

Prices and Wages

Consumer Prices

3.1 Bangladesh economy passed through an increasing trend in consumer price inflation during FY06. Inflationary pressure heightened consequent upon rising import prices due to depreciation of Taka, increase in international prices of major commodities particularly petroleum products, adjustment in domestic fuel prices, etc. (Table 3.3). Although 12-month point to point CPI inflation (base: FY96=100) depicted a marginal increase from 7.4 percent in FY05 to 7.5 percent in FY06, average inflation measured by 12-month average movements in CPI, amidst fluctuation demonstrated an increase from 6.5 percent in FY05 to 7.2 percent in FY06 (Chart 3.1). The point to point food and non-food price inflation showed mixed trends during FY06. The food inflation spurred from 8.7 percent in June 05 to 9.4 percent in August 2005, thereafter showing a declining trend fell to 5.5 percent in February 2006 which was the lowest rate of food inflation in FY06. The rate of food inflation began to increase again and recorded 8.8 percent at the end of June 2006. The non-food inflation, on the other hand, increased from 5.3 percent in June 2005 to 7.1 percent in December 2005. The rate of non-food inflation then indicating a decreasing tendency reached to 5.7 percent in June 2006.

3.2 The 12-month average food price inflation showed a mixed trend whereas non-food price indicated increasing trend in FY06. The food price inflation increased at a lower rate by 7.8 percent in FY06 compared with 7.9 percent increase in FY05, while the non-food component increased by 6.4 percent in FY06 compared with 4.3 percent increase recorded in FY05 (Table 3.1, Chart 3.1). The non-food price trend was largely affected by the higher cost of

Chart 3.1

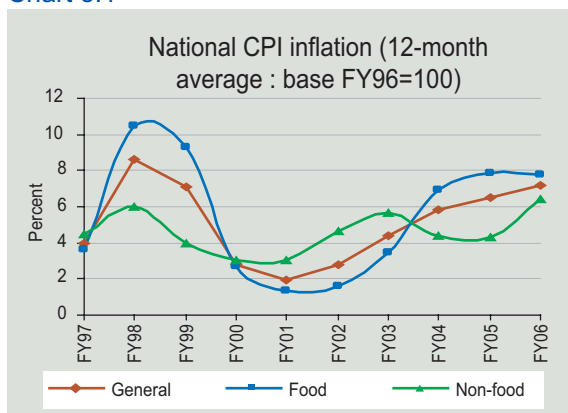


Chart 3.2

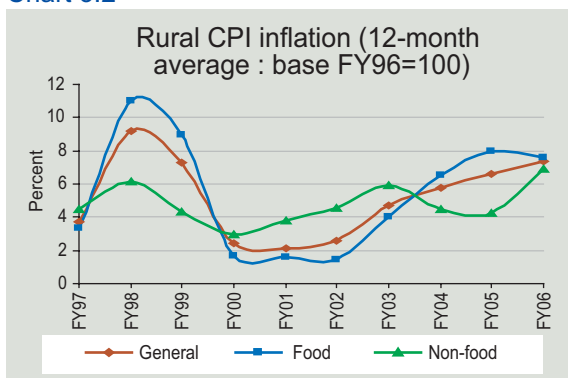
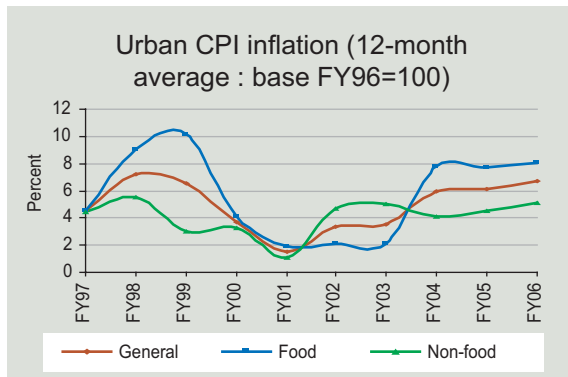


Chart 3.3



imported goods including raw materials for industries. Annual average CPI inflation in the rural areas increased by 7.4 percent in FY06 compared to 6.6 percent increase of FY05 (Table 3.1, Chart 3.2). The food prices component rose at a lower rate by 7.6 percent in FY06 relative to 8.0 percent increase in FY05, while the non-food component increased by 6.9 percent in FY06 against 4.3 percent rise in FY05. Annual average CPI inflation in the urban areas increased by 6.7 percent in FY06 against 6.1 percent increase in FY05 (Table 3.1, Chart 3.3). The food prices component of urban CPI increased by 8.1 percent in FY06 compared with 7.7 percent increase in FY05, while the non-food component increased by 5.1 percent in FY06 compared with 4.5 percent increase in FY05. Urban consumers experienced higher food price inflation (8.1 percent) in FY06 than the consumers in rural areas. The situation may be attributed to supply shock for food items stemmed from disruption of commodity channel due mainly to increased transport cost, high prices of imported foods and the activities of business syndication. On the other hand, rural consumers faced higher price inflation for the non-food component than the consumers in urban areas. It was because of the fact that the government's upward adjustment of energy prices mainly kerosene and diesel led not only to increase in prices of kerosene and diesel but also resulted in higher transport cost. These inter alia, caused for price hike of non-food essentials items in rural area which carried higher weight in rural CPI.

3.3 Besides, growth of domestic credit to the private and public sectors, increase in international prices of consumer goods including food items and petroleum during FY06, the depreciation of Taka-Dollar exchange rate (annual average) from Taka 61.39/US\$ in FY05 to Taka 67.08/US\$ in FY06 also fueled the price hike. In conformity with international oil prices, the government adjusted the fuel prices (increasing the prices of kerosene and diesel by 10.0 percent and petrol by 33.3 percent) in June 2006. The fuel price refixation and upward adjustment of prices of utility services affected

Table 3.1 Annual average CPI inflation (base FY96=100)

Group	Weight	FY04	FY05	FY06
a. National level				
General Index	100.00	143.90 (5.83)	153.24 (6.49)	164.21 (7.16)
Food	58.84	146.50 (6.93)	158.08 (7.90)	170.35 (7.76)
Non-food	41.16	141.03 (4.37)	147.14 (4.33)	156.56 (6.40)
b. Rural				
General Index	100.00	144.46 (5.77)	154.03 (6.62)	165.37 (7.36)
Food	62.96	145.22 (6.55)	156.82 (7.99)	168.77 (7.62)
Non-food	37.04	143.18 (4.47)	149.29 (4.27)	159.59 (6.90)
c. Urban				
General Index	100.00	142.54 (5.99)	151.29 (6.14)	161.39 (6.68)
Food	48.80	149.60 (7.80)	161.14 (7.71)	174.18 (8.09)
Non-food	51.20	135.80 (4.14)	141.90 (4.49)	149.20 (5.14)

Source : Bangladesh Bureau of Statistics.

Figures in parentheses represent annual inflation.

Table 3.2 Inflation[#] trend in SAARC and other neighbouring countries

Name of Countries	2002	2003	2004	2005	2006 (June)
1. Bangladesh [@]	2.8	4.4	5.8	6.5	7.2
2. India	4.4	3.8	3.8	4.3	7.3
3. Pakistan	3.3	2.9	7.4	9.1	7.7
4. Nepal	3.0	5.7	2.8	6.8	7.9 (April)
5. Bhutan	2.5	2.1	4.6	5.3	-
6. Sri Lanka	9.6	6.3	7.6	11.6	17.7
7. Maldives	0.9	-2.9	6.4	3.3	3.6
Other Asian Countries					
8. Thailand	0.6	1.8	2.8	4.5	5.9
9. Singapore	-0.4	0.5	1.7	0.5	1.4
10. Malaysia	1.8	1.1	1.5	3.0	3.9
11. Indonesia	11.9	6.6	6.2	10.5	15.5
12. Korea	2.7	3.6	3.6	2.7	2.6

Source : Bangladesh Bureau of Statistics (BBS), International Financial Statistics (IFS), IMF, November 2006.

[#] Consumer Price Index (base: 2000=100), [@] = Consumer Price Index (base : 1995-96=100), figures relate to financial year (July-June).

the prices of essential commodities. In addition, as a non-economic factor, business syndication in the domestic market might have contributed to high prices of daily essentials.

3.4 In the South Asia region, inflation reflected upward trend due mainly to rise in global energy prices during FY06. As evident from the available data, the CPI inflation in Indonesia, Sri Lanka, India, Bangladesh, Thailand and Malaysia accelerated during FY06 (Table 3.2). Sri Lanka topped the list among these countries having 17.7 percent inflation (June, 2006) followed by Indonesia, India, Bangladesh and Thailand. On the other hand, contrary to this trend, CPI inflation in Pakistan and Korea decreased in June 2006. However, mixed trends have been observed in Maldives and Singapore where CPI inflation were volatile in recent years.

Chart 3.4

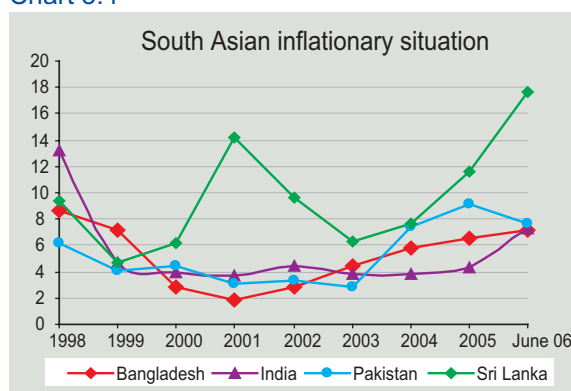


Chart 3.5

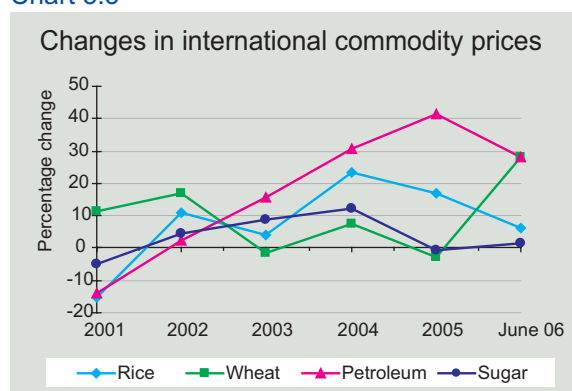


Table 3.3 Changes in international prices of major commodities

Commodity	(Percent)				
	2002	2003	2004	2005	2006(June)
Petroleum	2.5	15.8	30.7	41.3	28.0
Cotton	-3.6	37.1	-2.3	-11.0	2.4
Rice	11.1	4.0	23.2	17.1	6.2
Wheat	17.1	-1.6	7.3	-2.8	28.0
Palm oil	49.6	15.0	5.9	-15.4	5.0
Soybean oil	18.1	22.1	18.0	-16.0	11.0
Sugar	4.3	8.8	12.1	-0.7	1.3

Source : International Financial Statistics, IMF, November 2006

Table 3.4 Annual average national level CPI by consumption basket sub-groups (base FY96=100)

Group/sub-group	Weight	FY04	FY05	FY06	% Change (4-3)	% Change (5-4)
1	2	3	4	5	6	7
General index	100.00	143.90	153.24	164.21	6.49	7.16
1. Food, beverage and tobacco	58.84	146.50	158.08	170.35	7.90	7.76
2. Non-food of which	41.16	141.03	147.14	156.56	4.33	6.40
i) Clothing & footwear	6.85	136.25	142.15	148.35	4.33	4.36
ii) Gross rent, fuel & lighting	16.87	136.19	141.43	152.02	3.84	7.49
iii) Furniture, furnishing, household equipment & operation	2.67	137.95	143.18	151.21	3.79	5.60
iv) Medical care & health expenses	2.84	154.36	162.47	169.62	5.25	4.40
v) Transport and communications	4.17	170.79	179.94	191.66	5.36	6.51
vi) Recreation, entertainment, education & cultural services	4.13	141.31	150.23	265.42	6.31	10.11
vii) Miscellaneous goods and services	3.63	133.82	137.78	143.25	2.96	3.97

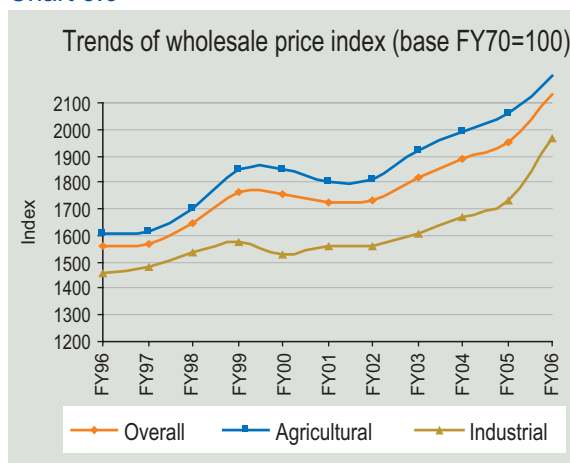
Source : Bangladesh Bureau of Statistics.

Trends of Wholesale Prices

3.5 The wholesale prices inflation as compiled by the BBS shot up to 8.9 percent in FY06 from 3.4 percent in FY05. The wholesale price inflation of agricultural and industrial product components substantially increased to 7.0 percent and 13.8 percent respectively in FY06 against 3.3 percent and 3.7 percent in FY05 (Table 3.5, Chart 3.6). The slightly higher (7.8 percent) increase in the food component of consumer price inflation in FY06 than the agricultural products component of wholesale price inflation (7.0 percent) may be attributable to the higher inflation of consumer durables during the year.

3.6 In FY06, the 13.8 percent increase in the industrial products component of the wholesale price index compared with the 6.4 percent increase in the non-food component of the consumer price index (Table 3.4 & 3.5) was mainly due to shifting effect of oil price hike in

Chart 3.6



industrial products(vis-a-vis CPI), increases of labour wages and high prices of imported raw materials. However, this higher inflationary trend in industrial sector was not reflected in overall inflationary trend due mainly to lower weightage for the industrial products in the inflation calculation method.

Table 3.5 Trends of wholesale price indices (base FY70=100)

	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06
Overall	1413	1479	1559	1568	1648	1760	1753	1726	1730	1822	1889	1954	2128
	(5.0)	(4.7)	(5.4)	(0.6)	(5.1)	(6.8)	(-0.4)	(-1.5)	(0.2)	(5.3)	(3.7)	(3.4)	(8.9)
Agricultural	1437	1519	1606	1611	1701	1848	1847	1802	1810	1922	1994	2060	2204
(weight 67.9)	(6.2)	(5.7)	(5.7)	(0.3)	(5.6)	(8.6)	(-0.05)	(-2.4)	(0.4)	(6.2)	(3.7)	(3.3)	(7.0)
Industrial	1361	1392	1458	1478	1537	1573	1526	1563	1562	1610	1667	1729	1968
(weight 32.1)	(2.3)	(2.3)	(4.7)	(1.4)	(4.0)	(2.3)	(-3.0)	(2.4)	(0.1)	(3.1)	(3.5)	(3.7)	(13.8)

Source : Bangladesh Bureau of Statistics.
 Figures in parentheses represent annual rates of inflation.

Wage Rate Trends

3.7 It reveals from the BBS data that Wage rates indicate significant acceleration in almost all sectors in FY06, although it depicted volatile scenarios in last couple of years. Annual wage

rate indices (Table 3.6, Chart 3.7) indicate that the general wage rate substantially increased by 9.8 percent in FY06 than that (5.9 percent) of FY05. The wage rate in the manufacturing, construction, agricultural and fisheries sectors significantly increased by 10.7 percent, 6.9

percent, 11.1 percent and 8.8 percent respectively in FY06 as compared to 6.6 percent, 3.4 percent, 5.3 percent and 6.6 percent respectively in FY05. Among those, wage rates of manufacturing, agricultural and fisheries sectors exceeded the rates of consumer price inflation (7.2 percent). It appears from this scenario that the income level of that section of people increased moderately which resulted in higher inflation and gradual decline of poverty of the population living below the poverty line under these sectors.

Medium Term Inflation Outlook

3.8 Global consumer price inflation geared up slightly due mainly to higher prices of consumer goods and oil in advanced economies including some South Asian countries in 2006. By contrast, in other emerging market and developing countries inflation recorded slight decreasing trend. But global inflationary expectations remain well anchored. However, consumer price inflation is projected to remain stable at 2.6 percent in advanced countries and 5.2 percent in emerging and developing countries while the rate is estimated at 6.0 percent in South Asia for 2006 (Table 3.7). However, Bangladesh has been experiencing a moderate inflation rate during last few years mainly due to higher international prices of oil and other commodities. Although Sri Lanka recorded double digit inflation and Pakistan reached in near double digit in 2005. Bangladesh enchaind its inflation under two digit of 6.8 percent for 2006. Inflation is projected at 6.1 percent for 2007 as the authority has taken some precautionary measures including adopting of tight monetary policy by Bangladesh Bank etc. If the international prices of oil and other consumer goods including food items remain high, it may be assumed that global consumer price inflation will be hovering over at a moderate level particularly in emerging market and developing countries including South Asia.

Table 3.6 Trends of wage rate indices

	(base FY70=100)				
	FY02	FY03	FY04	FY05	FY06
General	2637.2 (5.96)	2926.3 (10.96)	3111.1 (6.31)	3292.9 (5.85)	3615.4 (9.79)
Manufacturing	3034.5 (7.17)	3501.0 (15.37)	3765.4 (7.55)	4015.0 (6.63)	4444.6 (10.70)
Construction	2443.7 (3.70)	2624.3 (7.39)	2668.5 (1.69)	2758.2 (3.36)	2948.5 (6.90)
Agriculture	2262.4 (5.67)	2442.6 (7.79)	2581.5 (5.69)	2719.2 (5.33)	3021.5 (11.12)
Fishery	2410.8 (5.16)	2562.6 (6.29)	2774.8 (8.28)	2957.3 (6.58)	3217.7 (8.81)

Source : Bangladesh Bureau of Statistics.
Figures in parentheses are annual percentage changes.

Chart 3.7

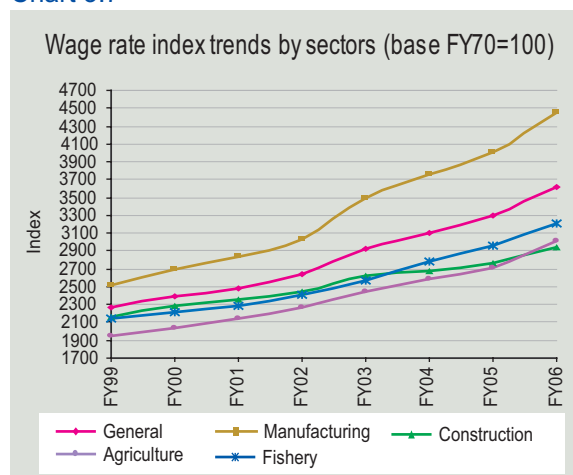


Table 3.7 Global inflationary situation

	(Percentage changes)			
	2004	2005	2006*	2007*
Advanced economies	2.0	2.3	2.6	2.3
Other emerging market and developing countries	5.6	5.3	5.2	5.0
South Asia	4.2	4.8	6.0	5.6
Bangladesh	6.1	7.0	6.8	6.1
India	3.9	4.0	5.6	5.3
Pakistan	4.6	9.3	7.9	7.3
Sri Lanka	7.9	10.6	8.0	7.0

Source : WEO, September 2006, IMF.

* Projection.