

BOX 1: RECENT DEVELOPMENTS IN POVERTY AND SOCIAL EXCLUSION INDICATORS FOR MALTA¹

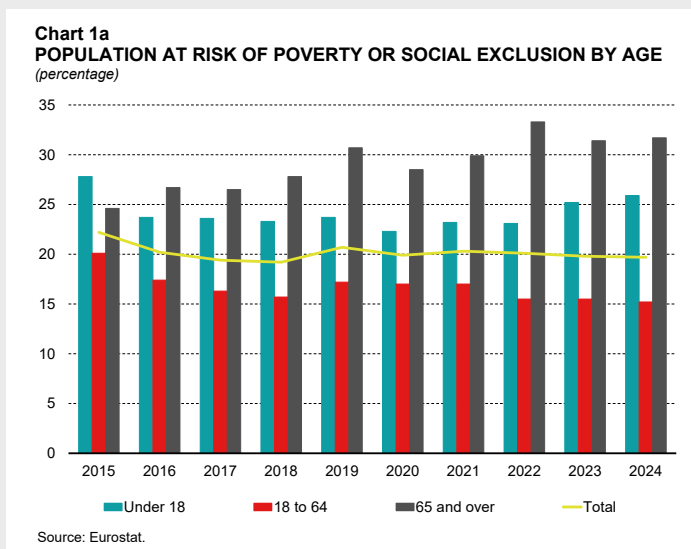
Over just a decade Malta's GDP doubled, while the employment rate rose from being the second lowest in Europe to being the second highest.² Household bank deposits also more than doubled, while median net wealth of those in the bottom quintile rose from around €95,000 to €159,000, when the overall price level increased by much less at around 21%.³ Yet, despite this surge in economic growth and wealth, even of the lowest income categories, Malta's performance in terms of the EU's 2030 target indicator of the proportion of the population at risk of poverty or social exclusion (AROPE) is similar to that of countries with much weaker economic performance. This box will explain briefly the sources of this paradox.

Trends in poverty reduction and social inclusion

The main indicator used by the EU to measure poverty is known as AROPE and is the sum of persons who are either at risk of poverty (ARP), severely materially and socially deprived or living in a household with a very low work intensity.

Eurostat defines persons at-risk-of-poverty (ARP) as those people with an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income. For someone to be classified as being severely materially and socially deprived (SMSD), they would have stated that they cannot afford seven out of 13 deprivation items.⁴ Finally, the indicator for low work intensity is based on the number of persons who state that they live in a household where working-age members worked for less than 20% of their work-time potential during the previous year.

Chart 1a shows that there have been different trends for this indicator for Malta if one looks at the three main population breakdowns, namely those under 18 (henceforth 'children'), those



¹ Prepared by Dr. Aaron G. Grech. Dr Grech is the Chief Officer of the Economics Division at the Central Bank of Malta. The author would like to thank Mr Alexander F. Demarco, Mr Noel Rapa, Mr Etienne Caruana and Mr Mark Musu for their comments. This paper is a summary of *Discussion Paper 5/2025* of the Central Bank of Malta. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta or any other institutions. Any errors are the author's own.

² Grech, A.G. (2025), Understanding recent labour supply dynamics in Malta, Central Bank of Malta *Discussion Paper*, DP/01/2025.

³ [Data on net wealth by quintile.](#)

⁴ [Full list of the 13 deprivation items.](#)

aged 18 to 64 (henceforth ‘working age’) and those 65 and over (henceforth ‘elderly’). There has been an upward trend for the elderly, with an increase of nearly 7 percentage points, an improvement for working age households, with a decline of 5 percentage points and a somewhat cyclical performance for children.

If one breaks down these age groups by gender, one notes that the group that has seen the largest rise in the AROPE are women aged 65 and over, where there was an increase of 9.5 percentage points. By contrast, the group that has seen the largest drop are women of working age, where there was a decline of 5 percentage points. When one looks at the population in SMSD, trends are completely different. Firstly, while the AROPE for children has not fallen by much, the proportion of children in SMSD has more than halved from 11.6% to 4.8%. Among elderly women, where there was the largest rise in the AROPE, one finds a decline in the share of those in SMSD from 6.3% to 5.2%.

Table 1a tries to place these trends within the broader euro area perspective. This international comparison shows how much Malta outperformed the rest of the countries in the monetary union, with two exceptions – the ARP for the elderly and children.

Malta stands out mainly when it comes to those of working age, with a sharp reduction in both AROPE and SMSD. That said, even as regards children in SMSD, there has been a very strong drop since 2015, much sharper than the decline in the AROPE of children. As for the elderly, one finds a rather confusing development that while the proportion of those in SMSD has fallen by more than the drop observed for euro area average, the AROPE of the elderly in Malta has risen at a much faster rate than in the rest of the monetary union.

Table 1a
TRENDS IN AROPE, ARP, SMSD AND LOW WORK INTENSITY ACROSS
THE EURO AREA (2024 vs 2015)

Per cent

	Malta	Euro area
AROPE (total)	-2.5	-1.6
AROPE (children)	-1.9	-0.9
AROPE (work age)	-4.9	-3.0
AROPE (elderly)	7.1	2.8
ARP (total)	0.2	-0.7
ARP (children)	0.7	-0.9
ARP (work age)	-1.5	-2.0
ARP (elderly)	8.4	3.5
SMSD (total)	-4.2	-1.8
SMSD (children)	-6.8	-2.3
SMSD (work age)	-4.2	-1.8
SMSD (elderly)	-1.6	-0.9
Low work intensity	-4.7	-2.3

Source: Author's workings using Eurostat data.

Understanding better the measurement of poverty

This conundrum can be resolved however, if one understands better the two measures. The approach taken by the EU to define the amount of income which means someone is not considered ARP is based on relativity to the median income. Changes in this threshold depend on changes in median income and do not have a direct relation to changes in the cost of what is required to have a decent standard of living, either because of inflation or because of changes in what is considered a decent standard of living.

In the case of Malta, the income threshold used to define those ARP rose by almost 51% over ten years, a period during which the cost of living rose by about 21%. Chart 1b shows how the 60% income poverty threshold for two adults with two dependent children evolved over time, rising from €16,138 in 2014 to €25,741 in 2024. This reflected the rapid growth of median income during this period. If one instead had defined the poverty threshold in line with what €16,138 was able to purchase in 2014, and then increased it in line with inflation, the threshold would have increased to €19,825. Hence to maintain the same living standard this household had in 2014, by 2024 the required increase in income was nearly a quarter less than the rise implied by the official poverty threshold.

To further explain how rapid the increase in the income threshold was, one can compare the one for Malta to that for France. Between 2015 and 2024, the cost of living as measured by the HICP in both Malta and France rose by roughly the same percentage rate. Yet while in Malta the income threshold used to define those ARP rose by almost 51%, that in France rose by a third of that rate. With the result that while in 2014, the income threshold used to define those ARP in Malta was equivalent to 60% of that applied in France, by 2024 it had reached 80%.

Besides the measure of poverty based on an ever-changing income threshold, Eurostat also publish what they call the “subjective poverty rate”. This is computed through a direct question to households about their difficulties in making ends meet. This assessment considers the households’ material wellbeing situation including income, expenditure, debt and wealth.

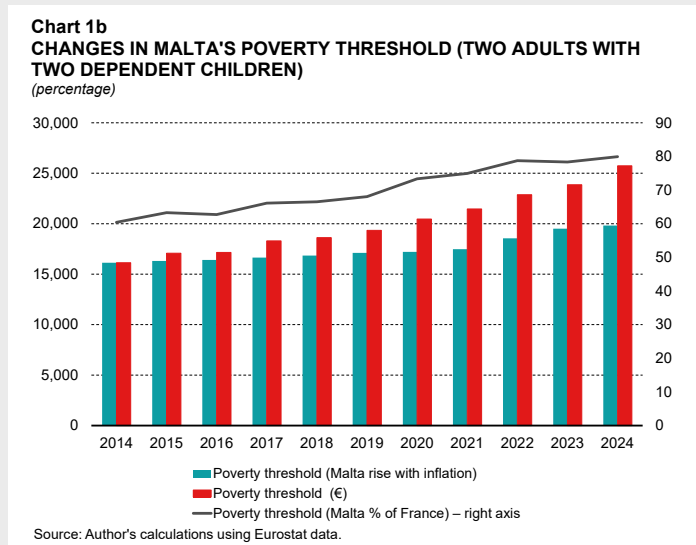


Chart 1c displays the subjective poverty rate by age. When compared to Chart 1a, which shows the ARP indicator, the share of those who consider themselves poor in that they face difficulties in making ends meet shows a much stronger improvement over time.

When looking at the different age groups, one notes that those of working age are more likely to consider themselves poor

than what the ARP measure would imply. There is a much starker difference between the subjective and relative income poverty measures for the elderly. The data suggests that over time the elderly's belief of their ability to make ends meet has not diverged greatly from that of other population groups, whereas their ARP measure would imply a steady deterioration. The elderly subjective poverty rate is about half the ARP rate.

Table 1b, which shows how median disposable equivalised income rose since 2013, may explain why the elderly believe they are much more materially well off. Among the elderly in

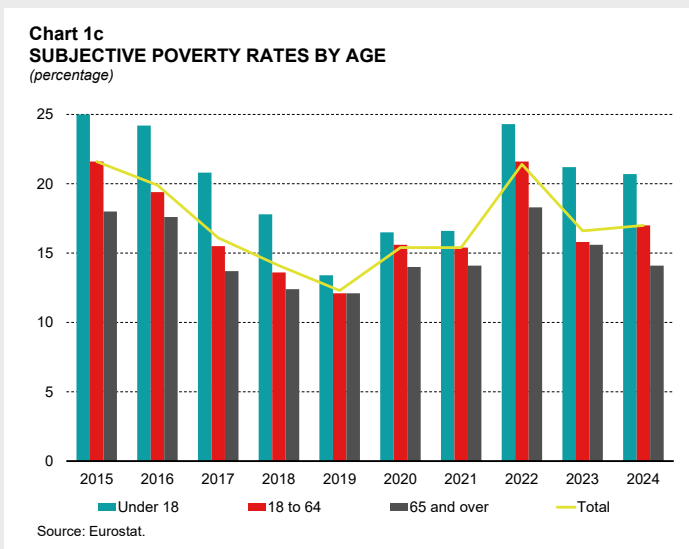


Table 1b
TRENDS IN MEDIAN DISPOSABLE EQUIVALISED INCOME ACROSS THE EURO AREA (2024 vs 2013)

Per cent

	Malta	Euro area
Total	69.6	36.1
Children	64.7	37.6
Working age	77.0	38.5
Elderly	53.2	30.5
Men	69.6	36.5
Children	62.9	37.6
Working age	73.5	38.5
Elderly	55.2	30.3
Women	66.5	35.7
Children	65.4	37.9
Working age	78.7	38.2
Elderly	50.2	30.9

Source: Author's workings using Eurostat data.

Malta median disposable income increased by 53.2%, which is far higher than the 30.5% average increase observed across the euro area. If one focuses only on male pensioners, the rise in disposable income in Malta was nearly double than that experienced in the rest of the euro area.

Maltese persons aged 65 and over saw percentage increases in their income that exceeded by far those seen not just by their euro area counterparts, but also by euro area working age households. However, the income poverty threshold in Malta was buoyed upwards by the fact that during the last decade most Maltese working age families became two-earner households as more and more women successfully joined the labour market. The income of working age persons in Malta rose by 77%, double the increase observed in the rest of the euro area. By contrast, most Maltese pensioners remained dependent on just one pension. Therefore, even in a situation where their pension was increasing at historically unprecedented rates, it could not match that of the working age household income brought by the female partner starting to work.

Understanding better the impact of policies

Table 1c shows the trends in median disposable equivalised income, material and social deprivation (MSD) and the ARP by household type between 2012 and 2024. This indicates that the pace of income growth was very sharp, but this acceleration was not the same across household types. In the case of household types with children the surge in income was more pronounced. The prime case is single persons. The median equivalised income of a single person rose by 66% between 2012 and 2024, but amongst single persons with dependent children the rise was of 72%. Moreover, the ARP of single persons with dependent children, though remaining the highest in absolute terms out of all household types, saw a decline of 3.8 percentage points.

Households comprising two adults of working age saw their income rise by 86% between 2012 and 2024, and their ARP fall by 5.5 percentage points. Yet, households with dependent

Table 1c
TRENDS IN MEDIAN DISPOSABLE EQUIVALISED INCOME BY
HOUSEHOLD TYPE AND IN ARP AND MSD – 2024 OVER 2012

	Change in income	Change in ARP	Change in MSD ⁽¹⁾
Total	€8,981 (78%)	+1.7 p.p.	-14.5 p.p.
Households without dependent children	€8,975 (72%)	+4.9 p.p.	-13.1 p.p.
Households with dependent children	€8,768 (85%)	-1.8 p.p.	-15.6 p.p.
Single person	€5,924 (66%)	+13.9 p.p.	-16.2 p.p.
Single person with dependent children	€5,196 (72%)	-3.8 p.p.	-43.5 p.p.
Two adults, at least one aged 65 or over	€5,625 (63%)	+12.3 p.p.	-13.4 p.p.
Two adults younger than 65	€12,967 (86%)	-5.5 p.p.	-11.9 p.p.
Two adults with one dependent child	€8,910 (72%)	+0.9 p.p.	-6.0 p.p.
Two adults with two dependent children	€7,666 (72%)	-1.8 p.p.	-11.4 p.p.

Source: Author's workings using Eurostat data.

⁽¹⁾ Change from 2014 as earlier data unavailable. Data for SMSD by household type unavailable.

children saw an increase of 85%. In the case of households comprised of two adults with one child, the ARP still rose slightly, by 0.9 percentage points, but amongst those with two children there was a drop of 1.8 percentage points. If one looks at trends in MSD, the largest drop is amongst single parents, but there are also significant declines for other households with children, which exceed those for households without children.

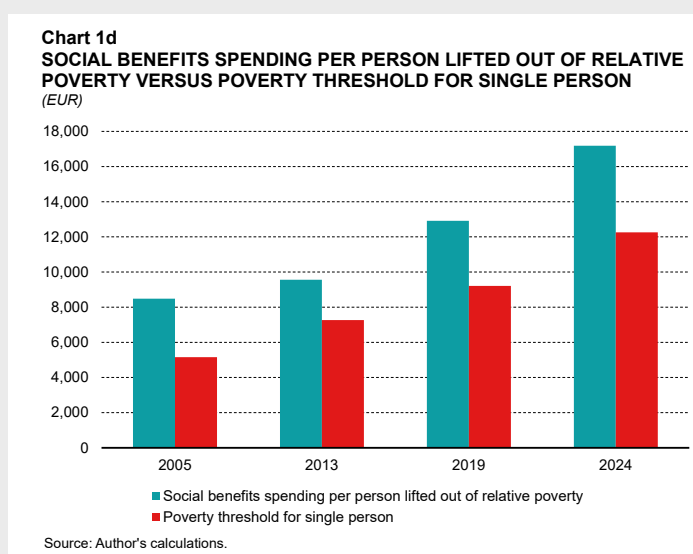
Eurostat data show that in 2005 76% of all children in Malta aged under three were cared for only by their parents. By 2014, this proportion had fallen to 60.6%, and to 43.6% in 2024. More importantly, the proportion of children aged under three with zero hours in formal childcare went down from 95.4% in 2005 to 81.4% in 2014 to 55.9% in 2024. These trends all suggest that the introduction of free childcare to working parents in 2014 resulted in a shift of caring responsibilities from parents to formal childcare institutions.

The employment rate of women aged 25 to 49 went from 39.6% in 2005 to 67% in 2014 to 84.7% in 2024. More importantly while in 2005 nearly a fifth of women in employment aged 25 to 49 were in part-time work, rising to nearly a quarter in 2014, by 2024 the proportion had fallen to 14%. This means that the income earned from employment by women improved not just because more joined the workforce but also because more women could go for full-time employment rather than part-time jobs.

Following this change in employment, the ARP of women aged 25 to 49 dropped by more than a quarter, from 15.6% in 2013 to 11.1% in 2024. At the same time the SMSD rate among this age bracket has more than halved, from 7.2% to 3.3%. If one focuses on specific groups of women, such as single parents, the change is even more pronounced.

That said, while the improvement in employment rates certainly helped to take thousands of working age persons out of poverty, by raising the income poverty threshold it also made those not in employment appear relatively poorer. Though the strength of the economy resulted in more funds being made available for social security benefits, these could not match the extraordinary pace of income growth caused by the rise in the employment rate. NSO data indicate that by 2023, social security benefits improved household disposable income by €1,532 million, up from €920 million in 2013. Nonetheless, when expressed as a proportion of income, social security benefits decreased from 25% to 17% precisely because employment income increased so substantially.

Chart 1d shows that in 2005 €595 million in social benefits lifted



70,000 out of the risk of poverty, or an average spend of €8,486, while by 2024 to lift 89,000 individuals cost an average spend of €17,186. In effect the social benefit cost per individual taken out of poverty doubled over twenty years. Yet, against that one needs to consider that the income poverty threshold for a single individual over the same period rose from €5,155 to €12,258, or by a factor of 2.4 times. While in 2005 the per capita social spending to lift one person out of poverty was two thirds higher than the income poverty threshold, in 2024, it was just two fifths higher. This implies that given the growth in the income poverty threshold, social security benefits have become relatively speaking more effective or more targeted.

However, this improved effectiveness and the rise in absolute spending on social benefits have not been enough to offset the very large rise in the income poverty threshold. To lift someone from relative poverty is becoming even more expensive. Just in the five years since 2019, the per capita spend for every person lifted out of relative poverty has increased by a third.

One could argue that Government could tackle this issue by further improving the generosity of social benefits, particularly pensions, reflecting the fact that ARP is rising the most among elderly households. However, in coming years the trend of one-income pensioner households will reverse quite quickly. In 2005, the employment rate among men aged 55-59 was 68.2% whereas that among women was 18.8%. Twenty years after, the employment rate among men aged 55-69 is 87.4% and that among women is 60.4%. Thus, employment data suggest that among the pensioner couples who will be retiring in the next few years, dependence on one pension will be half that of pensioner couples who retired twenty years ago. Among those who will retire in just over a decade from now, dependence on a single pension will likely halve yet again, as the employment rate among women currently aged 45-49 is well above 80%.

In essence, the rise in female employment rates which has raised so much the income poverty threshold and thus contributed to the increase in the proportion of elderly population in relative poverty over the next decade should start to have an opposite effect. On the one hand, it is highly unlikely that employment rates can increase much further, and so the increase we have had in recent years in the poverty threshold should decelerate, making it less onerous for social benefit generosity to keep up with a rising threshold. More importantly, while working age households will continue to benefit from better wage conditions, in the coming years pensioner couples will not just benefit from better pensions but also from an additional pension. Furthermore, the gender pension gap is likely to decrease sharply because the type of employment that women have has greatly improved, meaning that women's pensions should align much closer to those of men.