

POVERTY WATCH REPORT 2/24

MAY 2024

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I – FINDINGS

Between the months of January and April 2024, several reports and studies were published by European and Maltese entities which highlighted the economic situation in Malta with regards to poverty and the cost-of-living. The topics which featured in these reports will be covered by this Poverty Watch report and are as follows (a) Nominal vs real wages (b) Inflation and low-income households and (c) Disadvantaged Groups.

NOMINAL VS REAL WAGES

At the end of 2023 and beginning of 2024, a number of reports recorded an increase in wages across the board. In the last quarter of 2023, the NSO reported that the average monthly gross salary was of €1,837 or €22,044 annually, compared to the monthly salary of €1,785 recorded in the last quarter of 2022¹. (i) The average monthly salary in 2023 varied from €1,120 for those employed in elementary occupations to €2,959 for managers. With regards to the minimum wage, this increased by 10.8% between 2023 and 2024², that is, it increased to €854.16 per month, compared to €810.52 in 2023 (both figures include the respective COLA amounts). Increases in the minimum wage were also observed in most countries of the EU. These increases can be attributed to the increase in inflation as well as to the minimum wage directive introduced by the EU in 2022. This directive set a two-year process for EU countries to implement measures to ensure adequate statutory minimum wages, to promote collective bargaining on wage setting and improve access to minimum wage protection for entitled workers². The directive also set four main factors to be considered for its proper implementation. These are: (a) purchasing power and the cost of living, (b) general level of wages and their distribution in the country, (c) the growth rate of wages and (d) long-term productivity levels and developments. However, the statistics presented here, especially those reporting on the average wage, normally refer to gross nominal wages and not the net wages. Therefore, the amounts presented do not include the normal deductions on wages such as tax deductions and social contributions. They also do not factor in the true value of wages, which are impacted by inflation rates.

Two reports, one by the European Commission³ and the other by KPMG⁴, compared the rate of growth, or otherwise, of nominal and real wages. Nominal wage growth refers to an increase in wages which is not adjusted for inflation, so this type of increase would be the actual amount of the increase in a wage, whereas real wage growth takes inflation rates into account, therefore translating what this wage increase would mean related to the increase in costs which inflation brings about. The latter

ⁱ References can be seen in the appendix section at the end of the document.

wage would be reflective of a person's spending power. In 2022, the nominal wage growth in Malta was of 2.8%, however real wages decreased by 2.4%³. A similar trend occurred in 2023, where the nominal wage increased to €22,032 from the previous year, therefore increasing by 1.5%. However, consumer prices also increased to 5.7% in the same year, meaning that the purchasing power of families and individuals was negative overall, as the growth in prices surpassed that of the wages⁴. Therefore, there was a slight dip of 0.46% in terms of real wages, as the yearly increase was not sufficient to match or surpass the elevation in prices. The European Commission⁵ also published similar results indicating that between January of 2022 and July of 2023, while nominal wages in Malta increased by 5.41%, real wage growth decreased by 9.55%.

"Whenever Lara (pseudonym) goes to the supermarket, her heart sinks as she walks along the aisles and scans items for the cheaper prices. Like many others, she is counting the pennies. She was not this price-conscious a few years ago. She would just pick the brands she and her family were used to, without taking note of costs. But things are different now because "everything has shot up in price". She does not work at the moment, as she is caring for her two children. Her husband's salary was once enough. Now it is stretched to the limit.

'I definitely feel the financial strain. I feel my heart sink every time I go to the supermarket and when something extra comes along, such as an appliance that needs to be replaced, I wonder whether we really need it. I've stopped buying anything extra for myself so that I make sure my kids have everything they need and can continue to do extracurriculars. The other day my son asked me if we were poor, because I say 'no' to a lot of things or explain that we cannot afford that right now.'"

SOURCE: Excerpt from an interview carried out by the *Times of Malta*

<https://timesofmalta.com/article/the-ricewage-gap.1090629>

Another dataset by the Eurostat⁶ also highlighted the low value of wages in Malta. In 2023, the average hourly labour cost in the EU was of €31.80. In comparison, the average hourly labour cost in

Malta was of €18.20. The report from KPMG also shows how real wages had stagnated, even before the Covid-19 pandemic and the rise of inflation following the war on Ukraine. In 2023, nominal wages increased from the €18,967, which they stood at in 2018, to €22,032. However, real wages failed to grow at the same rate and they increased from €18,254 in 2018 to €18,359 in 2023, therefore only increasing by €105 in 5 years⁴. Additionally, in Malta, the impact which social transfers (such as family, work and sickness benefits and allowances, excluding pensions) have on reducing poverty remains below the EU average, being the 6th lowest. In 2021, the percentage impact was of 26.2%, compared to 37.1% in the EU. In 2022, while this percentage increased to 26.4% it remained below the EU average of 35%⁷.

INFLATION AND LOW-INCOME HOUSEHOLDS

Overall, inflation in Malta continued to decrease in 2024. The rate of inflation decreased from 3.2% in January, to 2.3% in February, to 1.9% in March and down to 1.6% in April⁸. The lowest contributor to the annual rate of inflation throughout these months was registered for transport and communication. Similarly, food remained the highest contributor to the annual rate of inflation, however this contribution decreased from 1.95 percentage points (pp) in January to 0.96 pp in April. This reduction could be attributed to a scheme through which the Ministry for the Economy collaborated with food importers and retailers to absorb the costs for specific food items and reduce the recommended retail price by 15%. The aim of this scheme is to stabilise the prices of food items, specifically of around 400 products which were identified to be the most consumed by families in Malta⁹. This price-fixing scheme was implemented on the 1st of February and, therefore, the notable reduction in the inflation rate which was recorded between January and February by the NSO could be attributed to it. This scheme is set to continue till October 2024, at a time when the inflation rate is expected to be lower and when the new budget will be introduced. In their recent report⁴, KPMG also commented on this scheme and noted that the consequences of its withdrawal are yet to be seen, due to its impact on food price controls.

A report by the Central Bank of Malta¹⁰ (CBM) indicated that, similarly to statistics on nominal wages, measures which describe inflation rates, such as the retail price index (RPI), may not accurately reflect the financial situation of families and individuals. This is because the RPI is usually calculated by taking into account price increases on a basket of goods and services based on the average total household expenditure. This can overlook the variety in consumption of different household types and might fail to represent them all equally as, typically, the expenditure of high-income households tends to skew the results due to their higher level of spending. It is especially important to consider this when comparing low- and high- income households as they generally have different types of expenditure. According to the report by the CBM, basic commodities such as food, housing, energy

and health make up the largest share of expenditure for low-income households when compared to average households. On the other hand, high-income households spend their largest share of expenditure on luxury items such as recreation, culture, restaurants, hotels and transport. Therefore, when food inflation is elevated, it places a proportionally higher burden on low-income households than that reflected in statistical measures of inflation, creating a situation where measures such as the RPI may not accurately represent the actual cost-of-living increases faced by low-income households, especially during periods where inflation on basic commodities is particularly high. This creates a situation where the needs of those in more vulnerable positions are not represented and prioritised as they should be.

DISADVANTAGED GROUPS

The European Commission's country report³ indicated that, over the past decade, income inequality has increased in Malta. In 2020, the share of total income received by 20% of the population within the highest income bracket was 4.69 times higher than that of the 20% within the lowest income bracket. In 2021, this increased to 5.03 times, in comparison to 4.97 in the EU. Additionally, Malta scored a Gini co-efficient (see footnote below for the definitionⁱⁱ) of 31.1 when compared to that of the EU (29.6), meaning that, in Malta, income is typically distributed less equally when compared to other EU countries¹¹ even when taking social transfers/benefits into account¹².

Malta's progress with regards to the first sustainable development goal (SDG 1), which aims to end extreme poverty, is positive overall as the goal has already been achieved¹³. When looking at Malta's progress between 2022 and 2024, however, there has been a stagnation in the percentage of the population living on €3.40 or less a day. Similarly, the European Commission reported that the number of individuals who are AROPE (at risk of poverty and social exclusion) remained steady in Malta between 2019 and 2022. Between 2022 and 2023 the percentage of individuals within the lowest income quartile who experienced financial distress in Malta also remained relatively stable with a slight increase in 2023¹⁴. However, the country report from the European Commission³ also indicated that, while the rate of people who are AROPE remains below the EU average, certain demographic groups tend to have a higher percentage of individuals who are AROPE. In 2021, 30.4% of non-EU nationals, 30.3% of low-skilled adults, 32.3% of women, 33.4% of people with disabilities and 29.9% of pensioners were AROPE. This is compared to the overall 20% of the total population

ⁱⁱ NB: The Gini coefficient is measured between 0 to 100. 0 means that income is distributed equally among everyone in the country and a 100 means that one person in the country possesses all income. (Therefore, the smaller the number the greater the equality.) Source: [Glossary: Gini coefficient - Statistics Explained \(europa.eu\)](https://europe.eu/glossary/gini-coefficient-statistics-explained)

which is AROPE¹⁵. When considering age groups, the Eurostat also reported that in 2022, the highest percentage of those who are AROPE are those aged 65 years and older (33.3%), followed by those aged between 50 and 64 years (20.5%) and those aged between 25 and 49 years (14.1%)¹⁵. A report by the International Monetary Fund (IMF)¹² reported similar findings and noted that, while the number of people who are ARP remained steady in Malta, this number increased for elderly populations. Therefore, the report called for the authorities to pay more attention to pensioners and elderly households. The European commission's country report³ also reported that, in 2021, the ARP rate was higher among workers with temporary contracts, those who work part-time and the self-employed. When it comes to children, in 2021, 23.2% of them were AROPE overall, which is below the EU average of 24.4%. However, children who live in single-parent households (52.6%) or whose parents were low-skilled (51.5%) were more likely to be AROPE. In 2023, the overall AROPE rate of children under the age of 18 increased to 25.2%, meaning that around 20,834 children in Malta are at-risk of poverty or social exclusion.

Emmanuel and Mary are an elderly couple who started receiving their pension following Emmanuel's retirement. Prior to retirement, Emmanuel worked within a job which paid a little over the minimum wage and was enough to sustain them, but he had to retire due to the physical nature of his job. Mary was out of employment for many years following the birth of her children.

The couple receives a pension of €655 per month, which is a significant reduction from their usual income. Most of their income is now spent on their basic needs, taking up around 60% of their pension, with monthly food and medicine expenses costing around €360 and €50 respectively.

After paying for utility bills, Emmanuel and Mary don't have many funds left for saving up. They started to cut down on unnecessary expenses, such as eating out at restaurants, as their biggest worry is when they might be faced with an unexpected and large expense.

When it comes to education, the country report indicated that students' socioeconomic background has a significant impact on their educational outcomes. The proportion of 15-year-olds underachieving in all three PISA (Programme for International Student Assessment) domains in Malta (22.6%) is

among the highest in the EU (13.2%). This percentage of underachievement is even higher amongst disadvantaged pupils (36.7%). This report also indicated that, in 2022, the percentage of those between 18 and 24 years of age who were early school leavers was of 10.1%.

In 2022, individuals who are AROPE were less likely to perceive their general health as being good. 57.9% of individuals who are AROPE perceived their health as being good, when compared to 81.3% of those who are not AROPE. They were also more likely to report suffering from physical and/or mental chronic illnesses (37% compared to 19.1%) and to face limitations due to health issues (19.7% compared to 6.9%).

Source: NSO (2022) EU-SILC – Salient Indicators – Mental well-being and health - <https://nso.gov.mt/eu-silc-2022-well-being-social-and-health-indicators/>

The report also indicated that 33.1% of individuals aged between 15 and 64 in Malta were low-skilled compared to 24.9% in the EU. Low-skilled adults aged between 18 and 64 years also had a low rate of participation in learning activities (3.8%), when compared to the EU (13.3%). Overall, 61.2% of adults had basic digital skills in Malta, however this percentage varied when educational level was considered. Among those with a low level of education, only 43.7% had digital skills compared to individuals with a medium (60.2%) and high level of education (92.8%).

II – COMMENTARY

The recent statistics on inflation bode well, as the inflation rate has steadily been dropping to more stable levels in the recent months. As noted in the previous Poverty Watch, food inflation is still the main contributor to the total rate of inflation. However, the food price-fixing scheme introduced by the Economy Ministry might be helping to reduce its impact. This can be noted by the sharp drop of 0.9% in the total inflation rate between January (3.2%) and February (2.3%) 2024. Similarly, the contribution of food costs on the annual inflation, albeit still being the highest, was reduced from 1.95 pp to 1.19 pp between the same two months. The effects of the interruption of this scheme on food inflation are yet to be seen, as it will need to be viewed in context of the inflation rates at the time and of the measures to be introduced in the 2025 Budget. Overall, it must be noted that while a reduction in the inflation rate is a positive outcome, food prices are still high and on the increase, albeit not at such a

high rate as in the previous months. This situation, coupled with the stagnation of real wages, still paints a difficult picture for some families and individuals.

Despite the numeric increases in wages recorded in the past years, the statistics presented demonstrate that the value of such wages has not only remained stagnant over the years, but it has been reduced by the recent increase in prices. This situation ultimately leaves individuals and families worse off as their purchasing power has deteriorated. This is especially the case for families who were already facing financial difficulties prior to the high inflation rates. In fact, while different reports from the EU are indicating that the percentage of individuals who are AROPE are relatively stable in Malta, particular demographic groups have higher AROPE rates. One must also note that such demographic groups usually comprise the most vulnerable members in our society, such as the elderly and children. With regards to the latter, the statistics are alarming as they show that 1 out of 4 children in Malta are AROPE. This rate is even higher when considering the type of household in which these children are raised, where half of the children who live with low-skilled and/or single parents are at risk of poverty or social exclusion. Child poverty is an issue which might not be discussed often in the public arena. However, it needs to be recognised and addressed as it not only impacts some of the most dependent members of our society but also those who will eventually shape it.

The report of the CBM indicated how, while we do share the same sea and sky, we are not all on the same boat. Some elements, such as high inflation, tend to have a greater impact on low-income households. This is especially the case when prices on basic necessities (such as food) increase, as they take up the largest share of expenses for low-income households. Therefore, when interpreting statistics related to inflation rates, this imbalance needs to be considered and one needs to be mindful that these are impacting different households and families at different levels and in different ways. The same goes for the level of impact caused by the energy subsidies because, while they do help low-income households to reduce their expenses, they are not as advantageous to them when compared to high-income households, as the latter tend to have a higher rate of energy consumption. Therefore, it is incorrect to assume that certain situations or even government interventions impact all households equally.

Additionally, the current impact which social benefits and transfers are having on reducing poverty is low, meaning that they are not serving their purpose as intended. Therefore, more specific and effective interventions, aimed directly at low-income households need to be considered, rather than opting for similar interventions across the board. This also needs to be seen within the context of the growing inequality between those with different income levels, where currently, those in the highest income brackets are earning approximately five times as much as those earning the lowest amounts. These statistics reflect a growing injustice and an economy which distributes wealth unfairly, where the rich get richer and the poor poorer. Within this context, specific interventions could aid those

demographic groups which tend to face the most financial difficulties, mainly the elderly, single-parents, low-skilled workers, migrants, and people with disabilities or chronic illnesses. Apart from the government, as a Church we must also offer our help to these individuals and reach out to them, as they are often invisible within our society. As part of the Social Teaching of the Church with regards to poverty, one of the key elements is solidarity, which should not only pertain to the material poverty, which is experienced by these individuals, but also to their exclusion within society¹⁶. Therefore, the Church must also fight against the stigma and judgement which is often directed towards these families and individuals in society, as doing so would encourage them to come forward and seek the help they require. Being aware of the social groups which tend to be more at risk of poverty, such as the elderly and single-parent households, could also help the Church to carry out its mission by identifying and aiding these individuals more effectively.

The report from the European Commission highlighted the high percentage of youths who are early school leavers or underachievers. This emphasises the need for improvement in the educational system as it is currently failing to cater for the educational needs of a number of students. This is especially the case for students who are already experiencing a form of poverty in their household, therefore further feeding into an intergenerational cycle of poverty. While education is not a guarantee of financial stability it serves as a pertinent tool for students to have better job prospects in the future. More accessibility and investment in lifelong education among low-skilled workers could also help to improve their skills and employability, therefore providing them with better job opportunities and better wages.

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III – APPENDIX

Ref. No.	Date	Issuing Organisation	Topic	Name of Report
1	2022/2023	NSO	Employment	Labour Force Survey Q4 2022 Labour Force Survey Q4 2023
2	2023	Eurofund	Wages	Minimum wages in 2023: Annual review Minimum wages 2024 – The tide is turning
3	2023	European Commission	General Statistics	2023 country report – Malta
4	2024	KPMG	Economy	Malta Economic Outlook
5	2023	European Commission	Wages	Labour market and wage developments in Europe 2023
6	2023	Eurostat	Labour Costs	Labour cost levels
7	2022	Eurostat	Social Benefits	Impact of social transfers on poverty reduction
8	2024	NSO	Inflation Rates	January RPI February RPI March RPI April RPI
9	2024	The Malta Independent	Food Prices	Government launches scheme to reduce prices of basic food items by 15%, to last till next Budget
10	2021	Central Bank of Malta	Inflation Rates	The inflation experience of low-income households
11	2022	Eurostat	Income Inequality	Gini coefficient
12	2023	International Monetary Fund	Income Inequality	IMF staff country report Malta
13	2024	United Nations	Poverty Rates	Sustainable Development Report - Malta
14	2023	European Commission	Cost of Living	Social Protection Committee Annual Report 2023
15	2022	Eurostat	Poverty Rates	AROPE rates by age and sex
16	2024	Justice and Peace Office	Church on Poverty	Social Teachings of the Church on Poverty