

Box-3.1

Challenges of Food Inflation in the Economy

Global food prices have skyrocketed for all-time highs due to increased demands, falling stocks, high energy and fertilizer prices, adverse weather conditions, steep depreciation of the dollar and trade restrictions imposed by some food exporting countries like China, Russia, Ukraine, Egypt, Vietnam, India etc. Precautionary measures for food stocks adopted by many food exporting countries have also contributed to rise in foodgrain prices. The international prices of rice, wheat, soybeans oil and palm oil rose by 120.9, 48.5, 62.7 and 50.9 percent respectively in 2008 (average upto June) as against those of 2007. Increasing demand for land for housing, urbanization and industrialization for commercial as opposed to agricultural purpose adversely affected production growth. Rising income in emerging countries like China and India etc. steadily increased demand for foodgrain consumption including meat and dairy products. The experts termed the global abnormal situation of food prices hike as 'agflation'.

In the recent years, continued hike in petroleum price established a close connection with food prices in the global markets. Breaking all times record oil price reached in peak of above 140 dollar per barrel in June 2008. The abnormal hike in the price of petroleum triggered the price of natural gas, randomly used in various industries that fueled fertilizer prices and consequently prices of all the agricultural products.

In the recent period, using of biofuel has already come to limelight in the global arena due to continued skyrocketing price of petroleum. Rising biofuel production in the United States and the European Union has boosted demand for corn, rapeseed oil and other grains and edible oils. Although biofuels accounted for only 1.5 percent of the global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006-07, mostly because of corn-based ethanol produced in the United States. Biofuel demand has propelled the prices not only for corn, but also for other grains, meat, poultry and dairy through cost-push and crop and demand substitution effects.

In this backdrop, global food price shocks seriously affected the domestic food prices of Bangladesh as a net importer of foodgrains. Side by side, domestic production of food-grains also hampered due to consecutive floods and devastating cyclone Sidr. Higher production costs driven by higher input costs like fuel, fertilizer, insecticide and wages contributed to the soaring food price in the country. Even with subsidized agricultural inputs like diesel and urea, the domestic cost of food production has increased substantially. But with the higher anticipation of a bumper boro production of 17.8 million tons in the last season, foodgrains production is estimated at 29.8 million tons in FY08 as compared to 28.0 million tons in FY07. Total surplus of foodgrains is estimated at 0.2 million tons while imports estimation is at 3.5 million tons in FY08 as against 2.4 million tons import in FY07. Bangladesh witnessed a higher CPI inflation of 9.9 percent on annual average basis and 10.0 percent on point-to-point basis in June 2008 while the corresponding figures for 2007 were 7.2 percent and 9.2 percent respectively mainly driven by food prices. The food inflation rose to 12.3 percent on annual average basis and 14.1 percent on point-to-point basis in June 2008 against lower rate of 8.1 percent and 9.8 percent respectively in June 2007.

Higher prices of food items seriously affected the major macroeconomic variables of Bangladesh economy such as inflation, revenue expenditures and balance of payment position. The overall trade deficit increased significantly by 57.1 percent from \$3.5 billion in FY07 to \$5.5 billion in FY08. The highest ever trade deficit was attributed to 397.11 percent increase in rice import of \$859.47 million in FY08 against only \$172.90 million in FY07 and price hike in global market of all commodities including other food items, though the trade deficit was partly offset by higher external aid flows by the donor agencies and higher workers' remittances. Total import payments for food items shot up by 142.70 percent in FY08 as compared to the previous year. Import payments of rice, wheat, milk and cream, sugar, edible oil and pulses recorded staggering increases of 385.6, 33.9, 65.1, 34.7, 72.6 and 67.7 percent respectively as compared to that of FY07.

Fast growing prices of food items enormously eroded the purchasing power as well as standard of living of hard core poor, government and non-government employees, industrial workers, the unemployed and the people with limited income which pushed down a large number of people below the poverty line. If the current food inflationary trend continues for a long span of time, Government's poverty alleviation programme would face a great challenge. Moreover, the plan for reducing 50 percent poverty within 2015 under Millennium Development Goals (MDGs) would be very difficult to achieve.

The data of Bangladesh Bureau of Statistics revealed the fact that rice accounts for 71 percent and 60 percent per head total calorie intake in a day in rural and urban areas of Bangladesh. Another Report of Food and Agriculture Organization showed that the share of food in total expenditures for the poorest 30 percent is about 69 percent. Both the people living in rural and urban areas experience short term welfare losses of even only for 10 percent price hike of rice which is higher in the lower section of people.

To arrest the higher inflation, the Government has already adopted several precautionary measures such as reducing import duty on food items, raising foodgrains imports, extensive rehabilitation programmes for flood affected areas and effective measures for higher food production. Bangladesh Bank continued its prudent monetary policy stance and a more flexible exchange rate management without accelerating inflationary pressures. Moreover, the Government has launched a guaranteed employment programme for rural people during lean seasons. Several Social Safety Net Programmes like food for work, vulnerable group feeding, vulnerable group development, test relief and open market sales of essential commodities were expanded for the poor section of people living below the poverty line.

the international markets as well as higher input costs of production of food items in the domestic market (Box 3.1).

The historical trend of inflation exhibits that inflation in Bangladesh varies directly with food prices. It is observed that higher food inflation obviously fueled overall higher inflation. This may be attributed to the fact that the weight of food items in the CPI is more than 58 percent.

Annual average CPI inflation in the rural areas increased at a higher rate by 10.0 percent in FY08 compared to 7.3 percent increase of FY07 (Table 3.1, Chart 3.2). The component of food prices rose at a higher rate by 12.0 percent in FY08 relative to 7.9 percent increase in FY07, while the non-food component increased slightly by 6.4 percent in FY08 against 6.1 percent rise in FY07.

Annual average CPI inflation in the urban areas increased by 9.8 percent in FY08 against 7.0 percent increase in FY07 (Table 3.1, Chart 3.3). The food prices component of urban CPI increased by 13.1 percent in FY08 compared with 8.5 percent increase in FY07, while the non-food component increased by 6.1 percent in FY08 compared with 5.3 percent increase in FY07. Urban consumers experienced a higher rate of 13.1 percent food price inflation in FY08, whereas the rate was 12.0 percent for the consumers in rural areas. The situation may be attributed to higher cost of domestic food production due to high prices of fuel, seeds, fertilizers, labour wages, insecticides etc. and higher transport cost. Moreover, two consecutive floods and devastating cyclone Sidr and activities of business syndication contributed to higher food inflation. On the other hand, rural consumers faced 6.4 percent inflation for the non-food component which was 6.1 percent for the consumers in urban areas. However, important observation is that food inflation dominates non-food inflation both in rural and urban areas. In the recent years, rural inflation surpassed urban inflation due mainly to higher food weight of 62.96 percent in rural inflation in which rice with other cereals holds weight of 26.72 percent in rural and 13.99 percent in urban CPI. Consequently, food and rural inflation showed very strong impact on national inflation.

The Government's upward refixation of energy prices in April 2007, particularly of randomly used kerosene and diesel, continued to fuel in higher transport cost. Moreover, Bangladeshi expatriates with foreign remittances growth played significant role in accelerating inflation in the rural areas. These inter alia, encouraged the price hike of non-food essential items in rural areas.

3.3 Growth of money supply and domestic credit remained high in FY08. Broad Money and domestic credit recorded the growth of 17.0 percent and 14.4 percent respectively in FY07 while it stood at 17.6 percent and 21.8 percent in FY08. The export growth recorded at 15.7 percent in FY08. The overall inflow of workers' remittances recorded 32.4 percent growth from US\$ 5.98 billion in FY07 to US\$ 7.92 billion in FY08. These were partly responsible for the growth of broad money which generated inflationary pressure to some extent in FY08. Moreover, production shortfall in the food exporting countries due to unfavourable weather condition against increasing demand in emerging market economies like China and India, using food as biofuel in the US and European countries, have contributed to increase in international prices of foods significantly. Side by side, international petroleum price skyrocketed to near US\$ 147 per barrel at the end of FY08 with creating a new record which fueled inflation as internal petroleum prices are connected with global prices. In FY08, wage rate hike was more than double at 11.87 percent as against 4.52 percent in FY07 which indicated higher purchasing power of the common people and consequently higher inflation. Other non-economic factor like business syndication might have contributed to high inflation.

3.4 The South Asian region witnessed significantly upward inflationary trends in FY08 due mainly to higher prices of fuel and essential goods particularly of food items in the global markets (Table 3.3). The available CPI data showed that almost all the Asian countries faced higher inflation. Among those, most of the countries like Pakistan, Sri Lanka, Indonesia, Nepal and Maldives experienced double digit inflation in June

Box-3.2

Core Inflation in Bangladesh

Core inflation provides a measure of price changes resulting from underlying monetary inflation excluding the transitory impact on the cost of living. The concept of core inflation is related to the long run or the persistent component of measured price changes that is tied to money supply growth (Bryan and Cecchetti, 1993). The main objective of computing core inflation is to separate out the components of inflation that are caused by non-monetary events (such as natural disasters, external shocks and other macroeconomic/sector specific shocks) because these price changes do not reflect the impact of underlying monetary policy decisions.

Many developed countries in the world monitor core inflation along with general inflation in formulating credible monetary policy and forecasting inflation. But the concept is not very common in Bangladesh and hence there does not exist any standard measure of core inflation. Various methods are available for estimating core inflation but no consensus seems to exist as to which technique performs best since it has not been well defined from the theoretical point of view. Some of the widely used methods are: Exclusion method (subjective approach), Trimming method (limited influence estimator approach) and Sophisticated statistical method (model based approach).

In Bangladesh, the twelve-month moving average of CPI inflation is monitored in defining the underlying trend that averages out the short-term or transitory components in the CPI. But it has serious limitations as a policy tool because the average inflation series is dominated by the past rather than current inflation. On the other hand, the point to point inflation reflects the current price developments better but is highly distorted by the short-term fluctuations that limits its accuracy as a short term policy guide.

In Bangladesh, food constitutes a large share of total expenditure and constitutes 58.84 percent of total CPI index. So, excluding the food prices from the total CPI will not be a good indicator of long-term inflationary trend. International energy price is also highly volatile and affects the CPI; and the rural CPI constitutes 70.89 percent weight in the national CPI, therefore the supply shock would impact the rural and urban indexes with different lags.

In Bangladesh, the exclusion and trimmed mean approaches may be suitable to construct the core inflation as these measures deal with price changes of individual components of CPI. A recent study by Policy Analysis Unit of BB (2008) tried to compute core inflation for the Bangladesh economy under exclusion method by eliminating the most volatile components (covering food and energy, all volatile consumption items, and all volatile groups) from the aggregates price index and found that the core inflation can track the trend inflation better than CPI inflation and can serve as a better tool of predicting the trend inflation despite the loss of commodity weights in the process of its computation. But exclusion measures is constrained by the element of subjectivity in deciding as to which particular items to be excluded from the basket and also suffer from a potential risk of information loss. Another limitation is that temporary disturbances are not necessarily limited to specific sub-components. In Bangladesh, measuring core inflation by exclusion method is complex because food group holds the majority weight in both rural and urban areas and the base period is very old (1995-96). So, it is important to identify specific volatile items rather than taking all food and energy items as most volatile; and the base and weight of CPI components should be revised to reflect the changing consumption pattern and the rural-urban population distribution.

Under trimming method, the trimmed mean estimation assumes that volatility of CPI components varies from month to month and hence subjective exclusion of some components of the whole series is not appropriate. The trimmed mean removes the relatively large price changes in each month from the overall CPI for that month. PAU study (2006) shows that the trimmed mean measures of inflation exhibit significant reduction in volatility and better track the headline inflation and reflect the current inflationary picture better. But for the items whose prices do not follow a regular seasonal pattern but are rather sticky, the use of trimmed mean may result in quite a volatile pattern. Such items will show zero inflation in some periods and quite high inflation in other. Statistically this method is more justifiable although it poses the risk of information loss similar to the exclusion approach but to a lesser extent.

Under these circumstances, it is necessary to construct an appropriate measure of core inflation in Bangladesh to monitor core inflation on regular basis that would help in formulating monetary policy aimed at controlling inflation and in ensuring policy accountability.

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

Group	Weight	FY06	FY07	FY08
a. National level				
General Index	100.00	164.21 (7.16)	176.04 (7.20)	193.54 (9.94)
Food	58.84	170.35 (7.76)	184.16 (8.11)	206.78 (12.28)
Non-food	41.16	156.56 (6.40)	165.79 (5.90)	176.26 (6.32)
b. Rural				
General Index	100.00	165.37 (7.36)	177.41 (7.28)	195.14 (9.99)
Food	62.96	168.77 (7.62)	182.16 (7.93)	203.93 (11.95)
Non-food	37.04	159.59 (6.90)	169.33 (6.10)	180.19 (6.41)
c. Urban				
General Index	100.00	161.39 (6.68)	172.72 (7.02)	189.65 (9.80)
Food	48.80	174.18 (8.09)	189.03 (8.53)	213.73 (13.07)
Non-food	51.20	149.20 (5.14)	157.17 (5.34)	166.69 (6.06)

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	2004	2005	2006	2007	2008 (June)
1. Bangladesh@	5.8	6.5	7.16	7.2	9.9
2. India	3.8	4.3	5.8	6.4	7.5
3. Pakistan	7.4	9.1	7.9	7.6	21.5
4. Nepal	2.8	6.8	7.6	6.7	11.0 (May)
5. Bhutan	4.6	5.3	5.0	5.2	-
6. Sri Lanka	7.6	11.6	13.7	17.5	28.2
7. Maldives	6.4	3.3	3.7	7.4	15.4
Other Asian Countries					
8. Thailand	2.8	4.5	4.6	8.2	8.9
9. Singapore	1.7	0.5	1.0	2.1	7.5
10. Malaysia	1.5	3.0	3.6	2.0	7.7
11. Indonesia	6.2	10.5	13.1	6.4	11.0
12. Korea	3.6	2.8	2.2	2.5	5.5

Source: Bangladesh Bureau of Statistics (BBS), International Financial Statistics (IFS), IMF, October, 2008.
Consumer Price Index (base: 2000=100), - = Not available.
@= Consumer Price Index (base:1995-96=100), figures relate to financial year (July-June).

Chart 3.4

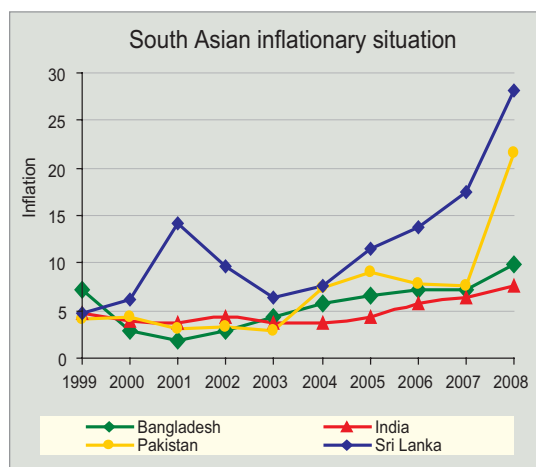
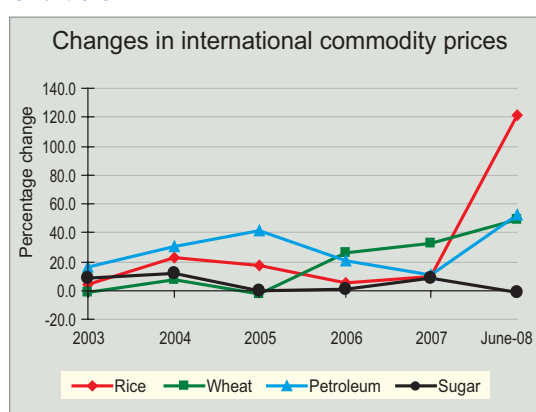


Table 3.3 Changes in international prices of major commodities

Commodity	2004	2005	2006	2007	2008*
Petroleum	30.7	41.3	20.5	10.6	52.32
Cotton	-2.3	-11.0	5.2	9.0	19.9
Rice	23.2	17.1	5.5	9.5	120.9
Wheat	7.3	-2.8	25.8	33.1	48.5
Palm oil	5.9	-15.4	13.4	72.5	50.89
Soybean oil	18.0	-16.0	11.2	45.0	62.7
Sugar	12.1	-0.7	1.3	8.5	-1.3

Source: International Financial Statistics, IMF, October 2008.
* Average upto June 2008.

Chart 3.5



Group/sub-group	Weight	FY06	FY07	FY08	% Change (4-3)	% Change (5-4)
1	2	3	4	5	6	7
General index	100.00	164.21	176.04	193.54	7.20	9.94
1. Food, beverage and tobacco	58.84	170.35	184.16	206.78	8.11	12.28
2. Non-food of which	41.16	156.56	165.79	176.26	5.90	6.32
i) Clothing & footwear	6.85	148.35	156.79	164.53	5.69	4.94
ii) Gross rent, fuel & lighting	16.87	152.02	162.32	174.70	6.78	7.62
iii) Furniture, furnishing, household equipment & operation	2.67	151.21	162.61	178.48	7.54	9.76
iv) Medical care & health expenses	2.84	169.62	178.49	185.67	5.23	4.02
v) Transport and communications	4.17	191.66	201.15	211.01	4.95	4.90
vi) Recreation, entertainment, education & cultural services	4.13	165.42	171.47	174.86	3.66	1.98
vii) Miscellaneous goods and services	3.63	143.25	151.44	166.69	5.72	10.07

Source : Bangladesh Bureau of Statistics.

2008 which were 21.5, 28.2, 11.0, 11.0 and 15.4 percent respectively. Inflation rate of Sri Lanka was the highest among the Asian countries (Table 3.2).

Wage Rate Trends

3.5 BBS data show that wage rate increased significantly in almost all sectors in FY08. Annual average wage rate indices (Table 3.5, Chart 3.6) indicate that the general wage rate increased significantly by 11.9 percent in FY08 than that of 4.5 percent in FY07. The wage rate in the manufacturing, construction, agriculture and fishery sectors increased by 12.1, 13.2, 11.7 and 10.6 percent respectively in FY08 as compared to 4.3, 6.3, 4.4 and 3.6 percent respectively in FY07. Wage rates of manufacturing, construction, agriculture and fisheries sectors stayed above the rates of consumer price inflation (9.9 percent) in FY08. It appears from this scenario that the income level of that section of people increased at a higher rate which resulted in higher purchasing power of the people living below the poverty line.

Medium Term Inflation Outlook

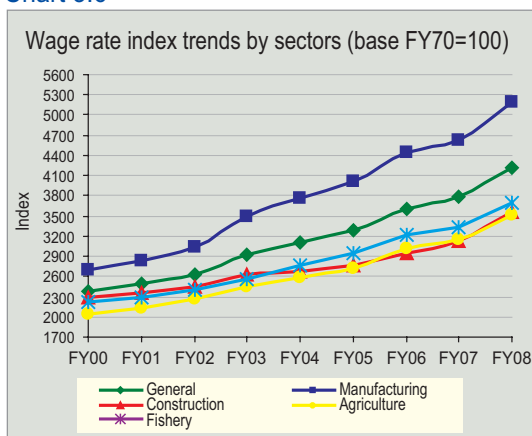
3.6 Global headline inflation has already gone up driven by the continuing buoyancy of food and energy prices. Core inflation has also

Table 3.5 Trends of wage rate indices

	(base FY70=100)				
	FY04	FY05	FY06	FY07	FY08
General	3111.1 (6.31)	3292.9 (5.85)	3615.4 (9.79)	3778.8 (4.52)	4227.4 (11.87)
Manufacturing	3765.4 (7.55)	4015.0 (6.63)	4444.6 (10.70)	4635.9 (4.30)	5196.8 (12.10)
Construction	2668.5 (1.69)	2758.2 (3.36)	2948.5 (6.90)	3134.8 (6.32)	3549.2 (13.22)
Agriculture	2581.5 (5.69)	2719.2 (5.33)	3021.5 (11.12)	3155.7 (4.44)	3524.0 (11.67)
Fishery	2774.8 (8.28)	2957.3 (6.58)	3217.7 (8.81)	3332.0 (3.55)	3686.1 (10.63)

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

Chart 3.6



edged upward in the recent months despite slowing growth in the advanced economies while in the emerging market, headline inflation has risen more markedly, reflecting both strong growth of demand and the higher weight of energy and food in consumption baskets. The global market experienced continued price spirals of essential commodities like rice, wheat, edible oil and crude oil etc. In

fact, food price hike accounted for almost 45 percent of global headline inflation in 2007 for major industrial and emerging economies, as against around 27 percent in 2006 while the same was about 70 percent in emerging economies and around 20 percent in advanced economies. The IMF international commodity price index (2005=100) increased by nearly 57 percent in May 2008 on point to point basis

Box-3.3

Macroeconomic Impact of Recent Oil Price Hike in Bangladesh

Bangladesh economy experienced reasonably high real GDP growth rate of over six percent for the last three consecutive fiscal years since 2006. But it is a matter of fact that recent unusual price hike in fuel oil triggered the increase in general price level which posed a big threat to its macroeconomic stability. Inflation in Bangladesh on 12-month average basis reached near to a double digit mark in fiscal year 2008. The recent oil price hike that started in 2004 reached to a sky high record level of US \$ 147 per barrel in July 2008 in the international markets and as such cost of expenditures for importing crude oil imported by the corporation increased tremendously in the last fiscal year. Data provided by the Bangladesh Petroleum Corporation (BPC)¹ indicate that import price of per barrel crude oil was US\$ 42.07 in FY04 which steadily increased in each year and stood at US \$ 125.75 in FY08. Following this unusual oil price hike in the international markets, Bangladesh had to increase its administered fuel oil prices in the domestic market for seven times from May 2004 to July 2008 (Table 1). In spite of raising fuel oil prices in the domestic markets, BPC had to bear a sizable amount of losses each year for supplying the major item of petroleum products to the consumers at a highly subsidized price.

Table-1: Changes of domestic fuel oil prices in Bangladesh since May 2004

(Taka per litre)

Date/Months	Kerosene	Diesel	Petrol	Octane
May 2004	20	20	33	35
December 2004	23	23	33	35
May 2005	25	26	35	35
September 2005	30	30	42	45
June 2006	33	33	56	58
April 2007	40	40	65	67
July 2008	55	55	87	90

Source: Bangladesh Petroleum Corporation.

Because of persistent gap between the retail selling price in the domestic market and the procurement/production cost of major petroleum products, accumulated losses of BPC went up to a unbearable level that ultimately passed on to the Government as quasi-fiscal costs. It has been observed that the negative gaps between the retail selling price in the domestic market and the procurement/production costs² of major petroleum products - diesel and kerosene were Taka 2.69 per litre and Taka 2.94 per litre respectively as on 30 June 2004 which steadily increased each year and stood at Taka 34.42 per litre and Taka 30.00 per litre respectively on 31 July 2008 (Table 2). It may be noted that diesel (80.81% of total import) and kerosene (5.38% of total import) jointly constituted 86.19 percent of total imports of refined petroleum products in FY08. As a result of incurring enormous loss from selling diesel and kerosene at highly subsidized price total yearly losses of BPC remarkably increased to Taka 42.4 billion in FY08

¹ A state-owned enterprise solely assigned the responsibility to procure crude and refined oil and undertake wholesale distribution of refined oil in Bangladesh.

² Cost includes import price, procurement, marketing and administrative costs.

Macroeconomic Impact of Recent Oil Price Hike in Bangladesh

(Contd.)

from Tk.4.5 billion in FY04. The huge amounts of these accumulated losses of BPC are essentially passed on to Government and as such total hidden quasi-fiscal costs of Government have remarkably increased in the recent years.

Table-2: Gap between the retail selling prices and the procurement/production costs of petroleum products
(Taka per litre)

Particulars	As on 30 June '04	As on 30 June '05	As on 30 June '06	As on 30 June '07	As on 30 June '08	As on 31 July '08
Octane	9.86	4.26	2.61	0.07	10.19	-
Diesel	(2.69)	(7.77)	(11.98)	(14.08)	(18.65)	(34.42)
Kerosene	(2.94)	(7.98)	(12.48)	(12.00)	(18.38)	(30.00)
Total Deficit/Surplus for the FY (in billion Taka)	(4.5)	(20.9)	(29.2)	(38.8)	(42.4)	-

Source: Bangladesh Petroleum Corporation (BPC).

Note: Figures in parentheses indicate negative gap (losses/deficits).

The Government has assumed the liability for paying BPC's accumulated losses up to June 2007 to the tune of Taka 75.23 billion (equivalent to 1.4 percent of GDP) by issuing long-term treasury bonds in FY08. During this fiscal year quasi-fiscal costs of the Government stood at Taka 118.36 billion which is estimated to be Taka 136.48 billion in the next fiscal year. It can easily be perceived that the general price level could increase further more and inflation in Bangladesh could also exceed the existing level if the recent price hike of petroleum products would directly pass on to the domestic consumers. Considering the impact of recent oil price hike on the Bangladesh's balance of payments, it has been observed that in spite of decline in quantity, import payment on account of fuel oil significantly increased in FY08 which induced in widening trade deficit, although exports growth remained satisfactory.

Finally, the price of diesel and kerosene have always been kept lower than that of petrol and octane on grounds of equity considerations, since the poor rely heavily on their usage in their daily lives. But this is not well justified as it also subsidizes the urban better-off people and the unique correspondence between equity consideration and differential price policy may not be taken for guaranteed. Since the oil price has started to come down significantly in the recent months, Government may consider revising its existing policy of allowing unbounded subsidy and for this purpose neighbouring countries experiences can be gathered for finding out appropriate policy options to determine domestic pricing mechanism of fuel oil in Bangladesh.

driven by oil and food prices. The food and petroleum price index accelerated by 44.3 and 88.0 percent in May 2008.

Recently rising biofuel production in the USA and the European Union has boosted demand for corn, rape-seed oil, other grains and edible oils. Although biofuels still account for only 1.5 percent of global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006-07, mostly because of corn-based ethanol produced

in the United States. The average petroleum price in the world market continued strong in response to increasing global demand in emerging markets like China, India and Middle East in 2007 which reached record high levels of around US\$ 140 in June and US\$ 147 per barrel in July 2008.

Financial trends of the USA have also fueled to increase in global commodity prices. The depreciation of the US dollar in 2007 pushed up commodity prices by increasing the purchasing

power of oil users outside the dollar areas (oil and other commodities are priced in US dollar). The depreciation of the US dollar also contributed to increase in prices by raising the cost of inputs priced in other currencies and stimulating demand for oil and other commodities as inflation and currency hedges. Orchestrating with the global situation, CPI inflation is projected to be higher at 3.6 percent in advanced countries and 9.4 percent in emerging and developing countries whereas the rate is estimated at 8.8 percent for South Asia in 2008 (Table 3.6).

Bangladesh has been experiencing a moderate inflation rate for a couple of years due mainly to price hike of oil and other essential commodities in the domestic and international markets. Bangladesh enchaind its inflation under two digits at 9.1 percent in 2007. According to the WEO of IMF (October 2008), inflation is projected to stand at 10.1 percent in 2008 as the authority has already taken some precautionary measures including the adoption of growth-accommodative monetary and financial policies. In this backdrop, actual inflation in Bangladesh stood at 9.9 percent in June 2008.

South Asian countries like India and Pakistan have already adopted measures to tame the current inflationary situation. The RBI increased its CRR and Repo rates in July 2008. Pakistan also raised the policy discount rate, CRR for all deposits up to one-year maturity and SLR in May 2008.

Petroleum price in the world market eased with significant margin from the record high level of

Table 3.6 Global inflationary situation

(Percentage changes)				
	2006	2007	2008*	2009*
Advanced economies	2.4	2.2	3.6	2.0
Emerging and developing countries	5.4	6.4	9.4	7.8
South Asia	6.5	6.9	8.8	8.8
Bangladesh	7.1	9.1	10.1	10.0
India	6.2	6.4	7.9	6.7
Pakistan	7.9	7.8	12.0	23.0
Sri Lanka	10.0	15.8	23.7	20.0

Source: WEO, October 2008, IMF.
* Projection

US\$ 147 per barrel in July to around US\$ 50 per barrel in November 2008. But food prices are expected to peak in 2008 and they are forecast to ease only gradually thereafter. In the short run, price risks are on the upside as demand is expected to remain strong. The current cycle is likely to last long due mainly to growing demand of foodgrains rapidly with rising biofuel production in the USA and the European Union and with continued strong demand from emerging and developing economies.

In this backdrop, it may be predicted that global consumer price inflation will remain at moderate level in 2008 and ease thereafter particularly in emerging and developing countries including South Asia.

Box-3.4

Consumer Rights Protection Ordinance 2008

The preservation and protection of consumer rights lie at the core of ensuring smooth functioning of free market economy and eliciting socially responsible behaviour from businesses. In recognition of the fundamental importance of consumer rights protection in fostering free and fair trade and commerce, and upkeeping of human rights of people around the world, the United Nations approved eight basic rights of consumers which came to be increasingly recognized by many countries and codified into specific consumer rights and redress for consumers in case of any violation of them.

The eight basic rights of consumers recognized by UN are: (1) the right to satisfaction of basic needs; (2) the right to safety; (3) the right to be informed; (4) the right to choose; (5) the right to be heard; (6) the right to redress; (7) the right to consumer education; and (8) the right to a healthy environment.

Consumer Rights Protection Ordinance 2008*(Contd.)*

Although consumer rights are strongly protected by adequate laws in developed countries, the developing countries are also heightening actions in this regard. In India, Consumer Protection Law was enacted in 1986 with subsequent modification in 1992. Under this law, consumer courts are established all over the country to try cases instituted by consumers for violation of their rights involved in the purchase and use of commodities and services and there are good instances of bringing the perpetrators to book. In Malaysia, Sri Lanka and Nepal too such laws have been promulgated and enforced effectively.

In the absence of specific consumer rights protection laws and enforcement, and lack of mass awareness, consumers in Bangladesh have long been subjected to frequent cheating and exploitation by dishonest businessmen and other vested interest groups. In view of redressing consumers' suffering, protecting their rights and preventing anti-consumer rights activities, Bangladesh government has recently approved the Consumer Rights Protection Ordinance 2008. The Ordinance is comprised of eight chapters with 87 clauses on various aspects of consumer rights protection.

The Ordinance has provisions of imprisonment and financial penalty in cases of consumer rights violation. It will allow consumers to lodge their complaints against people involved in malpractices such as adulteration, cheating, price manipulation and violation of related laws. The complaints have to be lodged to the consumer rights protection directorate in Dhaka and consumer rights protection tribunals in district and upazila levels which will be set up by the Government. The Ordinance stipulates a maximum of three years' imprisonment and financial penalty of Taka 2,00,000 in cases of violation.

There will also be consumer rights protection committees at district, upazila and union levels. The apex body in protecting consumer rights in the country will be a 21-member council with representatives of business community, civil society, Consumers Association of Bangladesh and officials of the ministries concerned to advise the Government. The council will oversee market prices of essential commodities and monitor application of the Ordinance.

It is hoped that effective enforcement of the Consumer Rights Protection Ordinance 2008 will set the necessary reward and punishment framework for responsible business practices in the country. In combination with a sound competition policy guideline, the Ordinance will create better business environment, instill practices of sound competition and spur economic growth and prosperity.