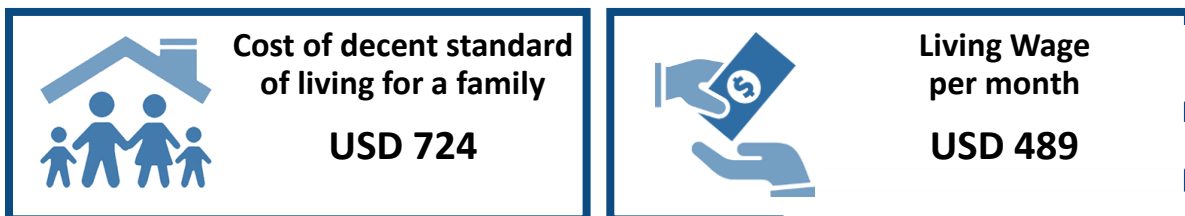


# Living Wage Update Report: Rural Ecuador, Coastal Region, 2023

Living Wage Update Report No. 23-04-29



Note: Ecuador is a dollarized country



Photo by: David Brossard via Flickr

# Living Wage Update Report: Rural Ecuador, Coastal Region, 2023

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## **Abstract:**

This report provides updated estimates of living income (family living expenses) and living wage for rural areas of the main banana growing regions of Ecuador's Coastal Region. The update for 2023 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 2023 for the Coastal Region of Ecuador. The update takes into account the amount of inflation since the original study in November 2016 (Ulloa Sosa et al., 2016). This is done by updating the November 2016 net living wage and living 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 2016 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 need to pay on the updated 2023 living wage. This is done using laws in force in June 2023.

## 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.<sup>1</sup> 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;”*

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

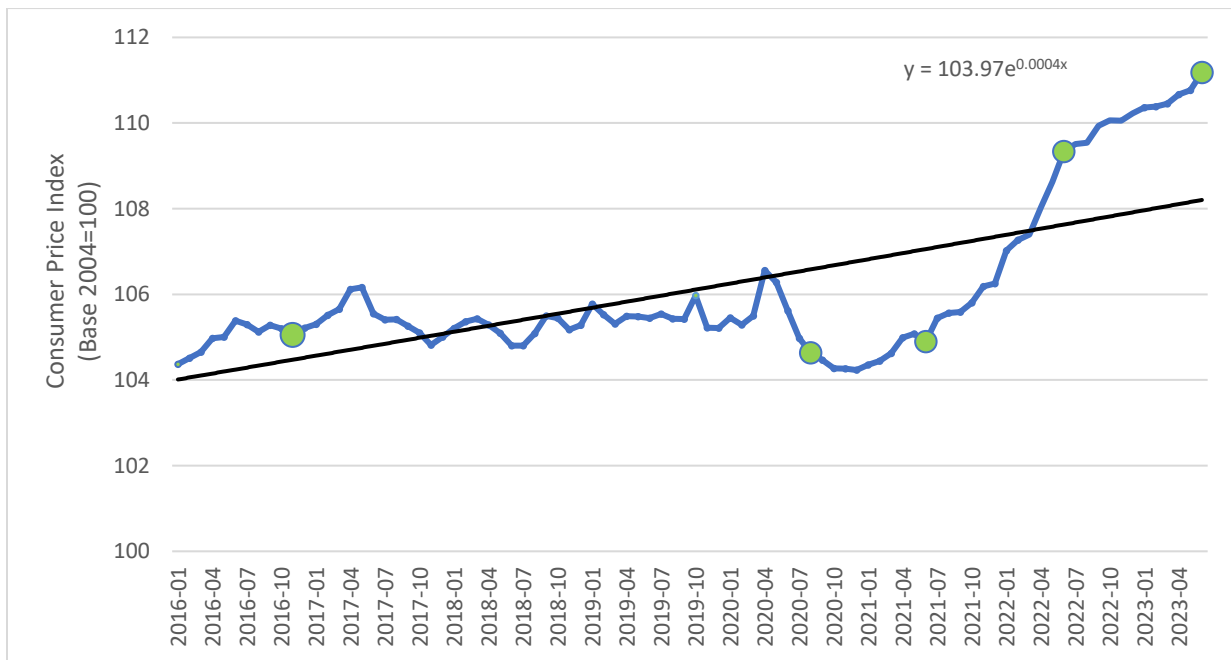
*and, geographically at the level: National; Regional (Coast and Sierra); and for nine self-represented cities (Quito, Ambato, Cuenca, Loja, Guayaquil, Esmeraldas, Manta, Machala and Santo Domingo de los Colorados).” (INEC)*

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

#### 4. RECENT LEVEL OF INFLATION

Ecuador experienced low inflation rates from January 2016 until December 2021. From January 2022 inflation in Ecuador increased more rapidly, but it is still very modest (see Figure 1). Between November 2016 and June 2023, total inflation in Ecuador was 5.8%. This is the inflation used in this report.

**Figure 1: National Consumer Price Index (January 2016-June 2023)**



Notes: Green circles highlight the months of the original study and earlier updates. 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 the banana-producing region is well below the 2023 limit for which income tax should be paid (USD 976.8/month)<sup>2</sup>. Hence, there is no income tax due on the living wage. However, there continues to be a 9.45%<sup>3</sup> social security tax on earnings (excluding the 13<sup>th</sup> month bonus and Reserve Fund, also known as 14<sup>th</sup> month bonus).

## 6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR JUNE 2023

The updated net living wage, or take-home pay, for June 2023 is USD 450 per month. The gross living wage (aka living wage), which also considers income tax and mandatory payroll deductions, is USD 489 per month for June 2023. This gives average estimates for 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 banana-growing Coastal region of Ecuador for original study year and latest updates (in US Dollars per month)**

	November 2016 Original Study	2022 Update Report	2023 Update Report
<b>Currency<sup>a</sup></b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>Family Living Expenses (1)</b>	684	712	724
<b>Net Living Wage (2)</b>	425	442	450
<b>Income Taxes and Payroll Deductions on Living Wage (3)</b>	38	39	40
<b>Gross Living Wage (2+3)</b>	463	482	489
<b>Exchange Rate to USD</b>	1	1	1

Note: <sup>a</sup> Ecuador is a dollarized country.

Source: Authors' calculations.

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

<sup>3</sup> See <https://www.iess.gob.ec/en/web/afiliado/servicios-y-prestaciones>

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