


Living Wage Update Report: Minas Gerais South/Southwestern Region, Brazil 2022

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Cost of decent standard
of living for a family

BRL 3,751
(USD 714)



Living Wage
per month

BRL 2,522
(USD 480)



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 2022 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.

JEL classifications: J30, J50, J80.

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BACKGROUND

This report updates the Anker living wage and family living income expenses to 2022 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. This is done by updating the July 2015 net living wage and family living income expenses to December 2021 by inflation and then adding expected inflation for 2022. This provides average living wage and living income expenses estimates for 2022. 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 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 would need to pay on the updated 2022 living wage. This is done using laws in force in March 2022.

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, Barbosa, Candia, & Alves, 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.

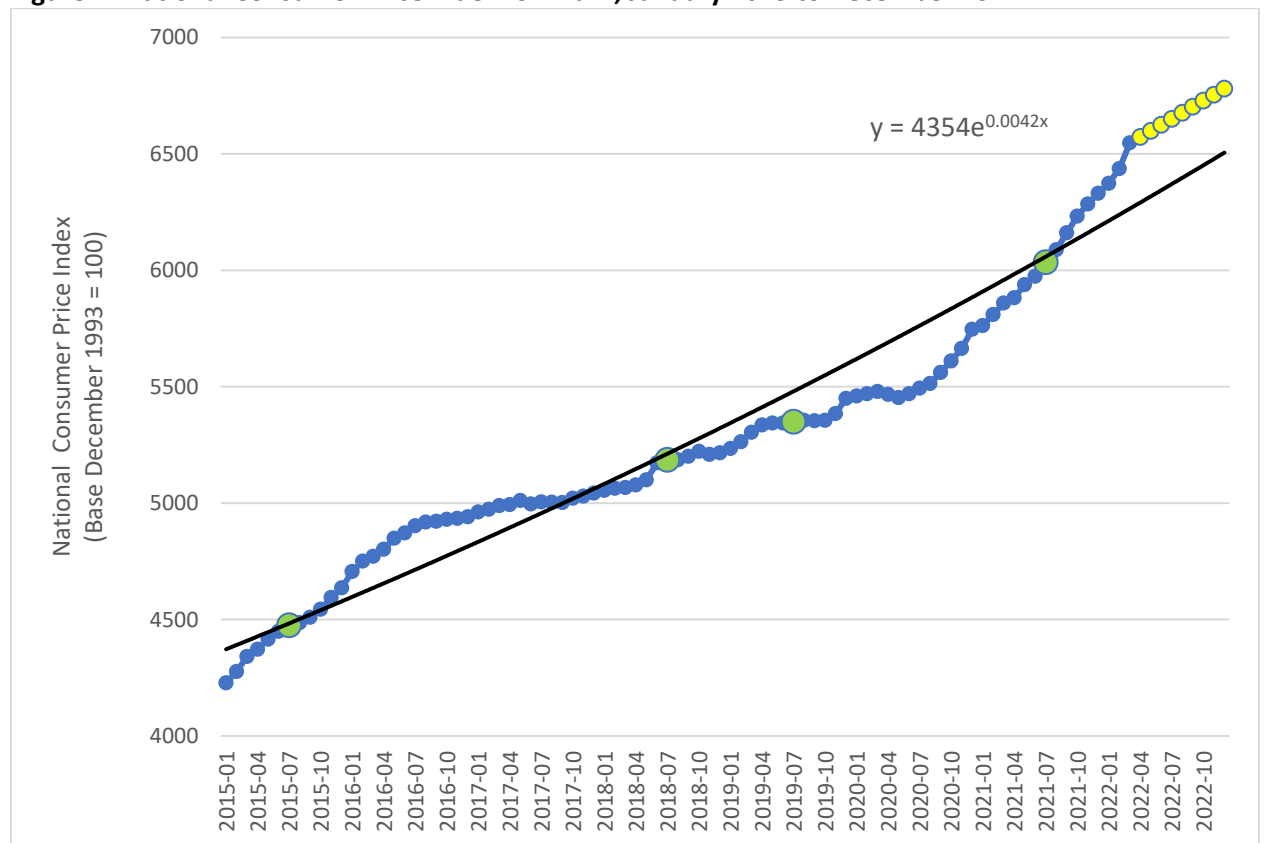
¹ See <https://www.ibge.gov.br/en/>

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

RECENT LEVEL OF INFLATION

Between July 2015 and December 2021, accumulated inflation amounted to 41.5% in Brazil. The International Monetary Fund (IMF) projects that the inflation rate in Brazil for 2022 will be 5.3%³, but this value is probably too low given the international context, global supply chain bottlenecks, and extreme weather conditions that have harmed Brazilian farmers. On 24 March 2022, the Central Bank of Brazil raised its inflation forecast for 2022 from 4.7% to 7.1% (Banco Central do Brasil, 2022: 8) and this updated projection was added to the National Consumer Price Index numbers shown in Figure 1, while taking into account observed inflation for January, February, and March 2022 to arrive at an average inflation rate for 2022.

Figure 1: National Consumer Price Index for Brazil, January 2015 to December 2022



Notes: Green circles indicate the months of the original study and earlier updates. Yellow circles show the forecasts for 2022. The black line is the fitted exponential trendline.

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

³ See <https://www.imf.org/external/datamapper/PCPIPCH@WEO/BRA>. Information accessed: 06 April 2022.

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 March 2022, 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%⁴ deduction from the gross wage.

In terms of income tax, the gross living wage falls into the tax bracket from BRL 2,826.7 to BRL 3,751.1, which is subject to a 15%⁵ tax rate. However, just like in the previous update, social security contributions can be deducted from the taxable income. Additionally, workers can make a deduction for each dependent child,⁶ and considering two dependents, which is reasonable for our reference family size of 4, workers receiving our estimated gross living wage would not be charged income tax.

Regarding union dues, which were mandatory in 2015, since the introduction of the 2017 Labor Reform Law (Law No 13.467 of July 2017) are no longer mandatory. However, this report follows the latest benchmark study carried in Brazil (De Freitas, Cordeiro, Barbosa & Bowen, 2021), which states that although this practice is no longer mandatory, worker representation and collective bargaining are still fundamentally important rights for workers. Thus, this report assumes that workers earning a living wage are subject to a 1% deduction from the gross wage for union dues.

UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2022

The updated net living wage, or take-home pay, for 2022 is BRL 2,194 (USD 418) per month. The gross living wage (aka living wage), which also takes into account income taxes and mandatory payroll deductions, is BRL 2,522 (USD 480) 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.

⁴ See <https://taxsummaries.pwc.com/brazil/individual/other-taxes>

⁵ See <https://taxsummaries.pwc.com/brazil/individual/taxes-on-personal-income>

⁶ See <https://taxsummaries.pwc.com/brazil/individual/deductions>

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		July 2021 Update Report		2022 Update Report	
	BRL	USD	BRL	USD	BRL	USD
Living Expenses for Reference Family Per Month	2,534	685	3,417	664	3,751	714
Net Living Wage Per Month	1,482	401	1,998	388	2,194	418
Income Taxes and Payroll Deductions Per Month on Living Wage	147	40	273	53	328	62
Gross Living Wage Per Month	1,629	440	2,271	441	2,522	480
Exchange Rate to USD	3.70		5.15		5.25*	
Source of Exchange Rate	Original Report		IMF's Archive		Projection	

Note: * There is no clear trend in the exchange rate over the last couple of years, so we used the average exchange rate for the first three months of 2022 as an estimate of the average exchange rate for all of 2022. However, it is worth noting that the exchange fell in the first three months of 2022 and was 4.77 at the end of March 2022.

Source: Authors' calculations.

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