

Living Wage Update: June 2021

Rural Ecuador, Southern Coastal Region



Photo by: David Brossard via Flickr

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Rural Ecuador, Southern Coastal Region¹

1. BACKGROUND

This report updates the living wage and living expenses for the Southern Coastal Zone of Ecuador.² The net living wage and living expenses were updated to June 2021 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 2021 because the purchasing power of the living wage might have decreased. Similarly, living expenses for a reference size family were also updated to June 2021 to account for inflation. The gross living wage was updated to June 2021 by also taking into consideration income taxes and mandatory deductions from pay that workers would need to pay on the updated 2021 living wage. This is done using June 2021 laws.

The mid-year estimate presented in this update report can be considered a proxy for the average living wage for the calendar year 2021.

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 2016.³ 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 the general consumer price index (CPI),

¹ Prepared by Lykke E. Andersen and Alejandra Gonzales of SDSN Bolivia, with Richard Anker and Martha Anker.

² 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>

³ There was a 9.45% social security deduction on monthly pay, not including the 13th and 14th month bonus.

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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).⁴

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)

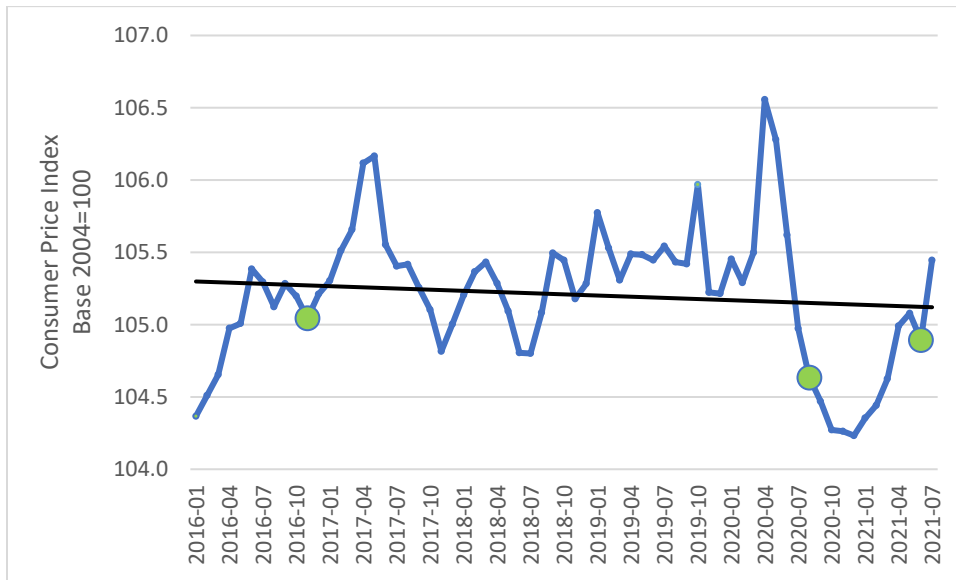
This report uses the Coastal-specific CPI to update the living wage and living income values for the Coastal region, although it is worth noting that the inflation rate for this region is very similar to the national inflation rate.

4. RECENT LEVEL OF INFLATION

Ecuador has a very low level of inflation. Between November 2016 and June 2021, inflation for the whole country was -0.14%. For the Coastal region, inflation for the same period was -0.10%. Since there is no evidence that prices are affected much by seasonality, national inflation from November 2016 to June 2021 was used for the current update. The original study month (November 2016), as well as the previous and new update months (August 2020, and June 2021), are highlighted with larger green dots. Given the almost non-existent level of inflation in Ecuador, the updated net and gross living wages are the same as when the Benchmark living wage study was done in 2016.

⁴ “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)

Figure 1: National Consumer Price Index (January 2016-July 2021)



Notes: Green dots highlight the months of the original study and the updates.

Source: Authors' calculations based on CPI data from INEC

5. MANDATORY DEDUCTIONS

There continues to be a 9.45% social security tax on earnings (excluding the 13th and 14th month bonuses).⁵ 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 June 2021, which were virtually unchanged since the original study.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR MARCH 2021

The updated net living wage, or take-home pay, for June 2021 is USD\$424 per month. The gross living wage, which also considers income taxes and mandatory payroll deductions, is USD\$462 per month for June 2021. Table 1 provides details of the original and the updated living wages and family living expenses

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

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

Item	November 2016 (Original Study Date)	June 2021 (Latest Update)
Currency	USD	USD
Living Expenses for Reference Size Family	684	683
Net Living Wage Per Month	425	424
Income Taxes and Payroll Deductions Per Month on Living Wage	38	38
Gross Living Wage Per Month	463	462
Exchange Rate to USD	1	1

Note: Ecuador is a dollarized country.

Source: Authors' calculations.