

Price and Inflation

Global Inflation Scenario

3.1 Higher energy prices lifted headline inflation rates in advanced, emerging market and developing economies in the first six months of 2018. Core inflation (excluding food and energy price) remained below central banks' targets in most advanced economies. Among emerging market and developing economies, excluding Venezuela's hyperinflation, core inflation was below the average of recent years but inched up in recent months (World Economic Outlook, October 2018).

Consumer Prices in Bangladesh

3.2 Annual average inflation based on Consumer Price Index (CPI) reported an upward trend throughout FY18 except for the last two months of the financial year under review. The headline inflation rate stood at 5.78 percent in June 2018, while the Bangladesh Bank Monetary Policy Statement (MPS, January-June 2018) had an inflation forecast range of 5.70-6.00 percent for the same period. The average inflation rate was 5.44 percent in FY17 (Table 3.1, Chart 3.1 and Appendix-3 Table VII). The average Inflation rate steadily inched up since July 2017 (5.45 percent) until April 2018 (5.83 percent). For the following two months of FY18 the inflationary pressure gradually eased. Rising food inflation was mainly responsible for the increase in headline inflation rate despite declining non-food inflation rate during the first half of the fiscal year. The non-food inflation rate had an upward trend for the remaining second half of the financial year.

Table 3.1 Monthly Inflation in FY18

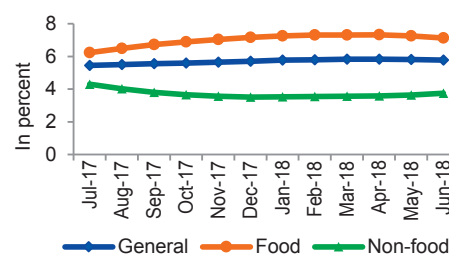
(12-month average : FY06=100)

Months	General	Food	Non-food
Jul 17	5.45	6.23	4.30
Aug 17	5.50	6.48	4.03
Sep 17	5.55	6.72	3.81
Oct 17	5.59	6.89	3.66
Nov 17	5.64	7.03	3.56
Dec 17	5.70	7.17	3.51
Jan 18	5.77	7.26	3.52
Feb 18	5.79	7.30	3.54
Mar 18	5.82	7.31	3.56
Apr 18	5.83	7.32	3.58
May 18	5.81	7.25	3.64
Jun 18	5.78	7.13	3.74

Source: Bangladesh Bureau of Statistics.

Chart 3.1 Monthly CPI Inflation in FY18

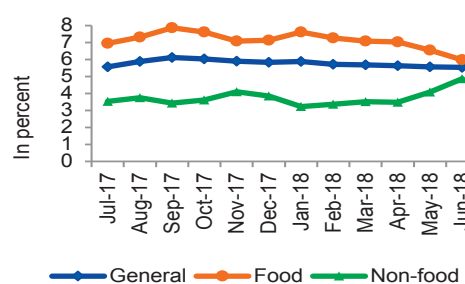
(12-month average : FY06=100)



Source: Bangladesh Bureau of Statistics.

Chart 3.2 Monthly CPI Inflation in FY18

(Point-to-point : FY06=100)



Source: Bangladesh Bureau of Statistics.

The twelve month point-to-point inflation rate stood at 5.54 percent in June 2018 compared to 5.94 percent in June 2017.

3.3 Annual average food inflation had a sustained rise during July 2017 (6.23 percent) to April 2018 (7.32 percent), which posted consecutive lower rates in the remaining two months of FY18. The average food inflation rate for May 2018 and June 2018 stood at 7.25 percent and 7.13 percent respectively. The average food inflation rate was 6.02 percent in June 2017. On the other hand, the annual point-to-point food inflation recorded a mixed trend during July 2017 (6.95 percent) to January 2018 (7.62 percent) followed by a declining trend for rest of the financial year, that is from February 2018 (7.27 percent) to June 2018 (5.98 percent). The point-to-point food inflation stood at 7.51 percent in June 2017 (Appendix-3 Table VII).

3.4 Annual average non-food inflation rate showed a declining trend during the first half of FY18, while it had a reverse direction for the rest of the financial year. The average non-food inflation rate stood at 4.30 percent in July 2017, which gradually fell to 3.51 percent in December 2017. Since January 2018, the average non-food inflation rate kept rising and reached 3.74 percent at the end of FY18. The average non-food inflation rate was 4.57 percent in FY17. On the other hand, annual point-to-point non-food inflation rate depicted mixed trend throughout FY18. The rate stood at 3.53 percent at the beginning of FY18 and finally settled at 4.87 percent in June 2018, with movement in both direction – increasing and decreasing – in the months between. The annual point-to-point non-food inflation rate in June 2018 was 1.2 percentage point higher than June 2017 rate of 3.67 percent point (Appendix-3 Table VII).

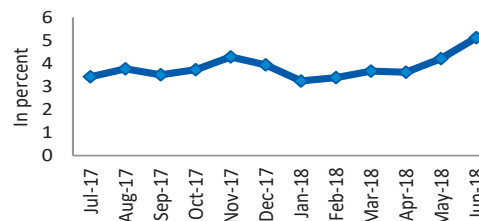
Table 3.2 Annual Average CPI based Inflation
(FY06=100)

Group	Weight	FY15	FY16	FY17	FY18
a. National level					
General Index	100.00	207.58 (6.40)	219.86 (5.92)	231.82 (5.44)	245.22 (5.78)
Food	56.18	223.80 (6.68)	234.77 (4.90)	248.90 (6.02)	266.64 (7.13)
Non-food	43.82	186.79 (5.99)	200.74 (7.47)	209.92 (4.57)	217.77 (3.74)
b. Rural					
General Index	100.00	209.10 (6.20)	220.12 (5.27)	231.02 (4.95)	244.17 (5.69)
Food	61.41	221.02 (6.40)	230.31 (4.20)	243.08 (5.55)	259.86 (6.90)
Non-food	38.59	190.13 (5.81)	203.92 (7.25)	211.83 (3.88)	219.21 (3.48)
c. Urban					
General Index	100.00	204.76 (6.80)	219.37 (7.13)	233.29 (6.35)	247.17 (5.95)
Food	46.52	230.56 (7.32)	245.66 (6.55)	263.09 (7.10)	283.19 (7.64)
Non-food	53.48	182.32 (6.24)	196.50 (7.77)	207.38 (5.54)	215.83 (4.07)

Note: Figures in parentheses represent annual inflation
Source: Bangladesh Bureau of Statistics (BBS).

Chart 3.3 Core CPI Inflation

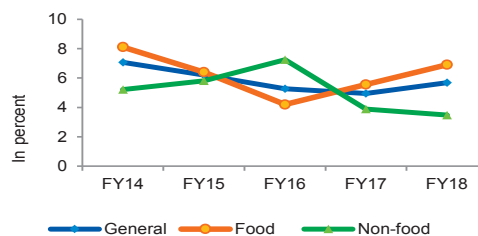
(point-to-point)



Source: Research Department, Bangladesh Bank.

Chart 3.4 Rural CPI Inflation

(12-month average : FY06=100)



Source: Bangladesh Bureau of Statistics.

3.5 Core inflation (non-food and non-fuel price) on point-to-point basis increased by a large margin to 5.11 percent in June 2018

Table 3.3 Annual Average National Level CPI by Consumption Basket Sub-groups

(base: FY06=100)						
Group/sub-group	Weight	FY16	FY17	FY18	% Change FY17	% Change FY18
General index	100	219.86	231.82	245.22	5.44	5.78
1. Food, beverage and tobacco	56.18	234.77	248.90	266.64	6.02	7.13
2. Non-food of which	43.82	200.74	209.92	217.77	4.57	3.74
i) Clothing & footwear	6.84	233.52	243.56	255.24	4.30	4.80
ii) Gross rent, fuel & lighting	14.88	182.75	194.01	200.25	6.16	3.22
iii) Furniture, furnishing, household equipment & operation	4.73	227.53	235.85	249.68	3.66	5.86
iv) Medical care & health expenses	3.47	200.03	206.70	209.28	3.33	1.25
v) Transport and communications	5.8	201.60	210.78	218.80	4.55	3.80
vi) Recreation, entertainment, education & cultural services	4.28	171.01	177.56	183.65	3.83	3.43
vii) Miscellaneous goods and services	3.82	211.61	217.51	223.81	2.79	2.90

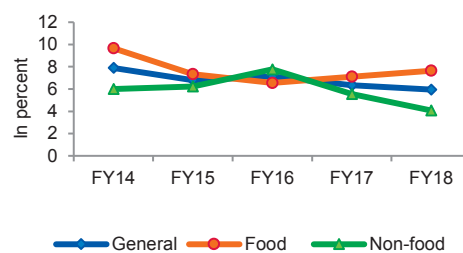
Source: Bangladesh Bureau of Statistics.

compared to 3.55 percent in June 2017 (Chart 3.3).

3.6 In FY18, average rural inflation was 0.26 percentage point lower than average urban inflation. In June 2018, the annual average rural inflation rate was calculated at 5.69 percent, while it was 5.95 percent for urban areas. The annual average rural inflation rate for FY17 stood at 4.95 percent. The average rural food inflation increased to 6.90 percent in June 2018 from 5.55 percent in June 2017. On the other hand, the average rural non-food inflation slid to 3.48 percent in June 2018 compared to 3.88 percent in June 2017 (Table 3.2, Chart 3.4 and Appendix-3 Table VII).

3.7 The annual average urban inflation declined to 5.95 percent in June 2018 from 6.35 percent in June 2017. The average urban food inflation rose to 7.64 percent in June 2018 from 7.10 percent in June 2017. On the other hand, the average urban non-food inflation slid to 4.07 percent in June 2018 from 5.54 percent in June 2017 (Table 3.2, Chart 3.5, Appendix-3 Table VII).

3.8 Total foodgrains production (rice and wheat) increased by 6.6 percent to 37.4 million metric tons in FY18 compared to 35.1

Chart 3.5 Urban CPI Inflation (12-month average : base FY06=100)

Source: Bangladesh Bureau of Statistics.

Table 3.4 Inflation in SAARC and Other Asian Countries #

Countries	2014	2015	2016	2017	2018
1. Bangladesh®	7.4	6.4	5.9	5.4	5.5 (July)
2. India	6.6	4.9	4.9	3.3	4.3 (March)
3. Pakistan	7.2	2.5	3.8	4.1	5.8 (July)
4. Nepal	8.4	7.9	8.8	3.2	6.0 (March)
5. Bhutan	8.2	4.5	4.3	3.9	-
6. Sri Lanka	2.8	3.8	4.0	7.7	2.5 (June)
7. Maldives	2.1	1.0	0.5	2.7	-1.2 (March)
Other Asian Countries					
8. Thailand	1.9	-0.9	0.2	0.7	1.5 (July)
9. Singapore	1.0	-0.5	-0.5	0.6	0.6 (June)
10. Malaysia	3.2	2.1	2.1	3.9	0.6 (June)
11. Indonesia	6.4	6.4	3.5	3.8	3.2 (August)
12. Korea	1.3	0.7	1.0	1.9	1.4 (August)
13. Myanmar	5.5	9.5	7.0	4.6	5.4 (March)

- Not available

Sources: © BBS, Consumer Price Index (Base: FY06=100) and figures relate to financial year (July-June).

International Financial Statistics, October 2018.

million metric tons in FY17. Total government procurement of foodgrains stood at 1.5 million metric tons in FY18, lower by 0.1 million metric ton than that of FY17. Government and private

imports of foodgrains totalled at 9.8 million metric tons in FY18, which was about 4.0 million metric tons higher than FY17 foodgrains imports. The government distributed 2.1 million metric tons of foodgrains under its Public Food Distribution System (PFDS) in FY18, which was slightly lower than the preceding financial year's amount.

Inflation in SAARC and Other Asian Countries

3.9 Among the SAARC countries, Nepal had the highest inflation rate of 6.0 percent in March 2018 followed by Pakistan (5.8 percent, July 2018), Bangladesh (5.5 percent, July 2018) and India (4.3 percent, March 2018). Indonesia (3.2 percent, August 2018) and Sri Lanka (2.5 percent, June 2018) reported moderate inflation rates. Unlike other countries, Maldives had deflation (-1.2 percent) in March 2018 (Table 3.4 and Chart 3.6).

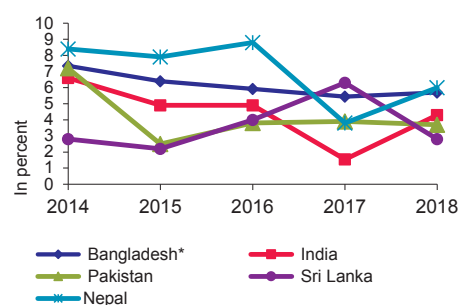
Wage Rate Trends

3.10 The growth of general wage rate index declined by 0.04 percentage point to 6.46 percent in FY18. The agriculture and industry sector indices had higher growth rates in FY18, whereas the services sector index growth retarded. The production sub-sector index reported the highest growth rate of 8.08 percent, while the construction sub-sector index scored the lowest growth rate of 5.75 percent in FY18 (Table 3.5, Chart 3.7).

Near Term Inflation Outlook

3.11 Inflation is expected to rise this year across both advanced, emerging market and developing economies largely reflecting recent increases in commodity prices. In advanced economies, it is projected to pick up to 2 percent

Chart 3.6 South Asian Inflationary Situation



Sources: BBS, figures relate to financial year (July-June) and IFS, October 2018.

Table 3.5 Trends of Wage Rate Indices

(base: FY11=100)

	FY15	FY16	FY17	FY18
General	124.69 (4.94)	132.81 (6.52)	141.46 (6.50)	150.39 (6.46)
Agriculture	124.51 (5.12)	132.48 (6.41)	141.22 (6.59)	150.27 (6.41)
Agriculture	124.46 (5.12)	132.44 (6.42)	141.19 (6.60)	150.23 (6.40)
Fish	126.85 (5.00)	134.59 (6.12)	143.19 (6.37)	152.63 (6.61)
Industry	124.38 (4.47)	132.02 (6.16)	140.27 (6.24)	149.45 (6.55)
Construction	124.84 (4.09)	129.97 (4.18)	137.43 (5.37)	145.32 (5.75)
Production	127.28 (4.44)	136.18 (7.70)	146.01 (7.22)	157.81 (8.08)
Services	126.15 (4.98)	136.03 (7.86)	145.01 (6.60)	154.44 (6.51)

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

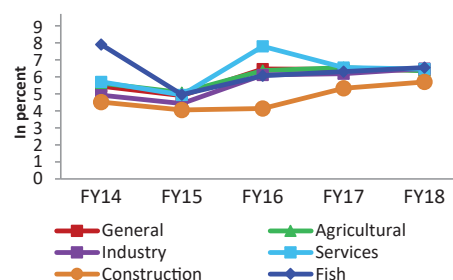
in 2018, from 1.7 percent in 2017. Inflation in emerging market and developing economies excluding Venezuela is expected to increase to 5.0 percent this year from 4.3 percent in 2017 (Table-3.6). Among advanced economies, core inflation will rise over the forecast horizon, with differentiation across countries mostly based on cyclical positions. Within the group of emerging market and developing economies, core inflation rates are expected to be more dispersed than among advanced economies. To a large extent, the dispersion reflects

variation in cyclical positions, anchoring of inflation expectations, and inflation targets.

3.12 Food and Agriculture Organization (FAO) in its biannual publication Food Outlook July 2018, reported that amid increased uncertainties from recent rising trade dispute, agricultural markets so far remained relatively stable thanks to generally good supply conditions across most commodities. The report also added that in the context of heightened food import bills, food markets would remain vulnerable, with weather shocks and external developments always difficult to predict. The world rice production is forecast to grow by 1.4 percent in 2018 to 511.4 million tons. Total world wheat production in 2018 is expected to be 736.1 million tons, 2.7 percent lower than 2017 production. The FAO food price index for June 2018 stood at 173.7, which was 175.3 in June 2017.

3.13 In FY19 national budget, the target for the average inflation rate was set at 5.6 percent. In the first five months of FY19 (November 2018), the average inflation rate was 5.58 percent, slightly above the annual target level. The average food and non food inflation rates for the same month were 6.37 and 4.38 percent respectively. Higher global commodity prices and exchange rate movements together pose upside risks to inflation in FY19. Inflation expectation survey (July, 2018) conducted by Bangladesh Bank also reveals the upside risks, about 70 percent of the respondents anticipate one-year-ahead average inflation to be above 6

Chart 3.7 Growth Rate of Wage Index (FY11=100)



Source: Bangladesh Bureau of Statistics.

Table 3.6 Global Inflationary Situation (Percentage change)

	2016	2017	2018	2019 ^P
Advanced Economies	0.8	1.7	2.0	1.9
United States	1.3	2.1	2.4	2.1
Euro Area	0.2	1.5	1.7	1.7
Emerging Market and Developing Economies	4.2	4.3	5.0	5.2
Emerging and Developing Asia	2.8	2.4	3.0	3.2
Bangladesh	5.7	5.6	6.0	6.1
India	4.5	3.6	4.7	4.9
Sri Lanka	4.0	6.5	4.8	4.8
Pakistan	2.9	4.1	3.9	7.5

^P Projection

Source: World Economic Outlook, October 2018.

percent. BBs projection shows that the average inflation rate would be around 5.4-5.8 percent in December 2018, assuming no severe domestic or external shocks. Looking ahead, inflation outlook would likely remain relatively favorable in FY19, assuming no significant pickup in election-related political tension. A good harvest of food production may offset some inflation risks from the pass-through effects of global oil and commodity prices. However, rising non-food inflation and inflation expectations may constrain any significant improvement in the inflation momentum.