

Living Wage Update Report: Minas Gerais South/Southwestern Region, Brazil, 2023

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 <p>Cost of decent standard of living for a family</p> <p>BRL 3,899 (USD 804)</p>	 <p>Living Wage per month</p> <p>BRL 2,621 (USD 540)</p>
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Photo: Coffee farmer, Brazil © Rainforest Alliance

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Abstract:

This report provides updated estimates of family living expenses and living wages for the coffee producing region of South and Southwestern Minas Gerais State in Brazil. The update for 2023 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in July 2015 (De Freitas Barbosa, Barbosa, Candia, & Alves, 2015).

Keywords: Living costs, living wages, Anker Methodology, Brazil, coffee.

JEL classifications: J30, J50, J80.

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BACKGROUND

This report updates the Anker living wage and family living income expenses to 2023 for the coffee producing region of the South/Southwestern Minas Gerais State in Brazil. This update takes into account the amount of inflation since the original study in July 2015 (De Freitas Barbosa et al., 2015). This is done by updating the July 2015 net living wage and family living income expenses to June 2023 by inflation. This provides average living wage and living income expenses estimates for 2023. Without accounting for inflation, the net living wage estimated in 2015 would not be sufficient for workers to have a basic but decent standard of living in 2023 because the purchasing power of the living wage would have decreased. The gross living wage (aka living wage) is updated to 2023 by also taking into account income taxes and mandatory deductions from pay that workers would need to pay on the updated 2023 living wage. This is done using laws in force in June 2023.

LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM JULY 2015

The net living wage was estimated as BRL 1,482 in July 2015 in the original living wage country report. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security and union dues, was estimated as BRL 1,629 in July 2015. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as BRL 2,534 in July 2015 (De Freitas Barbosa et al., 2015).

INFLATION RATE USED FOR UPDATE

The Brazilian Institute of Geography and Statistics (IBGE)¹ is the government body responsible for computing and reporting price indices in Brazil. It reports two main consumer price indices: (1) the Broad National Consumer Price Index (IPCA, for its acronym in Portuguese) and (2) the National Consumer Price Index (INPC, for its acronym in Portuguese). IPCA covers families with monthly incomes ranging from one to forty minimum wages and is typically used to update balance sheets and financial statements of companies. INPC covers families with a maximum income of five times the minimum wage, which is relevant for most workers. INPC is the most widely used indicator for wage agreements and negotiations.

This report uses the INPC to update the living wage, as it is more representative for workers and because it is used for salary adjustments.² INPC is estimated for ten metropolitan areas in Brazil, and their weighted average is used to arrive at the national INPC value. There are no separate values for states or for rural/urban areas, thus we use the INPC national average to update the living wage for the region of Southern and Southwestern Minas Gerais.

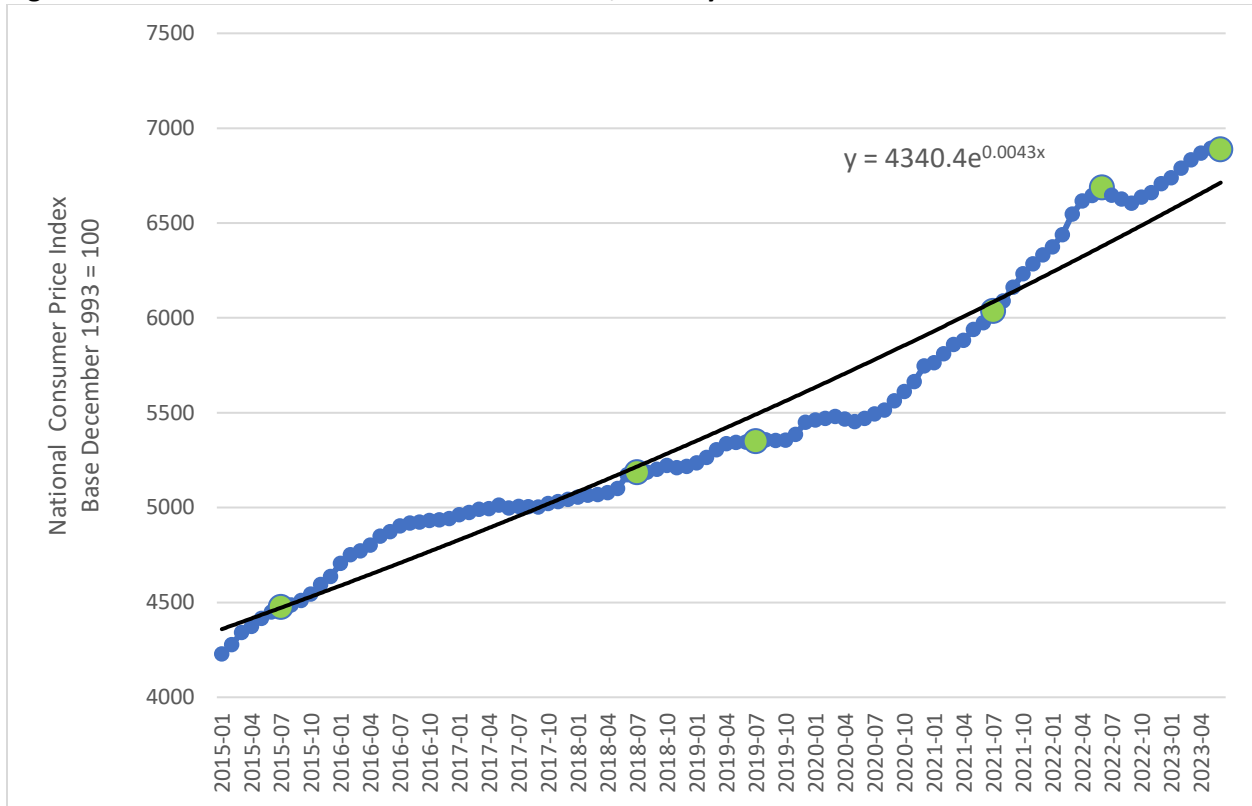
¹ See <https://www.ibge.gov.br/en/>

² See <https://www.bcb.gov.br/conteudo/home-en/FAQs/FAQ%2002-Price%20Indices.pdf>

RECENT LEVEL OF INFLATION

Between July 2015, when the original study was carried out, and June 2023 total inflation in Brazil was 53.9% (see Figure 1). This is the inflation used in this report.

Figure 1: National Consumer Price Index for Brazil, January 2015 to June 2023



Notes: Green circles indicate the months of the original study and earlier updates. The black line is the fitted exponential trendline.

Source: Authors’ calculations based on CPI data from IBGE.

MANDATORY DEDUCTIONS

The 8% social security tax on earnings reported in the original living wage study changed since November 2019. Employees in Brazil are now subject to the payment of monthly social security contributions based on progressive rates. As of June 2023, workers earning a living wage fall into the range from BRL 2,427.36 to BRL 3,641.03, which is subject to a 12%³ deduction from the gross wage.

Regarding income taxes, in May 2023, new progressive tax rates came into effect. Workers earning a living wage now fall into the revised range from BRL 2,112.01 to BRL 2,826.65, which is subject to a mandatory 7.5% income tax.⁴ However, workers have some room for deduction, which comprises a monthly

³ See <https://taxsummaries.pwc.com/brazil/individual/other-taxes>

⁴ See <https://www.in.gov.br/en/web/dou/-/medida-provisoria-n-1.171-de-30-de-abril-de-2023-480184173>

deduction of BRL 158.4 plus the amount they pay towards social security. Thus, workers earning a living wage are exempted from paying income taxes, as in the original study and in the 2022 update report (Andersen et al., 2022).

Union dues, which were mandatory in 2015, are currently optional since the introduction of the 2017 Labor Reform Law (Law No 13.467 of July 2017). However, this report continues to assume that workers earning a living wage are subject to a 1% deduction from the gross wage for union dues, given the current government's plans to reintroduce a form of union contribution.⁵

UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2023

The updated net living wage, or take-home pay, for June 2023 is BRL 2,280 (USD 470) per month. The gross living wage (aka living wage), which also takes into account income taxes and mandatory payroll deductions, is BRL 2,621 (USD 540) per month for June 2023. These are average estimates for the year 2023.

Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Living wages and family living expenses for coffee growing region in Southern and Southwestern Minas Gerais, Brazil (in Brazilian Real and US Dollars)

Item	July 2015 Original Study Date		2022 Update Report		2023 Update Report	
	BRL	USD	BRL	USD	BRL	USD
Family Living Expenses (1)	2,534	685	3,751	714	3,899	804
Net Living Wage (2)	1,482	401	2,194	418	2,280	470
Total mandatory deductions and income tax (3)	147	40	328	62	341	70
Gross Living Wage (2+3)	1,629	440	2,522	480	2,621	540
Exchange Rate to USD	3.70		5.25 ^a		4.85 ^b	
Source of Exchange Rate	Original Report		IMF's archive		IMF's Archive	

Notes: USD values are indicative only because exchange rates are volatile. ^aAverage exchange rate for the first three months of 2022. ^bAverage exchange rate for June 2023.

Source: Authors' calculations.

⁵ See <https://www.conjur.com.br/2023-mai-12/reflexoes-trabalhistas-stf-constitucionalidade-contribuicao-assistencial-sindical>

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