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HOUSEHOLD FINANCE AND CONSUMPTION SURVEY 2017: A COMPARISON OF THE MAIN RESULTS FOR MALTA WITH OTHER PARTICIPATING COUNTRIES

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HOUSEHOLD FINANCE AND CONSUMPTION SURVEY 2017: A COMPARISON OF THE MAIN RESULTS FOR MALTA WITH OTHER PARTICIPATING COUNTRIES

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This article compares the main findings from the third wave of the HFCS for Malta with those for the other participating countries. Results show that in 2016 the median Maltese household held more real and financial assets, and more total liabilities, than households in most other countries, although the number of indebted households was far less than most European countries. Nevertheless, the debt-to-asset ratio indicates that Maltese households have a significantly higher amount of assets to back their debt. Largely reflecting the higher prevalence of homeownership and to a lesser extent, investment in other property, the median net wealth in Malta was estimated to be significantly higher than most other European countries, while inequality in households' net wealth was notably lower. At the same time, gross income of Maltese households stood lower when compared to a number of other nations, though the share of Maltese households stating that their regular expenses were lower than their income was comparable to that in countries like Germany and France.

Introduction

In 2017, the Central Bank of Malta carried out the third wave of the HFCS. 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 involving national central banks of all euro area countries and selected non-euro area EU member states.[3] The reference year for Malta was 2016, while for most other countries it was 2017. The survey provides detailed information on households' real and financial assets, their liabilities, net wealth, income and consumption.

This article compares the main findings of the HFCS for Malta with those of the other participating countries.[4] The total sample across the participating countries consisted of over 91,000 households, varying from 1,004 households in Malta to 13,685 in France. The sampling of the HFCS includes only private households, as persons living in institutions were not included in the sampling frame.[5] Following the methodological guidelines of the Household Finance and Consumption Network (HFCN) in all three waves, surveys have a probabilistic sample design and are thus representative of the populations surveyed. The sampling designs, however, vary across countries, with stratification of the population prior to sample selection being the most commonly-used practice. Malta and The Netherlands were the only two countries where a systematic sample selection was implemented.

In the 2017 wave, 12 countries including Malta had a panel component, that is, households that also participated in the second wave. In Malta, the panel component consisted of 539 households. The overall response rate in

[1] The authors 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 findings of the first three waves of the HFCS conducted in Malta, including previous research, are available on the Bank's website, here.

[3] The participating countries include; Belgium (BE), Germany (DE), Estonia (EE), Ireland (IE), Greece (GR), Spain (ES), France (FR), Croatia (HR), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), The Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Slovenia (SI), Slovakia (SK) and Finland (FI).

[4] More detailed information on the HFCS can be retrieved from the ECB's website, here.

[5] Population in institutions include persons living in homes for elderly people, military compounds, prisons and boarding schools, amongst others.

Malta was of 64.8%, whereas response rates across countries varied from as low as 31.5% in Germany up to 77.4% in Finland.

The remainder of this article presents a comparison of Malta's results with all other participating countries and focuses on households' demographic characteristics, assets, liabilities, net wealth and income. It also reports on households' consumption patterns and their ability to save. The concluding section summarises the key results of this study and delineates a number of limitations of the Survey.

Household characteristics

In the euro area as a whole, around 66% of households are composed of one or two members. In Malta, this share stands at 54%. The distribution of household size is quite consistent across the participating countries, with only Poland and Slovakia shown to have slightly higher percentages of households having three or more members (see Table 1).

"Approximately one fifth of Maltese reference persons hold a tertiary level of education"

On average, 58.7% of the reference persons in the euro area declared to be in employment, with cross-country figures oscillating between 48.7% in Croatia and 67.2% in Slovakia. In line with the observed rates, in Malta we find that 63.5% of respondents were in employment in 2016. With regards to educational attainment, survey results show that persons with a tertiary level of education are much less than the number of reference persons with no or basic education; this is true for all participating countries. The share of

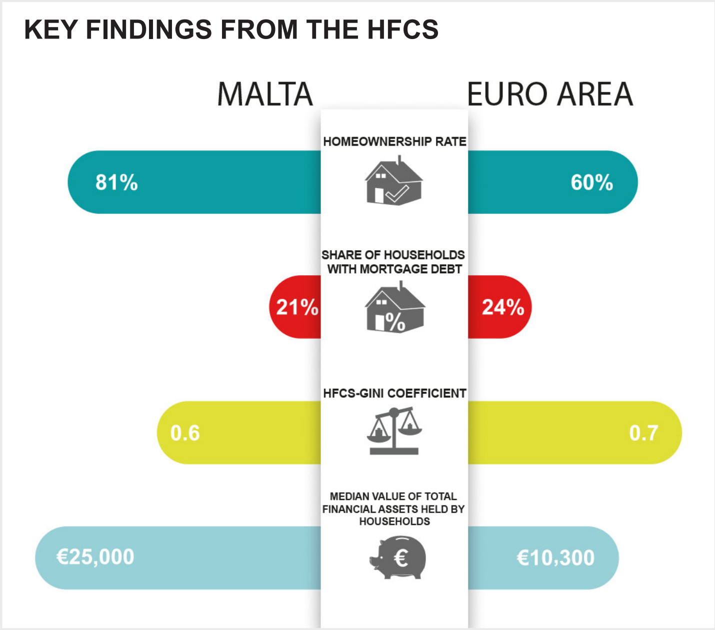


Table 1
HOUSEHOLD STRUCTURE
(Percentage of households)

	EA	BE	DE	EE	IE	GR	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI
Household size																							
1 and 2 persons	66	66	75	66	57	55	56	68	52	60	52	65	71	61	62	54	71	72	50	55	58	47	76
3 and more persons	34	34	25	34	43	45	44	32	48	40	48	35	29	39	39	46	29	28	50	45	42	53	24
Work status of reference person(1)																							
In employment	59	56	66	65	64	51	55	53	49	57	65	64	59	66	63	64	63	58	64	59	56	67	53
Other	41	44	34	35	36	49	46	47	51	43	35	36	41	34	37	37	37	42	36	41	44	33	47
Education level of reference person(2)																							
Non-tertiary	71	54	67	62	59	76	67	70	84	87	72	66	58	64	75	79	62	76	74	81	74	76	67
Tertiary	29	46	33	38	41	24	33	30	16	13	28	34	42	36	25	21	38	24	26	20	26	24	33

Source: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

The table shows weighted household structure of the HFCS samples.

(1) The 'In employment' category comprises of reference persons who are either employed or self-employed. The 'Other' category includes reference persons who are: unemployed, retired, students, permanently disabled, doing compulsary military service, fulfilling domestic tasks, or not working for pay in other ways.

(2) Educational attainment is measured on the basis of the ISCED-2011 scale, ranging from 0 to 8. The 'Non-tertiary' category is composed of reference persons with ISCED scale 0 to ISCED scale 4, while the 'Tertiary' category refers to ISCED scale 5 to ISCED scale 8.

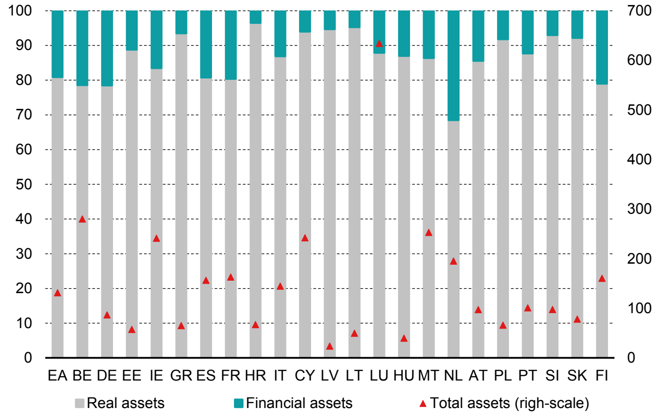
population with a tertiary level of education ranges from 13.3% of Italian respondents to 46.3% in Belgium. Domestically, approximately one fifth of Maltese reference persons hold a tertiary level of education, which is one of the lowest rates observed among EU countries.

Household assets

One of the main contributions of the HFCS is the collection of information on households' assets, precisely on the characterisation of real and financial assets. In the euro area, the median value of households' total assets was estimated to stand at €131,300. This figure was almost half the self-declared value for Maltese households, which stood at €252,800 (see Chart 1). Heterogeneity amongst participating countries is notable, with the median asset value ranging from €23,600 in Latvia to €634,000 in Luxembourg.

Overall, the composition of assets for the observed countries is consistently and heavily based on real assets. In fact, survey results showed that 80.9% of households' assets consisted of real assets in the euro area, with the lowest of these shares found in The Netherlands (68.5%) and the highest in Croatia (96.5%). Figures for Malta are well in line with other countries, where the share of real assets on total assets stood at 86.4%.

Chart 1
COMPOSITION OF ASSET HOLDINGS AND MEDIAN VALUE OF TOTAL ASSETS HELD
(EUR thousands; percentage ot total assets)

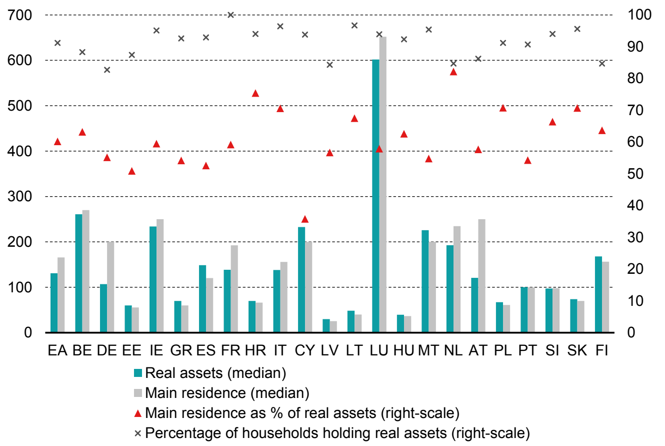


Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

Real assets[6]

According to results from the third wave of the HFCS, the percentage of households stating to have held some type of real asset stood at 91.2% in the euro area (see Chart 2). This ranged from 82.7% in Germany to 100% in France, implying that all French citizens interviewed stated that they held some type of real asset. In Malta, 95.4% of responding households reported to have some form of real assets. The median value of real assets in the euro area was estimated at €131,000, much less than the €225,800 reported in Malta. Malta's median value compares closely to Ireland's €233,900 and the €232,700 reported by Cypriot households. However, cross-country heterogeneity prevails. The lowest figures were observed in Latvia (€29,900)

Chart 2
TOTAL REAL ASSETS AND MAIN RESIDENCE
(EUR thousands; percentage)

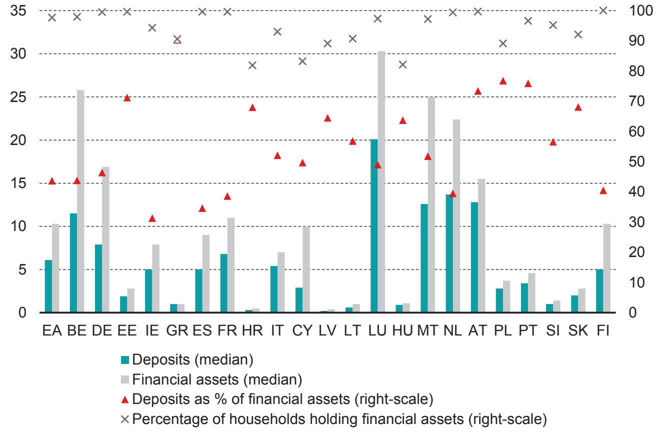


Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

[6] Real assets comprise of the household's main residence, other real estate properties, vehicles, valuables and self-employment business.

and Hungary (€39,400). Luxembourg definitely stands out, recording a median value of real assets of over €600,000. Survey results indicate that for the majority of participating countries, the households' main residence constitutes the most valuable real asset in households' asset portfolio. More than 60% of households' total real assets were taken up by their main residential property in the euro area. This percentage was highest in The Netherlands at 82.2% and lowest in Cyprus at 35.8%. In Malta, households' main residence accounted for 54.8% of total real assets.

Chart 3
TOTAL FINANCIAL ASSETS AND DEPOSITS
(EUR thousands; percentage)



Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

"The median value of real assets in the euro area was estimated at €131,000, much less than the €225,800 reported in Malta"

Financial assets[7]

The share of interviewed households holding some type of financial asset, predominantly bank deposits, is very high throughout the observed countries, exceeding 90% in most cases (see Chart 3). In Malta, this figure stood at 97.2%. The median value of total financial assets held by euro area households was estimated to be €10,300. Once again, this amount varied significantly across all participating countries. Median financial assets varied from as low as €500 or less in Latvia and Croatia, to over €30,000 in Luxembourg. In Malta, the median value of financial assets was the third highest in the euro area at €25,000.

Bank deposits constituted 43.7% of the total financial assets of euro area households, varying from 31.3% in Ireland to 90.3% in Greece. In Malta's case, bank deposits made up 51.8% of households' financial assets by the end of 2016. In line with our previous findings, the median value of deposits was found to be the lowest in Latvia and Croatia with €200 and €300 respectively, and the highest in Luxembourg with €20,100. At €12,600, the median value of deposit holdings in Malta was more than double that of the euro area, which stood at €6,100, and compared closely to The Netherlands' €13,700 and Austria's €12,800.

"In Malta's case, bank deposits made up 51.8% of households' financial assets by the end of 2016"

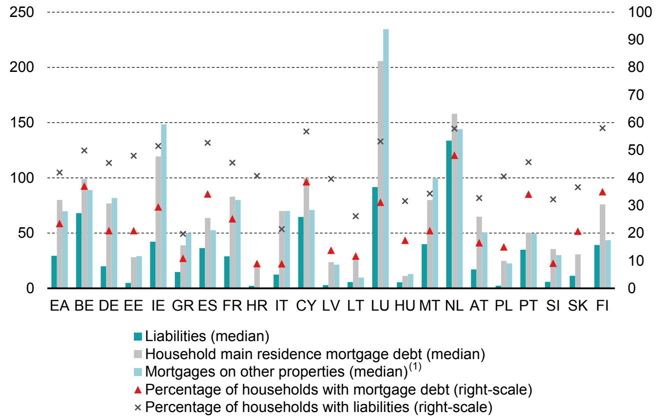
Household liabilities[8]

The percentage of indebted households in the euro area stood at around 42%, ranging from roughly 20% in Italy and Greece, to around 58% in The Netherlands and Finland (see Chart 4). In Malta, the percentage of indebted households stood at 34.3%, having a median debt level of €40,000. This was higher than the €29,500 median reported in the euro area. Across countries, the median level of indebtedness varied significantly, with the lowest of just above €2,000 in Croatia and Poland, and the highest in The Netherlands, with €133,700.

[7] Financial assets refer to bank deposits, mutual funds, bonds, shares, money owed to the household, voluntary pension/whole life insurance and any other types of financial assets.
[8] Total liabilities include mortgages collateralised on household's main residence, mortgages collateralised on other real estate property owned by the household, non-mortgage loans, credit lines/bank overdrafts debt and credit card debt.

The percentage of households having mortgage debt, which was the main type of liability held by respondents, stood at 23.5% in the euro area and 20.9% in Malta. This type of debt was mostly driven by household main residence mortgage debt. The median outstanding balance on household main residence mortgages in Malta amounted to €80,000, similar to the average for the euro area. As for the rest of the countries, household main residence mortgage debt medians spanned from €11,300 in Hungary to over €200,000 in Luxembourg. Although the median level of outstanding balance on household main residence mortgages in Malta was broadly in line with the euro area average, the median level of debt on other properties in Malta, at €100,000, exceeded the reported euro area average of €69,800. Malta's figure was the fourth highest reported in all participating countries.

Chart 4
LIABILITIES AND MORTGAGE
(EUR thousands; percentage of households)



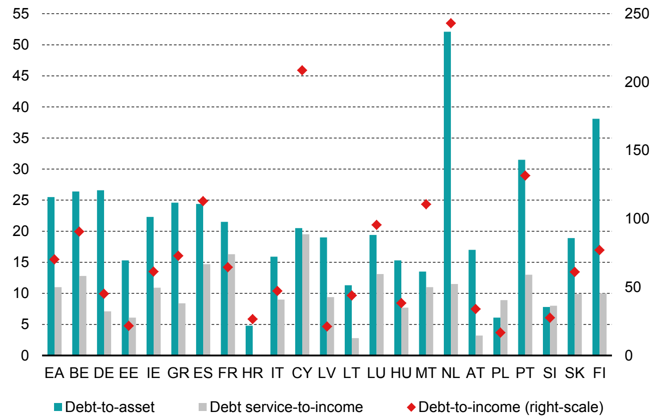
Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.
(1) Too few observations for HR and SK.

"The percentage of households having mortgage debt, which was the main type of liability held by respondents, stood at 23.5% in the euro area and 20.9% in Malta"

Financial burden indicators

When assessing the debt burden, the debt-to-asset ratio[9] was 25.5% in the euro area (see Chart 5). The ratio for The Netherlands was the highest at 52.1% and that for Croatia was the lowest at 4.8%. The ratio for Malta was found to be 13.5%, which is one of the lowest among the participating countries. Meanwhile, the debt-to-income ratio[10] in the euro area stood at 70.3%. This ratio exceeded 100% in Malta, Spain, Cyprus, Portugal, and The Netherlands. On the other hand, this ratio was below 30% in Estonia, Croatia, Latvia, Poland and Slovenia. Furthermore, the debt service-to-income ratio[11] ranged from 19.5% in Cyprus to 2.8% in Lithuania, with Croatia reporting a zero ratio. In Malta, this ratio was estimated to be 11.0%, equalling the euro area average.

Chart 5
FINANCIAL BURDEN INDICATORS, MEDIAN RATIOS
(percentage of indebted households)



Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

9 This is the ratio of total liabilities to total gross assets, and is defined for indebted households.
10 This is the ratio of total liabilities to total gross household income, and is defined for indebted households.
11 This is the ratio of total monthly debt payments to household gross monthly income, and is defined for indebted households.

BOX 1: HOUSEHOLD NET WEALTH, HOMEOWNERSHIP AND INEQUALITY

The estimated household median net wealth in Malta, which is defined as households' total assets net of liabilities, stood at €236,100 as at end 2016. This is more than double the euro area median value of €99,400 and second highest in Europe following Luxembourg's €498,500 (see Chart 6). Nonetheless, there exists substantial heterogeneity across Europe, with the lowest value being €20,500 in Latvia.

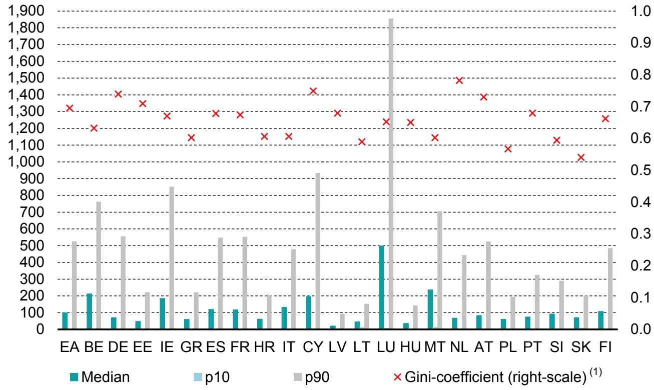
"Net wealth is significantly linked to homeownership, as households who were owners of their main residence had a much higher level of net wealth"

Survey results clearly indicate that net wealth is significantly linked to homeownership, as households who were owners of their main residence had a much higher level of net wealth. In the euro area, the home-ownership rate was estimated to be around 60% and the median net wealth of homeowners stood at €203,000, as opposed to just €9,000 for non-owners (see Chart 7). Such divergence is observed in all countries. The homeownership rate in Malta was estimated at 81.3% and the median net wealth of Maltese households who own their main residence stood at €290,100, as opposed to €10,000 for other households. The higher value of net wealth in Malta can also be partly explained by the composition of the typical Maltese household, which tends to be composed of a larger number of adults. One reason for this is that the Maltese take longer to move out of their parents' homes when compared to their European counterparts.

The net wealth inequality varies notably across countries. The HFCS-based Gini coefficient – a measure of statistical dispersion for inequality - suggests that inequality in the euro area stood at 0.695, ranging from 0.54 in Slovakia to 0.78 in The Netherlands (see Chart 6).

In Malta, inequality in households' net wealth stood at 0.602 in 2016, notably lower than the euro area average (see Chart 6). This is

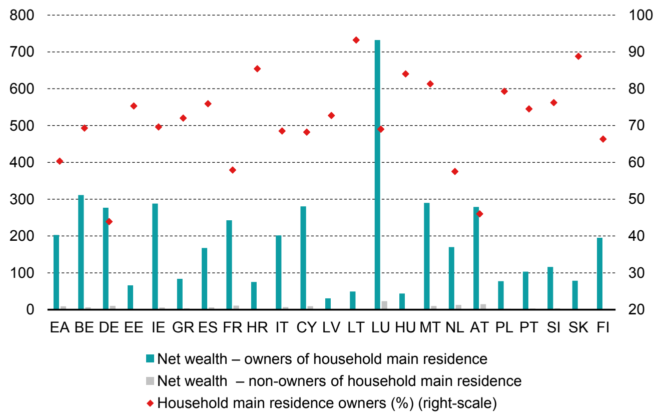
Chart 6
NET WEALTH AND INEQUALITY
(EUR thousands)



Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

(1) The Gini coefficient corresponds to the normalised area between the Lorenz curve of the distribution and the 45 degrees line. This coefficient is bound between 0 and 1, where the higher the value, the more unequal a society is.

Chart 7
NET WEALTH MEDIANS BROKEN DOWN BY OWNERSHIP OF HOUSEHOLD MAIN RESIDENCE
(EUR thousands; percentage ot total households)



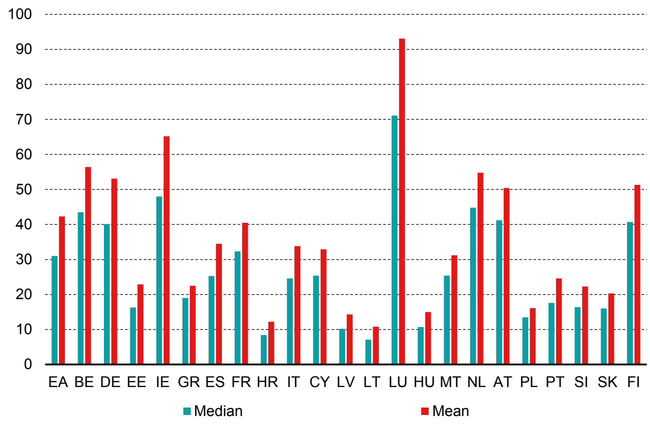
Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

consistent with findings from others surveys, such as the Survey on Income and Living Conditions (Darmanin, 2018). Furthermore, inequality across European countries is evident when comparing net wealth of the bottom 10% of households to the top 10%. The former households have a net wealth of less than €3,000 in all countries, apart from those in Malta (€11,000), Lithuania (€10,900), Slovakia (€7,700) and Luxembourg (€7,100). Conversely, the top 10% of households in Europe have a net wealth of at least €150,000. Luxembourg is a clear outlier, whereby the top 10% of households have a net wealth of over €1.8 million. For more information on inequality in Malta see Georgakopoulos (2019).

Household income, consumption and ability to save

The annual household gross median income[12] for the euro area was estimated at €31,000, although such figures must be interpreted with caution since cross-country comparisons reveal pronounced differences. Namely, the analysis shows that median income ranged from values as high as €71,100 in Luxembourg to below €9,000 in Lithuania and Croatia. In Malta, the median gross income for Maltese households was estimated at €25,400, below the euro area value but in line with the median income in other Mediterranean countries (see Chart 8).[13] Furthermore, when analysing income in net terms, the gap between Malta and the euro area narrows as Malta's implicit tax rate on labour was amongst the lowest in Europe in the period under review.[14]

Chart 8
ANNUAL GROSS INCOME PER HOUSEHOLD
(EUR thousands)



Sources: ECB-HFCS Statistical Tables (wave 3) and authors' calculations.

"The median gross income for Maltese households was estimated at €25,400"

According to the Survey, the overall annual median household spending in the euro area on food consumption stood at €5,200 and expenditure on utilities stood at €2,500. Malta's expenditure on food is higher at €6,800 whereas expenditure on utilities is lower at €1,500. These results are broadly consistent with the findings in the 2015 Household Budgetary Survey (HBS).[15] Malta's food consumption expenditure was the third highest following Luxembourg and Ireland. Conversely, Malta's expenditure on utilities was the third lowest following Latvia and Lithuania, partly on account of relatively cheaper tariffs and possible lower energy consumption due to milder winters.

With regards to savings, the share of Maltese households stating that their regular expenses were lower than their income was 45.6%. Notable heterogeneity across Europe can be noted; only 15.5% of all Greek households reported that their income is higher than their expenses as opposed to a high of 65.2% in Luxembourg. Malta's figure compares closely to Germany's 49.3% and France's 43.3%.

[12] 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 of all members within the household.

[13] More information on studies focusing on income developments in Malta using administrative or survey data is available in Knoppe (2018) and Darmanin, Georgakopoulos, & Knoppe (2018).

[14] In 2017, Malta's implicit tax rate on labour stood at 23.5%, compared to 38.5% and 36.2% in the euro area and European Union, respectively. This result is driven by relatively low social security contributions, especially from employers. Further details are available here.

[15] For more information, please click here.

Conclusion

The HFCS provides valuable information on households' consumption and finances, including information on their assets and liabilities. Consequently, it enables a deeper understanding of individual behaviour and provides insight into the transmission mechanism of monetary policy, as well as issues related to financial stability in the euro area. Against different macroeconomic and socio-demographic backgrounds, the survey results highlight heterogeneous developments between Malta and other countries. Moreover, differences between countries in statistics of interest must be assessed against relevant institutional differences and cultural preferences.

Results from surveys need to be interpreted with caution due to a number of caveats. The main limitation of the HFCS relies on the subjective self-assessed valuation of assets. Whilst perceptions and preferences are crucial for understanding individual economic behaviour, such self-assessments are normally imprecise. Furthermore, wealth differences across countries may have also arisen from the size and composition of households participating in the survey. The use of households instead of per capita basis as a unit of measurement of wealth may explain why Maltese households scored highly in terms of wealth, which is predominantly in the form of real estate assets and not in income. Due to a relatively small sample size in Malta, another limitation of the Survey relates to a possible lack of representation of particular population sub-groups. The latter is a concern, particularly when capturing households of foreign nationals living in Malta and other sub-categories that make it difficult to extract meaningful results from a small number of observations.

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 expected to have 2020 as the reference year. The process will commence in November 2020.

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