

Living Wage Update Report: Northwest Nicaragua, 2023

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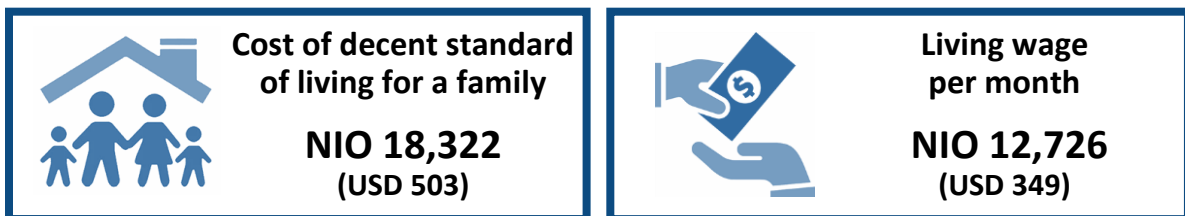


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By:

*Agnes Medinaceli**

*Lykke E. Andersen***

*Marcelo Delajara****

*Richard Anker*****

*Martha Anker*****

Abstract:

This report provides updated estimates of family living expenses and living wage for Northwest, Nicaragua, a region dominated by labor-intensive export agriculture, such as coffee, bananas, sugar cane and tobacco. The update for 2023 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in October 2017 (Andersen and Hernani-Limarino, 2017).

Keywords: Living costs, living wages, Anker Methodology, Nicaragua

JEL classifications: J30, J50, J80.

* SDSN Bolivia, E-mail: agnes.medinaceli@gmail.com

**SDSN Bolivia, E-mail: Lykke.E.Andersen@gmail.com

*** Anker Research Institute, E-mail: mdelajara@ankerinstitute.org

**** Anker Research Institute, E-mail: marthaandrichard@gmail.com

1. BACKGROUND

This report updates the Anker living wage and family living expenses to 2023 for Northwest Nicaragua, a region dominated by labor-intensive export agriculture, such as coffee, bananas, sugar cane and tobacco. The update takes into account the amount of inflation since the original study in October 2017. This is done by updating the October 2017 net living wage and living expenses to June 2023 by inflation. This provides average living wage and living expenses estimates for 2023. Without accounting for inflation, the net living wage estimated in 2017 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 consideration 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.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM OCTOBER 2017

The net living wage was estimated as NIO 7,730 in October 2017 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 NIO 8,048 in October 2017. The living income expenses for a basic but decent standard of living for a typical reference family in the original country report was estimated as NIO 12,523 in October 2017 (Andersen and Hernani-Limarino, 2017).

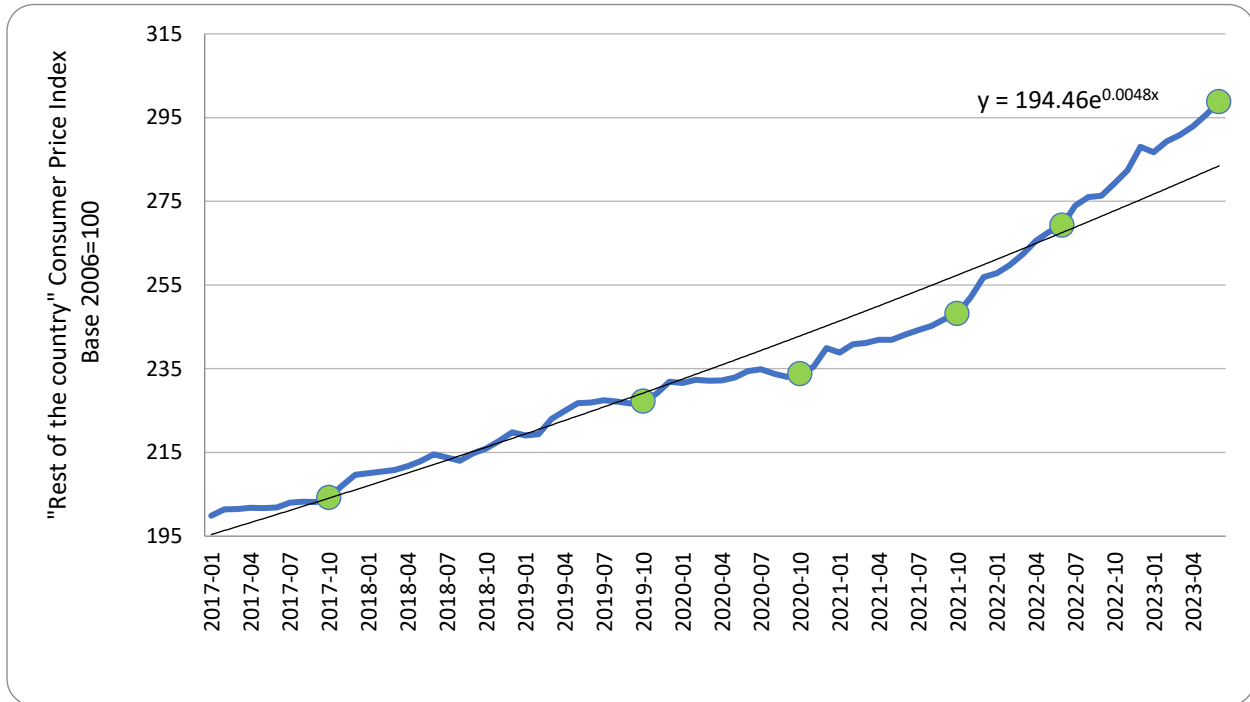
3. INFLATION RATE USED FOR UPDATE

The National Institute for Information and Development (INIDE) is the government body responsible for computing and reporting price indexes in Nicaragua. It reports the consumer price index (CPI) for three levels of disaggregation: National, Managua, and “Rest of the country.” This report uses the CPI for the rest of the country to update the living wage for the Northwest Region.

4. RECENT LEVEL OF INFLATION

Between October 2017 and June 2023, prices in Nicaragua increased steadily. The inflation in this period was 46.3% for the Rest of the country outside Managua (see Figure 1). This is the inflation used in this report.

Figure 1: Consumer Price Index for “Rest of the Country”, Nicaragua, January 2017 – June 2023



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

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

5. MANDATORY DEDUCTIONS

Social Security contributions by workers to the INSS (*Instituto Nacional de Seguridad Social*) were 4.25% in 2017 according to the original study report. However, after the Social Security Reform in 2019, the contributions rose to 7.0%, being 4.75% for pensions and 2.25% for “sickness-maternity” (Mesa-Lago, 2020, p. 49). This remains the case in 2023.¹ Additionally, workers earning a living wage have to pay a 15% mandatory income tax, at the margin in 2023². It is worth noting that a worker’s contribution to social security (7.0%) is considered as a deductible expense for income tax purposes³. This report calculates income tax taking into account this deduction.

¹ See <https://taxsummaries.pwc.com/nicaragua/individual/other-taxes>

² See <https://taxsummaries.pwc.com/nicaragua/individual/taxes-on-personal-income>

³ See <https://taxsummaries.pwc.com/nicaragua/individual/deductions>

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2023

The updated net living wage, or take-home pay, for June 2023 is NIO 11,310 per month. The gross living wage (aka living wage), which also takes into account income taxes and mandatory payroll deductions, is NIO 12,726 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 Northwest Nicaragua for original study year and latest updates (in Nicaraguan Cordobas and US Dollars)

	October 2017 Original Study Date		2022 Update Report		2023 Update Report	
	NIO	USD	NIO	USD	NIO	USD
Family Living Expenses (1)	12,523	411	16,509	461	18,322	503
Net Living Wage (2)	7,730	254	10,190	284	11,310	310
Total mandatory payroll deductions and income tax (3)	342	11	1,272	35	1,416	39
Gross Living Wage (2+3)	8,048	264	11,462	320	12,726	349
Exchange Rate to USD	30.4		35.84		36.43 ^a	
Source of Exchange Rate	Original Report		Banco Central de Nicaragua		Banco Central de Nicaragua	

Note: USD values are indicative only because exchange rates are volatile. ^aAverage exchange rate for June 2023.

Source: Authors' calculations.

7. REFERENCES

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