

## Price and Inflation

### Global Inflation Scenario

3.1 Global inflation remained stable in 2015. Consumer price inflation in advanced economies was 0.3 percent, which increased by about 0.5 percent in the first half of 2016 resulting from the oil price rebound. Core inflation was higher than headline inflation with varying magnitude across major advanced economies. Emerging market and developing economies went through steady inflation as exchange rates remained broadly stable or appreciated in many countries and the effect of earlier exchange rate depreciations started to diminish.

### Consumer Prices in Bangladesh

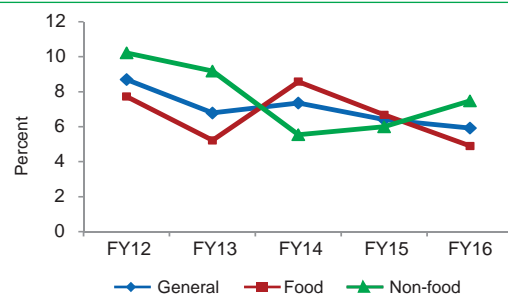
3.2 Annual average CPI inflation in Bangladesh has continued its declining trend in FY16 as in FY15. The headline inflation rate stood at 5.92 percent in June 2016 against the forecast of 6.07 percent reported in the Monetary Policy Statement (January-June 2016) of Bangladesh Bank, while it was 6.40 percent in FY15 (Table 3.2, Chart 3.1). Inflationary pressures kept easing throughout FY16 except for the month of January 2016 when the average inflation rate slightly increased by 0.01 percentage point. A sharp fall in food inflation resulting from sufficient food-grains supply mainly contributed to the decline of headline inflation. In addition, lower fuel prices and non-fuel commodity prices in the international market, accommodative

Table 3.1 Monthly Inflation (%)

Months	General	Food	Non-food
Jul 15	1.66	1.95	1.25
Aug 15	1.12	1.81	0.07
Sep 15	1.48	1.70	1.14
Oct 15	0.65	0.67	0.60
Nov 15	-0.11	-0.35	0.26
Dec 15	0.49	-0.02	1.26
Jan 16	1.10	-0.06	2.86
Feb 16	-0.13	-0.26	0.05
Mar 16	0.30	0.50	0.01
Apr 16	0.05	0.07	0.03
May 16	-1.44	-2.23	-0.28
Jun 16	0.27	0.44	0.03

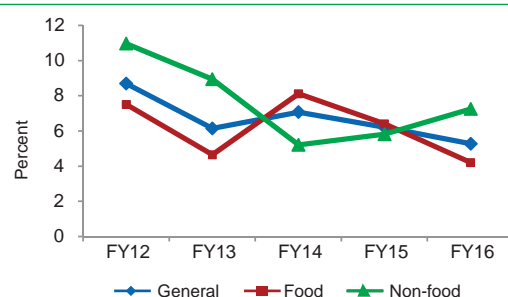
Source: Bangladesh Bureau of Statistics (BBS).

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



Source: BBS.

Chart 3.2 Rural CPI inflation (12-month average : base FY06=100)



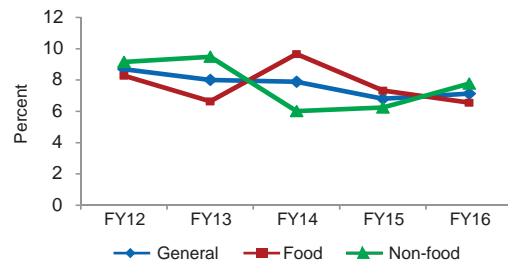
Source: BBS.

money supply and stable exchange rate altogether played an instrumental role in this respect. Similarly, the twelve month point-to-point CPI inflation went down to 5.53 percent in June 2016 from 6.25 percent in June 2015.

3.3 The rate of annual average food inflation depicted a declining trend while point-to-point food inflation showed mixed trends in FY16. Point-to-point food inflation stood at 6.07 percent in July 2015 and had followed a sustained fall before reaching to a fairly low rate of 3.77 percent in February 2016. With some fluctuations in the following few months, point-to-point food inflation ended up 4.23 percent in June 2016. Point-to-point food inflation for FY16 is still much lower than 6.32 percent that prevailed in June 2015. Annual average food inflation continuously declined from 6.53 percent in July 2015 to 4.90 percent in June 2016.

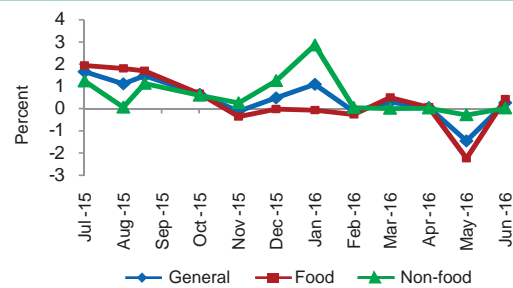
3.4 Although annual average non-food inflation followed upward trend, point-to-point non-food inflation had a mixed trend throughout FY16. Annual average non-food inflation was recorded at 6.08 percent in July 2015. The rate gradually increased to 7.47 percent in June 2016, which was 5.99 percent in June 2015. At the beginning of FY16, point-to-point non-food inflation was 6.80 percent in July 2015. With ups and downs in the following few months, the rate reached its peak at 8.74 percent in January 2016, due mainly on clothing and footwear; gross rent, fuel and lighting; and furniture furnishing and others. Since January 2016, point-to-point non-food inflation kept declining to the end of the fiscal year with 7.50 percent in June 2016, which was 6.15 percent in June 2015.

Chart 3.3 Urban CPI inflation (12-month average)



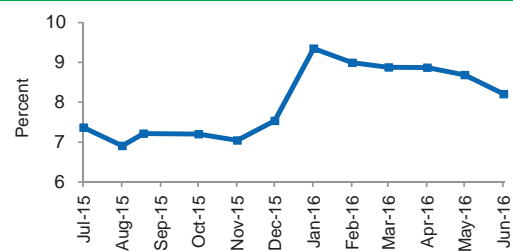
Source: BBS.

Chart 3.4 Monthly Inflation (point-to-point)



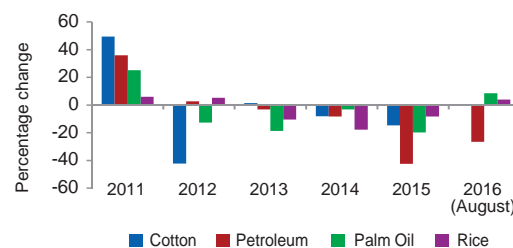
Source: BBS.

Chart 3.5 Monthly core CPI inflation (point to point basis)



Source: Research Department, Bangladesh Bank.

Chart 3.6 Changes in international commodity prices



Source: International Financial Statistics (IFS), August 2016.

3.5 Core inflation (non-food, non-fuel) on point-to-point basis has been continuously higher over headline inflation but showed a mixed trend throughout FY16 and reached its peak at 9.35 percent in January 2016 and settled down to 8.21 percent in June 2016, which was 6.74 percent in June 2015 (Chart 3.5). Monthly general, food and non-food inflation also showed a mixed trend in FY16 (Table-3.1, Chart 3.4).

3.6 In FY16, Inflation in urban area was much higher than that of rural areas. In rural areas, average inflation was 5.27 percent, while it was 7.13 percent in urban areas in June 2016. Annual average inflation in the rural areas stood at 5.27 percent in June 2016 from 6.20 percent in June 2015 (Table 3.2, Chart 3.2). In the same areas, the food inflation fell to 4.20 percent in June 2016 from 6.40 percent in June 2015. On the contrary, in the rural areas annual average non-food inflation increased to 7.25 percent from 5.81 percent over the same period.

3.7 Annual average inflation in the urban areas increased to 7.13 percent in June 2016 from 6.80 percent in June 2015 (Table 3.2, Chart 3.3). In the same areas, the food inflation sharply declined to 6.55 percent in June 2016 from 7.32 percent in 2015. On the other hand, the non-food inflation increased to 7.77 percent from 6.24 percent over the same period.

3.8 Total food-grains production in Bangladesh slightly decreased in FY16. Total domestic food-grains production was recorded at 35.9 million metric tons in FY16 as compared to 36.1 million metric tons in

**Table 3.2 Annual average CPI based inflation**

(base: FY06=100)

Group	Weight	FY13	FY14	FY15	FY16
<b>a. National level</b>					
General Index	100.00	181.73 (6.78)	195.08 (7.35)	207.58 (6.40)	219.86 (5.92)
Food	56.18	193.24 (5.22)	209.79 (8.57)	223.80 (6.68)	234.77 (4.90)
Non-food	43.82	166.97 (9.17)	176.22 (5.54)	186.79 (5.99)	200.74 (7.47)
<b>b. Rural</b>					
General index	100.00	183.90 (6.14)	196.90 (7.07)	209.10 (6.20)	220.12 (5.27)
Food	61.41	192.14 (4.64)	207.72 (8.11)	221.02 (6.40)	230.31 (4.20)
Non-food	38.59	170.79 (8.94)	179.69 (5.21)	190.13 (5.81)	203.92 (7.25)
<b>c. Urban</b>					
General Index	100.00	177.71 (8.01)	191.72 (7.89)	204.76 (6.80)	219.37 (7.13)
Food	46.52	195.91 (6.64)	214.85 (9.66)	230.56 (7.32)	245.66 (6.55)
Non-food	53.48	161.88 (9.49)	171.61 (6.01)	182.32 (6.24)	196.50 (7.77)

Note : Figures in parentheses represent annual inflation.

Source: BBS

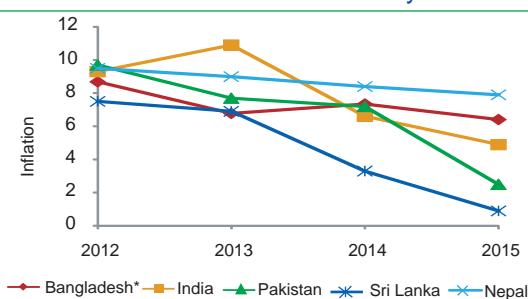
**Table 3.3 Changes in international prices of major commodities**

(percentages)

Commodity	2012	2013	2014	2015	2016 (July)
Rice	5.2	-10.6	-17.8	-10.9	3.9
Wheat	-1.4	-3.8	-8.8	-23.5	-15.4
Petroleum	2.7	-3.2	-8.3	-47.0	-26.5
Palm oil	-12.7	-18.7	-3.2	-23.6	8.4
Soybean Oil	-5.3	-12.2	-19.6	-17.3	3.9
Cotton	-42.3	1.3	-8.1	-15.3	0.5
Sugar	-18.5	-17.2	-3.3	-22.7	23.1

Source: IFS, August, 2016.

**Chart 3.7 South Asian inflationary situation**



Source: 1. \* BBS, figures related to financial year (July-June)  
2. IFS, September, 2016 (at the end of December)

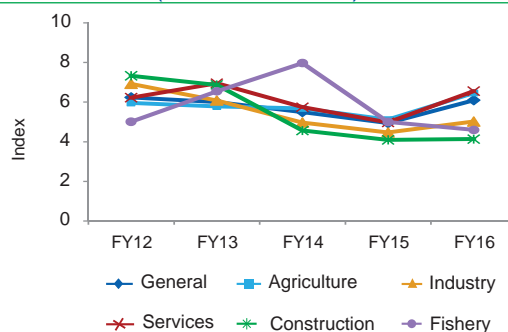
FY15. Total government procurement of food-grains in FY16 was 1.2 million metric tons. The government undertook various measures including open market sale of food-grains and food-for-work programme which helped to control food inflation in FY16.

3.9 To reduce hardship of poor households, the government distributed food grain through monetised and non-monetised channels among the poor and marginal households. The government distributed 2.1 million metric tons of food-grain in FY16, which was 1.8 million metric 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).

3.10 Bangladesh Bank adopted a cautious but explicitly pro-growth monetary policy stance (Monetary Policy Statement, July-December 2015) with an inflation rate target of 6.2 percent by the end of FY16. In pursuance of this inflation objective, Bangladesh Bank continued its directives for commercial banks to channel credit only for the productive sectors.

3.11 Prices of major commodities in the international markets declined in 2015 compared to those of the preceding year. In 2016 (till July) the prices of petroleum and wheat decreased by 26.5 and 15.4 percent respectively. On the contrary, the prices of rice, palm oil, soybean oil, cotton, and sugar increased by 3.9, 8.4, 3.9, 0.5 and 23.1 percent respectively (Table 3.3, Chart 3.6).

**Chart 3.8 Growth rate of wage index (base:FY11=100)**



Source: BBS

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

Countries	2012	2013	2014	2015	2016
1. Bangladesh <sup>@</sup>	8.69	6.78	7.35	6.41	5.77 (Aug)
2. India	9.3	10.9	6.6	4.9	-
3. Pakistan	9.7	7.7	7.2	2.5	4.0 (July)
4. Nepal	9.5	9.0	8.4	7.9	9.8 (April)
5. Bhutan	10.9	7.0	8.2	4.5	3.4 (May)
6. Sri Lanka	7.5	6.9	3.3	0.9	5.5 (July)
7. Maldives	12.1	2.3	2.1	1.0	-0.2 (April)
Other Asian countries					
8. Thailand	3.0	2.2	1.9	-0.9	0.4 (Jun)
9. Singapore	4.5	2.4	1.0	-0.5	-0.8 (Jun)
10. Malaysia	1.7	2.1	3.1	2.1	1.6 (Jun)
11. Indonesia	4.3	6.4	6.4	6.4	3.5 (Jun)
12. Korea	2.2	1.3	1.3	0.7	0.7 (July)
13. Myanmar	1.5	5.5	5.5	10.8	-

Sources: <sup>@</sup> BBS, Consumer Price Index (base: FY06=100).

<sup>#</sup> IFS, September, 2016 CPI (base: 2000=100).

3.12 Among the SAARC countries Nepal had the highest inflation of 9.8 percent recorded in April 2016. In 2016, other countries like Bangladesh (5.77 percent, August 2016) Pakistan (4.0 percent, July 2016) and Sri Lanka (5.5 percent, July 2016) experienced a moderately high inflation. Contrary to this situation, Maldives (-0.2 percent, April 2016) and Singapore (-0.8

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

(base: FY06=100)

Group/sub-group	Weight	FY14	FY15	FY16	% Change FY15	% Change FY16
General index	100	195.08	207.58	219.86	6.41	5.92
1. Food, beverage and tobacco	56.18	209.79	223.8	234.77	6.68	4.90
2. Non-food of which	43.82	176.23	186.79	200.74	5.99	7.47
i) Clothing & footwear	6.84	194.77	209.45	233.52	7.54	11.49
ii) Gross rent, fuel & lighting	14.88	163.47	171.8	182.75	5.10	6.37
iii) Furniture, furnishing, household equipment & operation	4.73	206.14	214.44	227.53	4.03	6.10
iv) Medical care & health expenses	3.47	164.06	181.09	200.03	10.38	10.46
v) Transport and communications	5.80	167.20	181.78	201.60	8.72	10.90
vi) Recreation, entertainment, education & cultural services	4.28	164.38	168.02	171.01	2.21	1.78
vii) Miscellaneous goods and services	3.82	193.75	204.21	211.61	5.40	3.62

Source: BBS

percent, June 2016) faced deflation (Table 3.4, Chart 3.7).

### Wage Rate Trends

3.13 Wage rate indices for all sectors of Bangladesh had higher growth in FY16 compared to those of FY15. The growth of general wage rate increased to 6.10 percent in FY16 from 4.94 percent in FY15 (Table 3.6, Chart 3.8). The service sector recorded the highest wage growth rate of 6.56 percent in FY16 followed by agriculture (6.46) and industry (5.02) sectors.

### Near Term Inflation Outlook

3.14 The average inflation rates in advanced economies are projected to shoot up to about 0.8 percent in 2016 in line with the energy price hike. Inflation is expected to rise over the next few years propelled by fuel price increase. Oil prices picked up to USD 45/barrel in August 2016, which was at its 10-year low level at the beginning of the same year. Involuntary production shutdowns

**Table 3.6 Trends of wage rate indices**

(base: FY11=100)

	FY13	FY14	FY15	FY16
General	112.62 (6.01)	118.82 (5.50)	124.69 (4.94)	136.04 (6.10)
Agriculture	112.08 (5.78)	118.44 (5.68)	124.51 (5.12)	135.86 (6.46)
Agriculture	112.08 (5.76)	118.40 (5.64)	124.46 (5.12)	135.84 (6.49)
Fish	111.89 (6.55)	120.81 (7.97)	126.85 (5.00)	136.75 (4.60)
Industry	113.43 (6.08)	119.07 (4.97)	124.38 (4.47)	134.87 (5.02)
Construction	114.70 (6.87)	119.93 (4.56)	124.84 (4.09)	132.51 (4.13)
Production	111.53 (5.19)	121.86 (9.27)	127.28 (4.44)	139.66 (6.81)
Services	113.63 (6.96)	120.16 (5.75)	126.15 (4.98)	139.28 (6.56)

Note : Figures in parentheses are annual percentage changes.  
Source: BBS.

helped oil prices rebound. Metal prices rose modestly in the first half of 2016 caused by strong demand by emerging market and developing economies. Food prices increased for most items except corn and wheat.

3.15 Food and Agriculture Organisation (FAO) in its flagship publication Food Outlook June 2016 reports that global food commodity markets are broadly stable supported by adequate supplies.

3.16 Market prospects remain favourable also for 2016-17. After two seasons of production outages, FAO forecasts a modest 1 percent recovery in global rice production in 2016. World wheat production in 2016 is projected to decline by 1.4 percent, still sufficient for the total demand. The FAO Food Price Index was recorded at 155.8 points in May 2016, which was 7.0 percent lower than in the same period of the preceding year.

3.17 In FY17 national budget, the target for the average inflation rate at the end of the fiscal year was set at 5.8 percent. At the end of the first quarter of FY17, the average inflation rate of 5.7 percent was below the yearly target level. The average food and non-food inflation rates were 4.6 and 7.5 percent respectively at the end of the same period. The average food inflation rate has been on a falling trend since the beginning of the fiscal year. On the contrary, average non-food inflation rate followed an upward trend until September 2016 when the rate dipped by 0.05 percentage point. For the next quarter, Bangladesh Bank forecasts an inflation rate of

**Table 3.7 Global inflationary situation**

	(Percentage change)			
	2014	2015	2016 <sup>P</sup>	2017 <sup>P</sup>
Advanced Economies	1.4	0.3	0.8	1.7
United States	1.6	0.1	1.2	2.3
Euro Area	0.4	0.0	0.3	1.1
Emerging Market and Developing Economies	4.7	4.7	4.5	4.4
Emerging and Developing Asia	3.5	2.7	3.1	3.3
Bangladesh	7.0	6.4	6.7	6.9
India	5.9	4.9	5.5	5.2
Sri Lanka	3.3	0.9	4.1	5.3
Pakistan	8.6	4.5	2.9	5.2

<sup>P</sup> Projection.

Source: World Economic Outlook, October 2016.

5.5 percent, which in fact does not account for external shocks. An inflation expectation survey conducted by Bangladesh Bank revealed two inflation rates 6.4 percent by general people and 5.9 percent by professionals for December 2016. Despite a favourable inflation outlook, few challenges including energy price adjustments, supply shocks and demand factors may unfold by the end of the fiscal year. Bangladesh Bank puts utmost importance to contain the inflationary pressure and adjusts monetary growth and policy rates as deemed necessary.