

POVERTY WATCH REPORT

1/2025

JANUARY 2025

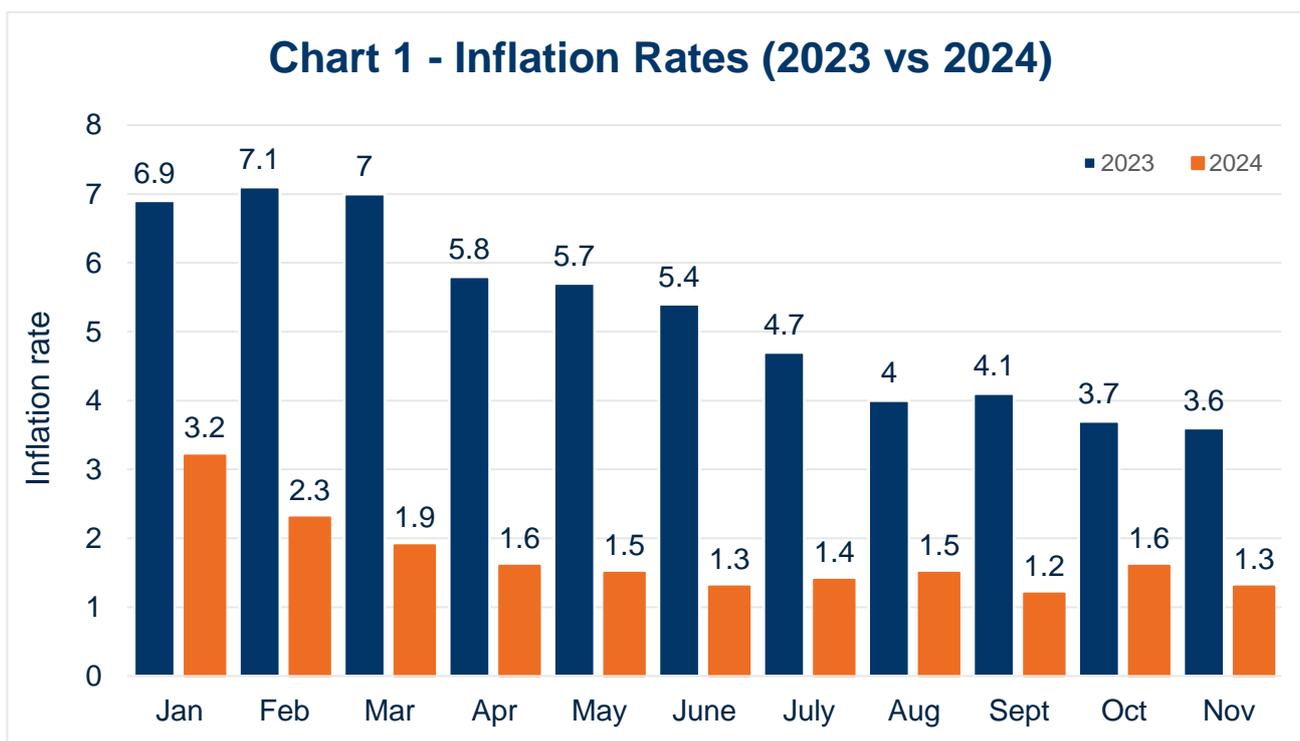
CONTENTS

I – Inflation Rates.....	3
II – Average Wages	7
II - The 2025 Budget.....	7
III - Commentary.....	9

In this Poverty Watch report, the statistics on inflation rates and average wages for 2024 will be reported and discussed. These statistics will also be compared to those of previous years. The measures introduced by the Ministry of Finance for the 2025 budget will also be outlined and discussed.

I – INFLATION RATES

Since the beginning of 2024, inflation rates continued to decrease and reached relatively low and stable levels throughout the year. In January 2024, the inflation rate was of 3.2% and by November it fell to 1.3%ⁱ. This is a sharp drop compared to the year 2023, where the inflation rate ranged between 7.1% and 3.6%. (See Chart 1 below). Therefore, inflation rates seem to be gradually reverting to the rates prior to the sanctions imposed following the war on Ukraine. This means that while prices are still set to increase, they will do so at a much lower rate, preventing a spike in prices.



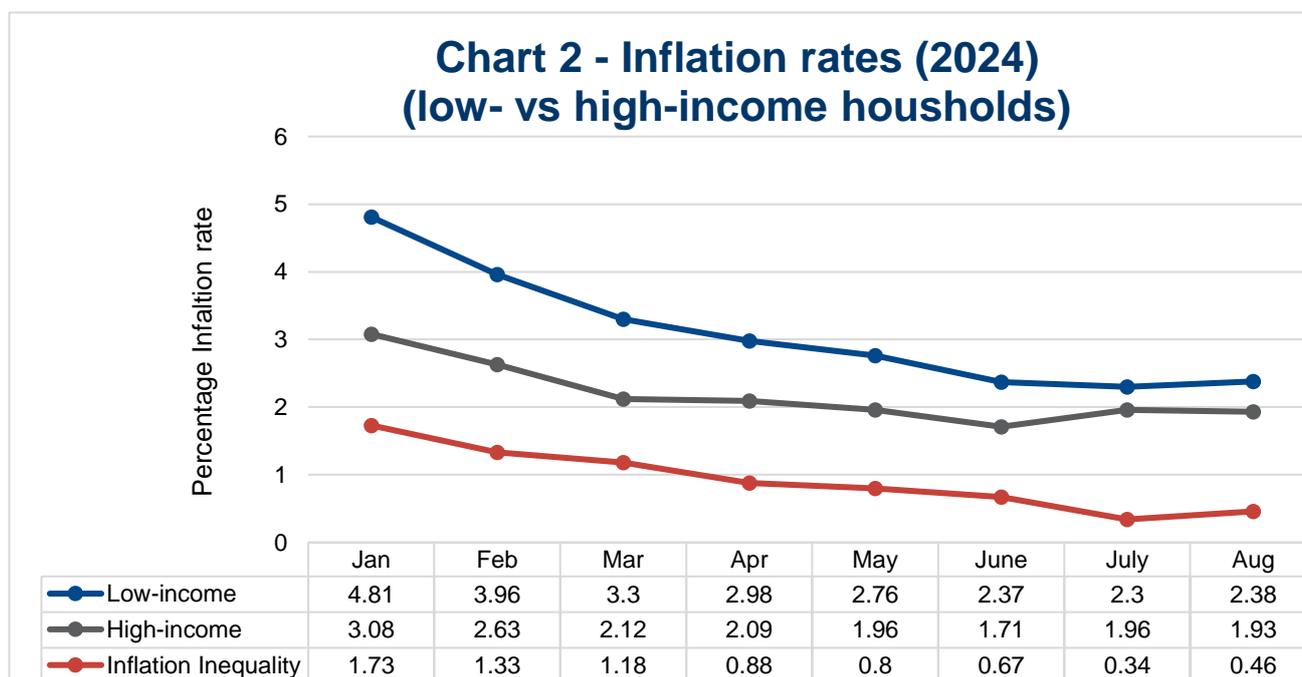
ⁱ NSO (2024) – Inflation - [January RPI](#) | [February RPI](#) | [March RPI](#) | [April RPI](#) | [May RPI](#) | [June RPI](#) | [July RPI](#) | [August RPI](#) | [September RPI](#) | [October RPI](#) | [November RPI](#)

While inflation rates are decreasing, food remains their highest annual contributor, similarly to what was observed in 2023. This was the case throughout 2024, between January and November (See Table 1 below, cells marked in orange). Similarly to the previous year, transport and communication and clothing have been the lowest contributors (see cells marked in blue), with an overall reduction in prices. Compared to last year, the contribution of housing costs has halved and has continued to decline throughout the year. This means that, similarly to the overall inflation rate, housing prices are increasing at a more stable and slower rate. Therefore, the level of contribution of this cost towards the overall annual inflation rate has diminished in 2024.

Table 1 – Contribution towards annual inflation by goods or service groups (in percentage points (pp))				
	Food	Housing	Clothing/ Footwear	Transportation & Communication
JAN	1.95pp	0.22pp	-0.03pp	-0.35pp
FEB	1.19pp	0.19pp	0.09pp	-0.52pp
MAR	1.10pp	0.16pp	-0.15pp	-0.58pp
APR	0.96pp	0.09pp	-0.01pp	-0.75pp
MAY	0.78pp	0.10pp	-0.03pp	-0.51pp
JUNE	0.58pp	0.08pp	-0.01pp	-0.41pp
JULY	0.58pp	0.04pp	0.13pp	-0.21pp
AUG	0.46pp	0.03pp	0.01pp	0.04pp
SEPT	0.45pp	0.03pp	-0.03pp	-0.12pp
OCT	0.65pp	0.03pp	0.04pp	-0.06pp
NOV	0.46pp	0.01pp	-0.08pp	0.06pp

As discussed in May’s Poverty Watch report, standard and all-encompassing measures of inflation, which solely consider overall average consumption, do not accurately represent the real burden faced by households with different levels of income. A study by Bruegelⁱⁱ indicated that, in January 2024, households in Malta experienced the greatest level of inflation inequalityⁱⁱⁱ (1.73 pp) in the past years. This means that, during that month, the financial burden faced by low-income households was much larger when compared to that faced by high-income households.

Chart 2 below indicates that in 2024, between January and August, the inflation rates experienced by low-income households reached the highest level in January (4.81%). Over the following months, this rate declined, going down to around 2.3% during the summer months. Throughout 2024, high-income households experienced lower inflation rates when compared to their low-income counterparts. The highest rate was also reached in January (3.08%) and dropped to around 1.9% in July and August. The chart also outlines the level of inflation inequality which also steadily declined throughout the first half of 2024, following a high level in January. In August this dropped to 0.46%, possibly due to an overall reduction in the inflation rate. While this percentage is much lower, it still indicates that low-income households are more highly impacted by current inflation rates when compared to high-income households.



ⁱⁱ Bruegel (2024) – Inflation rates - [Inflation inequality in the European Union and its drivers](#)

ⁱⁱⁱ Inflation inequality refers to the difference in inflation rates experienced by low- and high-income households. When inflation inequality is 0, it indicates that all households share the same amount of burden from inflation. When it is a positive number (+1) it means that low-income households are carrying a larger burden. When it is a negative number (-1) it means that high-income households are carrying a larger burden.

The study by Bruegel confirms that certain goods, like food and housing, tend to create heavier burdens on low-income households and exacerbate levels of inflation inequality. This is because these goods tend to generally make-up a larger percentage of these households’ expenses. In comparison, goods such as vehicle purchases, and their maintenance tend to place heavier burdens on high-income households. Considering that food is still the greatest contributor to the annual inflation rate in Malta, more action needs to be taken to mitigate these price increases, thus ensuring that measures taken benefit low-income households, which need the most support. With regards to housing, while the NSO indicates that the rate of inflation has decreased, a high percentage (21.7%) of households within the lowest income quintile experience housing cost overburden^{iv} when compared to those within a higher income band^v.

SCENARIO: REPLACING AN APPLIANCE

Two couples with a different level of income face a similar situation of having to replace a broken refrigerator of around €750 after having a large expense the month before.



Couple 1

Susan and Noah have an approximate monthly expense of around €2,650, which includes rental payments, food and other expenses. With a combined monthly income of €4,100 they can usually make some savings comfortably. So, when the additional expense for the refrigerator comes up, albeit making a dent in their savings, Susan and Noah can purchase it when needed.

Couple 2

Although Anne and Jason’s usual monthly expenses (around €1,800) are lower than those of Susan and Noah, their combined monthly income of €2,040 makes it difficult for them to finance additional expenses. Anne and Jason had to rely on the help of their parents, as they could not wait for their next salary to purchase a new fridge. Their parents have made it clear that they cannot provide financial help for the couple again.

^{iv} Housing cost overburden is when housing costs exceed more than 40% of the total disposable household income

^v Eurostat (2023) – Housing Prices - [Housing cost overburden rate by income quintile](#)

II – AVERAGE WAGES

With regards to average wages, the NSO reported that throughout the year 2024, as in previous years, these continued to increase. Between July and September of 2024, the NSO recorded that the average monthly salary (before social contributions and tax deductions) was of €1,964^{vi}. This amount varied between €1,247 for employees within elementary occupations to €3,159 for those in managerial positions. This increase in average wages was recorded throughout the previous years^{vii}, as can be seen in Table 2 below.

	2020	2021	2022	2023	2024
Mean	€18,354	€19,902	€21,446	€21,994	€23,565
Median	€15,781	€16,604	€18,000	€19,091	Not Available

In the Table, one can note that when calculated on the mean, salaries tend to be much higher when compared to those calculated through the median. This is because data points of employees with above-average salaries pushes up the average without accurately representing the whole sample. The salaries calculated through the median could offer a more representative amount compared to the mean, although it does not accurately represent wages which are at the lower end of the scale. Despite their disparities, both averages indicate a rise in salaries overall. However, the rate at which these average wages are increasing is not necessarily mirrored within the lower wage bands, therefore further pushing these individuals behind and contributing to a growing inequality.

^{vi} NSO (2024) – Wages - [Labour Force Survey - 2024 \(Q3\)](#)

^{vii} NSO (2024) – Wages - [Mean and Median Annual Salaries](#)

^{viii} The mean is calculated by adding the salaries up and having their total divided by the total number of employees. The median is calculated by having the salaries in a sequence from highest to lowest and determining which salary sits in the middle of this sequence.

Both amounts in Table 2 include the salary before any tax deductions and social contributions

II - THE 2025 BUDGET

Last October, the Ministry of Finance announced its budget measures for the year 2025. This budget introduced an increase in the Cost-of-Living Adjustment (COLA) and the minimum wage as had been mentioned in the previous budget. For 2025 the COLA is set to rise to €5.24 weekly, along with a €3 additional rise for persons receiving a minimum wage. Brought together, these raise the minimum wage by €8.24, amounting to a weekly salary of €221.78^{ix} (or €887.12 monthly). For this budget, new, wider tax bands with higher thresholds were also introduced (see Table 3 below), exempting 18,000 low-income workers from paying taxes^x.

Table 3 – Changes in lowest tax band (tax exempt) following the 2025 budget			
	Previous	Current	Amount saved (per year)
Single	€0 – €9,100	€0 – €12,000	€435 - €675
Married	€0 – €12,700	€0 – €15,000	€345 - €645
Parent	€0 – €10,500	€0 – €13,000	€375 - €650

With regards to the energy subsidies, these are also set to remain until 2027. Their cost is expected to decrease by almost half (from €300 million in 2024 to an estimated €175 million in 2025) due to a reduction in energy prices^{xi}. This is despite warnings from different entities, including the Malta Fiscal Advisory Council, the European Commission and the International Monetary Fund to remove

^{ix} The Malta Independent (2024) - Wages - [Budget 2025: National Minimum Wage to increase by €8.24 per week to €221.78](#)

^x The Times of Malta (2024) – Taxation - [Budget 2025: Income tax slashed as wider tax bands are introduced](#)

^{xi} Newsbook (2024) – Energy Prices - [Despite warnings, Budget 2025 extends energy subsidies through 2027 | MFAC warns government: Urgent fiscal discipline needed amid EU deficit procedure](#)

these subsidies due to excessive deficit. Finance minister Hon Clyde Caruana indicated that subsidies are set to continue in the light of the ongoing conflict in the Middle East which risks putting energy prices up once more^{xii}.

With regards to social benefits, the budget is set to increase pensions by €8 per week or by €416 per year^{xiii}. Also, around 100,000 families with low incomes are set to receive a cost-of-living annual payment, which varies between €100 and €1,500, depending on the number of dependent children^{xiv}. For parents, the children's allowance is also set to increase annually by €250 per child. The government is also increasing the birth/adoption bonus for parents who have or adopt a third child from €500 to €1,500^{xv}.

III - COMMENTARY

The statistics provided by the NSO show that inflation has decreased and reached a low, stable rate while average wages have gone up. Despite this, the study by Bruegel indicated that prices have remained relatively high for those with a low income. This is occurring for several reasons. Firstly, while inflation rates are low, prices are still on an increase and especially so for goods on which low-income households spend the greatest share of their income, such as food. Therefore, as discussed above, low-income households will experience a greater rate of inflation compared to other households. Additionally, current and previous increases to the minimum wage and COLA introduced were and continue to be insufficient, therefore leading to a year-by-year struggle caused by inadequate aid. Therefore, while the 2025 budget was characterised by increases in both social benefits and wages, these are still not sufficient to keep up with the current cost of living. This was also pointed out in the January 2024 Poverty Watch report regarding the previous budget and by a number of entities within and outside the Church, such as the Anti-Poverty Forum (APF), the Justice and Peace Commission and Caritas Malta. This inadequacy also contributes to the growing financial inequalities between low-income households and medium- and high- income households. One can also look at the different rates at which average wages and minimum wages are increasing. To provide an example, between 2023 and 2024, one can note that the annual average wage increased

^{xii} Malta Today (2024) – Energy Prices - [Energy subsidies to stay, especially in the case of wider conflict in the Middle East](#)

^{xiii} Newsbook (2024) – Pensions - [€8 increase in weekly pensions, less than last year's rise](#)

^{xiv} Times of Malta (2024) – Wages - [Budget 2025: Wages to increase by €5.24 a week](#)

^{xv} Newsbook (2024) Social Benefits - [Families to receive €250 boost in children's allowance](#)

by €1,571, while the annual minimum wage increased by three times less (€522.76). Ultimately, this gap leaves low-income households financially lagging behind in the face of ever-increasing prices.

The modified income tax thresholds introduced by the budget for low-income workers are commendable as they will provide them with some more disposable income. However, this measure still fails to address the growing financial inequality between the poorest and the richest, as these will fail to impact families and employees who are already tax exempt, such as those on the minimum wage. Additionally, those within the highest income bracket will still pay a proportionately lower amount of income tax. Having more tax charged and collected from persons within the highest income bracket would mean more funds at the Government's disposal to create a more equal and just society. Introducing fairer tax bands for those with an elevated income or introducing a wealth tax could help reduce the gap between high- and low-income households.

In October of 2024, the Ministry for Social Policy and Children's Rights introduced a National Strategy for Poverty^{xvi} which aims to address the issue of poverty through policy changes and social benefits. The Ministry aims to place adequate income and equal wealth distribution as priorities within this strategy, amongst others. This strategy also aims to ensure that the minimum wage is reviewed in accordance with the Minimum Wage Directive^{xvii} issued by the EU. The extensive recommendations and challenges outlined in this national strategy will be discussed in the following Poverty Watch reports.

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January 2025

^{xvi} Ministry for Social Policy and Children's Rights (2024) – Poverty - [National strategy for poverty reduction and social inclusion](#)

^{xvii} European Union (2022) – Wages - [Directive of the EU Parliament and Council on adequate minimum wages](#)