

Prices and Wages

Consumer Prices in Bangladesh

3.1 Average CPI inflation (base: FY96=100) in Bangladesh exhibited a downward trend in FY13. Though inflationary pressure was rising in the previous fiscal year and reached a peak in February 2012 (11.0 percent), it started falling thereafter. The decline in inflation was largely because of a restrained monetary policy, an appreciation of the Taka in FY13, good domestic harvests and stable international commodity prices.

The inflation measured using the 12-month average basis (base: FY96=100) was 7.7 percent in June 2013 as compared to the target of 7.5 percent in the national budget for FY13 while actual inflation was 10.6 percent in FY12 (Table 3.2, Chart 3.1). The twelve-month average CPI inflation in the new base (FY06=100) was 6.8 percent in June 2013 as against 8.7 percent in June 2012.

The twelve month point-to-point CPI inflation was at 8.0 percent in June 2013 compared with 8.6 percent in June 2012. The declining trend in inflation was driven by yearly steady fall in food and non-food prices. In October 2012, the food CPI inflation bottomed out at 5.6 percent. After that there were greater fluctuations in point-to-point CPI inflation.

The annual average food inflation decreased to 7.4 percent in June 2013 which was 10.5

Chart 3.1

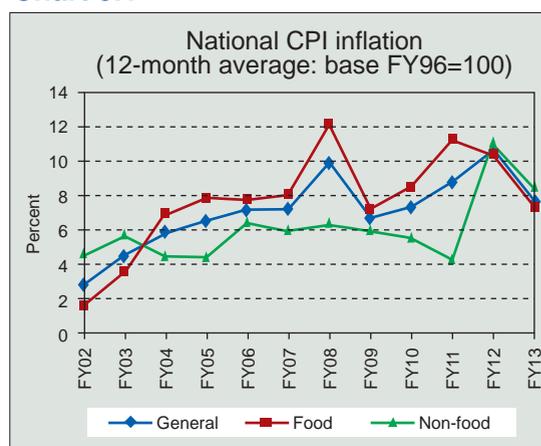


Table 3.1 Monthly change in inflation (%)

Months	General	Food	Non-food
July 12	1.76	2.21	0.89
August 12	1.85	2.45	0.78
September 12	1.49	1.91	0.76
October 12	0.25	-0.27	1.09
November 12	0.41	0.55	0.18
December 12	0.19	0.08	0.41
January 13	1.30	1.18	1.58
February 13	0.15	0.04	0.35
March 13	0.27	0.26	0.28
April 13	0.12	0.11	0.14
May 13	-0.71	-1.16	0.15
June 13	0.66	0.92	0.19

Source: Bangladesh Bureau of Statistics.

percent in June 2012. The point-to-point food inflation increased to 8.6 percent in April 2013, highest of the fiscal year and then 8.5 percent in June 2013 compared to 7.1 percent in June 2012.

The average non-food inflation also showed a mixed trend during FY13. The average non-

food inflation was 11.8 percent in October 2012 which was the peak in FY13 and fell to 8.4 percent in June 2013 from 11.2 percent in June 2012 (Table 3.2, Chart 3.1). On the other hand, point-to-point non-food inflation was 7.0 percent in June 2013 compared with 11.7 percent in June 2012.

Monthly percentage change in general, food and non-food inflation showed mixed trends in FY13. Monthly food CPI increased to about 2.5 percent in August 2012 which was the highest in FY13 (Table 3.1, Chart 3.2).

3.2 Annual average CPI inflation in the rural areas was 7.3 percent in June 2013 falling from 10.2 percent in June 2012 (Table 3.2, Chart 3.3). The food inflation decreased to 6.9 percent in June 2013 from 9.7 percent in June 2012 and the non-food inflation decreased significantly to 8.2 percent in June 2013 from 11.2 percent in June 2012.

3.3 Annual average CPI inflation in the urban areas decreased to 8.6 percent in June 2013 from 11.7 percent in June 2012 (Table 3.2, Chart 3.4). Food inflation in urban areas was 8.3 percent in June 2013 which reached the peak of 12.6 percent in January 2012 (which was 12.2 percent in June 2012). The non-food inflation decreased to 9.0 percent in June 2013 from 11.0 percent in June 2012. Urban consumers experienced a higher rate of 8.3 percent food inflation in June 2013 whereas the rate was 6.9 percent for the consumers in rural areas.

The Government adopted various measures to keep food inflation at a reasonable level. The Government procured 1.41 million tons of

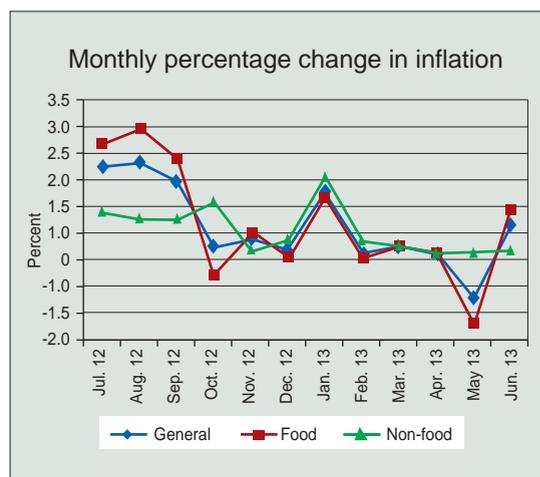
Table 3.2 Annual average CPI based inflation

(Base:1995-96=100)

Group	Weight	FY11	FY12	FY13
a. National level				
General index	100.00	241.02 (8.80)	266.61 (10.62)	287.14 (7.70)
Food	58.84	267.83 (11.34)	295.86 (10.47)	317.62 (7.35)
Non-food	41.16	205.01 (4.15)	227.87 (11.15)	247.07 (8.43)
b. Rural				
General index	100.00	244.38 (9.40)	269.31 (10.20)	289.08 (7.34)
Food	62.96	264.13 (12.03)	289.82 (9.73)	309.90 (6.93)
Non-food	37.04	210.81 (4.18)	234.47 (11.22)	253.68 (8.19)
c. Urban				
General index	100.00	232.81 (7.30)	260.01 (11.68)	282.42 (8.62)
Food	48.80	276.82 (9.76)	310.58 (12.20)	336.41 (8.32)
Non-food	51.20	190.87 (4.07)	211.82 (10.98)	230.96 (9.04)

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

Chart 3.2



food grains (1.28 million tons of rice and 0.13 million ton of wheat) from domestic sources as on 30 June 2013 against the target of 1.60 million tons for FY13. The Government distributed more food grains through non-

monetised channels. The budgetary target of food grain distribution was 2.8 million tons in FY13, with distribution through Open Market Sales, Fair Price Card, Test Relief, and Vulnerable Group Feeding channels under the Public Food Distribution System (PFDS). The Government's food grain distribution under PFDS stood at 2.09 million tons in June 2013.

The data provided by Food Planning and Monitoring Unit show that total domestic food production recorded 35.09 million metric tons in FY13 against 34.88 million metric tons in FY12.

Bangladesh Bank has been adopting a balanced monetary policy stance for FY13, for bringing inflation down further, and it continues to encourage banks to use the space for private sector credit only for productive and not in speculative purposes.

3.4 The food prices were relatively stable both in domestic and international markets in FY13. The stable food prices in international markets were mainly due to favourable weather condition in different food producing countries of the world.

International prices of food and non-food items recorded mixed trends in 2013 compared to those of the previous fiscal year (Table 3.3, Chart 3.5). The price changes were only positive for wheat and cotton (0.5 and 2.3 percent respectively) whereas other commodities were negative.

3.5 The South Asian countries particularly SAARC countries depicted lower inflation during FY13 except India and Sri Lanka

Table 3.3 Changes in international prices of major commodities

Commodity	2009	2010	2011	2012	2013(october)
Petroleum	-34.1	26.4	35.8	2.7	-3.5
Rice	-15.8	-11.7	6.0	5.2	-8.2
Wheat	-31.5	0.1	41.4	-0.9	0.53
Palm oil	-25.4	33.5	25.2	-12.7	-19.5
Soybean oil	-30.6	17.5	31.5	-5.3	-10.0
Cotton	-12.1	65.0	49.3	-42.3	2.3
Sugar	45.8	15.1	25.6	-18.5	-16.6

Source: International Financial Statistics, November 2013.

Chart 3.3

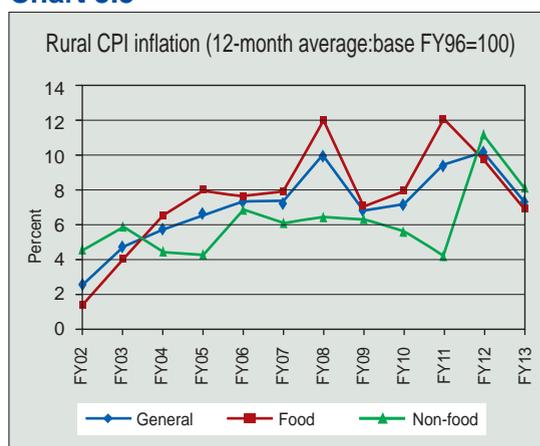


Table 3.4 Inflation in SAARC and other Asian countries #

Countries	2009	2010	2011	2012	2013(June)
1. Bangladesh [@]	6.7	7.3	8.8	10.6	7.7
2. India	9.3	13.7	8.6	10.1	11.1
3. Pakistan	13.1	12.5	13.3	11.3	5.9
4. Nepal	12.3	9.6	8.8	10.0	8.1
5. Bhutan	3.0	6.1	8.8	10.9	--
6. Sri Lanka	0.8	5.1	7.1	0.7	16.0
7. Maldives	3.7	6.1	12.7	10.3	4.7(Apr)
Other Asian countries					
8. Thailand	-4.0	3.3	4.1	2.6	2.3
9. Singapore	0.2	2.7	5.2	5.3	1.8
10. Malaysia	-1.4	1.7	3.5	1.2	1.8
11. Indonesia	3.7	5.1	5.5	4.5	5.9
12. Korea	2.0	2.7	4.2	2.2	1.0
13. Myanmar	1.1	9.3	5.4	-0.7	6.2

#IFS, November 2013 CPI (base: 2000=100).

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

Table 3.5 Annual average national level CPI by consumption basket sub-groups

(Base: FY96=100)						
Group/sub-group	Weight	FY11	FY12	FY13	% Change in FY12	% Change in FY13
1	2	3	4	5	6	7
General index	100.00	241.02	266.61	287.14	10.62	7.70
1. Food, beverage and tobacco	58.84	267.83	295.86	317.62	10.47	7.35
2. Non-food of which	41.16	205.01	227.87	247.07	11.15	8.43
i) Clothing & footwear	6.85	191.92	225.68	252.54	17.59	11.90
ii) Gross rent, fuel & lighting	16.87	197.92	218.26	238.91	10.28	9.46
iii) Furniture, furnishing, household equipment & operation	2.67	231.75	259.12	280.71	11.81	8.33
iv) Medical care & health expenses	2.84	203.67	215.64	228.05	5.88	5.76
v) Transport and communications	4.17	244.17	276.34	292.45	13.18	5.83
vi) Recreation, entertainment, education & cultural services	4.13	198.44	202.94	210.21	2.26	3.59
vii) Miscellaneous goods and services	3.63	218.59	248.19	266.75	13.54	7.48

Source: Bangladesh Bureau of Statistics.

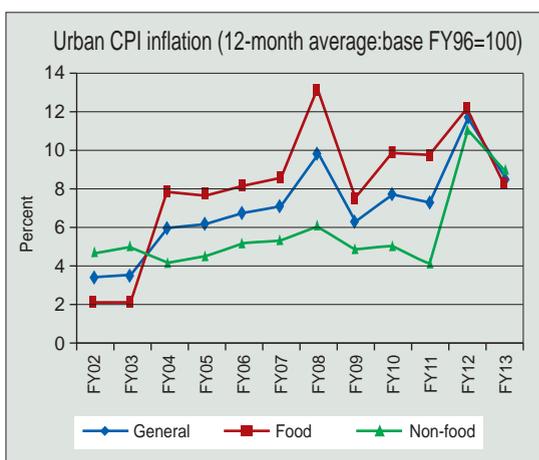
which showed double digit inflation (11.1 and 16.0 percent respectively) (Table 3.4, Chart 3.6).

Wage Rate Trends

3.6 The general wage rate indicated higher growth in FY13 compared to that in previous year. The growth of general wage rate (Table 3.6, Chart 3.7) accelerated to 14.7 percent in FY13 from 11.9 percent in FY12. The rise in wage rate in the agriculture sector was the highest which was 21.4 percent while manufacturing sector recorded lowest growth rate of 10.5 percent in FY13. Though growth rate of wages for all the sectors experienced higher growth, the construction sector experienced lower growth as compared to that in FY12. It is also notable that the growth in general wage rate (14.7 percent) was about double as compared to the rate of consumer price inflation (7.7 percent) in June FY13.

Near Term Inflation Outlook

3.7 Headline and core inflation in the major

Chart 3.4**Table 3.6 Trends of wage rate indices**

(Base: FY70=100)					
Commodity	FY09	FY10	FY11	FY12	FY13(Aug)
General	5025.7 (18.88)	5561.8 (10.67)	5781.64 (6.27)	6469.17 (11.89)	7422.05 (14.73)
Manufacturing	6128.36 (17.93)	6620.3 (8.03)	6778.06 (3.95)	7221.12 (6.54)	7978.14 (10.48)
Construction	4311.3 (21.47)	4755.8 (10.31)	4983.29 (7.56)	6583.09 (32.10)	7684.48 (16.73)
Agriculture	4273.7 (21.27)	4985.4 (16.65)	5325.63 (10.87)	6133.58 (15.17)	7448.50 (21.44)
Fishery	4236.5 (14.93)	4827.5 (13.95)	5043.15 (6.70)	5186.94 (2.85)	6021.01 (16.08)

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

advanced economies (including the United States and the Euro area) have remained lower over the past few years as compared to emerging and developing economies. In emerging Asia, headline inflation is slowing but expected to increase slightly in 2013.

According to WEO (World Economic Outlook) forecast, inflation is projected to decline at 1.4 percent in 2013, and increase to 1.8 percent in 2014 in advanced economies. In emerging and developing economies, inflation pressure is projected to increase slightly to 6.2 percent in 2013 but decline to 5.7 percent in 2014.

3.8 The projected inflation rate in Bangladesh's national budget for FY14 has been set at 7.0 percent. Bangladesh faces some challenges to meet the targeted inflation rate. On the one hand, wage pressures in both the public and private sectors may increase income level which will further add to existing aggregate demand pressures. On the other hand, food inflation is also expected to increase due to possible supply-side disruptions in the lead-up to national election. Furthermore, the recent rise in Indian inflation could also transmit to inflation in Bangladesh.

Bangladesh Bank has been pursuing a cautiously restrained monetary policy stance to bring inflation down to 7.0 percent for 2013. According to 'Monetary Policy Statement, July-December 2013', Bangladesh Bank has decided to keep policy rates unchanged and contain reserve money growth to 15.5 percent and broad money growth to 17.2 percent by December 2013 along with a ceiling on net domestic assets.

Chart 3.5

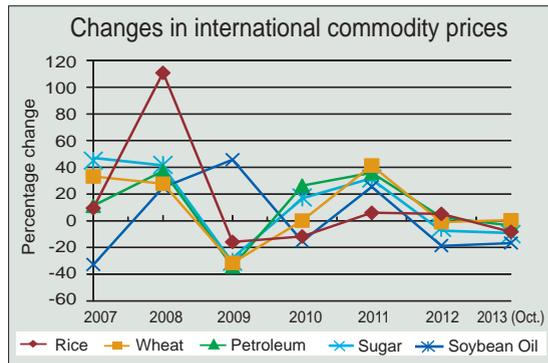


Chart 3.6

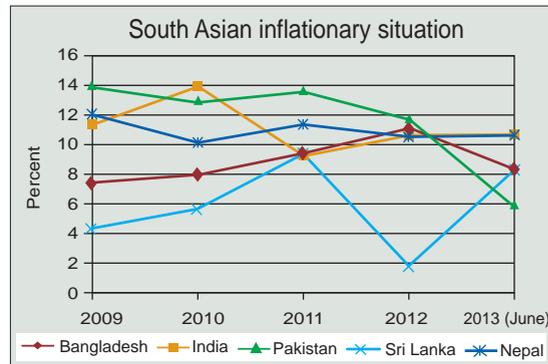


Table 3.7 Global inflationary situation

	(percentage change)			
	2011	2012	2013 ^P	2014 ^P
Advanced Economies	2.7	2.0	1.4	1.8
United States	3.1	2.1	1.4	1.5
Euro Area	2.7	2.5	1.5	1.5
Emerging & developing economies	7.1	6.1	6.2	5.7
Developing Asia	6.3	4.7	5.0	4.7
Bangladesh	10.7	8.7	7.6	6.5
India	8.4	10.4	10.8	8.9
Sri Lanka	6.7	7.5	7.4	6.9

P= Provisional.
Source: World Economic Outlook, October 2013.

Chart 3.7

