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Slovak Republic**

LA7271-HCTA – Concept of Absolute Poverty Line in Slovakia

Approaches to measure and update an absolute poverty line

Report ©

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31 August 2005

Acknowledgments

Background

This work is part of the Human Capital Technical Assistance project (HCTA) financed by the International Bank for Reconstruction and Development and implemented by the Ministry of Labour, Social Affairs and Family (MOLSAF) and the Ministry of Education of the Slovak Republic. More specifically, within the HCTA, I was contracted to provide technical assistance to the MOLSAF in the definition and measurement of absolute poverty. There are two phases in this component of technical assistance. The first phase aims at identifying approaches suitable in the context of Slovakia to define and calculate an absolute poverty line, while the second phase will implement such approaches and provide the relevant poverty measures using different datasets.

This is the report on the first phase of the technical assistance, it describes in some detail the approaches that have been identified to calculate an absolute poverty line, and it contains recommendations on the methodology that should be used to update such poverty line.

The role of an absolute poverty line

The ultimate objective of an absolute poverty line is to make poverty comparisons between groups of people over time, so that the impact of economic growth and socio-economic policies on poverty can be assessed. Furthermore, an absolute poverty line generally aims at identifying a minimum amount that guarantees the requirement of certain physical necessities, and such amount is maintained constant in its purchasing power.

While the real value of an absolute poverty line is constant over time, a relative poverty line changes with some statistics of the income distribution (for instance the median or the mean). In this way it is explicitly recognised that the poverty line is relative and changes with the socio-economic development of the population under analysis. For this reason a relative poverty line can also be regarded as a measure of inequality.

There is often a debate on whether a country should use absolute or relative poverty lines, but I am more inclined to say that the two simply measure different things, and often can be used in

complementary ways to assess the impact of socio-economic policies. It all depends on where in the distribution of welfare the absolute and relative poverty lie and how economic growth and more general socio-economic changes affect the distribution of welfare. In fact, we could think both about situations in which absolute poverty decreases, while relative poverty remains constant or even increases, and situations in which relative poverty could decrease, but absolute poverty could remain constant or even increase.

In the context of the Slovak Republic the adoption of both poverty measures is relevant and useful. In fact, it is widely recognised that Slovakia is a country with profound regional inequalities, the eastern regions being much poorer than the western ones and measures of relative poverty could indicate whether in the bottom part of the distribution there is a process of convergence or divergence over time.

Moreover, among some especially vulnerable groups, there are pockets of poverty characterised by the failure to reach some basic physical necessities, such as an adequate nutrition or proper access to water supply and sanitation[1], and, as recognised in the National Action Plan on Social Inclusion (2004) Slovakia is characterised by particularly high levels of long-term unemployment (this indicator was equal to 12.2% in 2002, about four and three times higher than the average levels observed among the EU15 and the EU25). To monitor the evolution of these dimensions of poverty over time, as well as the effectiveness of social assistance an absolute poverty line is fundamental.

Within the EU the officially recognised poverty measures are measures of relative poverty[2] (the basic poverty line is 60% of the median income) and Slovakia has already started to compute such poverty estimates (see the National Action Plan on Social Exclusion).

For what concerns an absolute poverty line, although Slovakia already has a Minimum Subsistence Level (MSL), there are reasons to review the process of selection and identification of an absolute poverty line. The main reason is the fact that the current MSL has some limitations (these will be discussed in the next section). However, before looking at the methodologies that could be used in the search of such absolute poverty line is important to determine what should be the main characteristics of such poverty line.

Although for the sake of making comparisons over time we could set the poverty line in an arbitrary way[3], given that measures of absolute poverty could usefully complement those of relative poverty, we would like an absolute poverty line in the context and development of Slovakia to be lower than the relative poverty line. Moreover, there is a case to determine the absolute poverty line so that it represents an amount required to meet certain basic needs[4]. Finally, the methodology that should

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[1] See for instance evidence provided in the joint report by the WB, Foundation SPACE, INEKO and The Open Society Institute (2002): Poverty and Welfare of the Roma in the Slovak Republic (page 17) for what concerns nutrition and statistics in the Atlas of Roma communities for access to water supply and sanitation.

[2] In 1984 a European Council decision in Dublin adopted a clearly relative definition of who the poor are: "Those persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the member state to which they belong".

[3] For instance Bradshaw and Finch (2000) proposed to adopt as absolute poverty the relative poverty of one specific year and then update it simply by inflation (University of York, Social Policy Research Unit, The Measurement of Absolute Poverty, Final report for Eurostat).

[4] Although in determining such basic needs there will always be a degree of arbitrariness.

be used to determine the poverty line should be defendable on scientific grounds and made acceptable to the public.

To summarise, the main characteristics of an absolute poverty line in Slovakia should be :

1) Lower than the current relative poverty line (60% of the median equivalent income);

2) Linked to a notion of necessity;

3) Identified using a scientific and defendable methodology.

Before proposing eventual new methodologies that could be used to determine an absolute poverty line, it is important to start from the current MSL and analyse to what extent it is a good candidate for an absolute poverty line.

The minimum subsistence level

The MSL was first introduced in 1991, its amount was often updated and its calculation radically revised in 1998 and since then updated on an annual basis.

When it was first developed the determination of the MSL was the response of the state to the dramatic economic changes that occurred after 1989. In fact the aim was to determine a minimum amount that should have been guaranteed by the state to all people in the period of transition to a market economy. The minimum income was set in order to guarantee a dignified life, without compromising the incentive to work (the amount was determined taking into account already existing concepts of minimum wage and minimum pensions) and for an amount that the State would have been able to pay.

The MSL was determined for different household compositions and distinguishing required amounts for food/personal needs and household operations. Table 1 reports the amounts of the MSL from November 1991 to July 1998, and as it appears from the table, the MSL was not updated every year. In fact, it was only updated when the consumer price index for low income families was reaching at least 10% and, with the exception of the increase between 1994 and 1992, the maximum increase was also just 10%. The result of such method of updating the MSL was a decrease of its purchasing power. By up-rating the 1992 MSL amount for one adult using the overall CPI, its value in 1997 should have been 2929 rather than 2410, more than 20% higher.

A process of revision of the MSL started in 1995 and calculated new amounts in 1996, but it was only in 1998 that the reviewed figures were adopted resulting in new MSL amounts. The work of revision was conducted by a panel of experts or working group, established under the MOLSAF with the specific task to amend the law on subsistence minimum. The new calculation of the MSL used a combination of normative (money required to purchase recommended food nutrients) and behavioural assessments (using the household budget survey to identify the main consumption patterns and ascertain consumption levels for necessities among the lowest population decile[5]).

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[5] Filipova and Valna (1999): The Subsistence Minimum, mimeo (translated from Slovak).

Table 1.   Minimum subsistence levels, 1992 and 1996 (SKK per month)

	1992 (11/91-11/93)	1994 (11/93-7/95)	1996 (7/95-11/97)	1998 (11/97-7/98)
Individual Food and Other Personal Needs				
Child under 6 years of age	900	1010	1130	1250
Child 6-10 years of age	1000	1130	1260	1400
Child 10-15 years of age	1200	1350	1470	1630
Child over 15 years of age	1300	1460	1590	1760
Adults	1200	1350	1470	1630
Household Operations				
1 individual	500	630	710	780
2 individuals	650	810	910	1000
3-4 individuals	800	1000	1120	1230
5 or more individuals	950	1190	1240	1360
Examples				
One adult	1700	1980	2180	2410
One adult + 1 child (0-5)	2750	3170	3510	3880
2 adults + 1 child (0-5)	4100	4710	5190	5740
2 adults + 2 children (6-10)	5200	5960	6580	7290

Source: MOLSAF

After the revision, the MSL was considerably increased and it is curious to note that the revised 1998 value of the MSL for one adult is very close to its 1992 value updated by inflation[6]. Furthermore, the amounts that were previously determined for different household compositions (number of members and children's age) were simplified and somehow aligned with the old OECD scale[7]. Since 1998 it was also determined that the MSL would have been updated every year on the first of July. However, once again its value was not updated in a transparent and straightforward manner. In fact, although for minor details, the rules to update the MSL have changed three times since the revision. The basic rule to up-rate the MSL was to use the lower between two indexes: the consumer price index for low income families and the proportional nominal increase in net income per person. The index of net income per person is calculated using data from the household budget survey and its value tends to be linked to the wage index[8]. The period of reference used in the computation of these indexes, rather than being the calendar year, was April to April or the first quarter of the year against the same period in the previous year.

Although it is not entirely clear the reason behind this rule in updating the MSL, again its ultimate effect was to produce a deterioration of the purchasing power of the MSL.

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[6] At this stage it is not possible to comment on the adequacy of the amount, although such assessment will be made after analysing HBS data.

[7] The equivalence scale adopted was 1 for the head of the household, 0.7 for any added adult and 0.45 for children and dependent members (old OECD scales were respectively 1, 0.7 and 0.5, while the new ones are 1, 0.5 and 0.3).

[8] The difference between the wage index and the net income per person is likely to be due mainly by different increases in non labour earnings (pensions, capital, etc.), and changes in number of earners (unemployment).

Table 2 reports the value of the MSL from 1998 to 2004, and it also reports the average implicit index used to update the MSL, which can be compared with the CPI, the CPI for low income households and the wage index. These indexes are not exactly the indexes used to update the MSL, because they are based on calendar year inflation and the wage index differ from the index of net per capita income. Nevertheless, they show that in three years 1999, 2000 and 2003, it is likely that the index of net per capita income was used to update the MSL, rather than the CPI, and therefore show that the current mechanism allows the MSL to decrease in its real value. Indeed, the table also reports the value of the MSL in the case of one single adult, and shows that in 2004 using the CPI for low income households its value should have been 4992 rather than 4580, about 9% higher.

One possible explanation for somehow including the increase in the net income per person for updating the MSL was probably the fear that the MSL could gain in terms of relative value against returns from wage employment, and the minimum wage. In fact the MSL is influential in determining directly or indirectly the amounts of social assistance[9] in ways that are fixed by specific laws and in some instances it might create some disincentives.

However, it is critical of any concept of absolute poverty line that its real value should remain constant over time, which implicitly can result in an increase of people under the poverty line in the event of negative economic growth, something that it is theoretically avoided or smoothed by the current rules in which the MSL is updated.

Table 2.   Minimum subsistence levels, 1998-2004 (SKK per month)

	1998	1999	2000	2001	2002	2003	2004
One adult	3000	3230	3490	3790	3930	4210	4580
Second adult	2100	2260	2440	2650	2750	2940	3200
Dependent/child	1350	1460	1580	1720	1780	1910	2080
Implicit updating index		7.8	8.1	8.7	3.7	7.1	8.8
CPI		10.6	12.0	7.1	3.3	8.5	7.5
Wage index		7.2	6.5	8.2	9.3	6.3	10.2
CPI - low income		11.4	13.3	8.3	2.9	9.4	8.2
1998 SML for one adult updated by inflation							
CPI	3000	3317	3715	3979	4111	4463	4799
CPI - low income	3000	3341	3785	4097	4217	4614	4992

Source: MOLSAF, Statistical office and calculation of the author.

Being already used and accepted in the country the MSL represents a good candidate for an absolute poverty line, but in order to be considered as such, it should be updated consistently, using exclusively the CPI. However, its use both for social assistance and for poverty monitoring might in some circumstances create some difficulties. These risks will need to be carefully

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[9] Rather than covering the gap between MSL and the household income, the MSL is used to identify those in 'material distress', who then are eligible for some help, but the actual amount they receive is determined using other criteria. The MSL also determines the benefit for a child when leaving an institutional care, some benefits for compensation of disadvantage caused by handicap, benefits for a child in foster care, special assistance in material need that may be given as a single benefit by the municipality, etc.

assessed. In fact, it is probably important to be reminded about the difference between purely scientific measures of poverty and the political nature of Minimum Income Standards and social assistance benefits[10]. The MSL has clear political elements because it is, and it was even more in the past, linked to the government commitment to help those who fall below the MSL. Inevitably, such commitment translates not only in considerations of what objectively is an absolute poverty line, but also on what is affordable by the state to pay and the support that the government receives for redistributive policies. On the other hand, a proper poverty line is independent from political considerations and only aims at coherently assessing poverty levels and poverty changes. Poverty lines have the strength to provide correct poverty profiles, and can be then used to assess the effectiveness of policies and eventually guide policy changes. Once poverty is measured and its characteristics are studied, it is a political decision to single out how people below the poverty line should be helped. Therefore, for the MSL to become a poverty line it would be essential to lose its political influences in the way it is updated, which in turn means that it should not be directly linked to the levels of social assistance benefits and the government commitment of resources.

Beyond the problem of a deteriorating real value of the MSL and its link to political decisions, it should also be said that the MSL was first calculated more than 10 years ago. Since then Slovakia has undergone some structural changes that imply that, even after correctly adjusting for inflation, the value of the MSL might no longer buy the normative basket that was initially identified by the panel of experts. In particular relative prices of housing and utilities are much higher than what they used to be[11].

In conclusion there are clear reasons to review the calculation of an absolute poverty line and define in a more coherent way how such poverty line should be updated over time. Finally, it should also be said that more representative datasets to conduct such study are now available, and in the next section I propose the approaches that could be used for such exercise.

Proposed approaches

Considering the data available in the Slovak Republic I would recommend the calculation of an absolute poverty line using two different methodologies: 1) the cost of basic needs, and 2) the subjective poverty line. Both these methodologies are now explained in detail.

The cost of basic needs

This approach is similar to the one that was used to calculate the minimum subsistence level, though the method I propose presents some technical differences. In practice the methodology that I propose is less normative and more based on information that comes directly from household survey data (behavioural data).

The poverty line is calculated in two stages.

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[10] Veit Wilson, J. (1998): Setting Adequacy Standards: How Governments Define Minimum Incomes; Bristol, Policy Press.

[11] Prices of housing and utilities in 2003 were three times higher than in 1993, while in the same period prices of food and non-alcoholic beverages increased by 1.8 times.

The first stage consists of calculating a food poverty component. Based on recommendations of the Research Institute for Nutrition on necessary daily calorie intake[12], it is possible to calculate how much it costs to buy these calories using the diet/food consumption patterns of the lowest population quintile/decile. In fact it is possible to calculate the average consumed food quantities in each food item among the lowest population decile and see how many calories such consumption guarantees. The consumption will be then scaled up or down to be equivalent to the recommended calorie intake and consequently such food basket will be appropriately priced using the observed prices faced by households in the lower part of the distribution.

The second stage adds a non-food component: the food poverty line is divided by the food budget share of households who spend for food an amount equal to the food poverty line. The rational behind this approach is that if these households do not spend more for food is because also what they spend for non-food must be essential. The advantage of this methodology is that it avoids debating what is necessary among non-food items (something it is always difficult to assess). On the other hand, since it does not analyse the specific food items that should be introduced, it may differ from the MSL because it does not include only mere physical necessities, but also 'social necessities', and in this sense has an implicitly relative component (this relative component associated with a radically changed price structure suggests that this methodology could identify a poverty line higher than the current MSL).

Such poverty line is computed on a per capita basis with the intention to test in a second moment the effect of different hypothesis of equivalence scales[13].

This methodology makes use of consumption expenditure data[14]. The only source of such data in Slovakia is the Household Budget Survey. In particular, in order to estimate calorie consumption it is necessary to have information on food quantity consumed. Population is first ranked by per capita consumption levels, and consumption patterns of the lower part of the distribution and their expenditure is taken into account to identify how much is necessary to spend to acquire the recommended calorie intake[15]. In fact, quantities consumed can be transformed into calorie equivalents using standard transformation tables. The resulting food basket could be also compared to the basket recommended by the Research Institute for Nutrition.

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[12] Different calorie intakes are recommended by age and for different labour intensive type of activity (low, medium and high). Since we need to consider a minimum amount it would be appropriate to use the lowest recommended levels.

[13] It could also be calculated considering only the most common household composition, for instance 2 adults or 2 adults and 2 children, although computing different poverty lines for different household compositions to implicitly determine equivalence scales could be misleading, since instead of reflecting actual different needs to guarantee the same living standard, differences in the poverty lines are more likely to reflect different welfare levels of different household compositions. It is therefore preferable to compute only one poverty line which in turn should be adjusted for household composition using different hypothesis of equivalence scales. The advantage of calculating the basic poverty line for one specific household composition is that it could then be directly compared with the equivalent MSL threshold

[14] The fact that consumption expenditure is used to determine the poverty line does not imply that consumption expenditure will also be used to measure poverty. Indeed, although consumption expenditure can be used for the calculation of the poverty line, its use as a welfare indicator is more problematic given the limited reference period used to measure expenditure for non-food items and the general tendency of measuring expenditure rather than consumption.

[15] An average per capita calorie requirement is obtained considering the population distribution by age and sex in the country and their respective recommended calorie intakes.

Since the number of households who spend for food exactly this minimum amount is likely to be low and might not provide reliable estimates of their budget share spent on food, it will be important to consider households spending approximately the required amount (for instance 2, 5, or 10% more and less that the minimum amount). The minimum amount required for food will then be multiplied by the inverse of the food budget share.

Implicitly what is critical in the estimation of the poverty line using this methodology is what is included in the consumption aggregate. Research on this field recommends that such aggregate should be as comprehensive as possible. It should therefore include all the main consumption components: food, clothing, transportation, health, education, housing, etc. Finally, it will be important also to test the degree of regional price differences. For this purpose it will be necessary to use not only implicit prices collected in the Household Budget Survey, but also information on non-food prices collected by the Statistical Office in different regions of the country[16].

A different way to compute the poverty line using expenditure data is the so called food energy intake approach. This method calculates the food energy intake for each household and regress expenditure levels against these calorie intakes. Such relationship and in particular the coefficients of the regression can be used to identify the average expenditure associated to a certain minimum calorie intake (in a less sophisticated way it is also possible to compute the average expenditure of all those households who have calories intakes approximately equal to the minimum amounts). This method determines in one step a poverty line that includes both food and non-food requirement, but the proportion of the two is unclear[17].

The subjective poverty line

In order to determine the poverty line this approach makes use of what is usually called the Minimum Income Question (MIQ). A survey must ask households what is the minimum income required to meet their subjective necessary lifestyle, and separately must contain information on household income. A typical MIQ is the following: "to meet the expenses you consider necessary, what do you think is the minimum income a family like yours need to make ends meet?"[18]. In Slovakia the 2005 EU-SILC contains a MIQ and could therefore be used to estimate a subjective poverty line.

Rather than considering as poor all people that have an actual income below their declared subjective minimum income, in order to determine the poverty line, it is necessary to elaborate the answers from the MIQ to assure consistency in the definition of the poverty line. The poverty line is determined using subjective responses, but it results in one poverty line that tries to compare consistently all people. In particular it is expected that the answer to the MIQ will be an increasing function of actual income, and the poverty line is usually determined at the intersection between the declared minimum subjective income and the actual income, adjusting for household

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[16] Existence and availability of these data will have to be investigated.

[17] In some cases this methodology has been used to compute poverty lines in different parts of the country avoiding the use of information on prices. However, the use of this methodology for such purpose would be inappropriate as explained in Ravallion (1998): Poverty Lines in Theory and Practice; LSMS Working Paper 133.

[18] Similarly to the MIQ, surveys can also ask what is called a minimum spending question: "In your opinion how much would you have to spend each year in order to provide the basic necessities for your family?". Experiments in different OECD countries show that the phrasing of the question is quite critical and the minimum spending question tends to estimate lower poverty lines (for instance see Garner and Short (2002): "Personal Assessments of Minimum Income and Expenses: What Do They Tell Us about 'Minimum Living' Thresholds and Equivalence Scales?", downloadable on www.bls.gov/ore/abstract/ec/ec050050.htm).

characteristics that influence this relationship. A simplified relationship between minimum income and actual income is presented in figure 1.

In order to determine such subjective poverty line it will be necessary to estimate a regression model in which the subjective minimum income is estimated as a function of actual income, household composition variables, and other variables that could influence the answer to the MIQ[19].

Moreover, determining the subjective poverty line using the regression model also allows the estimation of economies of size and equivalence of scale, which could be compared to other existing parameters (OECD and MSL). Although previous research shows that 'subjective equivalence scales' tend to be much larger than expert-based equivalence scales[20], it is nevertheless useful to produce such sets of estimates for comparative purposes.

Figure 1:   The subjective poverty line
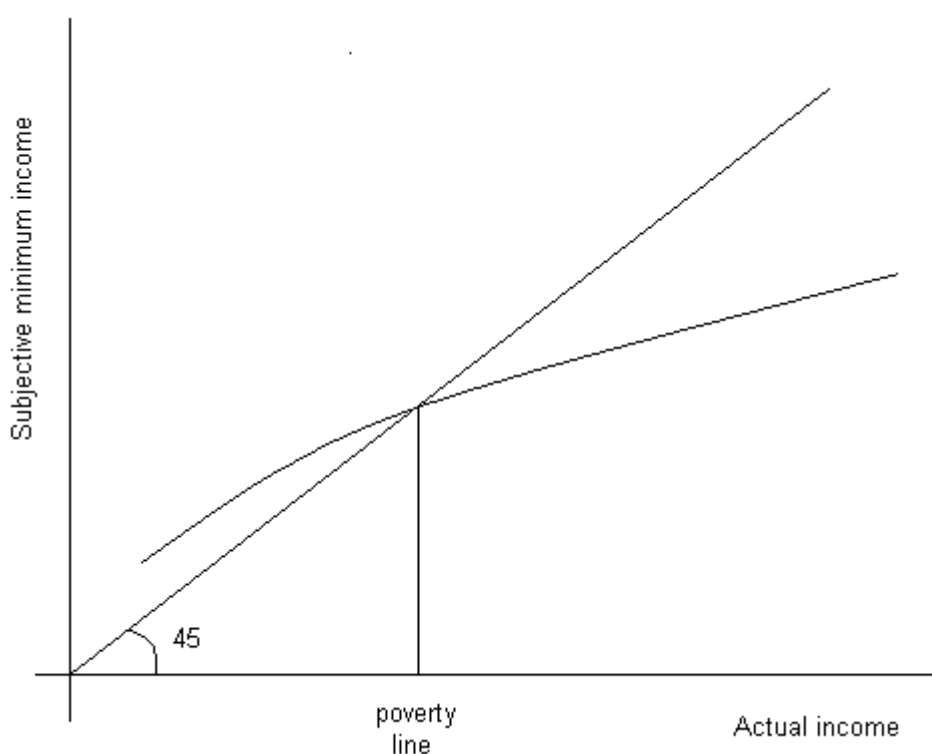
The choice of one absolute poverty line

Both the basic needs methodology and the subjective poverty line are approaches considered theoretically feasible after the analysis of the questionnaires of the main surveys available in Slovakia, but their actual implementation and their results will ultimately depend on the quality of the data (for instance how many households actually answered the minimum income question). If

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[19] It is generally also necessary to adjust for a potential selectivity bias if there are households who do not answer the MIQ.

[20] The main reasons for such differences is that expert based equivalence scales tend to reflect more the preferences of the policy makers rather than consumption patterns observed in practice or with implicit substitution effects that inevitably characterise subjective scales (see Garner and Short, 2002).

all methods can be implemented there will be three possible candidates for an absolute poverty line: the MSL, the cost of basic needs, and the subjective poverty line.

The value of such poverty lines can be compared as a way to test the robustness of the estimations and their values compared also with the relative poverty line. Moreover, it will also be possible to compare results of different methodologies in terms of the different poverty rates that they produce and test the sensitivity of the main policy relevant conclusions that can be drawn from the associated poverty profiles. However, the comparison of different poverty lines will be mainly done for research objectives, while only one methodology will be elected to determine the official poverty line.

The decision on the final poverty line will clearly depend on the obtained results and their value with respect to the relative poverty line.

If the value of the MSL is not very different from the one of the basic needs threshold there are strong arguments to maintain the MSL as the official poverty line, because the MSL is already recognised and accepted as an absolute poverty line. However, in such case it will be fundamental to review the way in which the MSL is updated over time. As discussed earlier, once the poverty line is set, to rule out political interference on the value of the poverty line it could be necessary to separate completely MSL and social assistance.

However, it is also possible that the MSL might be very small compared to the other poverty lines, or so low that there is a risk of identifying a poverty rate so insignificant that it is not practical to measure[21] poverty and poverty changes based on its value. In such circumstances it might be necessary to choose instead an alternative poverty line and the preferred choice is likely to be the basic needs methodology, which will partly continue the tradition in which the SML was calculated.

In some countries basic needs and subjective poverty produce similar results (this is the case in the Netherlands), but in most cases the subjective poverty line is found to be higher than the threshold identified using the basic needs methodology. In the case in which the subjective poverty line is as high as the relative poverty line, the case of using the basic needs poverty line will be even stronger.

Independently of the final choice on the poverty line, this exercise will also be an opportunity to review the choice of the equivalence scale necessary to compute the equivalent income. On this the recommendation will be to use the OECD equivalence scales, and then test thoroughly the sensitivity of policy relevant implications of different hypotheses.

How to update the poverty line over time

Rather than calculating the absolute poverty line every year or every time a suitable dataset is available, the thresholds of the absolute poverty line should be simply updated by inflation[22].

As discussed earlier the way in which the MSL is updated over time is not always straightforward. Moreover, the mechanism adopted for the MSL contradicts the very nature of an absolute poverty

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[21] Poverty head-count below 3% could identify measurement errors and it will be not possible to measure significant statistical changes over time. It will be possible and advisable though to distinguish between poverty rates before and after transfers.

[22] Whatever will be the choice on the official poverty line for research and policy making purposes it would be advisable to retain all the calculated poverty lines and update all of them over time by inflation.

line. Ideally an absolute poverty line should be updated in a way that its amount over the years maintains the same purchasing power. If there are not dramatic changes in the structure of prices such goal is simply achieved by updating the poverty line using the consumer price index (or the CPI for low income households).

Therefore, the main and important recommendation in this area is simply to update the poverty line using the CPI that is published by the Statistical Office. This simplifies the mechanism and will result in a more transparent process.

Disregarding information on the increase of net per capita income will also reduce the delay in which the SML (or the new poverty line) can be adjusted. In fact the CPI is updated monthly with very little delay (looking at the website of the Statistical Office, on the 9th of August was already possible to know what had been the increase of prices in July). Therefore in early January it is also possible to have data on the inflation of the previous year and update accordingly the values of the absolute poverty line every year based on inflation in the previous year.

A revision of the absolute poverty line should only be considered in the case of poverty rates becoming very low (poverty will be eradicated) or in dramatic economic changes. The same poverty line could be easily retained at least for ten years, although it is also possible that the same line could be maintained for a longer period. In the case of the US the official poverty line has been updated solely by inflation for forty years.

Conclusions and next steps

This first report identified the approaches that can be implemented to identify an absolute poverty line considering the statistical data available in Slovakia. The proposal is to compute and consider three different potential candidates for a poverty line: the current SML, the basic needs threshold and the subjective poverty line.

The final decision on which of these candidates will be elected as the official poverty line will depend on the actual results of the calculations, but if possible the SML is likely to remain the preferred option, followed by the basic needs poverty line.

The next step will be an assessment of the Household Budget Surveys and their representativeness for poverty analysis. In such assessment it will be crucial to:

1) compare key estimates coming from the HBS and the Census and administrative data, and

2) understand reasons for non-response and its possible bias.

Such assessment will not only identify possible limitations of the current data for poverty analysis, but also provide concrete recommendations for possible improvements in such data.

The HBS will then be used to compute the basic needs poverty line and poverty and inequality estimates will also be computed for the period between 1998 and 2004. Finally when the EU-SILC data will become available (probably in early November) the subjective poverty line will be computed as well as new poverty and inequality estimates for 2005.

It is expected that the next visit to Bratislava will take place in early November to discuss the findings from the HBS analysis and to receive the EU-SILC dataset.

Comments on the terms of reference

The terms of reference were also asking to carry out a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) of different poverty lines.

All the methods proposed are legitimate and could yield appropriate poverty lines that satisfy the requirement of poverty analysis for the Slovak Republic. Consequently, the only risk that was emphasised in the report relates to the possible use of the poverty line for social assistance, as it is for the SML. In fact, given that social assistance is subject to political decisions, there might be pressures to influence the value of the poverty lines whenever this is directly linked to social assistance.

On the other hand, a more detailed discussion on what poverty line would be more suitable to the conditions of the Slovak Republic and its implications for socio-economic policies will be possible once the poverty lines are actually computed and poverty rates are computed.

Finally, more than looking at the different proposed poverty lines as conflicting possibilities, I tried to communicate the message that the calculation of an absolute poverty line using different methods should lead to a better understanding of what is the appropriate poverty line for Slovakia, by usefully comparing the different results.