

BUFF/13/98

November 22, 2013

**Statement by the Staff Representative on Bangladesh
Executive Board Meeting
November 27, 2013**

The information below has become available following the issuance of the staff report (EBS/13/138). It does not alter the thrust of the staff appraisal.

1. All quantitative targets for end-September for which preliminary data are available appear to have been met. The publication of the tender for the selection of the value-added tax automation software vendor (a December 2013 benchmark) has been completed.
2. The Election Commission has yet to announce a date for the national elections, although they are widely expected to take place in early January 2014. On November 18, Prime Minister Hasina formed an interim cabinet for the pre-election period. The appointment follows resignations from all cabinet ministers, at the request of the Prime Minister. The ruling Awami League has a majority in this interim cabinet, along with some appointments from other political parties. Some ministers were retained in key portfolios, including the Finance Minister. The main opposition party has so far refused to participate in the interim government and has asked Prime Minister Hasina to resign and hand power to a nonpartisan caretaker government formed by prominent citizens. The situation, however, remains fluid, with several stakeholders trying to broker an agreement between the two main parties. In the meantime, strikes and disruptions are likely to continue with detrimental effects on the economy.
3. Recent data releases have evolved broadly in line with staff's expectations.
 - Exports were volatile but overall strong in the first three months of fiscal year 2014 (FY14, July 2013 to June 2014), but fell by 4 percent (y/y) in October, hampered by frequent shutdowns and political uncertainty.
 - Remittances contracted 15 percent (y/y) in October, reflecting continued weak outflows of migrant workers.
 - Private sector credit growth has continued to trend down from an average of almost 16 percent (y/y) in FY13 to 11 percent in September.

- Headline inflation eased further to 7 percent (y/y) in October with slower nonfood inflation offsetting higher food inflation (which is being affected by supply disruptions).
4. There have been several developments in the garment industry.
- After a period of consultations, the Minimum Wage Board recommended on November 21 raising the minimum wages for the garment industry. For entry-level workers, the recommended minimum wage will be Tk 5,300 (US\$68) per month, a 77 percent rise from the current Tk 3,000 per month. This wage rate was last revised in 2010 (by 81 percent), and before that in 2006 (by 78 percent). The recommendation needs to be approved by the Ministry of Labor and Employment, and is expected to go into effect in December 2013.
 - The Alliance for Bangladesh Worker Safety (a group of U.S. garment retailers) and the Accord on Fire and Building Safety (a European group), which were set up in response to the Rana Plaza building tragedy, announced on November 20 a comprehensive set of common fire and safety standards for Bangladesh garment factories, based on which thorough inspections are planned to take place in the coming months.
 - Higher wages, in conjunction with strengthened safety standards, are likely to lead to a period of adjustment and consolidation in the garment industry (as explained in the staff report), and will necessitate offsetting improvements in productivity to avoid some erosion in the sector's competitiveness. However, the proposed entry level minimum wage would still be lower than in other major garment-exporting countries.¹ Moreover, the impact on wages in other industries is expected to be contained as over four fifths of total employment in Bangladesh is informal, with limited bargaining power. Staff analysis based on past episodes of minimum wage increases suggests that the pass through to consumer prices is likely to be moderate.

¹ According to a recent ILO report, the lowest applicable wage in the garment industry is US\$71 in India and US\$73 in Sri Lanka, rising to \$78 in Vietnam, US\$79 in Pakistan, and \$80 in Cambodia. Based on limited available information on productivity differentials, the proposed minimum wage in Bangladesh would likely lead to roughly comparable unit labor costs vis-à-vis some of these comparator countries.