase in the ARP rate

6 The under-representation of foreign workers who have recently emigrated to Malta could bias these figures.

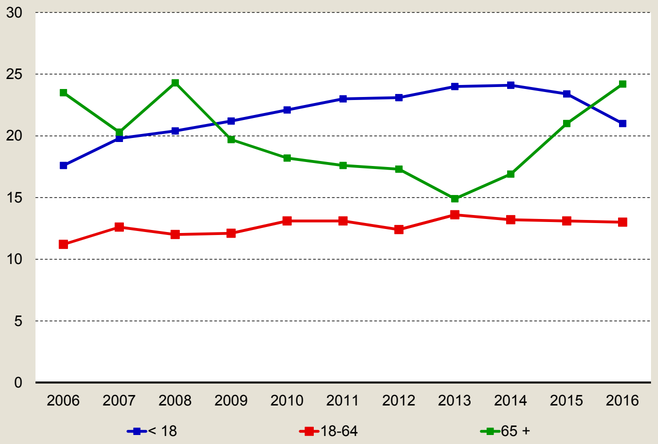
7 The equivalised disposable income is the total disposable income of a household divided by the number of household members converted into equalised adults using the modified OECD scale. A weight of 1 is given to the first adult, 0.5 to other adults aged 14 and over, and 0.3 to children aged under 14.

8 Social transfers are defined as current transfers that are compulsory and based on the principle of social solidarity. Tax rebates, voluntary schemes, and pensions are not included.

9 A disadvantage of this method is that it does not take into account the increase in the cost of living in the intervening years.

observed since 2013 mainly occurred among older persons (65+), whose main income (pensions) over the years has risen at a more modest rate when compared with the national median income. In contrast, the ARP rate among younger cohorts declined over the same period (see Chart 7).

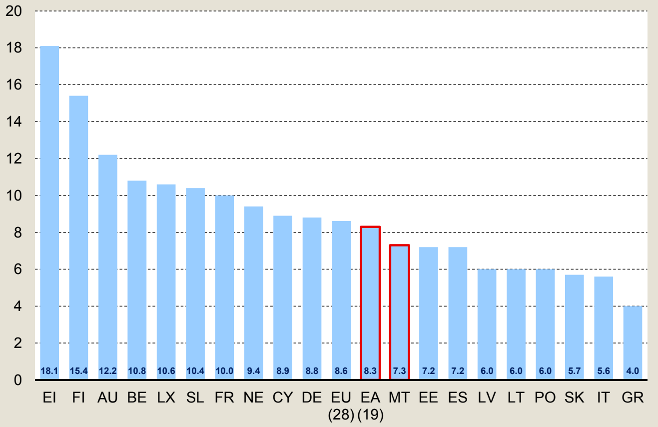
Chart 7
AT-RISK-OF-POVERTY IN MALTA BY AGE
(% of population in demographic)



Source: SILC (Eurostat).

Chart 8 depicts the effectiveness of social transfers in reducing monetary poverty, which is calculated as the percentage difference in the ARP rate before and after social transfers. Despite having a lower monetary poverty rate than the euro area average, the effectiveness of social transfers in Malta, at 7.3%, was slightly below the 8.3% recorded in the euro area. This could point to an opportunity for government to further reduce poverty levels through more targeted welfare measures, such as further increases in pensions for elderly persons.

Chart 8
EFFECTIVENESS OF SOCIAL TRANSFERS IN REDUCING MONETARY POVERTY
(% reduction in at-risk-of-poverty rates)



Source: SILC (Eurostat).

Severe material deprivation

The SMD rate measures the inability to afford items considered to be desirable or even necessary to lead an adequate life. In this sense, this measure acts as an indicator of resource poverty and social exclusion, as opposed to monetary poverty measured by the ARP rate.

The calculation of the SMD rate is based on the inability to afford a particular set of items, classified into “economic strain” and “durables”. Economic strain includes regular living expenses such as heating and utility bills, as well as expenses required for an adequate lifestyle, such as taking an annual holiday or the regular consumption of proteins. Meanwhile, durable goods include common household goods, such as a car or a washing machine. An individual unable to purchase at least three of the nine items under these two categories is considered materially deprived, while anyone unable to afford four or more items is considered as severely materially deprived.

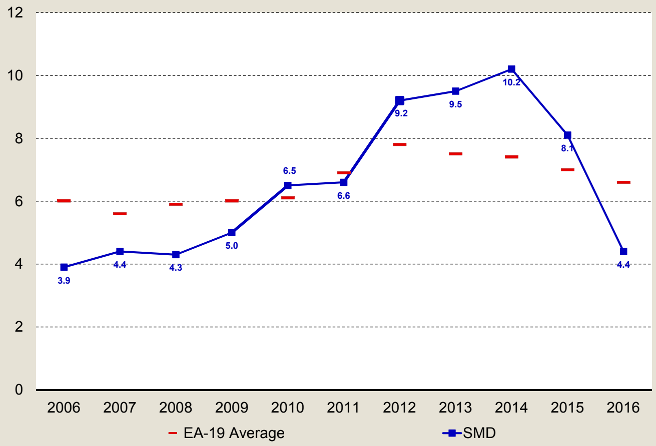
In 2016, 5.8% of individuals were unable to afford three items, and were hence considered as material deprived, while 4.4% were considered severely materially deprived due to being unable to afford four or more items. The latter figure stands below the euro area figure of 6.6%, though this has only recently been the case. As depicted in Chart 9, the picture of SMD in Malta over the past decade can be split into two contrasting periods, namely a steady increase from 2006 to a peak of 10.2% in 2014, and a decline back to 2007 levels over the following two years. In particular, the latter decline can generally be seen as mirroring the drop in unemployment during the period.

Charts 10 and 11 provide a more in-depth picture of SMD in Malta.[10] The main observation is that the percentage of individuals unable to afford items within the economic strain category is consistently much higher than those unable to afford durable goods. While the presence of second-hand markets and bank loans offer a number of alternative options to persons purchasing durable goods, such alternatives are generally not available for the items listed under economic strain.

Low work intensity

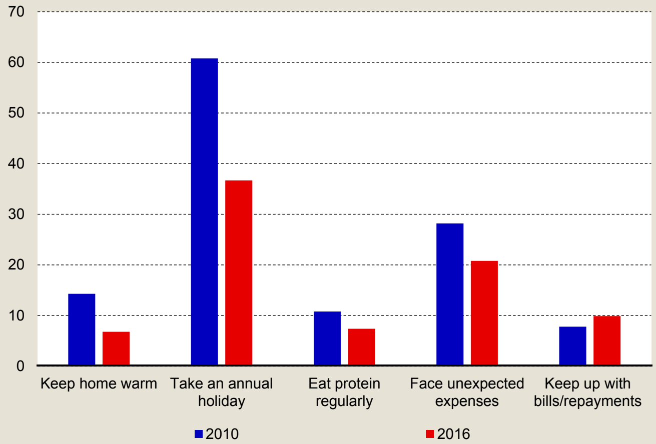
The measure of LWI acts as an indicator of utilised labour potential, and refers to persons living in households where the members of working age worked less than 20% of their total potential during the previous year.

Chart 9
SEVERE MATERIAL DEPRIVATION IN MALTA
(% of total population severely materially deprived [4+ items])



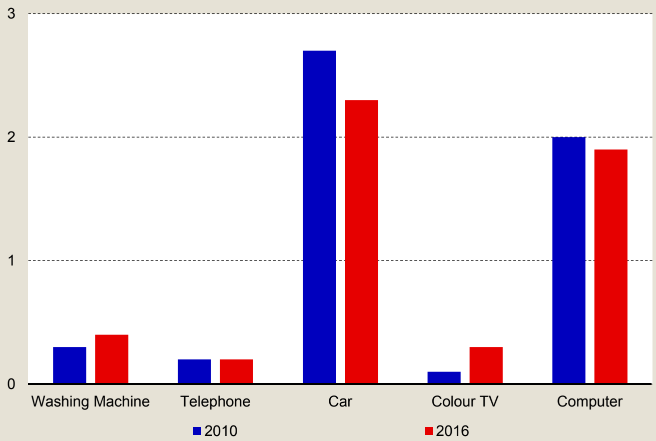
Source: SILC (Eurostat).

Chart 10
MATERIAL DEPRIVATION – ECONOMIC STRAIN
(% of total population by inability to afford)



Source: SILC (Eurostat).

Chart 11
MATERIAL DEPRIVATION IN MALTA – DURABLES
(% of total population by inability to afford)

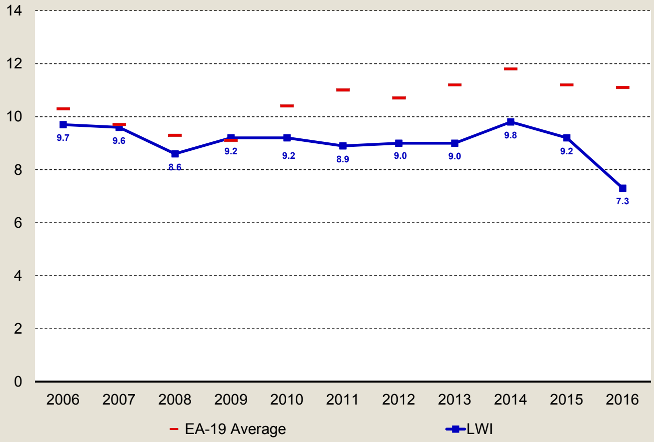


Source: SILC (Eurostat).

10 The ability to purchase a computer is included as part of the durables category, though is not included in the calculation of SMD.

The incidence of LWI in Malta has been lower than that observed in the euro area (see Chart 12). Indeed, Malta did not experience the increases in LWI observed in other member states following the recession years between 2008 and 2012, a fact arising from the relatively stable unemployment rate in Malta compared to other countries during the period. Going forward, LWI experienced a steady drop between 2014 and 2016, reaching 7.3%. As with SMD, this recent drop mirrors the decline in the unemployment rate during the period, enforcing the notion that putting people in work is a powerful method of helping people move above the poverty line.

Chart 12
LOW WORK INTENSITY IN MALTA
(% of population persons aged less than 60 living in LWI households)

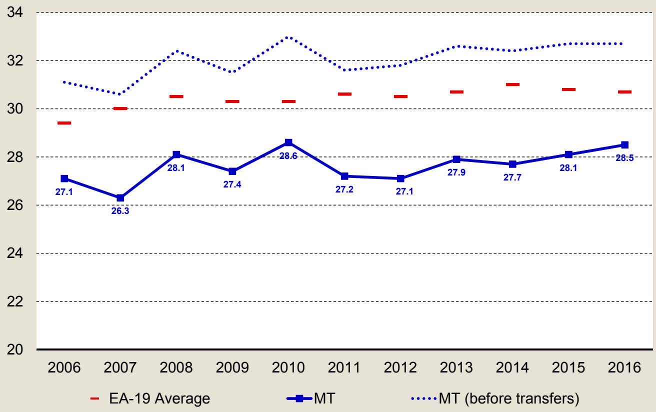


Source: SILC (Eurostat).

Income inequality

Apart from a measure of poverty and social exclusion, the SILC database also provides for an assessment of income inequality.

Chart 13
INCOME INEQUALITY IN MALTA
(Gini coefficient scaled from 0 (perfect equality) to 100 before & after social transfers)[(1)]



[(1)] Transfers exclude pensions.
Source: SILC (Eurostat).

The Gini coefficient is an inequality statistic which plots the “distance” of the income distribution of a country from that of a hypothetical country with perfect equality.[11] The Gini coefficient for Malta is depicted in Chart 13. Over the years, the coefficient has been lower (and hence more equal) than in the euro area, taking a value of 28.5 in 2016. The chart also depicts the Gini coefficient before social transfers, from which one can deduce the impact of social policy on reducing income inequality.

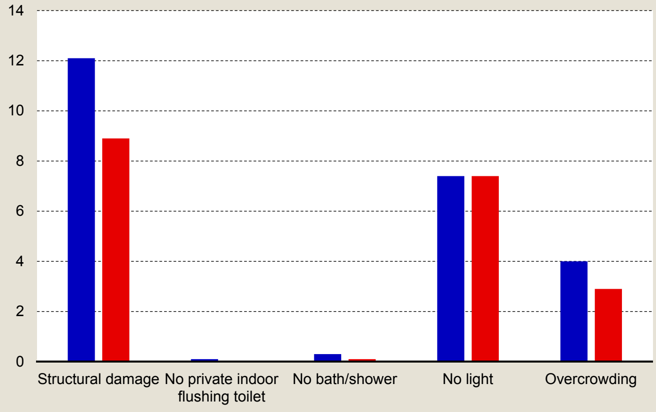
Housing and living conditions

Housing and living conditions have been a topical issue in recent years, as rising house and rent prices raise questions on property availability and decent living. Indeed, figures show that AROPE rates for tenants, both on market and on subsidised rents, have risen since 2010, contrasting with a drop in AROPE rates for home-owners.

[11] The Gini coefficient is the ratio of the area that lies between the Lorenz curve of a country and that of a hypothetical, full equality country. The Lorenz curve plots the proportion of the total income of the population that is cumulatively earned by x% of the population. The smaller the gap between a country’s Lorenz curve and that of curve of perfect equality, the smaller the Gini coefficient and hence the more equal (in terms of income distribution) the country is.

SILC allows a further analysis of housing and living conditions through the collection of data on housing and environmental quality, as well as on housing costs. Chart 14 shows statistics on housing quality deprivation, such as structural damage, lack of shower and private indoor flushing toilet facilities, lack of light, and overcrowded conditions. More generally, overall housing deprivation is more pronounced for tenants compared to home owners. Although private bathroom facilities are widely available, even among less well-off households, the chart indicates that a small percentage of the population (between 3% and 9% for each) still resides in dwellings with structural damage, lack of light, and overcrowded conditions in 2016. However, when compared to 2010, the situation has slightly improved.

Chart 14
HOUSING CONDITIONS
(% of total population by characteristic of primary dwelling)



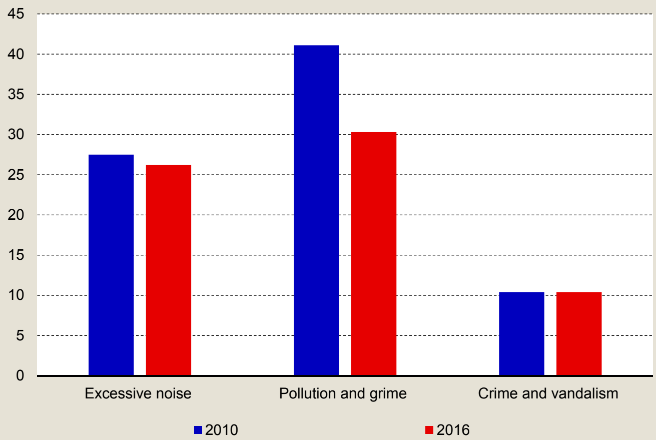
Source: SILC (Eurostat).

A less clear trend emerges from responses about changes in dwelling environment conditions, depicted in Chart 15. As at 2016, 30.3% of the population experienced pollution and grime around their immediate dwelling environment, 26.2% experienced excessive noise, and 10.4% experienced crime and vandalism. Compared with 2010, there has been significant improvement only in the pollution and grime category. This picture points to a number of issues which, despite the general improvement in economic well-being experienced in recent years, have yet to be adequately addressed.

Housing costs are another key issue which needs to be addressed when looking into poverty and living conditions. Eurostat defines housing costs as mortgage loan and interest repayments, rent payments for tenants, utility bills including water, electricity, gas, and heating, and structural/maintenance costs.

The SILC includes three measures of housing costs, which are: (i) share of housing costs in disposable income; (ii) housing cost overburden rate, which is the percentage of the population living in households with a housing cost share of over 40% of disposable income; and (iii) impact

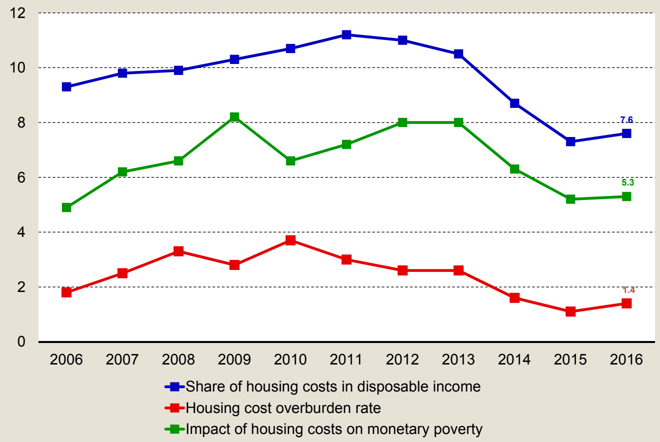
Chart 15
DWELLING ENVIRONMENT CONDITIONS
(% of total population by characteristic of dwelling environment)



Source: SILC (Eurostat).

of housing costs on monetary poverty, which is the increase in monetary poverty that would arise if housing costs were netted from disposable income.

Chart 16
COST OF HOUSING IN MALTA
(per cent)



Source: SILC (Eurostat).

All three measures have followed a declining trend over the past four to five years (see Chart 16), indicating an overall reduction in housing costs. While jarring with the narrative of a surge in rental rates, one must remember that the overall percentage of the population who were tenants as at the 2011 Census (from which the SILC sample was extracted) was quite small, with the majority of Maltese being home-owners.[12] Hence, the drop in housing costs faced by the sample population over the past years could instead be reflecting the drop in mortgage rates, as well as the reduction in utility bills. This high percentage of home ownership in Malta, compared with other euro area member-states, can also explain the relatively low share of housing costs in disposable income in Malta (7.6% as at 2016) when compared with the EA-19 average (21.4%). Again, this could also partly relate to an over-representation of home-owners in the SILC sample. Similar results are obtained using the other two measures.

Conclusions

Analysing poverty and living conditions through SILC does have its limitations. Since the survey sample is based on the latest Census, which was held in 2011, this could point to an underrepresentation of foreigners, a large number of which have migrated to Malta in recent years.[13] This could bias the results, particularly when analysing the impact of recent property market developments. Other issues include subjectivity with regard to the definition of poverty, or with the survey methods, such as the items used to calculate material deprivation.

Moreover, there are many other definitions of poverty apart from the ones defined by the EU-SILC. For example, Caritas (2016) identified a basket of goods and services deemed essential to achieve a decent standard of living, thereby establishing the annual costs required for a particular household to achieve this basket.[14] Another study, entitled "The European Quality of Life Survey", documents the living conditions and social situation of European citizens through a number of indicators, ranging from subjective well-being to public services and health.[15]

Overall, the aim of this article is to give a general overview of poverty and living conditions in Malta based on the SILC database. Poverty levels, as defined by the European Union, have declined in recent years to 20.1% of the population in 2016, and stood below the EU average. Most vulnerable

[12] According to the 2016 SILC, 81.4% of the sampled persons were home-owners (60.3% with no mortgage), 15.6% were tenants at subsidised rents, and only 3.0% were tenants renting at market prices.
[13] See Grech (2015), "Understanding the Macroeconomic Impact of Migration in Malta", Central Bank of Malta, Policy Note.
[14] Caritas (2016), "A Minimum Essential Budget for a Decent Living – 2016".
[15] Eurofound (2017), "European Quality of Life Survey 2016".

are those persons who are inactive, unemployed, retired, or single (especially those with children). Among the foreign workforce, non-EU migrants tend to be at higher risk of poverty when compared to EU workers. Children and elders also tend to be more vulnerable than working age adults.

In recent years, the authorities have introduced a number of measures aimed at tackling this social blight. These include increases in pensions and allowances for the elderly, such as those living in their own residence or for those caring for them. Furthermore, there were measures aimed to encourage the participation in the labour force, such as in-work benefit schemes, increases in rent subsidies for people in need and schemes promoting an increase in the supply of social housing. The above analysis suggests that these measures have indeed made an impact on reducing poverty levels, though further scope for improvement remains.