

Price and Inflation

Global Inflation Scenario

3.1 Global inflation remained controlled in 2014 while some commodity prices were still high. Decline in commodity prices, especially fuels and foods, has contributed to the decrease in inflation across the globe. Inflation in the major advanced economies like United States and the Euro area eased somewhat from 2.1 percent to 1.5 percent and 2.5 percent to 1.3 percent respectively in 2013. In the Euro area both headline and underlying inflation have fallen below 1 percent since the fourth quarter of 2013. At the same time, emerging and developing countries also experienced decline in inflation.

Consumer Prices in Bangladesh

3.2 Annual average CPI inflation (base: FY06=100) in Bangladesh showed a mixed trend in FY14. The inflation stood at 7.35 percent in June 2014 against the target of 7.0 percent set in the monetary policy statement (January-June 2014) while it was 6.78 percent in FY13 (Table 3.2, Chart 3.1).

Inflationary pressure was rising from February 2013 and reached the peak in January 2014 (7.60 percent) due to higher food prices as a result of supply disruptions because of pre-election political unrest. However, the CPI inflation started to decrease from February

Chart 3.1 National CPI inflation
(12-month average : base FY06=100)

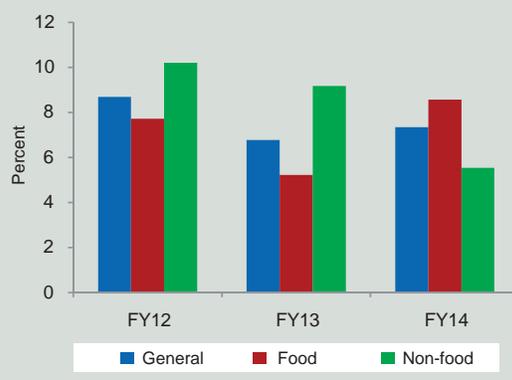


Table 3.1 Monthly change in inflation (%)

Months	General	Food	Non-food
July 13	1.49	2.25	0.38
August 13	1.42	2.08	0.44
September 13	1.48	1.87	0.90
October 13	0.92	1.15	0.56
November 13	0.39	0.49	0.26
December 13	0.54	0.76	0.19
January 14	1.19	0.84	1.71
February 14	0.20	0.24	0.14
March 14	0.15	0.13	0.17
April 14	0.05	0.02	0.08
May 14	-1.18	-1.97	0.06
June 14	0.13	-0.06	0.42

Source: Bangladesh Bureau of Statistics.

2014 and came down to 7.35 percent in June 2014. The falling inflation largely attributed to stable fuel price, good domestic harvest and stable exchange rate. Low growth rate of money supply and private sector credits

accompanied by decline in government borrowing from Bangladesh Bank has also contributed to the reduction of inflation. The twelve month point-to-point CPI inflation has also substantially eased down to 6.97 percent in June 2014 from 8.05 percent in June 2013. The annual average and point-to-point food inflation in Bangladesh experienced mixed trends in FY14. The annual average food inflation increased to 8.57 percent in June 2014 which was 5.22 percent in June 2013. The point-to-point food inflation increased to 9.09 percent in May 2014, the peak for FY14 and then decreased to 8.00 percent in June 2014. Food inflation was high because of high retail prices as traders have to add up higher transportation cost as well as uncertainty driven risk premium over the goods transported. In addition, business entities have also sought to make up losses incurred during political unrest, which ultimately passed on to the prices. The food inflation started declining in June 2014 due to the improvements of overall political situation of the country, decrease in global and regional food prices, and advent of boro harvest in the market.

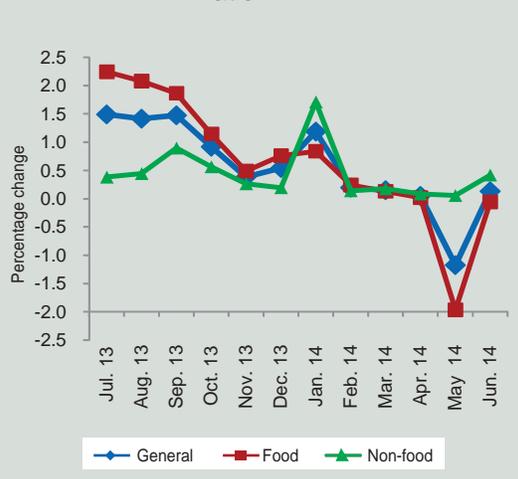
The average non-food inflation showed a declining trend during FY14 mainly due to weaker domestic demand and the central bank's cautious monetary policy. The average non-food inflation fell from 9.17 percent in June 2013 to 5.54 percent in June 2014. Point-to-point non-food inflation has also declined to 5.45 percent in June 2014 against 7.75 percent in June 2013 (Table 3.2, Chart 3.1). Decrease in prices of clothing and

Table 3.2 Annual average CPI based inflation
(base:FY06=100)

Group	Weight	FY12	FY13	FY14
a. National level				
General index	100.00	170.19 (8.69)	181.73 (6.78)	195.08 (7.35)
Food	56.18	183.65 (7.72)	193.24 (5.22)	209.79 (8.57)
Non-food	43.82	152.94 (10.21)	166.97 (9.17)	176.22 (5.54)
b. Rural				
General index	100.00	173.26 (8.69)	183.90 (6.14)	196.90 (7.07)
Food	61.41	183.62 (7.50)	192.14 (4.64)	207.72 (8.11)
Non-food	38.59	156.77 (10.96)	170.79 (8.94)	179.69 (5.21)
c. Urban				
General index	100.00	164.53 (8.70)	177.71 (8.01)	191.72 (7.89)
Food	46.52	183.71 (8.27)	195.91 (6.64)	214.85 (9.66)
Non-food	53.48	147.84 (9.16)	161.88 (9.49)	171.61 (6.01)

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

Chart 3.2 Monthly percentage change in inflation



footwear; furniture furnishing; recreation, entertainment, education and cultural services; and other non food items contributed to decrease in non-food inflation during FY14 (Table 3.5). However, the non-food inflation started increasing in June 2014. Monthly percentage change in general, food and non-food inflation showed a mixed trend from July 2013 (Table-3.1, Chart 3.2).

3.3 In FY14, between urban and rural areas, inflation was relatively high in the former than later. In rural areas, average inflation was 7.07 percent while it was 7.89 percent in urban areas. Annual average inflation in the rural areas increased to 7.07 percent in June 2014 from 6.14 percent in June 2013 (Table 3.2, Chart 3.3). In the same areas, the food inflation reached at 8.11 percent from 4.64 percent and the non-food inflation decreased to 5.21 percent from 8.94 percent over the same period.

3.4 Annual average inflation in the urban areas decreased to 7.89 percent in June 2014 from 8.01 percent in June 2013 (Table 3.2, Chart 3.4). In the same areas, the food inflation reached at 9.66 percent from 6.64 percent and the non-food inflation decreased to 6.01 percent from 9.49 percent over the same period.

Total food-grain production in Bangladesh increased in FY14. The data provided by Food Planning and Monitoring Unit showed that total domestic food production recorded 35.57 million metric tons in FY14 compared with 35.09 million metric tons in FY13. This

Table 3.3 Changes in international prices of major commodities

Commodity	(percentages)				
	2010	2011	2012	2013	2014 (July)
Petroleum	26.4	35.8	2.7	-3.20	-0.1
Rice	-11.7	6.0	5.2	-10.6	-18.0
Wheat	0.1	41.4	-0.9	-0.31	-2.2
Palm oil	33.5	25.2	-12.7	-18.7	4.3
Soybean oil	17.5	31.5	-5.3	-12.2	-13.2
Cotton	65.0	49.3	-42.3	1.30	1.7
Sugar	15.1	25.6	-18.5	-17.15	-1.4

Source: International Financial Statistics (IFS), September, 2014.

Chart 3.3 Rural CPI inflation
(12-month average : base FY06=100)

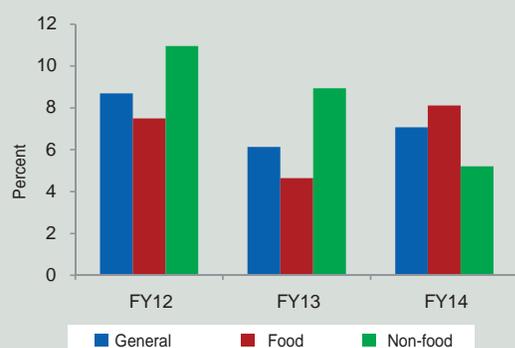


Table 3.4 Inflation in SAARC and other Asian countries #

Countries	2010	2011	2012	2013	2014 (June)
1. Bangladesh@	7.3	10.9	8.69*	6.78*	7.35*
2. India	12.0	8.9	9.3	10.9	6.5
3. Pakistan	13.9	11.9	9.7	7.7	8.2
4. Nepal	9.3	9.3	9.5	9.0	9.5 (Apr)
5. Bhutan*	7.0	8.8	10.9	7.0	8.6 (Apr)
6. Sri Lanka	6.2	6.7	7.5	6.9	2.8
7. Maldives	6.6	12.8	12.1	2.3	3.3
Other Asian countries					
8. Thailand	3.3	3.8	3.0	2.2	2.4
9. Singapore	2.8	5.3	4.5	2.4	1.8
10. Malaysia	1.7	3.2	1.7	2.1	3.3
11. Indonesia	5.1	5.4	4.3	6.4	6.7
12. Korea	3.0	4.0	2.2	1.3	1.7
13. Myanmar	7.7	5.0	1.5	5.5	6.1 (May)

#IFS, July, 2014 CPI (base: 2000=100).

@= Source: BBS, Consumer Price Index (base: FY96=100).

*= (base: FY06=100) figures relate to financial year (July-June).

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

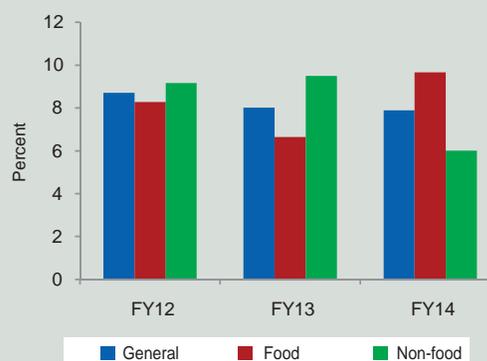
(base:FY06=100)						
Group/sub-group	Weight	FY12	FY13	FY14	% Change FY13	% Change FY14
1	2	3	4	5	6	7
General index	100.00	170.19	181.73	195.08	6.78	7.35
1. Food, beverage and tobacco	56.18	183.65	193.24	209.79	5.22	8.56
2. Non-food of which	43.82	152.94	166.97	176.23	9.17	5.55
i) Clothing & footwear	6.84	160.80	179.66	194.77	11.74	8.41
ii) Gross rent, fuel & lighting	14.88	143.36	155.61	163.47	8.54	5.05
iii) Furniture, furnishing, household equipment & operation	4.73	175.58	195.33	206.14	11.25	5.53
iv) Medical care & health expenses	3.47	152.63	159.66	164.06	4.61	2.76
v) Transport and communications	5.80	148.58	159.34	167.20	7.24	4.93
vi) Recreation, entertainment, education & cultural services	4.28	144.48	157.23	164.38	8.82	4.55
vii) Miscellaneous goods and services	3.82	164.57	182.54	193.75	10.92	6.14

Source: Bangladesh Bureau of Statistics

allowed Government to procure 1.43 MMT of food-grain by June 2014. As a result, the import of food-grain was lower than the originally set target for the current fiscal year. Government adopted various measures to control food inflation, like scaling up of the open market sale of food at a reduced price targeting the low income groups.

The Government distributed food grains through monetised and non-monetised channels among the poor and marginal households. To minimise the hardship of poor households, Government distributed 2.2 million tons of food-grain against the target of 2.6 million tons in FY14 through Open Market Sales, Fair Price Card, Test Relief and Vulnerable Group Feeding channels under the Public Food Distribution System (PFDS).

Bangladesh Bank adopted cautious monetary policy stance with a view to bringing inflation down to an annual 7.0 percent in FY14. BB

Chart 3.4 Urban CPI inflation
(12-month average : base FY06=100)**Table 3.6 Trends of wage rate indices**

(base: FY70=100)					
	FY10	FY11	FY12	FY13	FY14
General	5561.8 (10.67)	5781.64 (6.27)	6469.17 (11.89)	7422.05 (14.73)	8097 (9.10)
Manufacturing	6620.3 (8.03)	6778.06 (3.95)	7221.12 (6.54)	7978.14 (10.48)	8700 (9.05)
Construction	4755.8 (10.31)	4983.29 (7.56)	6583.09 (32.10)	7684.48 (16.73)	8238 (7.20)
Agriculture	4985.4 (16.65)	5325.63 (10.87)	6133.58 (15.17)	7448.50 (21.44)	8283 (11.20)
Fishery	4827.5 (13.95)	5043.15 (6.70)	5186.94 (2.85)	6021.01 (16.08)	6566 (9.06)

Figures in parentheses are annual percentage changes.

Source: Bangladesh Bureau of Statistics.

also raised the Cash Reserve Requirement (CRR) by 50 basis points in the face of persisting inflationary pressure over the past few months. To bring inflation down, Bangladesh Bank continued to encourage banks to provide credit only for productive sectors and not in speculative purposes.

3.5 Food and non-food prices in the international markets recorded mixed developments in 2014 compared to the preceding year (Table 3.3, Chart 3.5). The price changes were only positive for palm oil and cotton (4.3 and 1.7 percent respectively) whereas the price of rice and soybean oil showed 18.0 and 13.2 percent decrease respectively.

3.6 The South Asian countries particularly SAARC countries like Bangladesh and India experienced a moderately high inflation of 7.35 percent and 6.5 percent respectively in FY14. Among the SAARC countries Nepal had the highest inflation of 9.5 percent, recorded in April 2014 (Table 3.4, Chart 3.6).

Wage Rate Trends

3.7 Wage rates for all sectors experienced lower growth in FY14 compared with FY13. The growth of general wage rate (Table 3.6, Chart 3.7) declined to 9.10 percent in FY14 from 14.73 percent in FY13. Construction sector recorded the lowest growth rate of 7.20 percent. It is also notable that the growth in general wage rate was 9.10 percent whereas the rate of consumer price inflation was 7.35 percent, implying a real increase of wage by about 1.75 percent.

Chart 3.5 Changes in international commodity prices

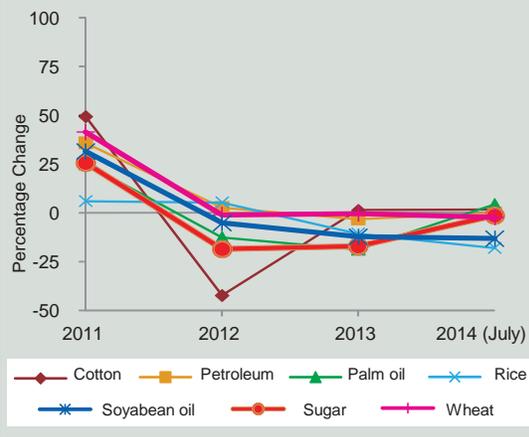


Chart 3.6 South Asian inflationary situation

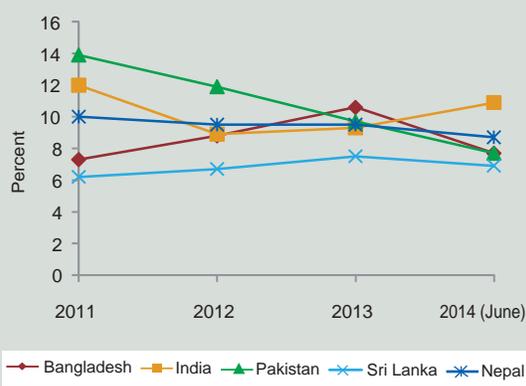


Table 3.7 Global inflationary situation

	(percentage change)			
	2012	2013	2014 ^P	2015 ^P
Advanced economies	2.0	1.4	1.6	1.8
United states	2.1	1.5	2.0	2.1
Euro area	2.5	1.3	0.5	0.9
Emerging & developing economies	6.1	5.9	5.5	5.6
Developing asia	4.7	4.7	4.1	4.2
Bangladesh	6.2	7.5	7.2	6.7
India	10.2	9.5	7.8	7.5
Sri Lanka	7.5	6.9	3.8	5.4
Pakistan	11.0	7.4	8.6	8.0

P= Projection.
Source: World Economic Outlook, October 2014.

Near Term Inflation Outlook

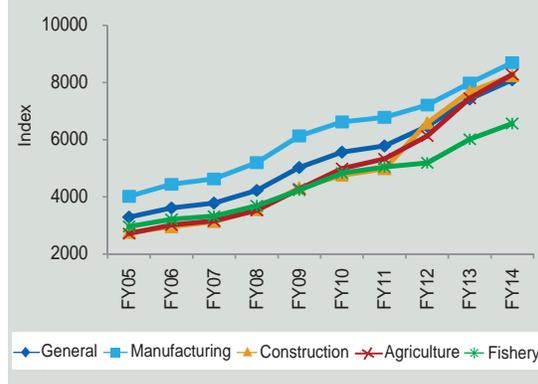
3.8 In the advanced economies like the United States and the Euro area, the headline and core inflation remained low over the past few years compared to the emerging and developing economies. In emerging Asia, headline inflation is decreasing over time but still stands to be high.

According to FAO, the world's total cereal production is likely to decrease in 2014 and trade in cereals is projected to decline in 2015. World rice production is forecast to increase in 2015 particularly in Asia mainly due to expectation of favourable weather. International trade in rice is expected to expand rapidly in 2014 to a new record sustained by ample supplies in exporting countries and increasing purchases by traditional importers. Global wheat production is also forecast to come down in 2015. It is expected that global markets are likely to face more stable situation in FY14.

Oil price are projected to decline consistent with expanding oil supply and tepid demand. It is projected to decline somewhat around USD 104.17 a barrel in 2014 and USD 97.92 a barrel in 2015.

The near-term outlook for overall global commodity prices is projected to decline. The FAO food price index averaged 209.3 points in April 2014, nearly 7.6 points, or 3.5 percent lower than April 2013 because of sharp decline of dairy, sugar and vegetable oil prices. FAO forecasts that global food prices

Chart 3.7 Wage rate index trends by sectors (base : FY70=100)



are expected to fall due to bumper harvest in the coming months. Global rice prices are expected to remain stable at least over 2014 due to good harvest owing to favourable weather.

According to World Economic Outlook (WEO), inflation is projected to decline to 1.6 percent in 2014, and increase to 1.8 percent in 2015 in advanced economies. In emerging and developing economies, inflation is projected to come down to 5.5 percent in 2014, and then slightly increase to 5.6 percent in 2015 (Table 3.7).

3.9 Although the actual inflation has already reached 7.22 percent (base: FY06=100) in September 2014, the rate is expected to come down at below 7.0 percent (base:FY06=100) within a couple of months as envisaged in Bangladesh's national budget for FY15.

Bangladesh faces some challenges to tame the inflation at the target level. Predicted wage increases may raise the aggregate

demand pressure, contributing to the increase of inflation. Food inflation is also expected to increase due to increase in the cost of production. Historically, weather related risk factors affect agriculture production. Another near term risk factor is the looming threat of political uncertainty, which may erode general investors confidence. Moreover, Government is planning to increase fuel price within few months to offload the burden of subsidy. Such

adjustment of fuel price can also contribute to the inflation, making it challenging to keep the inflation at target level of 7.0 percent in FY14.

To bring down the inflation to 6.5 percent in 2015, export growth should be accelerated and significant surge of foreign assets need to be sterilised. The accomplishment of this target crucially depends on domestic bumper food, which in turn depends on weather as well as absence of supply side disruption.