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HOUSEHOLD FINANCE AND CONSUMPTION SURVEY 2017: SALIENT RESULTS FOR MALTA

HOUSEHOLD FINANCE AND CONSUMPTION SURVEY 2017: SALIENT RESULTS FOR MALTA

Silvio Attard¹



This article presents the main findings from the third wave of the Household Finance and Consumption Survey for Malta which was conducted in 2017. The results from this survey of Maltese households provide detailed information on households' real and financial assets, their liabilities, net wealth, income, consumption and savings. The article also compares how these indicators evolved compared to the two previous waves of the survey carried out in 2010 and in 2014. These micro-level household data contribute to a better understanding of behavioural trends and developments underlying macro statistics and open up various avenues for further research.

Introduction

During 2017, the Central Bank of Malta conducted the third wave of the Household Finance and Consumption Survey (HFCS) in Malta. The two previous waves were carried out in 2010 and in 2014.² This survey is part of a co-ordinated research project led by the European Central Bank (ECB) and involves national central banks (NCBs) of all euro area countries and selected non-euro area EU member states.³ The survey provides detailed information on households' real and financial assets, their liabilities, net wealth, income and consumption.

The results are obtained from household-level data collected during 2017 from households residing in Malta.⁴ Data on households' assets and debt relate to the stock position as at end-2016, whereas data on income and consumption relate to the entire calendar year 2016. The HFCS questionnaire consists of two main parts. The first part relates to the household as a whole, with questions on their asset holdings and their financing, liabilities incurred by the household, credit constraints, as well as consumption and saving patterns. The second part of the survey relates to individual household members and covers demographics, employment, pension entitlements and income (for all household members aged 16 and over).

The Bank, with the assistance of the National Statistics Office, selected a representative sample of Maltese households to take part in this survey. The probabilistic sample design involved a systematic sampling of households. The initial sample consisted of 1,547 addresses. In total 1,004 households participated in the survey, in line with the pre-set target of 1,000 completed questionnaires. The panel component, that is, households that also participated in the 2014 survey (second wave), consisted of 539 households, whereas the remaining 465 households participated for the first time. The overall response rate was of 64.9%, notably higher than the 51.0% achieved in the second wave.

This article summarises the main findings for Malta, focusing on characteristics of households, their income and savings, assets, liabilities and net wealth. Since this survey has now been carried out three times, the descriptive analysis also sheds some light on evolving trends in domestic household behaviour over time.

Household characteristics

The survey confirms the trend decline in household size. According to the survey, in 2016 there were close to 170,000 households in Malta, with an average of 2.5 members per household, slightly lower than in 2013, and down from 2.9

¹ The author would like to acknowledge the assistance provided by various officials at the National Statistics Office who were responsible for carrying out this survey and who assisted in the compilation of the data.

² More information on the main results of the first three waves of the Household Finance and Consumption Surveys conducted in Malta, including previous research, are available on: <https://www.centralbankmalta.org/en/household-finance-and-consumption-survey>

³ More detailed information on the HFCS can be retrieved from the ECB's website: https://www.ecb.europa.eu/pub/economic-research/research-networks/html/researcher_hfcn.en.html

⁴ It should be noted that in the HFCS a household is defined as a person living alone or a group of people who live together in the same private dwelling and share expenditures, including the joint provision of essentials for living.

members in 2010 (Caruana and Pace, 2013; Gaskin et al., 2017). The most common household structure relates to households with two members. This category accounts for close to 30% of households (see Table 1). One-person households were the second largest category, with a share of almost 25%. Moreover, the importance of the latter category has increased over time. In contrast, the share of larger households, that is, those with four or more persons, has been in decline, and amounted to slightly less than one-fourth in 2016 compared with 33% in 2010. These trends are also in line with other surveys, including the Survey on Income and Labour Conditions (SILC).

With reference to housing status, the share of households owning their main residence (either outright or with a mortgage) edged up to 80.6%, from 80.1% in 2013, while the remaining 19.4% of households were tenants occupying their residence through rent, usufruct or rent-free agreements. The rise in the share of home owners is largely driven by an increase in the number of home-owners with a mortgage. Once again, the results from the survey are in line with the outcomes from the SILC for the same period, as well as from the Census of population and housing.

“The educational attainment level of the Maltese households continued to improve”

The distribution of households based on the age of the reference person remained broadly similar to that observed in the second wave. The share of households whose reference person is employed continued to rise, reaching 42.9% in the latest wave. At the same time, the share of households with a self-employed reference person decreased marginally in the period 2010 to 2016, remaining the smallest household category on the basis of labour market status.

Table 1
HOUSEHOLD STRUCTURE

(in % of households, unless otherwise stated)

	2010	2013	2016
Average household size (in members)	2.9	2.6	2.5
Household size			
1 person	18.8	23.6	24.6
2 persons	25.7	28.7	29.0
3 persons	22.3	21.5	21.6
4 persons	22.1	18.6	18.4
5 and more persons	11.1	7.5	6.4
Housing status			
Owner-outright	64.9	64.3	63.5
Owner-with mortgage	12.4	15.8	17.1
Other	22.7	19.9	19.4
Age (in years) of reference person			
16-34	8.8	12.8	12.7
35-44	22.2	17.2	18.2
45-54	21.0	20.0	18.0
55-64	23.1	20.3	20.4
65+	24.9	29.7	30.6
Work status of reference person			
Employee	36.2	39.5	42.9
Self-employed	7.3	7.8	6.4
Retired	27.3	28.8	28.2
Other	29.3	23.9	22.4
Education level			
Primary	23.2	23.8	21.6
Secondary	61.6	59.4	59.7
Tertiary	15.2	16.8	18.7

Source: HFCS.

The educational attainment level of the Maltese households continued to improve. According to the survey, 18.7% of the households in the latest wave had a reference person with a tertiary level of education, compared to 15.2% in 2010. Although the prevalence of households with primary and secondary education decreased since 2010, down by 1.6 and 1.9 percentage points respectively, households whose reference person has a secondary level of education continue to dominate, accounting for almost 60% of all households.

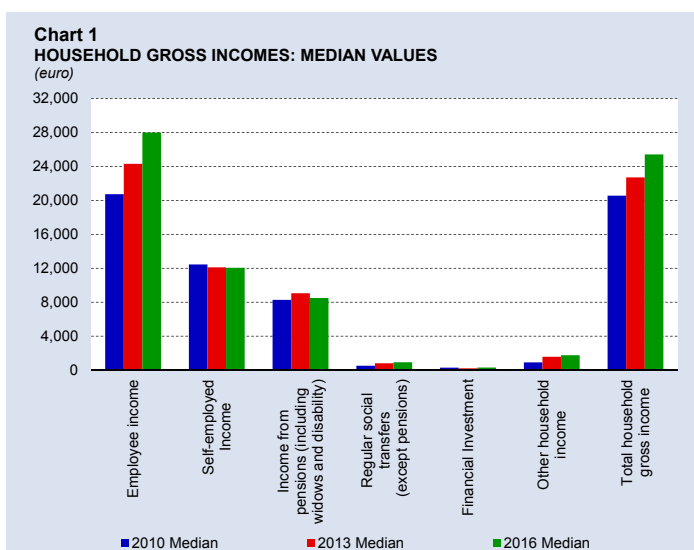
Household income and savings

The survey defines gross household income as the sum of all pre-tax income and social contributions, including labour/pension income, rents from real estate assets, return from financial assets, regular social/private transfers, and any income from other sources.

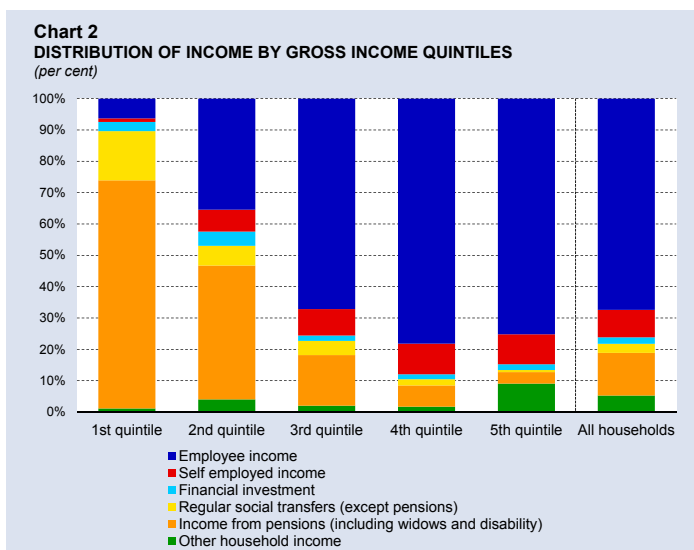
“Employee income remained the main source of income, totalling 67.4% of total gross household income”

Employee income remained the main source of income, totalling 67.4% of total gross household income, whereas income from self-employment activities represented 8.8% of total income. Income from pensions and social transfers accounted for 13.6% and 2.9%, respectively. At the same time, income from financial investment stood at only 2.1% of total household income.

The median gross income of Maltese households in 2016 was estimated at €25,417, while the average income stood higher, at €31,203. These figures are slightly lower than the comparable mean and median derived from the SILC. Utilising the three waves of the survey, the median gross income of Maltese households increased by €4,856, or 23.6% from 2010 to 2016. As can be seen in Chart 1, this increase was largely driven by a rise in employee income.



The distribution of income by gross income quintiles shows that the highest three quintiles derived most of their income from employment income (see Chart 2). On the contrary, the bottom two quintiles relied significantly on pensions and regular social transfers. Income generated from productive engagement in the labour market, either as employees or self-employed, amounted to only 7.4% of total income of the bottom quintile, drastically less than the 84.8% for the top quintile. Although the median income increased across all quintiles since 2013, the most significant increase was estimated for those households in the fourth quintile, where median income is estimated to have grown by 12.4% on 2013.



During 2016, the share of households stating that their annual expenses were lower than their income increased when compared to previous rounds. This ability-to-save indicator shows that 45.6% of households managed to save part of their gross households' income, up from 36.6% in 2013, and 23.7% in 2010. Moreover, the survey shows that the share of households who are able to get financial assistance from friends or relatives in case of an emergency increased from 60.3% in 2013 to 62.8% in 2016.

Assets

The survey makes a distinction between real and financial assets. Real assets include the value of the household main residence, other holdings of real estate, value of self-employment businesses, as well as the value of vehicles and other valuables of all household members. Financial assets consist of deposits, mutual funds, bonds, equities, voluntary private pension plans, as well as money owed to households as private loans.

At 86.7%, real assets continued to constitute the largest share of households' total assets, with financial assets accounting for the remaining 13.3%. When compared to the previous two waves of the survey, these ratios remained broadly unchanged.

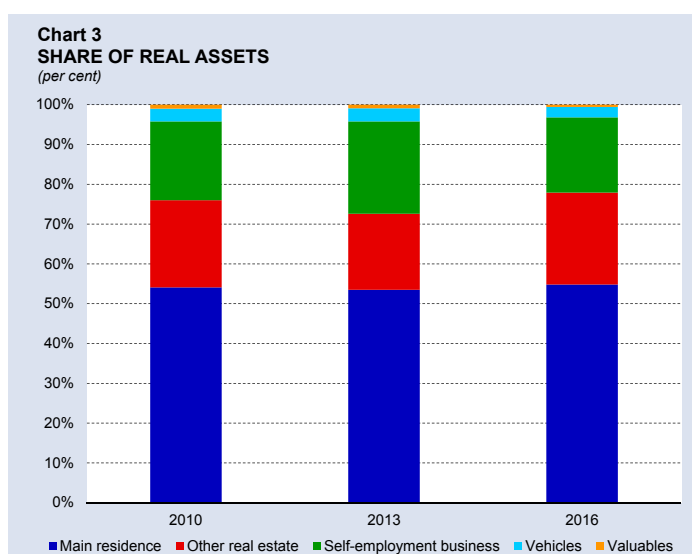
Real assets

The share of households holding some form of real assets increased from 93.3% in 2013 to 95.4% in 2016. In monetary terms, the median value of real assets held by Maltese households increased from €193,511 in 2010 to €225,752 in the latest wave. The conditional mean value, which is based on households who own real assets, stood at €382,895 in 2016.

“Around 78% of all households’ real assets are in real estate properties”

Chart 3 shows that around 78% of all households' real assets are in real estate properties.⁵ When compared to 2013, this share rose by 5.3 percentage points, predominantly on the back of increasing assets in the form of other real estate properties. Nevertheless, households' main residence constitutes the most valuable real asset in the household asset portfolio with the perceived median value increasing from €180,600 in 2013 to €200,000 in 2016. This value is more than double the median value of other real estate properties, which at €87,501, is the second most valuable real asset. Self-employment businesses come third, with a median value of €74,736, while the values for vehicles and valuables are, as expected, markedly lower.

Overall, the highest median value for real estate asset holdings is reported for those aged between 55 and 64 years. At the same time, the most valuable total real assets were held by those aged between 35 and 64 years. The value of assets was also found to be positively associated with income and net wealth, and it is considerably larger for households with self-employed reference persons in comparison to other employment statuses (employees, retired persons or unemployed).



⁵ Real estate properties include the household's main residence and any other real estate asset held by any member of the household.

Financial assets

According to the latest survey, 97.1% of all households held at least one type of financial asset, two percentage points more than in 2013. The median value of financial assets stood at €22,512 while the conditional mean value was estimated at €57,498, which is slightly higher than the unconditional mean of €55,823. In relative terms, both means are significantly larger than the median, indicating a high positive skewness of the distribution. This is further confirmed by a steeper increase in the financial assets holding, especially above the 75th percentile.

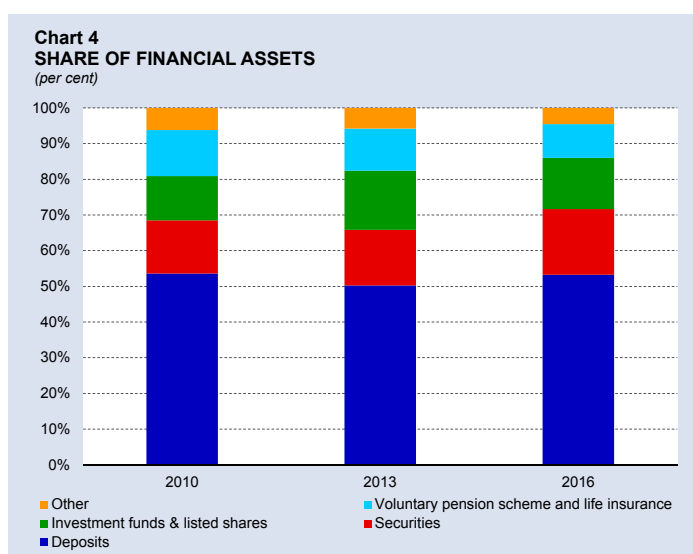
Bank deposits are the most commonly held financial assets by households. Indeed, bank deposits were the most prevalent financial asset with a holding rate of 96.4% of all sampled households in 2016. Deposit holdings are also widespread in lower income and wealth quintiles, where the participation rate exceeds 90%. Ownership rates of other forms of financial assets were relatively limited; securities were owned by 21.7% of all households, while around 15.9% of households held mutual funds and listed shares. Furthermore, 13.3% of households disclosed that they were covered by a voluntary pension scheme or by a life insurance policy.

“Bank deposits accounted for 53.3% of all financial assets in 2016, slightly higher than in the previous wave”

Chart 4 shows that bank deposits accounted for 53.3% of all financial assets in 2016, slightly higher than in the previous wave. In 2016, the share of securities and investment funds & listed shares stood at 18.4% and 14.3%, respectively. When compared to 2013, the share of securities increased, whereas the shares of investment funds & listed shares – which are considered riskier – declined.

When looking at the distribution of financial assets by net wealth quintiles it emerges that deposits account for close to 90% of all financial assets held by the bottom quintile. This share decreases gradually as wealth increases. By contrast, an inverse relationship is noted with regards to securities, mutual funds and listed shares, which tend to account for a more sizeable share of financial asset holdings in the wealthier quintiles.

Ownership of financial assets and their portfolio allocation is linked to a combination of a household's characteristics, such as household income and financial literacy. However, households' investment in more complex assets such as financial securities, funds or voluntary pension funds is likely to reflect other factors including educational attainment, risk appetite, age and employment status of the reference person. An assessment of the different components of financial asset holdings by the age of the household's reference person also confirms the prevalence of deposits. On average, ownership of bank deposits exceeds 95% across all age cohorts. Holdings of securities increases up to the 45-54 year age group and levels off thereafter. Furthermore, those aged between 35 and 44 years are the cohort most covered by pension schemes or life insurance.



Household debt

According to the survey, 34.2% of all households had some form of liability in 2016. The median value of total household debt, which includes both mortgage and non-mortgage debt such as debt on credit cards and other assets, was estimated at €40,000, significantly higher than in the previous wave. The unconditional mean of household liabilities amounted to €21,877, while the conditional mean – the mean value of debt for those households having some form of debt – stood at €63,937.

“34.2% of all households had some form of liability in 2016”

Comparison with the previous two rounds suggests that the increase in the median value of total debt was predominantly driven by higher mortgage debt, whereas non-mortgage liabilities remained small in comparison. The median value of mortgage debt stood at €80,000 in the latest wave. Overall, 20.8% of households held mortgage-related debt. While participation in non-mortgage debt exceeded that of mortgage debt, the median value of the former stood at only €3,502.

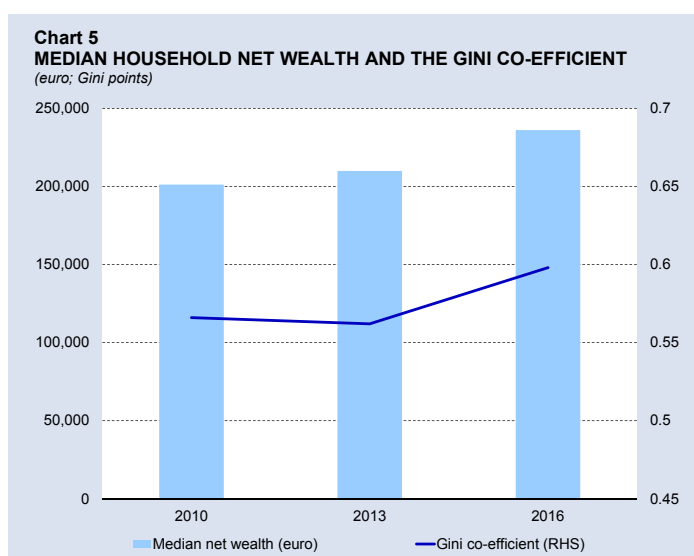
The median mortgage debt-to-gross household income ratio stood at 221.7% in 2016, an increase of 8.8% from the previous wave. This increase reflects the above-mentioned increase in median mortgage debt, which may partly reflect increasing property prices and longer loan maturities. Notwithstanding the increase in the median mortgage debt, the mortgage debt servicing cost as a proportion of the gross household income of indebted households was estimated at 14.5%, only half a percentage point more than in the previous round, reflecting declining interest rates.

Net wealth

“Estimated household median net wealth, which is defined as the total holdings of real and financial assets net of liabilities, stood at €236,529 in 2016”

The estimated household median net wealth, which is defined as the total holdings of real and financial assets net of liabilities, stood at €236,529 in 2016. At the same time, the average net wealth was calculated at €402,611. Both values vary considerably across wealth quintiles; the median net wealth value of the lowest quintile of households stood at €12,612, increasing to €366,585 for the fourth quintile, before almost doubling to €692,554 for the wealthiest quintile of households.⁶

Since the first wave, the median value of net wealth increased across all household quintiles. However, while average net wealth rose by 24.0% over the three waves, the increase in the median value was less steep, up by 17.5% from 2010. The HFCS-based Gini coefficient, which measures inequality, shows that in 2016, inequality in household net wealth edged up to 0.60, up from 0.57 in 2010, indicating a marginal increase in the level of wealth inequality over the last two waves of the Survey (see Chart 5).



⁶ Skewness of wealth is common across countries and surveys. For a more detailed treatment of this subject, see HFCN (2016a, 2016b), Boldizsár et al. (2016) and Fessler et al. (2017).

The survey also indicates that net wealth varies according to the age of the reference person, with median net wealth peaking in the 45-64 age bracket, before declining again for the older age cohorts. Net wealth is also positively associated with the size of the household. Households whose reference person is self-employed or with a tertiary level of education also tend to report a higher value of net wealth.

Conclusion

The Survey provides valuable information that is not available from official statistics, thus opening up various avenues for research. The Central Bank of Malta has already published on its website more detailed results of the third wave of the Survey (Attard and Georgakopoulos, 2019), while Georgakopoulos (2019) studies the evolution of income and wealth inequality using data from the three waves of the survey.

A number of caveats need to be highlighted in the interpretation of the results. The main limitation of the HFCS relies on the subjective self-assessed valuation of assets, including real assets and self-employment businesses. Moreover, as with other countries, wealth tends to be relatively unevenly distributed, and hence a relatively small number of households possess a larger portion of total wealth. In order to capture these households correctly, over-sampling of wealthier households is usually conducted in countries where administrative data sources are available. This over-sampling exercise was not possible in the case of Malta since administrative data was not available to the statisticians of the survey.

Currently, the Central Bank of Malta is making the necessary preparations for the collection of data for the fourth wave of the HFCS, which is scheduled to commence in the last quarter of 2020.

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