

Living Wage Update Report: Rural Ecuador, Coastal Region, 2022

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Cost of decent standard
of living for a family

USD 702*



Living Wage
per month

USD 475*

**Note: Ecuador is a dollarized country*



Photo by: David Brossard via Flickr

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Abstract:

This report provides updated estimates of family living expenses and living wage for rural areas of the main banana growing regions of Ecuador's Coastal Region. The update for 2022 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in November 2016 (Ulloa Sosa et al., 2016).

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

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the Anker living wage and living income expenses to 2022 for the Coastal Region of Ecuador. The update takes into account the amount of inflation since the original study in November 2016. This is done by updating the November 2016 net living wage and living expenses to December 2021 by inflation and then adding expected inflation for 2022, according to the International Monetary Fund (IMF). This provides average living wage and living income expenses estimates for 2022. Without accounting for inflation, the net living wage estimated in 2016 would not be sufficient for workers to have a basic but decent standard of living in 2022, because the purchasing power of the living wage would have decreased. The gross living wage (aka living wage) is updated to 2022 by also taking into account income taxes and mandatory deductions from pay that workers need to pay on the updated 2022 living wage. This is done using laws in force in March 2022.

2. LIVING WAGE AND LIVING EXPENSES FOR REFERENCE SIZE FAMILY IN ORIGINAL COUNTRY REPORT IN NOVEMBER 2016

The net living wage was estimated as USD 425 in November 2016 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, was estimated as USD 463 in November 2016.¹ The living income expenses for a basic but decent standard of living for a reference size family in the original country report was estimated as USD 684 in November 2016 (Ulloa Sosa et al., 2016).

3. INFLATION RATE USED FOR UPDATE

The National Institute of Statistics and Censuses (INEC) is the government body responsible for computing and reporting price indexes and inflation in Ecuador. It reports the general consumer price index (CPI), based on price data from the nine large cities. While there is no separate consumer price index for rural areas, according to the official Methodological Report from INEC: “The variation in prices in the rural area is represented by the variation in the urban area, which is why, based on consumer spending, results of the National CPI are obtained.” (INEC, 2015, p. 10).

CPI data are also reported by the type of consumption item and separately for the Sierra and Coastal regions and for the nine main cities.

“The indices and variations (monthly, annual and accumulated) of the CPI are generated for all the levels of disaggregation of the basket in accordance with the Classification of Individual Consumption by Purpose (CCIF): Division, Group, Class, Subclass and Product; and, geographically at the level: National; Regional (Coast and Sierra); and for nine self-

¹ There was a 9.45% social security deduction on monthly pay, not including the 13th and 14th month bonus.

represented cities (Quito, Ambato, Cuenca, Loja, Guayaquil, Esmeraldas, Manta, Machala and Santo Domingo de los Colorados).” (INEC)

This report uses the national CPI to update the living wage and living income values for the Coastal Region, because the inflation rate for the Coastal Region of Ecuador is very similar to the national inflation rate.

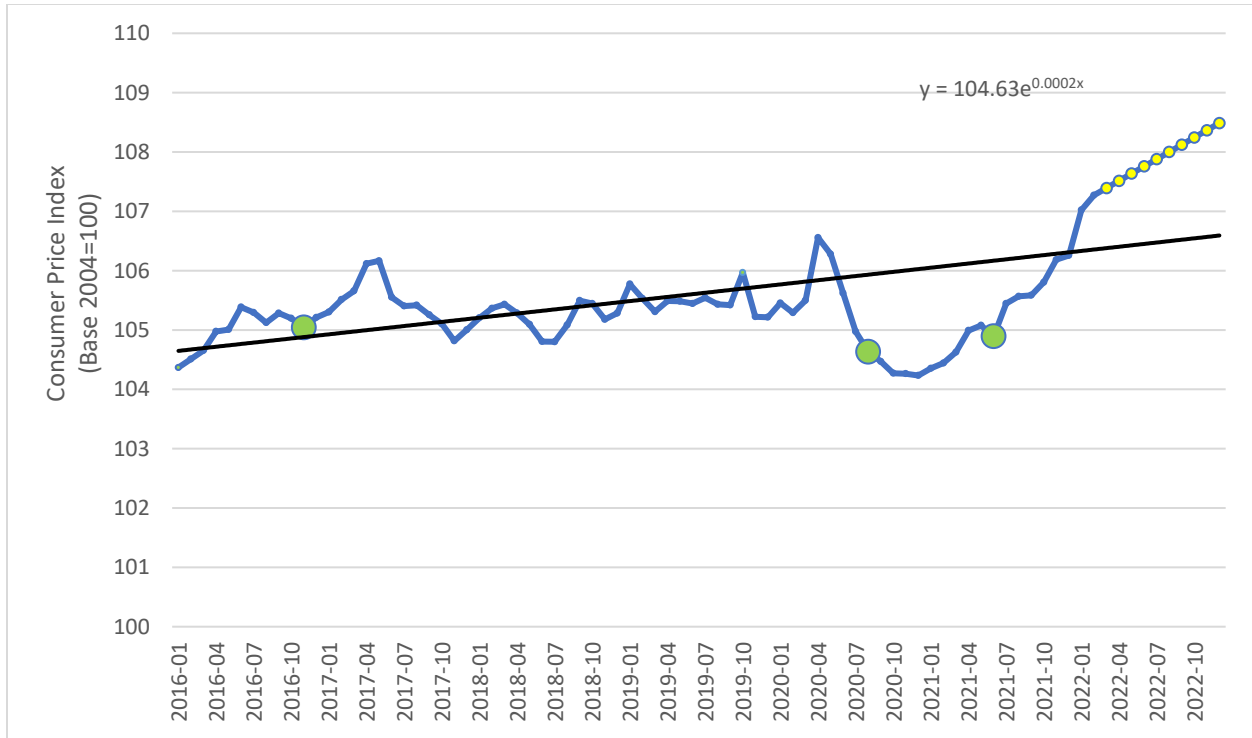
4. RECENT LEVEL OF INFLATION

Ecuador has a low level of inflation. Between November 2016 and December 2021, inflation for the whole country was 1.15%. For the Coastal region, inflation for the same period was 1.05%. However, during the last months of 2021 and first months of 2022, inflation in Ecuador increased substantially (see Figure 1).

Since there is no evidence that prices are affected much by seasonality, national inflation from November 2016 to December 2021 was used for the current update. Then the IMF inflation rate projection in Ecuador for 2022 of 2.1%² was added to the Consumer Price Index numbers in Figure 1 while taking into account the substantial increase in inflation in the beginning of 2022.

² See: <https://www.imf.org/external/datamapper/PCPIPCH@WEO/ECU>. Information accessed: 24 March 2022.

Figure 1: National Consumer Price Index (January 2016-December 2022)



Notes: Green circles highlight the months of the original study and earlier updates. Yellow circles show the forecasts for 2022. The black line is the fitted exponential trend.
Source: Authors’ calculations based on CPI data from INEC.

5. MANDATORY DEDUCTIONS

As in the original study, the estimated living wage for banana workers is well below the 2022 limit (USD 942.5/month)³ for which income tax should be paid. Hence, there is no income tax due on a living wage. Moreover, there continues to be a 9.45% social security tax on earnings (excluding the 13th and 14th month bonuses).⁴

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2022

The updated net living wage, or take-home pay, for 2022 is USD 436 per month. The gross living wage (aka living wage), which also considers income taxes and mandatory payroll deductions, is USD 475 per month for 2022. These are average estimates for the year 2022.

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

³ See <https://taxsummaries.pwc.com/ecuador/individual/taxes-on-personal-income>

⁴ See <https://www.iess.gob.ec/en/web/afiliado/servicios-y-prestaciones>

Table 1: Living wages and family living expenses for banana-growing Coastal region of Ecuador for original study year and latest updates (in US Dollars per month)

	November 2016 Original Study	June 2021 Update Report	2022 Update Report
Currency	USD	USD	USD
Living Expenses for Reference Size Family	684	683	702
Net Living Wage Per Month	425	424	436
Income Taxes and Payroll Deductions Per Month on Living Wage	38	38	39
Gross Living Wage Per Month	463	462	475
Exchange Rate to USD	1	1	1

Note: Ecuador is a dollarized country.

Source: Authors' calculations.

7. REFERENCES

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