

Prices and Wages

Global Inflation Scenario

3.1 Global inflation has increased in 2011 driven by high prices of food and crude oil. In the United States and the Euro zone commodity price hikes have held up headline inflation. At the same time, core inflation and wage gains have remained at a lower level because of the persistent higher unemployment rates in these countries. In FY12, global inflation is expected to be moderate with the restrained wage pressure and weak aggregate demand. However, inflation volatility may remain high in the developing countries.

Consumer Prices in Bangladesh

3.2 The CPI inflation in Bangladesh showed a mixed trend in FY12. The inflationary pressures started rising from the previous fiscal year which reached the peak in February 2012 (11.0 percent) but started decreasing in March. It went down to 10.6 percent in June 2012. The rising inflation was triggered mainly by the continuous rise in international commodity prices including food, fuel and fertilisers, the higher-than-targeted money supply growth, Taka depreciation and the successive upward adjustments of administered energy and petroleum prices in the domestic market. The average inflation measured by 12-month average basis (base: FY96=100) increased from 8.8 percent in June 2011 to 10.6 percent in June 2012 (Chart 3.1 and Table 3.2). This was higher than the target of 7.5 percent in the National budget for FY12.

Chart 3.1

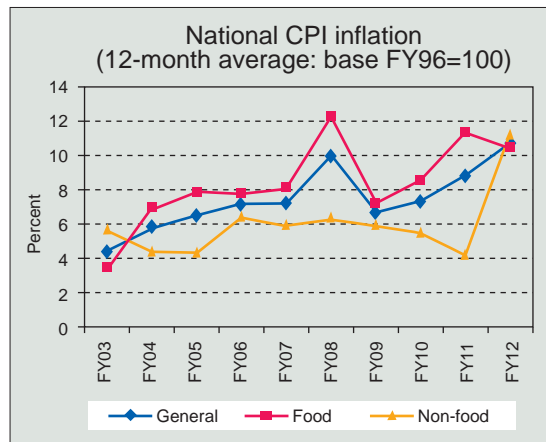


Table 3.1 Monthly change in inflation (%)

Months	General	Food	Non-food
July 11	2.25	2.96	1.05
August 11	1.94	1.69	2.57
September 11	2.00	2.81	0.42
October 11	0.41	0.29	0.62
November 11	0.23	-0.29	1.24
December 11	-0.08	-0.74	1.22
January 12	1.60	1.29	2.18
February 12	-0.31	-1.01	0.99
March 12	0.39	0.30	0.59
April 12	-0.05	-0.14	0.11
May 12	-0.65	-1.00	0.03
June 12	0.56	0.80	0.13

Source: Bangladesh Bureau of Statistics.

On the other hand, the twelve month point-to-point CPI inflation declined to 8.6 percent in June 2012 from 10.2 percent in June 2011. However, the decline was not steady. The point to point CPI inflation went up to a peak of 12.0 percent in September 2011 and then started to decline after January 2012. This decline in inflation was mainly due to the

lower food and non-food prices. The core CPI inflation (excludes foods and fuel items), recently introduced by the BB, also followed the same trend and stood at 7.9 percent in June 2012.

The high inflation that Bangladesh experienced was mainly driven by the higher food prices. The annual average and point-to-point food inflation depicted a mixed trend in FY12. The annual average food inflation decreased to 10.5 percent in June 2012 from 11.3 percent in June 2011. The point-to-point food inflation decreased to 7.1 percent in June 2012 from 12.5 percent in June 2011.

The average and point to point non-food inflation also showed increasing trends during FY12. The average non-food inflation increased to 11.2 percent in June 2012 from 4.2 percent in June 2011 and the point-to-point non-food inflation increased to 11.7 percent in June 2012 from 5.7 percent in June 2011 (Table 3.2, Chart 3.1). The rising international oil prices forced the government to revise the domestic price of fuel upward several times to reduce the burden of subsidy in this sector. This, upward adjustment resulted in the higher rate of non-food inflation in FY12 (Box 3.1).

3.3 The increase in inflation was higher in urban areas compared to that in rural areas. This was the result of a higher weight of food items in the rural CPI (70.9) than that in the urban CPI (29.1). Annual average CPI inflation in the rural areas increased to 10.2 percent in June 2012 from 9.4 percent in June 2011 (Table 3.2, Chart 3.3). The rural food inflation decreased to 9.7 percent in June 2012 from 12.0 percent in June 2011, while the rural non-food inflation increased significantly to 11.2 percent in June 2012 from only 4.2 percent in June 2011.

Chart 3.2

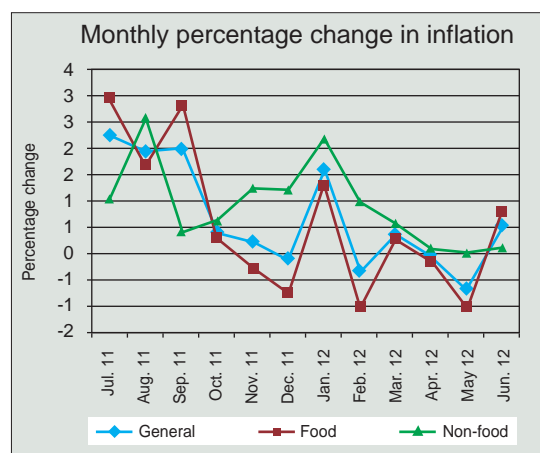


Table 3.2 Annual average CPI inflation

(base: FY96=100)

Group	Weight	FY10	FY11	FY12
a. National level				
General index	100.00	221.53 (7.31)	241.02 (8.80)	266.61 (10.62)
Food	58.84	240.55 (8.53)	267.83 (11.34)	295.86 (10.47)
Non-food	41.16	196.84 (5.45)	205.01 (4.15)	227.87 (11.15)
b. Rural				
General index	100.00	223.39 (7.16)	244.38 (9.40)	269.31 (10.20)
Food	62.96	235.76 (7.96)	264.13 (12.03)	289.82 (9.73)
Non-food	37.04	202.36 (5.62)	210.81 (4.18)	234.47 (11.22)
c. Urban				
General index	100.00	216.98 (7.69)	232.81 (7.30)	260.01 (11.68)
Food	48.80	252.21 (9.85)	276.82 (9.76)	310.58 (12.20)
Non-food	51.20	183.40 (4.99)	190.87 (4.07)	211.82 (10.98)

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

3.4 The annual average CPI inflation in the urban areas increased to 11.7 percent in June 2012 from 7.3 percent in June 2011 (Table 3.2, Chart 3.4). The urban food CPI increased from 9.8 percent in June 2011 to 12.2 percent in June 2012. It reached its peak of 12.6 percent in January 2012. The urban non-food

inflation also increased to 11.0 percent in June 2012 from 4.1 percent in June 2011.

The food prices were relatively higher both in domestic and international markets in the first few months of FY12. The increase in food prices in international markets was mainly due to unfavourable weather conditions in different parts of the world. From the last few months of FY12 the food prices in the international market started to fall.

The declining international food prices pushed the price hike in the domestic market to slow down a little. On the other hand, domestic production also increased which helped to keep food inflation at a moderate level. The *Boro* output increased to 18.67 million metric tons in FY12 from 18.62 million metric tons in FY11. The *Aman* production increased to 12.80 million metric tons in FY12 from 12.79 million metric tons in FY11. According to the Food Planning and Monitoring Unit, total domestic food production increased from 34.51 million metric tons in FY11 to 34.79 million metric tons in FY12.

The Government also adopted various measures to keep food inflation at a reasonable level. It raised the domestic procurement target for FY12 to 1.4 million tons from 1.2 million metric tons and lowered the distribution target under the Public Food Distribution System (PFDS) from 2.9 million metric tons in FY12 to 2.6 million metric tons. Therefore, the government has lowered food grain import target for the current fiscal year.

The FAO forecast also shows that Bangladesh will be able to maintain a sharp fall in import of rice in the current fiscal year, due to a large carryovers and abundant rice supplies.

Chart 3.3

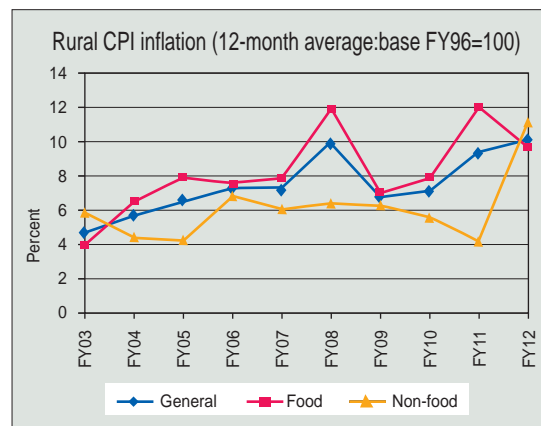


Chart 3.4

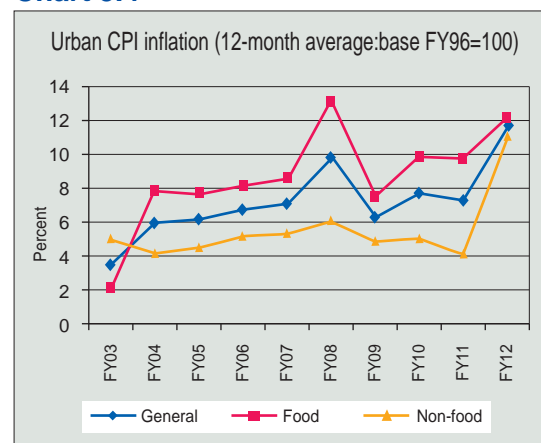


Table 3.3 Inflation in SAARC and other Asian countries#

Countries	2008	2009	2010	2011	2012(June)
1. Bangladesh [@]	9.9	6.7	7.3	8.8	10.6
2. India	8.4	10.9	13.7	8.9	10.1
3. Pakistan	20.3	13.6	12.5	11.9	11.3
4. Nepal	10.9	11.6	9.6	9.5	9.9
5. Bhutan*	8.8	3.0	6.1	31.1	9.5 (March)
6. Sri Lanka**	22.6	3.4	4.8	6.7	5.8
7. Maldives	12.0	4.5	6.1	11.3	12.5
Other Asian countries					
8. Thailand	5.5	-0.8	3.3	3.8	2.6
9. Singapore	6.5	0.2	2.7	5.2	5.3
10. Malaysia	5.4	0.6	1.6	3.2	1.6
11. Indonesia	10.1	4.6	5.1	5.4	4.5
12. Korea	4.7	2.8	2.6	4.0	2.2
13. Myanmar	26.8	1.5	9.3	5.0	--

IFS, October 2012 CPI (base: 2000=100).

@= BBS, Consumer Price Index (base: FY96=100), figures relate to financial year (July-June).

* MPS, 2012, Royal Monetary Authority of Bhutan.

** Central Bank of Sri Lanka.

The Government also scaled up the social safety net measures and national food distribution programmes to soften the effects of higher prices on the poor, vulnerable and disadvantages. The government also provided electricity to rural areas for Boro production in the last season to fulfil the high demand for irrigation.

Bangladesh Bank adopted a restrained monetary policy stance during FY12. To control inflationary pressure Bangladesh Bank increased the Cash Reserve Requirements (CRR) and the Statutory Liquidity Requirements (SLR) both by 50 basis points of their total liabilities. Effective from 15 December 2010 the CRR and the SLR are now at 6.0 and 19.0 percent respectively.

The BB continued its credit tightening measures to contain inflation and reduce pressure on foreign exchange reserves. Moreover, it raised its policy interest rates (regular repo and reverse repo interest rates were refixed at 7.75 and 5.75 percent respectively) in September 2011 and January 2012 and imposed a penalty rate for discretionary liquidity support (emergency repo window). The Bank is expected to increase the policy rates further. The central bank also allowed the Treasury bill and bond rates to rise substantially and the commercial bank lending rates to liberalise to facilitate more effective monetary transmission.

3.5 The South Asian countries particularly SAARC countries depicted double digit and near double digit inflation (except Sri Lanka) during FY12. Among those Bangladesh, India, Nepal and Maldives showed higher inflation (10.6, 10.1, 9.9 and 12.5 percent respectively) (Table 3.3, Chart 3.5).

Wage Rate Trends

3.6 The general wage rate indicated a robust

Chart 3.5

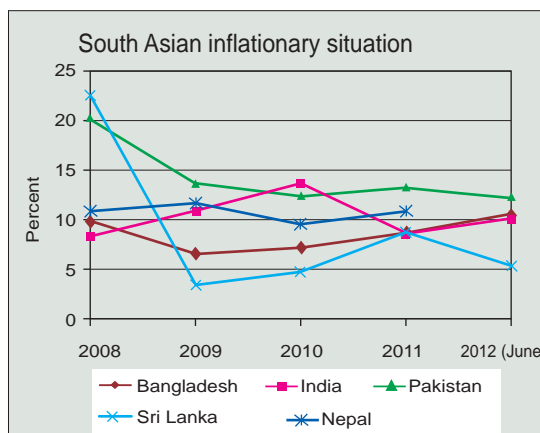


Chart 3.6

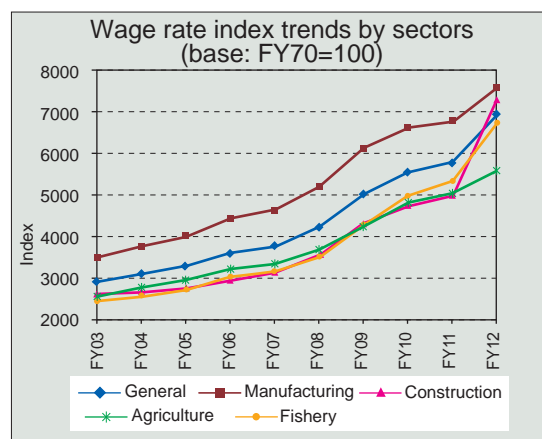


Table 3.4 Trends of wage rate indices

	(base: FY70=100)				
	FY08	FY09	FY10	FY11	FY12
General	4227.4 (11.87)	5025.7 (18.88)	5561.8 (10.67)	5781.64 (3.95)	6951.68 (20.24)
Manufacturing	5196.8 (12.10)	6128.36 (17.93)	6620.3 (8.03)	6778.06 (2.38)	7576.03 (11.77)
Construction	3549.2 (13.22)	4311.3 (21.47)	4755.8 (10.31)	4983.29 (4.78)	7279.70 (46.08)
Agriculture	3524.0 (11.67)	4273.7 (21.27)	4985.4 (16.65)	5325.63 (6.83)	6753.96 (26.82)
Fishery	3686.1 (10.63)	4236.5 (14.93)	4827.5 (13.95)	5043.15 (4.47)	5572.70 (10.50)

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

Table 3.5 Annual average national level CPI by consumption basket sub-groups
(base:FY96=100)

Group/sub-group	Weight	FY10	FY11	FY12	% Change (4-3)	% Change (5-4)
1	2	3	4	5	6	7
General index	100.00	221.53	241.02	266.61	8.80	10.62
1. Food, beverage and tobacco	58.84	240.55	267.83	295.86	11.34	10.47
2. Non-food, of which	41.16	196.84	205.01	227.87	4.15	11.15
i) Clothing & footwear	6.85	181.29	191.92	225.68	5.86	17.59
ii) Gross rent, fuel & lighting	16.87	191.49	197.92	218.26	3.36	10.28
iii) Furniture, furnishing, household equipment & operation	2.67	215.04	231.75	259.12	7.77	11.81
iv) Medical care & health expenses	2.84	199.22	203.67	215.64	2.23	5.88
v) Transport and communications	4.17	234.10	244.17	276.34	4.30	13.18
vi) Recreation, entertainment, education & cultural services	4.13	192.46	198.44	202.94	3.11	2.26
vii) Miscellaneous goods and services	3.63	208.40	218.59	248.19	4.89	13.54

Source: Bangladesh Bureau of Statistics.

growth in FY12 compared to that in the previous year. The growth of annual wage rate (Table 3.4, Chart 3.6) accelerated significantly to 20.2 percent in FY12 from only 4.0 percent in FY11. The rise in wage rate in the construction sector was the highest which was 46.1 percent while fishery sector recorded the lowest wage growth rate of 10.5 percent in FY12. It should be noticed that the growth in general wage rate was higher than the rate of inflation in FY12.

Near Term Inflation Outlook

3.7 Bangladesh's inflation outlook is heavily influenced by external inflationary impulses. International prices of food and non-food items recorded mixed trends in 2012 compared to those of the previous fiscal year (Table 3.6, Chart 3.7). The price changes were only positive for petroleum and rice (3.1 and 4.8 percent respectively). Headline and core inflation in the major advanced economies have remained lower over the past few years including the United States and the Euro area as compared to the emerging and developing economies. In emerging Asia, headline inflation is slowing and expected to continue on this path. However, inflation is projected to stay elevated in parts of the region.

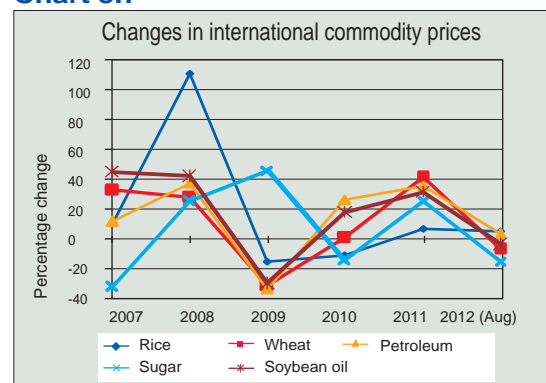
Oil prices rose sharply in March 2012 to USD 122 per barrel, then eased somewhat and

Table 3.6 Changes in international prices of major commodities
(percentages)

Commodity	2008	2009	2010	2011	2012(Aug)
Petroleum	37.2	-34.1	26.4	35.7	3.1
Rice	110.7	-15.8	-11.7	6.0	4.8
Wheat	27.7	-31.5	0.1	41.4	-7.6
Palm oil	20.0	-25.4	33.5	25.2	-5.1
Soybean oil	41.8	-30.6	17.5	31.5	-4.1
Cotton	12.8	-12.1	65.0	49.4	-40.1
Sugar	25.1	45.8	15.1	25.4	-15.3

Source: International Financial Statistics, October 2012.

Chart 3.7



stood at USD 94 per barrel in June 2012. The recent easing in international oil prices was caused primarily by larger than expected oil crop plantings in northern hemisphere. However, the inflation projections for 2012-13 assume that oil prices may rise to up about USD 110 a barrel in 2013 due to heightened geopolitical uncertainty.

The WEO projections assumed a decline in

the non-fuel commodity price index from 10.3 percent in 2012 to 2.7 percent in 2013.

The FAO food price index averaged 201 points in June 2012, which was about 15.4 percent below the peak reached in February 2011. The adequate supply prospects kept international prices of most commodities under downward pressure.

The FAO projected the world cereal production to increase by 1.0 percent from 2011 to 2371 million metric tons in 2012. On the other hand, growth in industrial use of cereals for the production of bio-fuels is likely to stall after several years of strong gains. World trade in cereals is expected to increase slightly from 2012 to 295.5 million metric tons in 2013.

The latest FAO's forecast for world wheat production in 2012 points to a sharp decline of 3.6 percent from 2011, with the largest declines in Ukraine, Kazakhstan, China, Morocco and the EU. Nonetheless, after a healthy stock build up in this season, wheat inventories are projected to contract in the coming season by 6.5 percent to 183 million metric tons. World wheat trade in 2012-13 is also expected to contract by around 1.8 percent, following a 8.7 percent surge in 2011-12, reflecting a weakening of import demand, specially for feed wheat. As a result, the pressure for prices to rise may ease, despite the expected decline in world wheat production.

The international rice price has been declining since September 2011, due to the massive exports of regular rice by India. The world rice production is estimated to have increased by 2.6 percent in 2011 and it is projected to grow by 1.6 percent in 2012.

The WEO forecast indicated that inflation

Table 3.7 Global inflationary situation

	(percentage change)			
	2010	2011	2012 ^R	2013 ^P
Advanced economies	1.5	2.7	1.9	1.6
United States	1.6	3.1	2.0	1.8
Euro area	1.6	2.7	2.3	1.6
Emerging & developing economies	6.1	7.2	6.1	5.8
Developing Asia	5.7	6.5	5.0	4.9
Bangladesh	8.1	10.7	8.5	6.7
India	12.0	8.9	10.2	9.6
Pakistan	10.1	13.7	11.0	10.4
Sri Lanka	6.2	6.7	7.9	8.0

R= Revised, P= Provisional.

Source: World Economic Outlook, October 2012.

would decline to 1.9 percent in 2012 and 1.6 percent in 2013 in advanced economies as wages accelerate only gradually amid weak labour markets. In emerging and developing economies, inflation pressure is weakening due to decline in food and energy prices, so that inflation is projected to be at a lower rate of 6.1 percent and 5.8 percent in 2012 and 2013 respectively.

3.8 In view of this global scenario, Bangladesh has been experiencing a high inflationary situation though the pressure eased somewhat in the last few months. The projected inflation rate in the national budget for FY13 has been set at 7.5 percent. Prudent policy stance is required to maintain the target rate as the economy is facing a few challenges including higher non-food inflation, slow global recovery, international oil price increase and exchange rate fluctuation.

The target for achieving single digit inflation (7.5 percent) seems to be possible assuming continuous easing in global food and fuel prices and pursuing Bangladesh Bank's stance for lower money supply growth with no major domestic supply-side disruption.

Lastly, unless administered fuel and energy prices are revised further upward, with continued bumper food production, inflation is likely to remain on a declining trend in the next fiscal year.

Box 3.1**The Recent Upsurge in Non-food Inflation and Its Impacts on Domestic Economy**

Bangladesh's average non-food inflation has been increasing in recent months. The rise in non-food inflation resulted mainly from the government's upward adjustment in prices of electricity and fuel, in order to reduce the subsidy in this sector.

The country's average and point-to-point non-food inflation stood at 11.2 and 11.7 percent respectively in June 2012 while it was only 4.2 and 5.7 percent respectively in the same month last year. In the beginning months of FY12, non-food inflation started to increase and it rose at an alarming rate in the second half of FY12 (Table-1). In FY12 the average inflation rate of most of the non-food items recorded at double digit levels. The clothing and footwear sub-sector was at the top of the list with 17.59 percent inflation in June 2012.

Table-1 Average inflation rate of selected non-food sub-sectors

Items	June 11	June 12	August 12
Non-food inflation	4.15	11.15	11.62
a) Clothing & footwear	5.86	17.59	17.20
b) Gross rent, fuel & lighting	3.36	10.28	11.93
c) Furniture, furnishing & others	7.77	11.81	11.76
d) Medical care & health expenses	2.23	5.88	6.50
e) Transport & communications	4.30	13.18	12.37
f) Miscellaneous goods & services	4.89	13.54	12.78

Source: Bangladesh Bureau of Statistics.

Following the oil price hike in the global markets, Bangladesh had to increase administered fuel oil prices in the domestic market four times from May 2011 to December 2011 (Table-2).

Table-2 Adjustment in domestic fuel oil prices in Bangladesh

Date	Diesel	Petrol	Octane	Kerosene	Furnace oil
5 May 2011	46	76	79	46	42
19 Sept. 2011	51	81	84	51	50
10 Nov. 2011	56	86	89	56	55
29 Dec. 2011	61	91	94	61	60

Source: Bangladesh Petroleum Corporation.

Prices of Diesel, Petrol, Octane, Kerosene and Furnace oil increased by 32.6, 19.7, 19.0, 32.6 and 42.9 percent respectively in December 2011 from May 2011. In spite of the rising oil prices in the domestic markets, BPC has to bear a huge amount of losses every year for supplying petroleum products to the consumers at a lower price. Government gives subsidy up to Taka 21.8 per litre of Diesel, Taka 21.5 per litre of Kerosene and Taka 6.9 per litre of Furnace Oil. The losses of BPC increased to Taka 91.0 billion in FY11 from Taka 25.7 billion in FY10 which were passed on to and inflated the quasi-fiscal costs of the Government. The import payment for oil significantly increased in FY12 which had an adverse effect on our Balance of Payments.

The effects of fuel price hike were not just limited in higher oil and food commodity prices but also influenced the prices in the transport and construction sectors. The upward adjustment of the electricity price, influenced the industrial and agricultural production costs which led to higher non-food inflation.