

# Living Wage Update: August 2020

## Southern Coastal Zone, Ecuador



Living wage per month  
**USD \$461**



Cost of decent standard  
of living for a family  
**USD \$681**



Photo by: David Brossard via Flickr

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### Southern Coastal Region, Ecuador<sup>1</sup>

#### 1. BACKGROUND

This report updates the living wage and living expenses for the banana producing region and Coastal Zone of Ecuador.<sup>2</sup>

The net living wage and living expenses were updated to the most recent month with available inflation data from government – August 2020 – in this report to take into account the amount of inflation since the original study in November 2016. Without accounting for inflation, the net living wage estimated in 2016 might not be sufficient for workers to have a basic but decent standard of living in 2020 because the purchasing power of the living wage might have decreased. Similarly, living expenses for a reference size family were also updated to August 2020 to account for inflation.

The gross living wage was updated to August 2020 by also taking into consideration in addition income taxes and mandatory deductions from pay that workers would need to pay on the updated 2020 living wage. This is done using August 2020 laws.

#### 2. LIVING WAGE AND LIVING EXPENSES FOR REFERENCE SIZE FAMILY IN ORIGINAL COUNTRY REPORT IN NOVEMBER 2016 AND IN THIS UPDATE REPORT FOR AUGUST 2020

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>3</sup> The living 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.

#### 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 only the consumer price index, the IPC (in Spanish acronym), which is based on price data from the nine large cities.

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<sup>1</sup> Prepared by Ian Prates with Richard Anker and Martha Anker.

<sup>2</sup> This is an update to *Living Wage Report: Rural Ecuador, Southern Coastal Zone*, November 2016. Janette Ulloa Sosa, Víctor López, Patricio Sambonino, Richard Anker, and Martha Anker. <https://bit.ly/32VMPYD>

<sup>3</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.

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, p. 10).<sup>4</sup>

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

This report uses the Coastal-specific IPC to update the living wage and living income values for the Coastal region—although it is worth noting that the inflation rate for this region is very similar to the national inflation rate.

#### 4. RECENT LEVEL OF INFLATION

Ecuador has a very low level of inflation. Between November 2016 and August 2020, inflation for the whole country was -0.39%. For the Coastal region, inflation for the same period was -0.51%. Since there is no evidence that prices are affected much by seasonality, the Coastal Region November 2016 to August 2020 inflation rate was used for the current update.

#### 5. MANDATORY PAYROLL DEDUCTIONS AND INCOME TAXES ON THE LIVING WAGE

There continues to be a 9.45% social security tax on earnings (excluding the 13<sup>th</sup> and 14<sup>th</sup> month bonuses) just as in 2016<sup>5</sup>. Just as in 2016, there is no income tax due on a living wage. This social security tax is taken into consideration in estimating mandatory deductions and gross living wage for August 2020.

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<sup>4</sup> “Documento de difusión. Hace un IPC Macroeconomico. Metodología del índice de precios al consumidor (IPC), Base anual 2014”. Available at: [https://www.ecuadorencifras.gob.ec/documentos/web-inec/Inflacion/2015/InflacionEnero2015/Metodologia%20IPC\(Base%202014=100\).pdf](https://www.ecuadorencifras.gob.ec/documentos/web-inec/Inflacion/2015/InflacionEnero2015/Metodologia%20IPC(Base%202014=100).pdf)

<sup>5</sup> <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-ecuadorhighlights-2019.pdf>

## 6. UPDATED LIVING WAGES AND FAMILY LIVING EXPENSES FOR AUGUST 2020

The updated net living wage, or take-home pay, for August 2020 is USD\$423 per month. The gross living wage, which also considers income taxes and mandatory payroll deductions, is USD\$461 per month for August 2020. 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 (in US Dollars per month)**

	<b>November 2016 (Original Study Date)</b>	<b>August 2020 (Latest Update)</b>
<b>Currency</b>	USD	USD
<b>Living Expenses for Reference Size Family</b>	\$684	\$681
<b>Net Living Wage Per Month</b>	\$425	\$423
<b>Income Taxes and Payroll Deductions Per Month on Living Wage</b>	\$38	\$38
<b>Gross Living Wage Per Month</b>	\$463	\$461
<b>Exchange Rate to USD</b>	1	1