Have real wages of workers started to fall?

RIZWANUL ISLAM

It is by now well-known that the economic crisis that resulted from the Covid-19 pandemic has severely affected the employment and labour situation – globally as well as in Bangladesh. Millions of jobs were lost during the shutdown period, many of which did not return even when economic activities resumed.

Moreover, as full economic recovery is still some way off, the labour market remains weak.

Loss of jobs and a rise in unemployment are not the only ways in which labour markets adjust to an economic downturn. Another important adjustment mechanism is the fall in real wages of workers. The operation of the forces of demand for and supply of labour can lead to a decline in the real wages of workers.

Real wages are critical for the lives of many of the poor whose sole income-generating asset is their labour. And in that context, it needs to be noted at the outset that it is not just the amount of money that one gets as wages, the price of goods and services that the worker has to buy are also important. The term "real wage" is used to capture the purchasing power of the money one gets as wages.

Data on the index of money wage of unskilled workers and consumer price index (CPI) are available on the website of the Bangladesh Bureau of Statistics (BBS), using which it is possible to construct the index of real wages of such workers. We have done this for wages as a whole as well as for broad sectors, viz., agriculture, industry and services (Figure 1).

After stagnating (or rising slowly) for a long period during the 1980s and 1990s, real wages rose substantially after 2005-06. But the primary impetus of that rise – especially in agriculture - came from the sharp rise in the prices of food grains in 2008 in the global market as well as in Bangladesh. And the rising trend could not be sustained after 2009-10.

Real wages fell between 2010-11 and 2014-15 for all workers as well as for workers in the three sectors mentioned above. This implies that real wages of workers in Bangladesh did not rise even during the period when economic growth was high and sustained (i.e., during the first half of the decade of 2010).

Starting from 2015-16, the declining trend was reversed in agriculture. For industry and services, recovery started in the following year. But the rise in real wages that took place after 2015-16 was basically helped by low inflation.

The rise in real wages continued in 2019-20 as well. But it needs to be noted that the indices for neither overall wages nor for agriculture and industry have yet reached the level of 2010-11. Only for services, the real wage index attained that level.

It might appear that the ongoing economic crisis has not yet had any adverse effect on real wages. But before coming to such a conclusion, one needs to note a couple of points. First, the data for 2019-20 includes only three months (April, May and June of 2020) of the crisis-affected time. Out of that, April and May were peak periods in agriculture when boro paddy harvest was going on. During such a period, wages in agriculture usually go up.

Second, data for "industry" aggregates data for construction and all manufacturing industries - including micro, small and cottage enterprises. It is in those sub-sectors that wages are more likely to have been affected by the economic crisis. Hence, before concluding that the wage route for labour market adjustment is not in operation, it would be important to (i) look at what happens during the rest of the year 2020, and (ii) examine what has been happening to wages in sub-sectors that are likely to be more vulnerable.

Fortunately, the BBS reports mentioned above provide data for the last three months of 2019-20 (i.e., April, May and June) and for sub-sectors like fishery, and construction for short periods. A few observations may be made on the basis of the data presented in the Figure 2).

- General wage growth in April and May (2020) was barely above the inflation rate; but in June, it could not keep up with inflation – thus implying a decline in real wage rate as a whole.
- Wage growths in construction and fishery declined sharply.
- In May and June, growth of wages in major sectors, viz., agriculture, production industry and services was lower than in April.

One can thus conclude that not only jobs were lost, those who were lucky to be in their jobs are seeing their wages facing downward pressure. The labour market of the country is adjusting to the crisis through both quantity (amount of employment) and price (wage) routes.

The data presented above show that real wages as a whole as well as in the major sectors of the economy have shown a tendency to fluctuate rather than a maintaining a consistent trend. And yet, there are people who argue that real wages are rising and the labour market is facing a shortage of workers.

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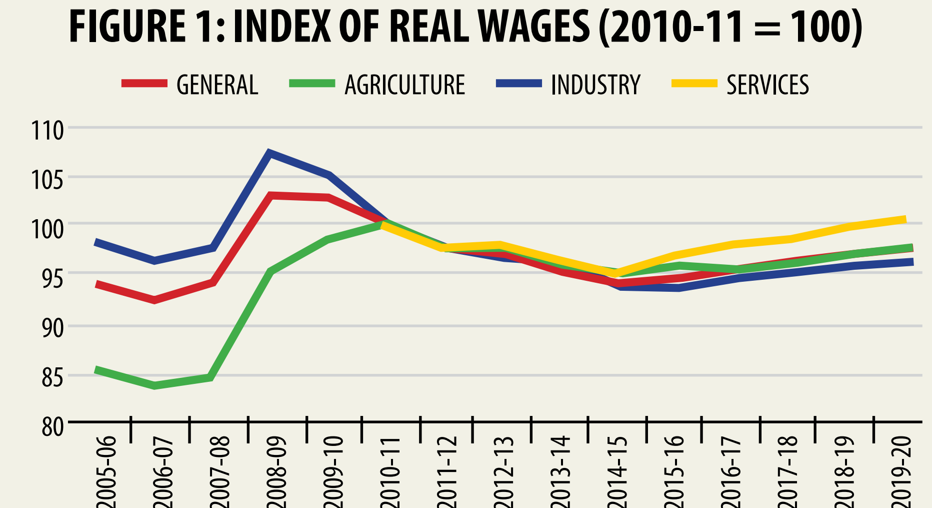
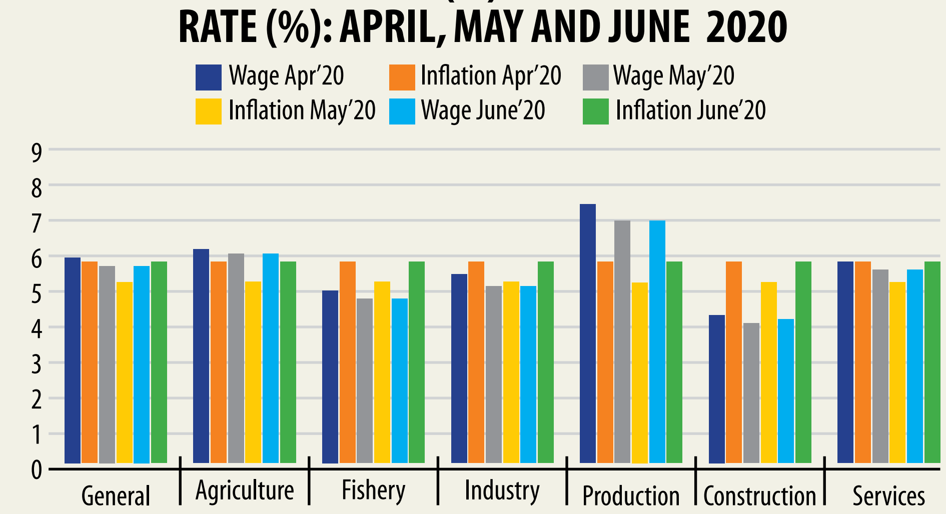
Wages in the agriculture sector usually go up during the paddy harvesting season.

FIGURE 1: INDEX OF REAL WAGES (2010-11 = 100)



SOURCE: **CONSTRUCTED BY THE AUTHOR BY USING DATA FROM BANGLADESH BUREAU OF STATISTICS: CONSUMER PRICE INDEX (CPI), INFLATION RATE AND WAGE RATE INDEX (WRI) IN BANGLADESH. JUNE 2020.**

FIGURE 2: GROWTH RATE (%) OF WAGES AND INFLATION RATE (%): APRIL, MAY AND JUNE 2020



SOURCE: **CONSTRUCTED BY THE AUTHOR USING BBS DATA (AS FOR FIGURE 1).**

LNG purchase from spot markets to cut costs by 27pc

REJAUL KARIM BYRON *and* MD FAZLUR RAHMAN

Bangladesh would pay up to 27 per cent lower prices when it buys liquified natural gas (LNG) from Vitol Asia of Singapore on the spot market, compared to the payments it makes to the existing suppliers.

On Wednesday, the government decided to buy 34,90,200 MMBTus (million British thermal units) of LNG from Vitol Asia at $3.8321 per MMBTu.

The price is 26.86 per cent lower from $5.2395 Bangladesh paid to RasGas of Qatar to import one MMBTu of LNG in August and 21.12 per cent lower from $4.8585 it paid to Oman Trading International.

If it buys one LNG cargo from Vitol Asia, Bangladesh would be able to save Tk 39.77 crore and Tk 29 crore respectively compared to the prices made to RasGas and Oman Trading, according to a document of the energy and mineral resources ministry.

In a spot market, financial instruments, such as commodities, currencies and securities, are traded for immediate delivery.

The LNG is expected to be delivered between September 30 and October 8. The total cost would stand at about Tk 132.93 crore.

Bangladesh now buys LNG on its own from RasGas and Oman Trading International under government-to-government purchase agreements.

In 2017, Bangladesh signed a 15-year contract with RasGas, which would supply 2.5 million tonnes of LNG every year.

The country also imported its first LNG cargo from Oman Trading International in January last year under a 10-year deal.

Bangladesh added LNG to its energy system in August 2018 as part of the government's efforts to eliminate gas shortages and power outages and unlock the potential of the economy.

Excelerate Energy of the US began supplying re-gasified LNG from its terminal in Moheshkhali in August 2017. It has a regasification capacity of 500 million cubic feet per day.

In May last year, Summit LNG Terminal Co Ltd, the country's second LNG terminal, began supplying re-gasified LNG. The unit has a capacity of supplying 500 million cubic feet of re-gasified LNG.

The two companies are currently supplying 560 mmcfd gas to the national network, according to the energy ministry.

PRICES QUOTED BY BIDDERS IN SPOT MARKET

Bidders	Offered contract price at USD per MMBTu
Vitol Asia Pte, Singapore	3.8321
Eni, Spain	4.6945
Excelerate Energy, US	5.6300
AOT Trading, Switzerland	5.989

PRICES IN PREVIOUS CONTRACTS

- Bangladesh imported LNG from RasGas of Qatar at $**5.2395** per MMBTU in August
- Imported from Oman Trading International at $**4.8585**

SOURCE: **ENERGY MINISTRY**

Because of the long-term agreements, LNG importing countries have to make payments to suppliers even if they don't receive any cargo. This prompts importing countries to meet about 25 per cent of their requirement through the spot market, the energy ministry said.

So, the energy division has moved to buy LNG from the spot markets along with procuring the fuel through long-term agreements.

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BSEC slaps fine on Fareast Finance chairman, director

STAR BUSINESS REPORT

The stock market regulator yesterday slapped a fine on the chairman and a director of Fareast Finance for selling shares without any prior notice.

The Bangladesh Securities and Exchange Commission (BSEC) penalised three brokerage houses for breaching rules and halted the auditing rights of a chartered accounting firm as it did not publish the breach of regulations by two listed companies.

The decision came at a meeting presided over by Prof Shibli Rubayet Ul Islam, chairman of the commission.

Fareast Finance Chairman MA Khaleque and Director Rubaiyat Khaled sold 32.81 lakh and 26,777 shares respectively during a prohibited period and without giving any notice in advance, said the BSEC in a press release.

This is a breach of listing regulations as directors are compelled to give an announcement before selling or buying shares.

"They also did not pay taxes properly on the shares sold," the statement said.

So, the BSEC has decided to impose a fine of Tk 10 lakh on Khaleque and Tk 5 lakh on Khaled. Until the fines are paid, their beneficiary owner's accounts would remain frozen.

The BSEC found that Sylnet Securities, Modern Securities and MAH Securities broke rules.

Keeping a deficit in consolidated customer's accounts, giving loan facilities to their staff and allowing margin loans to buy junk shares are among the breaches committed by the stockbrokers, according to the BSEC. They were fined Tk 2 lakh, 5 lakh and Tk 1 lakh respectively.

The commission halted the auditing rights of Atik Khaled Chowdhury Chartered Accountants for three years as it did not disclose in its audit report that RN Spinning Mills and ML Dyeing spent Tk 45.46 crore and Tk 53 crore respectively to buy assets in cash, a breach of rules.

The regulator also approved bonds of Al-Arafah Islami Bank and Pran Agro.

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Vibrant Safta key to higher trade with India after LDC graduation

BGMEA president says

STAR BUSINESS REPORT

A vibrant South Asian Free Trade Area (Safta) is crucial for Bangladesh to increase trade with India after its graduation from a least developed country (LDC) to a developing one in 2024, said the BGMEA president yesterday.

"Bangladesh could miss out on grabbing a bigger slice of the Indian market after graduation due to high tariffs alongside the non-tariff and para-tariff barriers between the two countries," said Rubana Huq.

Bangladesh currently enjoys duty-free access to promising Indian markets under its LDC status but the country will face a 10 per cent tariff on apparel shipments following its graduation.

The president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) made these remarks during a panel discussion titled "how can regional cooperation support South Asia's Covid-19 recovery" on Wednesday.

The event, organised by World Bank, was moderated by the international lender's director for regional integration and engagement of South Asia, Cecile Fruman.

Various diplomats, researchers, businesspeople, World Bank officials, political, economic and trade analysts and policymakers from member countries of the South Asian Association for Regional Cooperation (Saarc) participated in the discussion.

A trust deficit is prevalent in the entire region, Huq said, adding that any single country can never act alone. For instance, India practices isolationism but not to an extreme extent.

"And this cannot be allowed to take place as the para-tariffs and non-tariff barriers impede the growth of bilateral trade in this region," she continued.

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MAJOR RECOMMENDATIONS

- Making Safta platform vibrant for more trade between Bangladesh and India
- Ensuring easy availability of coronavirus vaccine among Saarc countries
- Removing trust deficit among Saarc nations
- Removing non-tariff and para-tariff barriers in trade among Saarc nations
- Paving ways for more export from Bangladesh to India
- Seeking entry to Asean markets by Bangladesh