

## Price and Inflation

### Global Inflation Scenario

3.1 Global inflation remained contained. Headline inflation declined in advanced economies, mostly reflecting the decline in oil and other prices, while core inflation remained stable. Similarly, lower oil and other prices contributed to reductions in inflation in emerging markets, with the notable exception of countries suffering from sizable exchange rate depreciation, such as Russia.

### Consumer Prices in Bangladesh

3.2 Annual average CPI inflation (base: FY06=100) in Bangladesh declined in FY15. It stood at 6.40 percent in June 2015 against the target of 6.50 percent set in the Monetary Policy Statement (January-June 2015) while it was 7.35 percent in FY14 (Table 3.2, Chart 3.1). Inflationary pressure started easing since June 2014 (7.35 percent) and continued its decline through FY15 due to falling food inflation resulting from sufficient food supply. Lower fuel price, coupled with accommodative money growth rate and stable exchange rate contributed to decline in inflation rate. The twelve month point-to-point CPI inflation declined to 6.25 percent in June 2015 from 6.97 percent in June 2014.

The annual average food inflation declined while point-to-point food inflation showed

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

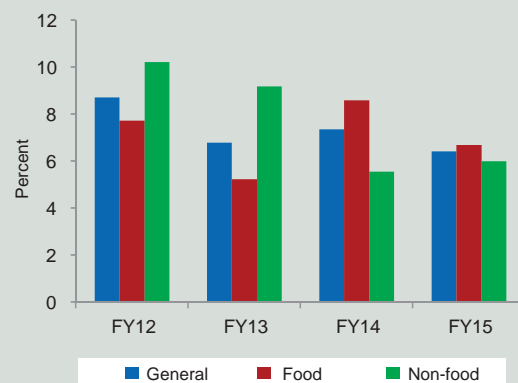


Table 3.1 Monthly inflation (%)

Months	General	Food	Non-food
Jul 14	1.56	2.18	0.63
Aug 14	1.30	1.83	0.50
Sep 14	1.41	1.83	0.77
Oct 14	0.69	0.71	0.67
Nov 14	0.02	-0.19	0.36
Dec 14	0.44	0.17	0.80
Jan 15	1.13	1.07	1.26
Feb 15	0.30	0.28	0.32
Mar 15	0.27	0.38	0.10
Apr 15	0.09	0.12	0.05
May 15	-1.30	-2.20	0.11
Jun 15	0.19	0.03	0.43

Source: Bangladesh Bureau of Statistics (BBS).

mixed trend in FY15. The annual average food inflation declined from 8.55 percent in July 2014 to 6.68 percent in June 2015. On the other hand, the point-to-point food inflation stood at 7.94 percent in July 2014 and

gradually decreased to 6.07 percent in January 2015. For the following few months, the point-to-point food inflation kept rising until April 2015 with an inflation rate of 6.48 percent. Finally, in June 2015, the point-to-point food inflation stood at 6.32 percent. Good harvests and improved supply chain due to easing of political unrest together contributed to decrease in food inflation.

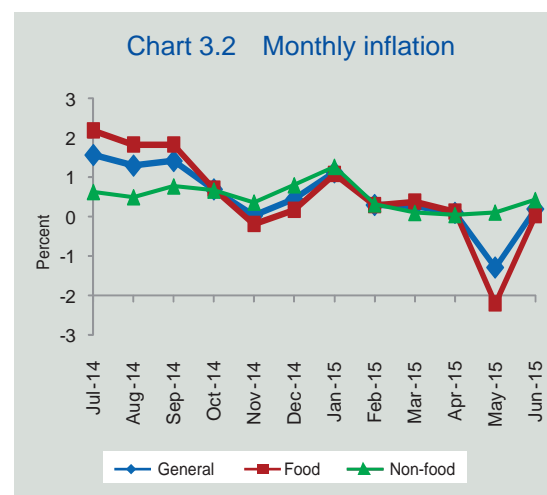
The annual average and point-to-point non-food inflation also depicted mixed movement throughout FY15. The annual average non-food inflation declined from 5.41 percent in July 2014 to 5.34 percent in September 2014. It started increasing from the following month and ended up 5.99 percent in June 2015. Similarly, the point-to-point non-food inflation was characterised by ups and downs throughout FY15. At the beginning of FY15, the point-to-point non-food inflation was 5.71 percent in July 2014, which increased to 6.15 percent in June 2015, while the highest rate (6.48 percent) prevailed in December 2014 (Table 3.5). It increased during FY15 mainly as a result of increase of prices of clothing and footwear; furniture furnishing; medical care and health related expenses; transport and communication and other non food items.

Core inflation (non-food, non-fuel) showed a mixed behaviour throughout FY15 and reached at 6.74 percent in June 2015 which was 5.76 percent in August 2014. Monthly general, food and non-food inflation also showed a mixed behaviour in FY15 (Table 3.1, Chart 3.2).

**Table 3.2 Annual average CPI based inflation**

(base:FY06=100)					
Group	Weight	FY12	FY13	FY14	FY15
<b>a. National level</b>					
General Index	100.00	170.19 (8.69)	181.73 (6.78)	195.08 (7.35)	207.58 (6.40)
Food	56.18	183.65 (7.72)	193.24 (5.22)	209.79 (8.57)	223.80 (6.68)
Non-food	43.82	152.94 (10.21)	166.97 (9.17)	176.22 (5.54)	186.79 (5.99)
<b>b. Rural</b>					
General index	100.00	173.26 (8.69)	183.90 (6.14)	196.90 (7.07)	209.10 (6.20)
Food	61.41	183.62 (7.50)	192.14 (4.64)	207.72 (8.11)	221.02 (6.40)
Non-food	38.59	156.77 (10.96)	170.79 (8.94)	179.69 (5.21)	190.13 (5.81)
<b>c. Urban</b>					
General Index	100.00	164.53 (8.70)	177.71 (8.01)	191.72 (7.89)	204.76 (6.80)
Food	46.52	183.71 (8.27)	195.91 (6.64)	214.85 (9.66)	230.56 (7.32)
Non-food	53.48	147.84 (9.16)	161.88 (9.49)	171.61 (6.01)	182.32 (6.24)

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



3.3 In FY15, inflation in the urban areas was higher than that in the rural areas. In rural areas, average inflation was 6.20 percent while it was 6.80 percent in urban areas. Annual average inflation in the rural areas decreased to 6.20 percent in June 2015 from

7.07 percent in June 2014 (Table 3.2, Chart 3.3). In the same areas, the food inflation fell to 6.40 percent in June 2015 from 8.11 percent in June 2014 while non-food inflation increased slightly to 5.81 percent from 5.21 percent over the same period.

3.4 Annual average inflation in the urban areas decreased to 6.80 percent in June 2015 from 7.89 percent in June 2014 (Table 3.2, Chart 3.4). In the same areas, the food inflation decreased to 7.32 percent from 9.66 percent but the non-food inflation increased to 6.24 percent from 6.01 percent over the same period.

Total food-grain production in Bangladesh increased in FY15. Total domestic food production recorded as 36.06 million metric tons (MMT) in FY15 compared with 35.67 MMT in FY14. Total government procurement of food-grain in FY15 was 1.68 MMT.

The government undertook various measures including open market sale of food-grain and food for work programme to contain food inflation in FY15.

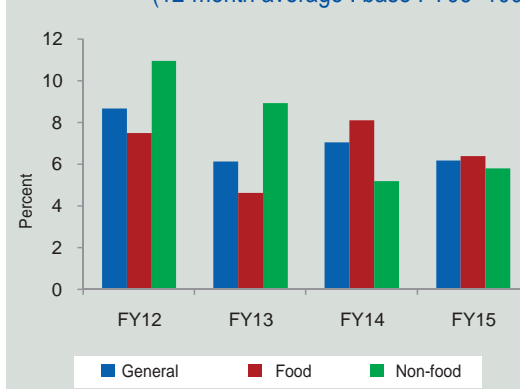
To reduce the hardship of poor households, the government distributed food grain through monetised and non-monetised channels among the poor and marginal households. Total distribution by the government amounted to be 1.84 MMT of food-grain against the target of 2.74 million tons in FY15 through open market sales, fair price card, and test relief and vulnerable group feeding channels under the Public Food Distribution System (PFDS).

**Table 3.3 Changes in international prices of major commodities**

Commodity	2011	2012	2013	2014	2015(August)
Petroleum	35.8	2.7	-3.2	-8.3	-42.4
Rice	6.0	5.2	-10.6	-17.8	-8.3
Wheat	41.4	-0.9	-0.3	-8.8	-23.6
Palm oil	25.2	-12.7	-18.7	-3.2	-19.8
Soybean oil	31.5	-5.3	-12.2	-19.6	-14.5
Cotton	49.3	-42.3	1.3	-8.1	-14.6
Sugar	25.6	-18.5	-17.2	-3.3	-25.0

Source: International Financial Statistics, September, 2015.

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



**Table 3.4 Inflation in SAARC and other Asian countries<sup>#</sup>**

Countries	2011	2012	2013	2014	2015 (July)
1. Bangladesh <sup>@</sup>	8.8*	8.69	6.78	7.35	6.35
2. India	8.9	9.3	10.9	6.4	6.1 (June)
3. Pakistan	11.9	9.7	7.7	7.2	1.8
4. Nepal	9.3	9.5	9.0	8.4	7.6
5. Bhutan*	8.8	10.9	7.0	8.2	4.7 (Feb.)
6. Sri Lanka	6.7	7.5	6.9	3.3	-0.2
7. Maldives	12.8	12.1	2.3	2.1	0.9
Other Asian countries					
8. Thailand	3.8	3.0	2.2	1.9	-1.0
9. Singapore	5.3	4.5	2.4	1.0	-0.4
10. Malaysia	3.2	1.7	2.1	3.1	3.3
11. Indonesia	5.4	4.3	6.4	6.4	7.3
12. Korea	4.0	2.2	1.3	1.3	0.7
13. Myanmar	5.0	1.5	5.5	5.5	-

<sup>#</sup> IFS, October, 2015 CPI (Base: 2000=100).

\* (base: FY96=100)

<sup>@</sup> Source: BBS, Consumer Price Index (Base: FY06=100) and 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	FY13	FY14	FY15	% Change FY14	% Change FY15
1	2	3	4	5	6	7
General index	100.00	181.73	195.08	207.58	7.35	6.41
1. Food, beverage and tobacco	56.18	193.24	209.79	223.8	8.56	6.68
2. Non-food of which	43.82	166.97	176.23	186.79	5.55	5.99
i) Clothing & footwear	6.84	179.66	194.77	209.45	8.41	7.54
ii) Gross rent, fuel & lighting	14.88	155.61	163.47	171.8	5.05	5.10
iii) Furniture, furnishing, household equipment & operation	4.73	195.33	206.14	214.44	5.53	4.03
iv) Medical care & health expenses	3.47	159.66	164.06	181.09	2.76	10.38
v) Transport and communications	5.80	159.34	167.2	181.78	4.93	8.72
vi) Recreation, entertainment, education & cultural services	4.28	157.23	164.38	168.02	4.55	2.21
vii) Miscellaneous goods and services	3.82	182.54	193.75	204.21	6.14	5.40

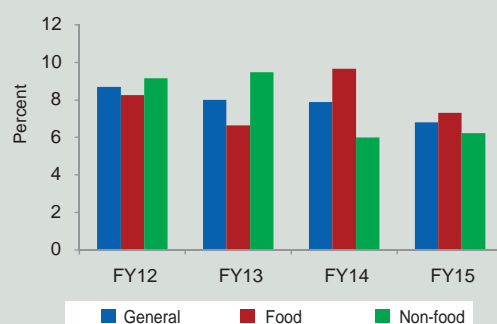
Source: Bangladesh Bureau of Statistics.

Bangladesh Bank adopted a cautious Monetary Policy Stance (June 2015) with a view to bringing inflation down to an annual 6.50 percent in FY15. It also continued encouraging commercial banks to provide credit only for productive sectors and not for speculative purposes.

3.5 Among the SAARC countries, Nepal had the highest inflation of 7.6 percent recorded in July 2015. Other countries in this region like India (6.1 percent, June 2015), Bhutan (4.7 percent, February 2015) and Bangladesh (6.4 percent, July 2015) experienced a moderately high inflation. On the contrary, Thailand and Singapore experienced deflation in FY15 (Table 3.4, Chart 3.6).

### Wage Rate Trends

3.6 Wage rate indices for all sectors of Bangladesh experienced lower growth in FY15 compared to FY14 (Table 3.6, Chart 3.7). The growth of general wage rate (base:

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

(base: FY11=100)				
	FY12	FY13	FY14	FY15
General	106.24 (6.24)	112.62 (6.01)	118.82 (5.50)	124.69 (4.94)
Agriculture	105.96 (5.96)	112.08 (5.78)	118.44 (5.68)	124.51 (5.12)
Agriculture	105.97 (5.97)	112.08 (5.76)	118.40 (5.64)	124.46 (5.12)
Fish	105.01 (5.01)	111.89 (6.55)	120.81 (7.97)	126.85 (5.00)
Industry	106.92 (6.92)	113.43 (6.08)	119.07 (4.97)	124.38 (4.47)
Construction	107.33 (7.33)	114.70 (6.87)	119.93 (4.56)	124.84 (4.09)
Production	106.03 (6.03)	111.53 (5.19)	121.86 (9.27)	127.28 (4.44)
Services	106.23 (6.23)	113.63 (6.96)	120.16 (5.75)	126.15 (4.98)

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

FY11=100) declined to 4.94 percent in FY15 from 5.50 percent in FY14. Wages in industrial production sector recorded the lowest growth rate of 4.47 percent in FY15.

### Near Term Inflation Outlook

3.7 The near-term outlook for overall global commodity prices is projected to decline. Oil prices are projected to decline consistent with expanding oil supply and tepid demand. It is projected to decline somewhat around USD 51.62 a barrel in 2015 and USD 50.36 a barrel in 2016.

World rice production is forecasted to increase in 2015 mainly due to anticipated favourable weather condition. International trade in rice is anticipated to dip in 2015 driven mainly by falling demand by countries in the Far East. Global wheat production is also forecasted to come down in 2015. It is expected that global markets are likely to face more stable situation in FY15.

The FAO food price index averaged 171 points in April 2015, nearly 40.5 points, or 19.2 percent lower than April 2014 because of sharp decline of dairy, cereals, sugar and vegetable oil prices. The FAO forecasts that global food prices are expected to fall due to good harvest in the coming months. Global rice prices are expected to remain stable at least over 2015 due to good harvest owing to favourable weather.

According to World Economic Outlook (WEO), inflation is projected to decline to 0.3 percent in 2015, and increase to 1.2 percent in 2016

Chart 3.5 Changes in international commodity prices

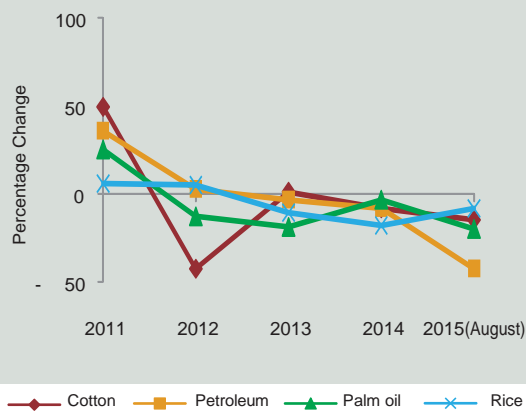


Chart 3.6 South Asian inflationary situation

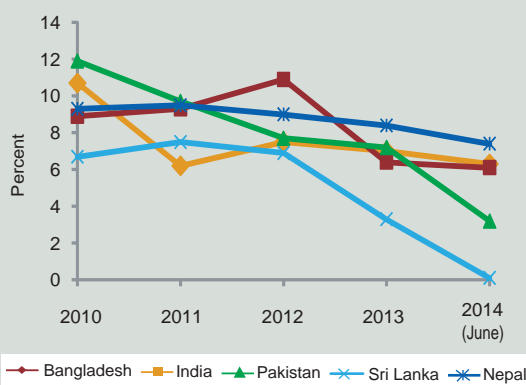


Table 3.7 Global inflationary situation

	(percentage change)			
	2013	2014	2015 <sup>P</sup>	2016 <sup>P</sup>
Advanced economies	1.4	1.4	0.3	1.2
United States	1.5	1.6	0.1	1.1
Euro area	1.3	0.4	0.2	1.0
Emerging & developing economies	5.8	5.1	5.6	5.1
Developing Asia	4.8	3.5	3.0	3.2
Bangladesh	7.5	7.0	6.4	6.6
India	10.0	5.9	5.4	5.5
Sri Lanka	6.9	3.3	1.7	3.4
Pakistan	7.4	8.6	4.5	4.7

P = Projection.

Source: World Economic Outlook, October 2015.