

# **Policy Note: PN 2104**

## **Labour Market Dynamics in Bangladesh: Impact of the COVID-19**

**June 2021**



**Chief Economist's Unit  
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## Labour Market Dynamics in Bangladesh: Impact of the COVID-19<sup>1</sup>

### Abstract

*This note attempts to assess the trend and current status of employment on the back of COVID-19 shock with an objective of providing insights on what to do for near and medium term under the new normalcy of COVID-19 period. The discussions in this policy note find that the labour markets were severely affected in all the three major sectors. The note also finds that a huge segment of labour force, who have poor levels of income, can easily be affected by the vulnerabilities due to the COVID-19 related restrictions. The estimated data find significant losses in terms of employment, working hours, and labour income in 2020 because of COVID-19 induced crisis. The note also reviews that in response to COVID-19 crisis, government of Bangladesh and the Bangladesh Bank provided comprehensive supports to labour force across all economic sectors, including agriculture, SMEs, industry and services. These policy supports is very effective to revive the employment generation /retention across the sector. However, a further study is needed to assess the impact of implementation of stimulus packages targeted for retention of labour markets in a way to ensure an even recovery across the sectors, areas and gender, while revisiting the policies.*

### I. Introduction

The COVID-19 pandemic that started in China in December 2019 and spread over almost all other countries has caused disappointments in global economic growth as it has discouraged investment and, hence, disrupted the labour markets. Though figuring out the economic damage is difficult to tell, a report estimated that the loss was 4.5 percent of global gross domestic product (GDP)<sup>2</sup>. The IMF (2021) estimated a contraction of -3.3 percent GDP growth in 2020<sup>3</sup>. The world economy witnessed an upward trend of unemployment rate of 6.5 percent in 2020 while the rate was 5.4 percent in 2019<sup>4</sup>. Likewise, the Bangladesh economy faced a lower real GDP growth at 5.24 percent in financial year 2019-2020 as compared to 8.15 percent of that in the previous financial year because of the COVID-19 pandemic shock. The labour markets were distorted as many working-age people became jobless in the country following the adverse effects of prolonged restriction measures imposed to check the surge of coronavirus infections. This policy note explains the disturbance in the labour markets in Bangladesh in a manner to understand that which segment of population has mostly been affected by the pandemic hit and that what measures have been taken so far to support the labour markets. After the fallout of COVID-19, the government and Bangladesh Bank have taken very proactive actions including a comprehensive stimulus package to ensure economic activities and retention of employment. A proper assessment of loss of working hours, employment and incomes can guide further for formulating appropriate policies to gear up the employment generation in the country. In this backdrop, the note attempts to assess the trend and

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<sup>1</sup> This note has been prepared by Dr. Md. Salim Al Mamun, Deputy General Manager, Raju Ahmed, Deputy Director, and Dr. Md. Ezazul Islam, General Manager, Chief Economist's Unit. The authors are grateful to Dr. Md. Habibur Rahman, Executive Director (Research), for providing valuable suggestions. Views expressed in this policy note are authors' own and do not necessarily reflect that those of the Bangladesh Bank. Comments can be sent to: salim.mamun@bb.org.bd

<sup>2</sup> Szmigiera, M. (2021). Impact of the coronavirus pandemic on the global economy - Statistics & Facts. Statista.

<sup>3</sup> International Monetary Fund (2021). World Economic Outlook: Managing Divergent Recoveries, Washington D.C.: IMF.

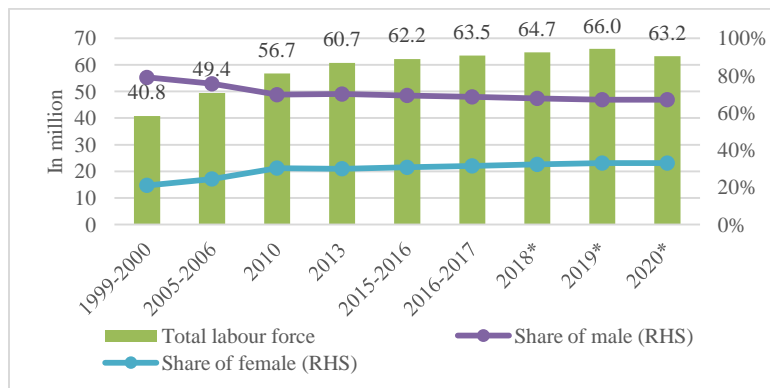
<sup>4</sup> International Labour Organization (2021). ILO monitor: COVID-19 and the world of work. Seventh edition. Geneva: ILO.

current status of employment on the back of COVID-19 shock with an objective of providing insights on what to do for near and medium term under the new normalcy of COVID-19 period.

## II. Labour markets in Bangladesh and COVID-19 Shocks

Working-age population in a country reflects economy's ability towards long-run growth as it scopes a demographic dividend to the economy. Country's working-age population increased significantly from 58 percent in 1999-2000 to 68 percent<sup>5</sup> in 2016-2017, opening up new economic opportunities for the country. According to the LFS (2016-17), 69.8 percent of working-age population lived in urban areas, whereas it was 66.7 in rural areas in 2016-2017. The LFS defined that if the working-age people are economically active, and they are employed for at least one hour during the seven days prior to the survey, or have a job attachment but are temporarily absent from work or are available to work if any work could be found, they are to be considered as labour force.

**Chart 1: Division of labour force participation between male and female**



Source: Labour Force Survey (various issues), Bangladesh Bureau of Statistics.

\* Authors' estimation.

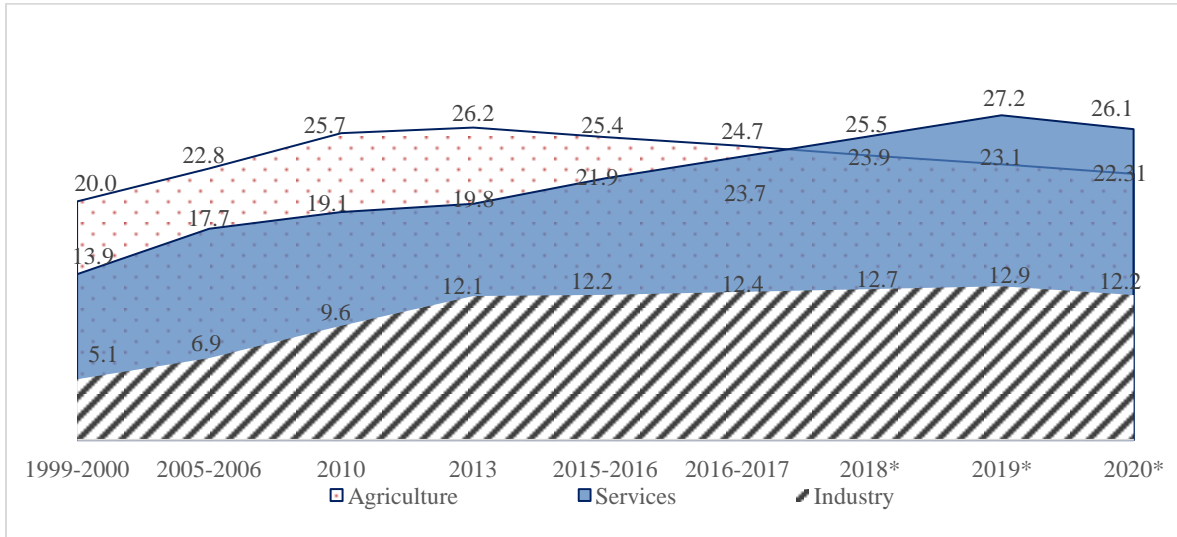
Chart 1 shows that the total number of labour force increased from 40.8 million in 1999-2000 to 63.5 million in 2016-17. This policy note estimates the number of labour force in the subsequent years and found 64.7 million and 66.0 million in 2018 and 2019, respectively. Considering the COVID-19 shock on employment, the labour force estimated was 63.2 million in 2020. A trend can be observed between the share of male and female labour force as female labour force showed a gradual increasing share from 21 percent in 1999-2000 to 33 percent in 2020, while that for male had been decreasing. Increasing share of female participation in the labour force implies more inclusive economic development, strengthening women's roles in mainstream economic activities.

Agriculture sector is a main strength of Bangladesh economy and a large segment of population is employed in this sector. However, many of existing or newly increased labour force overtime switched their jobs mainly to services and industry sectors as evident in sectoral composition of employment shown in Chart 2. The labour force in services and industry sector increased significantly from 13.9 and 5.1 million in 1999-2000 to 24.7 and 12.4 million in 2016-17, respectively, while the labour force in agriculture sector remained more or less stagnant, increasing from 20.0 million in 1999-2000 to 24.7 million in 2016-17. The estimated data show that labour force in agriculture, services and industry sector

<sup>5</sup> Bangladesh Bureau of Statistics (2018). Labour Force Survey Bangladesh 2016-17. Dhaka: BBS.

dropped down to 22.3, 12.2 and 26.1 million, respectively, in 2020 after the COVID-19 shock on the job market.

**Chart 2: Sectoral composition of labour force by economic purpose (in million)**

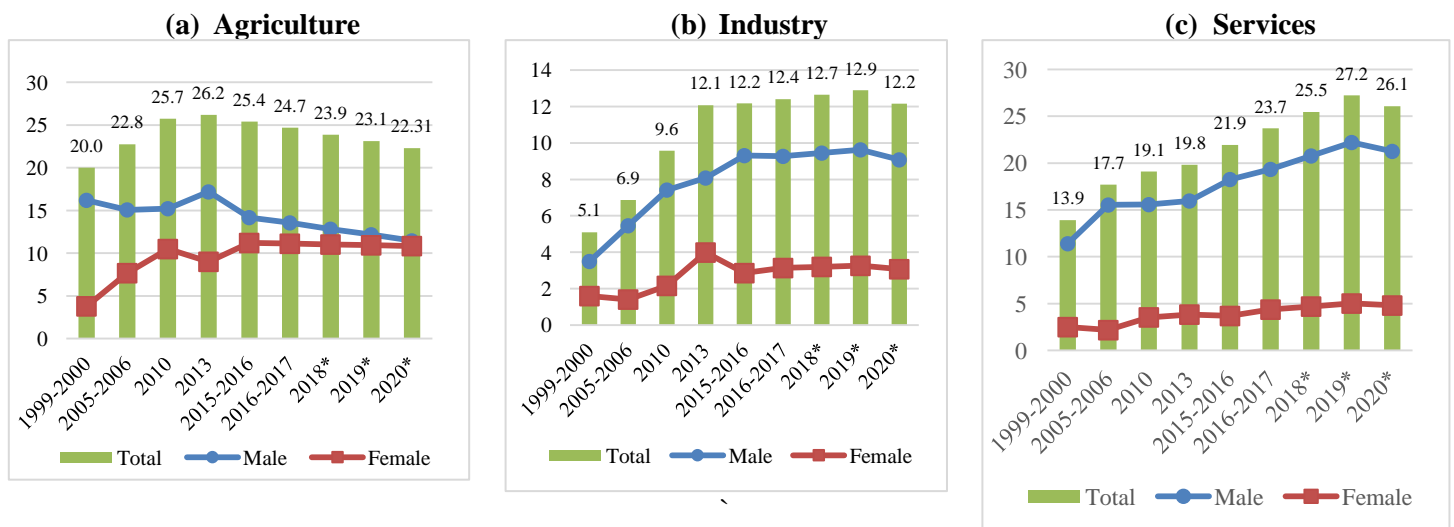


Source: Labour Force Survey (various issues), Bangladesh Bureau of Statistics.

\* Authors' estimation.

Sectoral composition of labour force by gender shows structural change of female employee in agriculture sector as female participation in agriculture sector had been increasing overtime (Chart 3a). The Charts 3b and 3c show that male workers in agriculture sector shifted to services and industry as male participation in industry and services sector had been increasing gradually until 2019. Therefore, male workers in industry and services sector were hit hard by COVID-19 pandemic.

**Chart 3: Sectoral composition of labour force by gender (in million)**



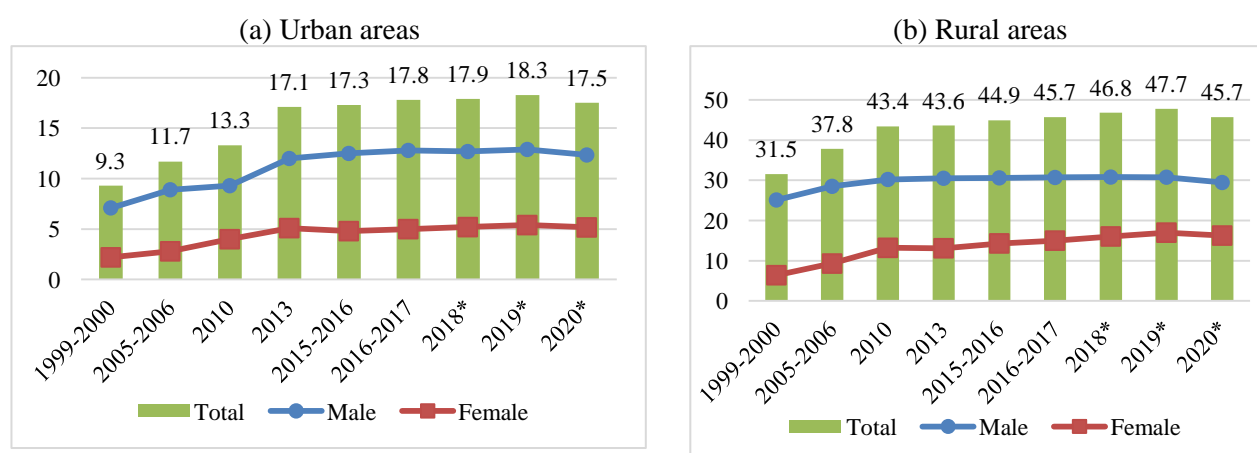
Source: Labour Force Survey (various issues), Bangladesh Bureau of Statistics.

\* Authors' estimation.

## II.1 Labour Decomposition – Rural vs. Urban

The labour force in urban area increased from 9.3 million in 1999-2000 to 17.9 million in 2016-2017, while labour force in rural area increased from 31.6 million in 1999-2000 to 46.8 million in 2016-2017. The note estimates that urban and rural work force decreased to 17.5 and 45.7 million in 2020, respectively, because of COVID-19 induced damages (Charts 4a and 4b). The growth rates of female labour force were higher as compared to that of male labour force during the years as reported. The compound annual growth rate (CAGR) was 4.9 percent for female labour force, while it was 3.5 percent for male labour force in urban areas during the years between 1999-2000 and 2016-2017. In case of rural areas, the CAGR was 5.1 percent for female labour force, while it was 1.2 percent for male labour force, considering the same years. After the COVID-19 pandemic shock, the CAGR for female labour force was 4.4 percent during the years between 1999-2000 and 2020, while it was 2.8 percent for the male in urban areas during the years between 1999-2000 and 2016-2017. In case of rural areas, the CAGR for female labour force was 4.8 percent, while it was only 0.8 percent for the male during the periods including the COVID year of 2020.

**Chart 4: Composition of labour force by gender (In million)**



Source: Labour Force Survey (various issues), Bangladesh Bureau of Statistics.

\* Authors' estimation.

## II.2 Labour Decomposition – Formal vs. Informal

Informal sector represents an important sector of the labor market of Bangladesh economy, playing critical roles in employment creation, economic activities and income generation. The informal sector consists of self-employed labours including day labours who are unregistered and/or unincorporated private enterprises engaged in the production of goods and services. Table 1 shows that 85.0 percent of the employed population engaged in informal sector in 2016-2017, increased gradually from 75.3 percent in 1999-2000. Hill and Genoni (2019)<sup>6</sup> estimates that labour income comprises 80 percent of total household income for the poorest 40 percent of households. Hence, the COVID-19 induced vulnerabilities in the labour markets because of taking restrictions measures to check the surge of the virus infection have concerned for work and income of the poor people involved in informal sectors. A study conducted by Centre for Policy Dialogue (CPD) and Bangladesh Institute of Labour Studies (BILS)

<sup>6</sup> Hill, Ruth, and Maria Eugenia Genoni. 2019. Bangladesh poverty assessment: Facing old and new frontiers in poverty reduction. Washington, D.C.: World Bank.

found that urban informal sector lost about 1.08 million jobs due to the COVID-19 pandemic, which was over 8 percent of total urban employment at the level of 2016-2017<sup>7</sup>.

**Table 1: Employed population aged 15 or older, by formal/informal sector (In million)**

Year	Formal				Informal (self-employed, day labours)			
	Male	Female	Total	Share (%)	Male	Female	Total	Share (%)
1	2	3	4	5	6	7	8	9
1999-2000	8.4	1.2	9.6	24.7	22.7	6.6	29.3	75.3
2005-2006	8.6	1.6	10.2	21.5	27.5	9.7	37.2	78.5
2010	5.5	1.3	6.8	12.6	32.4	14.9	47.3	87.4
2013	5.7	1.6	7.3	12.6	35.6	15.2	50.8	87.4
2015-2016	6.7	0.6	7.3	12.2	35.1	17.2	52.3	87.8
2016-2017	7.6	1.5	9.1	15.0	34.6	17.1	51.7	85.0

Source: Labour Force Survey (various issues), Bangladesh Bureau of Statistics.

### III. Impact of COVID-19 on Working Hours, Employment and Labour Income

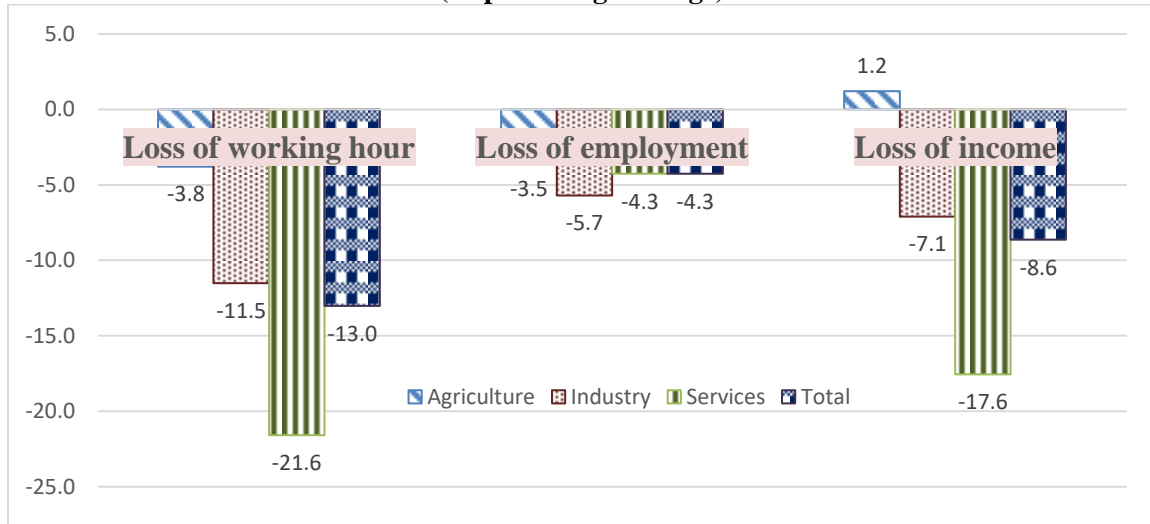
Labour markets worldwide were disrupted in 2020 on an unprecedented scale after the COVID-19 shocks in many economies. Bangladesh economy was not exception as COVID-19 related restrictions were imposed nationwide during April – May 2020, shutting factories and industries, suspending transport movement, closing offices and banning gatherings, which disrupted the domestic labour markets. This policy note estimates the losses of working hours, employment and labour income as a consequence of COVID-19 related restrictions shown in Chart 5. The Chart shows that a total of 13 percent working hours were lost in Bangladesh in 2020. International Labour Organization (ILO) estimated working hours lost for the lower middle-income countries, which include Bangladesh, and found 12.5 percent working hours lost in the second quarter of 2020<sup>8</sup>. Moreover, ILO nowcasting model estimated and found that the working hours lost in Bangladesh due to the COVID-19 crisis was 12.2 percent in 2020<sup>9</sup>.

<sup>7</sup> Moazzem, K. G., Taznur, T, and Ahmed, T. (2021). Impact of COVID-19 on the labour market policy proposals for trade union on employment, gender and social security for sustainable recovery. Dhaka: CPD-BILS.

<sup>8</sup> International Labour Organization (2020). ILO monitor: COVID-19 and the world of work. Third edition. Geneva: ILO.

<sup>9</sup> International Labour Organization (2021). Working hours lost due to the COVID-19 crisis - ILO modelled estimates (%) Annual. <https://ilostat.ilo.org/topics/working-time/#>

**Chart 5: Estimates of working hours, employment and labour income lost in 2020  
(In percentage change)**



Source: Constructed and estimated by the authors.

Chart 5 also shows that the employment declined by 4.3 percent, and the associated income loss decreased by 8.6 percent in 2020 in the country. While all the three major economic sectors experienced declines in 2020 in terms of working hours, employment and labour income (except labour income for agriculture sector), industry and services sectors were hit hard by the pandemic. Working hours for industry and services sector faced decreases of 11.5 and 21.6 percent, respectively in 2020. Labour incomes declined by 7.1 and 17.6 percent for industry and services sectors, respectively, in 2020.

#### IV. COVID-19 Shocks on Employment in Overseas Markets

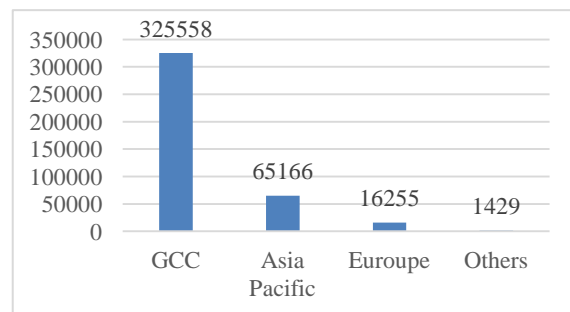
Bangladesh is one of the largest remittance recipient countries, where migrant Bangladesh workers in overseas markets play the key roles. The Chart 6 shows that overseas employment in all countries including GCC and Asia-Pacific regions followed an increasing trend until 2017, and the employment, thereafter, started to decline. The overseas employment was largely affected in 2020 and 2021(until February) due to the ongoing pandemic (Chart 6).

**Chart 6: Employment in overseas markets**



Source: Bureau of Manpower, Employer & Training (BMET).

**Chart 7: Number of Bangladeshi migrants returnee due to COVID-19 (April - December 2020)**



Source: International Organization for Migration-UN Migration, Geneva, Switzerland.

On the other hand, a total of 408,408 migrant workers returned to Bangladesh during 2020 after the pandemic fallout, mostly from GCC and Asia-Pacific regions (Chart 7). However, even though almost no migration of employment in overseas countries and a huge number of overseas employees returned, remittance inflows increased by 27.5 percent in 2020. The uplift of the flow of remittances was possible due to government's and Bangladesh Bank's proactive measures such as providing incentives to remittance senders through formal channels as well as the repatriation of funds by the migrant workers in the wake of COVID-19 related uncertainties. Policymakers can take further actions on how to make convenient environment for migrant workers.

## **V. Emergency Support (Stimulus Packages) during the Pandemic for the Labour markets**

Bangladesh, like most of the countries, is facing the threat of a major economic crisis as a result of the COVID-19 pandemic. Government of Bangladesh and Bangladesh Bank have undertaken unprecedented policy measures that helped the economy minimize the deceleration of economic growth and employment opportunities. The key policy measures for supporting the labour markets are described briefly in below (a table is given in Appendix I, detailing the sector-wise stimulus packages and implementation status):

**Agriculture Sector Packages for strengthening labour markets:** In response to the crisis from the pandemic, total stimulus packages of BDT 185.8 billion were provided as agricultural subsidy for seeds, fertilizer, innovation, mechanization and irrigation which helped the labour market to be activated during COVID-19 period. Agriculture subsidy for FY20 was increased to BDT 95 billion for ensuring food security on pandemic situation. A refinance scheme of BDT 50 billion has been created for the working capital for the agriculture sector, as labour force can be activated in their works. In order to tackle the adverse impact of COVID-19 on marginal people, Bangladesh Bank also announced an amount of BDT 30 billion as revolving refinance scheme. The objective of the scheme is to provide the support to the labour force including poor people, farmers, holders of small/marginal businesses and the wage earners who have returned from abroad due to COVID-19 situation. This revolving refinance scheme is helping farmer and poor businessmen continue their regular activity in pandemic time, activating dynamism in the labour markets.

**Government's focus on SME and CSMEs Sector:** A large number of employment-supportive CMSEs were mostly shut down during the pandemic period, resulting loss of job and capital. According to IFC, around 37 percent of the workers in Bangladeshi MSMEs either lost their job, temporarily or permanently<sup>10</sup>. Government of Bangladesh and Bangladesh Bank have been providing policy support to banks and financial institutions by giving priority to SME and CMSMEs sector and by providing various types of loans and refinancing facilities. To safeguard the capacity of the SMEs and cottage industries, Government announced BDT 200 billion of working capital loans for the support to this sector entrepreneurs, and to retain the manpower employed in this sector. The female entrepreneurs can easily get the loan from these packages as the CMSMEs sector has made up huge number of female enterprises. The government announced another stimulus package of BDT 15 billion for the micro and cottage enterprises through various government and semi government agencies like the SME foundation, the BSCIS and Bangladesh NGO Foundation to infuse dynamism into the rural economy amid the pandemic.

**Large industry and service sector packages to recover the economy:** The stimulus packages emphasized on supporting large industries including labor-intensive and export-oriented businesses and major service sector industries. The packages also included measures aimed at ensuring working capital loans to the affected industries and service sector. Around 60 percent employment generating sectors (industry and service sector) were disrupted massively amid pandemic due to stoppage and slowdown of economic activities. The disruption of those sectors resulted in the loss of employment and income for a large number of people in the workforce. The Government of Bangladesh announced a time being labour-

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<sup>10</sup> The International Finance Corporation (2020). Business Pulse Survey: Impact of Covid-19 on MSMEs in Bangladesh. Washington D.C.: IFC



supportive packages amounted to BDT 50 billion for providing salaries and wages to workers and employees of export-oriented manufacturing industries that are in danger of having to close down. This package is preventing a major decline in the growth of exports as resulting protected the jobs in the export-oriented manufacturing industry sector. In the pandemic period, several industry and service sector related companies made complete and partial layoff their employees for unavailable capital support. In this regard, Bangladesh government responded very quickly and announced BDT 400 billion of working capital loans to affected industries and service sectors through commercial banks. This loan contributed to continue business activity as well as to support the affected employees in the industry and services sector. Government announced an amount of BDT 15 billion for expansion of social safety net programs for the workers who lost their job in the RMG, leather goods and footwear industries. The government also provided special honorarium to doctors, nurse and medical workers who are directly engaged in treating COVID-19 patients. To support rural poor farmers, expatriate migrant workers, and trained youth and unemployed youth, government provided BDT 32 billion capital through state owned specialized Banks.

## **VI. Conclusions and Recommendations**

In the discussions in this policy note, it finds that the labour markets were severely affected in all the three major sectors. The estimated data show that labour force in agriculture, services and industry sector dropped down to 22.3, 12.2 and 26.1 million in 2020 after the COVID-19 shock in the job market. It also shows that though COVID-19 pandemic hit all sectors, male workers in industry and services sector were hit hard in case of both urban and rural areas. After the COVID-19 pandemic shock, the CAGR for female labour force was 4.4 percent, while it was 2.8 percent for the male in urban areas during the years between 1999-2000 and 2020. In case of rural areas, the CAGR for female labour force was 4.8 percent, while it was only 0.8 percent for the male during the periods including the COVID year of 2020.

In analysis of formal and informal labour dynamics, the note finds that 85.0 percent of the employed population engaged in informal sector in 2016-2017, increased gradually from 75.3 percent in 1999-2000. This huge segment of labour force who have poor levels of income can easily be affected by the vulnerabilities due to COVID-19 related restrictions.

This policy note attempts to estimate the losses in terms of employment, working hours, and labour income because of COVID-19 induced crisis. The results show that total of 13 percent working hours were lost in Bangladesh in 2020. The ILO nowcasting model estimated and found that the working hours lost in Bangladesh due to the COVID-19 crisis was 12.2 percent in 2020. This note also finds that the employment declined by 4.3 percent, and the associated income loss decreased by 8.6 percent in the country in 2020. While all the three major economic sectors experienced declines in 2020 in terms of working hours, employment and labour income (except labour income for agriculture sector), industry and services sectors were hit hard by the pandemic.

The note finds that the overseas employment was largely affected in 2020 and 2021 (until February) due to the ongoing pandemic. However, even though almost no migration of employment in overseas countries and a huge number of overseas employees returned, remittance inflows increased continuously. However, it is important for creating a convenient environment for the workers so that they can start to go abroad for work.

In response to COVID-19 crisis, government of Bangladesh and Bangladesh Bank provided comprehensive supports to labour force across all economic sectors, including agriculture, SMEs, industry and services. These policy supports were very effective to revive the employment generation across the sector. However, a further study is needed to assess the impact of implementation of stimulus packages targeted for retention of labour markets in a way to ensure an even recovery across the sectors, areas and gender in near future.

### Appendix I: Sector wise stimulus packages of Bangladesh

Sectors and Packages	Size of the Packages (In billion BDT)	Implementation (%)
<b>Agriculture Sector</b>		
Additional procurement of paddy/rice (200 thousand metric tons)	8.6	59.2
Support for farm mechanization	32.2	84.1
Subsidy for agriculture (on fertilizer)	95	75.6
Agriculture Refinance Scheme	50	79.92
<b>Total</b>	<b>185.8</b>	<b>74.7</b>
<b>Industry Sector</b>		
Special fund for salary support to export-oriented manufacturing industry workers	50	100
Working capital loans provided to SMEs, cottage industries	200	73.7
Expansion of Export Development Fund (EDF)	170	99.39
Pre-Shipment Credit Refinance Scheme	50	5.43
Safety net program for export-oriented industry's distressed workers	15	0.1
Credit risk-sharing scheme for SME sector	20	1.45
Cottage, micro, small and medium enterprises (CMSMEs)	15	0
<b>Total</b>	<b>520</b>	<b>40.0</b>
<b>Service Sector</b>		
Working capital loans to affected industries and service sector	400	81.6
Special honorarium for doctors, nurses, medical workers	1	0
Health insurance and life insurance	7.5	3.4
Refinance scheme for lower-income earning professional, farmers, and special traders	30	37.9
Low-interest loans to rural poor farmers, expatriate migrant workers, and trained youth and unemployed youth	32	21.4
<b>Total</b>	<b>408.5</b>	<b>28.9</b>

Source: Bangladesh Bank; Bangladesh Development Update, World Bank, April, 2021.