

## Price and Inflation

### Global Inflation Scenario

3.1 The increase in commodity prices, especially gasoline and other energy related products, has contributed to a recovery in global inflation. Headline consumer price inflation has softened since the spring as the boost to prices from the oil price recovery of 2016 has faded and the decline in oil prices (between March and July) has started to exert downward pressure. Expectations of consumer price inflation for the year have therefore diminished, especially in emerging market and developing economies. Core inflation has been generally soft. In most advanced economies, core inflation has failed to decisively increase toward central bank targets (World Economic Outlook, October 2017).

### Consumer Prices in Bangladesh

3.2 Annual average Consumer Price Index (CPI) inflation showed mixed trend in FY17. The headline inflation rate stood at 5.44 percent in June 2017, while the Bangladesh Bank Monetary Policy Statement (MPS, January-June 2017) inflation forecast ranged between 5.3-5.6 percent. The average inflation was 5.92 percent in FY16 (Table 3.1, Chart 3.1). Inflation rate gradually declined since July 2016 until April 2017, as the rate increased in the remaining two months of FY17. Rising food inflation due to flash flood related crop losses in the Notheastern haor region from the middle of FY17 mainly accounted for the increase in headline inflation. The average non-food inflation kept declining throughout the whole FY17. The twelve month point-to-point inflation

**Table 3.1 Monthly Inflation in FY17**

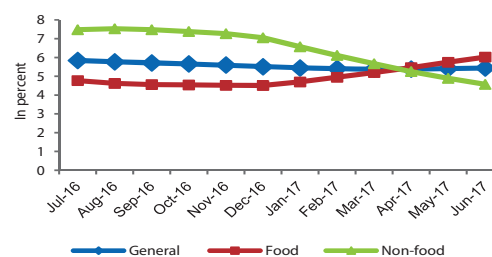
(12-month average : FY06=100)

Months	General	Food	Non-food
Jul 16	5.84	4.76	7.48
Aug 16	5.77	4.62	7.53
Sep 16	5.71	4.56	7.48
Oct 16	5.66	4.53	7.38
Nov 16	5.60	4.51	7.27
Dec 16	5.52	4.51	7.05
Jan 17	5.43	4.70	6.57
Feb 17	5.41	4.95	6.11
Mar 17	5.39	5.20	5.67
Apr 17	5.38	5.46	5.25
May 17	5.41	5.75	4.89
Jun 17	5.44	6.02	4.57

Source: Bangladesh Bureau of Statistics (BBS)

**Chart 3.1 Monthly CPI Inflation in FY17**

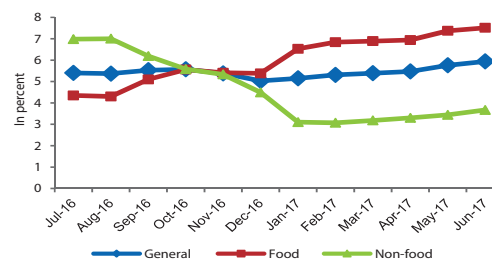
(12-month average : FY06=100)



Source: BBS.

**Chart 3.2 Monthly CPI Inflation in FY17**

(Point-to-point : FY06=100)



Source: BBS.

rate went up to 5.94 percent in June 2017 from 5.53 percent in June 2016.

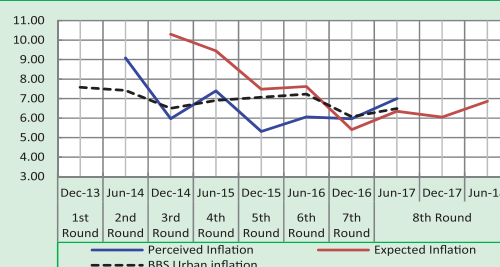
3.3 Annual average food inflation stood at 4.76 percent in July 2016 and declined

### Box 3.1 Highlights on Inflation Expectation Survey of Households (IESH)

Inflation expectations play a key role in the conduct of modern monetary policy. Expectations drive people's behavior by influencing a wide range of economic decisions such as saving, investment, purchases of durable goods and wage negotiations. These decisions in turn affect real economic activity and actual inflation. As a result, inflation expectations represent an important link in the monetary transmission mechanism—especially through the term structure of interest rates—and greatly influence the central bank's ability to achieve price stability. It is crucial for a central bank to monitor inflation expectations, making sure that they remain well anchored and consistent with policy objectives.

Inflation expectation survey of Households (IESH) is significantly important to understand the expectations of households on current price level as well as their expectations on future price level. Moreover pricing behavior of producers and wage demand by workers are significantly affected by current and expected future inflation. Thus, considering the importance of IESH, Research Department (RD) of Bangladesh Bank (BB) has been conducting the 'Inflation Expectation Survey of Households (IESH)' on a half-yearly basis since December 2013. The sample size of BB's Inflation Expectation Survey (IES) is set at 1000. In addition, the survey captured 100 special respondents those treated as relevant professionals which include financial sector employees, members of business association, university teachers and researchers/think tanks. It covers only six metropolitan cities namely, Dhaka, Chittagong, Khulna, Sylhet, Rajshahi and Barisal.

Chart : Trends of Inflation Expectation: General



Results of the IESH, June 2017 (the 8th round) show (chart 1) that moderate inflationary pressure would be recorded for one year ahead. Around 77 percent respondents expected that general inflation, food and non-food would be 5-9 percent for one year ahead. However, the estimation of expected mean inflation of the survey for general is accounted for 6.86 percent for one year ahead (June 2018, Chart 1) and for food and non-food items are for 6.24 percent and 7.00 percent respectively.

It is observed that current inflation is closely moved towards 1-year expected inflation. This directional movement provides useful information to the policy makers. Inflation rate accounted in the IESH of BB followed the same direction of urban CPI (p-t-p) inflation of Bangladesh Bureau of Statistics (BBS). It is noted that the information obtained from the inflation expectation survey of BB are different from the formal measure of inflation indices of BBS. In IESH consumption baskets of each participant of the survey varies as per their personal requirements and perceptions. However, expected inflation revealed in the survey provides useful insights on directional movements of future inflation.

uninterruptedly till December 2016 to 4.51 percent. For the rest of the FY17, the average food inflation showed upward trend and ended up 6.02 percent in June 2017. On the other hand, the point-to-point food inflation had a mixed trend

throughout FY17, starting with 4.35 percent in July 2016 and ending with 7.51 percent in June 2017. Both the point-to-point and average food inflation increased by a wide scale in FY17 compared to that in the preceding financial year.

3.4 Although annual average non-food inflation depicted declining trend for almost the whole FY17, the point-to-point non-food inflation had a mixed trend. At the beginning of FY17, the annual average non-food inflation increased to 7.53 percent in August 2016 from 7.48 percent in July 2016. Since August 2016, the average non-food inflation had a continuous fall till June 2017, the rate was recorded as 4.57 percent. The average non-food inflation rate was 7.47 percent in FY16. For the point-to-point non-food inflation, the rate peaked in August 2016 at 7.00 percent from 6.98 percent in July 2016. Throughout the rest of FY17, the point-to-point non-food inflation showed upward and downward trend and finally settling down at 3.67 percent in June 2017. The point-to-point non-food inflation in June 2017 was lower by 3.83 percentage point compared to 7.50 percent in June 2016 (Table 3.1, Chart 3.2).

3.5 Core inflation (non-food, non-fuel) on point-to-point basis declined by a large margin to 3.55 percent in June 2017 compared to 7.43 percent in July 2016. However, there were increases in core inflation for some months of FY17, 7.51 percent being the highest in August 2016. The core inflation rate for June 2016 was recorded as 8.21 percent (Chart 3.3).

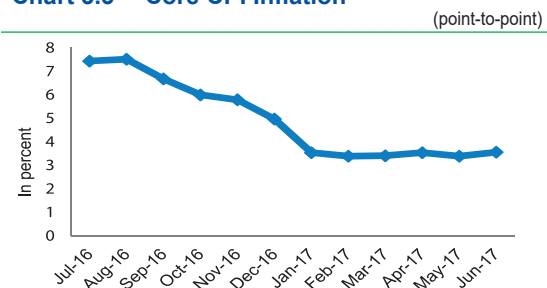
3.6 In FY17, average rural inflation was much lower than the urban inflation. In June 2017, the annual average rural inflation rate was 4.95 percent, while it was 6.35 percent for urban inflation. The annual average rural inflation rate in June 2016 was 5.27 percent. The average rural food inflation increased to 5.55 percent in June 2017 from 4.20 percent in June 2016. To the contrary, the average rural

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

Group	Weight	FY14	FY15	FY16	FY17
<b>a. National level</b>					
General Index	100.00	195.08 (7.35)	207.58 (6.40)	219.86 (5.92)	231.82 (5.44)
Food	56.18	209.79 (8.57)	223.80 (6.68)	234.77 (4.90)	248.90 (6.02)
Non-food	43.82	176.22 (5.54)	186.79 (5.99)	200.74 (7.47)	209.92 (4.57)
<b>b. Rural</b>					
General Index	100.00	196.90 (7.07)	209.10 (6.20)	220.12 (5.27)	231.02 (4.95)
Food	61.41	207.72 (8.11)	221.02 (6.40)	230.31 (4.20)	243.08 (5.55)
Non-food	38.59	179.69 (5.21)	190.13 (5.81)	203.92 (7.25)	211.83 (3.88)
<b>c. Urban</b>					
General Index	100.00	191.72 (7.89)	204.76 (6.80)	219.37 (7.13)	233.29 (6.35)
Food	46.52	214.85 (9.66)	230.56 (7.32)	245.66 (6.55)	263.09 (7.10)
Non-food	53.48	171.61 (6.01)	182.32 (6.24)	196.50 (7.77)	207.38 (5.54)

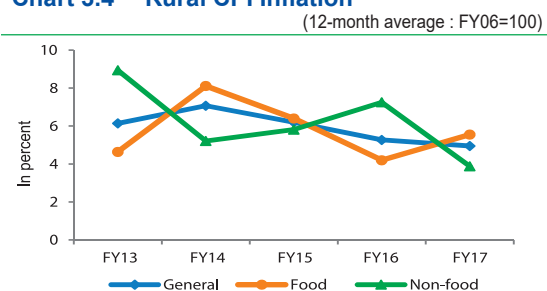
Note: Figures in parentheses represent annual inflation  
Source: Bangladesh Bureau of Statistics (BBS).

**Chart 3.3 Core CPI Inflation**



Source: Research Department, Bangladesh Bank.

**Chart 3.4 Rural CPI Inflation**



Source: BBS.

non-food inflation fell to 3.88 percent in June 2017 compared to 7.25 percent in June 2016. (Table 3.1, Chart 3.4).

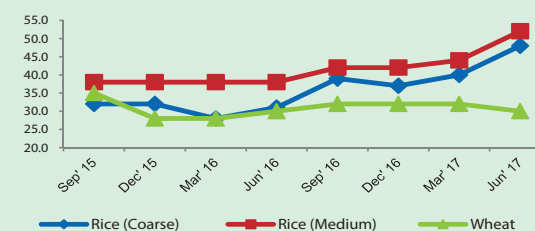
### Box 3.2 Recent Flood and Rice Price Hike

Recent rice price increased tremendously, the highest ever in the history of Bangladesh. Earlier in April, the flash flood in haor basin comprised of seven districts in the country's north-eastern part damaged around 20,00,000 tons of Boro rice, later in last month, this year's monsoon flooding damaged around 6,00,000 hectares of Aman paddy field, projecting 15,00,000 tons of less rice production have worsened the situation all together. Both phases negatively impacted the market, sending prices up with uncontrollably shortage in stock of foodgrains. Besides, the millers and traders made hiking prices artificially by hoarding paddy and rice.

The retail prices of the rice (coarse) consumed mainly by low income people, increased up to Tk 48 per kg in September, 2017 and at the same time, price of rice (medium) increased to Tk 56 per kg consumed by middle income people are also affected. In comparison with the previous year, price of rice (coarse) rose by Tk 17 per kg and that of rice (medium) rose by Tk 14 per kg (Chart). The closing stock of foodgrains in July 2017 was 1.00 million metric tons (mmt). Public foodgrain stock gradually increased to 1.18 mmt in August and then started to decrease and reached only 0.38 mmt on 30th June 2017 as against 0.86 mmt on 30th June 2016. This was mainly due to lack of domestic supply for procurement program during Boro crop in May–June, 2017. The acute price hike adds to inflationary pressures as poor consumers will have to spend higher share of their limited income on food.

The government has taken several initiatives to stem the price spiral. Bangladesh has imported around 675,000 tons of rice in this fiscal year, of which the government imported 155,000 tons with the rest coming from private traders. Moreover, government has signed separate agreements for importing 1 million ton of rice each from Vietnam and Thailand. The government also has taken a series of steps to improve the import situation, including slashing the duty on rice from 25% to 10% and withdrawing the 3% regulatory duty to encourage private traders to import more. The import duty was then halved to only 5%. In June, Bangladesh Bank instructed banks to allow private traders to import rice without any deposit against letters of credit or LC margin. In addition, government has launched Open Market Sale (OMS) of coarse rice at BDT 30 per Kilogram, to stabilize the market and ease the suffering of lower income groups. It is expected that, the price spiral is likely to stop within short time as a good amount of rice would be available in the market through import. In the medium term, there is a need to foster growth and to improve the purchasing power of food buyers. Agricultural trade policies require further reform in order to ensure an effective supply response.

**Chart: Movements of Rice and Wheat Prices (Per kg)**



Source : Directorate of Agricultural Marketing.

3.7 The annual average urban inflation declined to 6.35 percent in June 2017 from 7.13 percent in June 2016. The average urban food inflation rose to 7.10 percent in June 2017

from 6.55 percent in June 2016. On the other hand, the average urban non-food inflation slid to 5.54 percent in June 2017 from 7.77 percent in June 2016 (Chart 3.5).

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

Group/sub-group	Weight	FY15	FY16	FY17	(base: FY06=100)	
					% Change FY16	% Change FY17
General index	100	207.58	219.86	231.82	5.92	5.44
1. Food, beverage and tobacco	56.18	223.80	234.77	248.90	4.90	6.02
2. Non-food of which	43.82	186.79	200.74	209.92	7.47	4.57
i) Clothing & footwear	6.84	209.45	233.52	243.56	11.49	4.30
ii) Gross rent, fuel & lighting	14.88	171.80	182.75	194.01	6.37	6.16
iii) Furniture, furnishing, household equipment & operation	4.73	214.45	227.53	235.85	6.10	3.66
iv) Medical care & health expenses	3.47	181.09	200.03	206.70	10.46	3.33
v) Transport and communications	5.8	181.78	201.60	210.78	10.90	4.55
vi) Recreation, entertainment, education & cultural services	4.28	168.02	171.01	177.56	1.78	3.83
vii) Miscellaneous goods and services	3.82	204.21	211.61	217.51	3.62	2.79

Source: BBS.

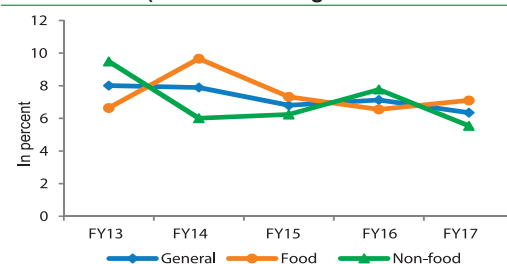
3.8 Total foodgrains production in Bangladesh slightly increased in FY17. It was recorded as 36.4 million metric tons (provisional) in FY17 compared to 36.0 million metric tons in FY16. Total government procurement of food grains in FY17 was 1.6 million metric tons.

3.9 To reduce the hardship of poor households, government distributed foodgrains through monetised and non-monetised channels. The government distributed 2.2 million metric tons of foodgrains in FY17, which was 2.1 million metric tons in FY16.

3.10 Prices of major commodities in the international market increased in 2016 compared to those of the preceding year. In 2016 the prices of wheat and petroleum fell by 22.9 and 19.5 percent respectively. On the other hand, the prices of rice, cotton, soybean oil, palm oil and sugar rose by 2.2, 5.4, 7.3, 13.2, and 40.2 percent respectively (Table 3.4, Chart 3.6).

### Inflation in SAARC and Other Asina Countries

3.11 Among the SAARC countries, Sri Lanka had the highest inflation rate of 6.0 percent in May 2017 followed by Bhutan with 3.9 percent in June 2017. Pakistan (3.9 percent, June 2017), Nepal (3.8 percent, April 2017) and India

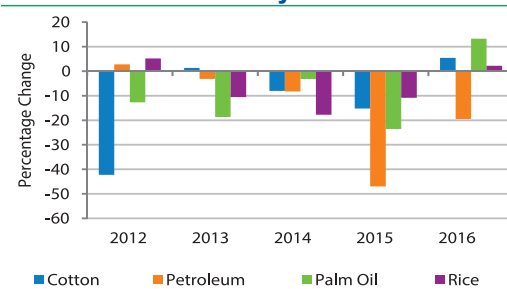
**Chart 3.5 Urban CPI Inflation (12-month average : base FY06=100)**

Source: BBS.

**Table 3.4 Changes in International Prices of Major Commodities**

Commodity	2013	2014	2015	2016	2017(May)
Rice	-10.6	-17.8	-10.9	2.2	0.74
Wheat	-3.8	-8.8	-23.5	-22.9	-6.98
Petroleum	-3.2	-8.3	-47.0	-19.5	14.32
Palm oil	-18.7	-3.2	-23.6	13.2	1.69
Soybean Oil	-12.2	-19.6	-17.3	7.3	-16.32
Cotton	1.3	-8.1	-15.3	5.4	26.03
Sugar	-17.2	-3.3	-22.9	40.2	-5.99

Source: International Financial Statistics (IFS), July 2017.

**Chart 3.6 Changes in International Commodity Prices**

Source: IFS.

(1.5 percent, June 2017) underwent moderate inflationary pressure (Table 3.5, Chart 3.7).

### Wage Rate Trends

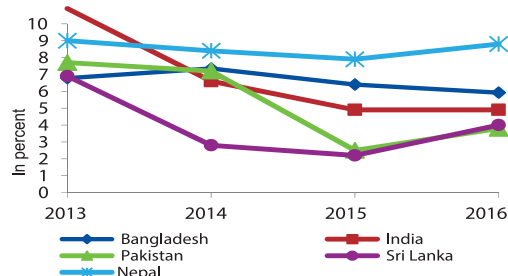
3.12 The growth of general wage rate index of Bangladesh declined by 0.02 percentage point to 6.50 percent in FY17. The agriculture and industry sector indices had higher growth rates in FY17, whereas the services sector index growth retarded. The production sub-sector index reported the highest growth rate of 7.22 percent while the construction sub-sector index scored the lowest growth rate of 5.37 percent in FY17 (Table 3.6, Chart 3.8).

### Near Term inflation Outlook

3.13 Headline inflation rates are projected to increase in both advanced and emerging market and developing economies, though somewhat less briskly than anticipated in the April 2017 WEO, partly reflecting weaker-than-expected oil prices. In advanced economies, inflation is forecast to pick up from 0.8 percent in 2016 to 1.7 percent in 2017, reflecting the continued cyclical recovery in demand and the increase in commodity prices in the second half of 2016. Inflation in emerging market and developing economies is projected to remain roughly stable in 2017 and 2018 (at 4.2 percent and 4.4 percent, respectively—close to the 2016 estimate of 4.3 percent).

3.14 Food and Agriculture Organization (FAO) in its flagship publication Food Outlook November 2017, reports that the food commodity markets remains well supplied but the cost of importing food is set to rise by 6.0 percent from last year's level to reach USD 1.4 trillion in 2017. Sharp increases in freight rates, stronger import demand and firmer prices of

**Chart 3.7 South Asian Inflationary Situation**



Sources: BBS, figures relate to financial year (July-June). IFS, August, 2017.

**Table 3.5 Inflation in SAARC and Other Asian Countries #**

Countries	2013	2014	2015	2016	2017
1. Bangladesh®	6.8	7.4	6.4	5.9	5.4
2. India	10.9	6.6	4.9	4.9	1.5 (June)
3. Pakistan	7.7	7.2	2.5	3.8	3.9 (June)
4. Nepal	9.0	8.4	7.9	8.8	3.8 (April)
5. Bhutan	7.0	8.2	4.5	4.4	3.9 (June)
6. Sri Lanka	6.9	2.8	2.2	4.0	6.0 (May)
7. Maldives	3.8	2.1	1.0	0.5	3.4 (June)
<b>Other Asian countries</b>					
8. Thailand	2.2	1.9	-0.9	0.2	0.0 (June)
9. Singapore	2.4	1.0	-0.5	-0.5	0.5 (June)
10. Malaysia	2.1	3.2	2.1	2.1	3.6 (June)
11. Indonesia	6.4	6.4	6.4	3.5	4.4 (June)
12. Korea	1.3	1.3	0.7	1.0	1.9 (June)
13. Myanmar	5.5	5.5	9.5	7.0	2.9 (June)

- Not available

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

# IFS, October 2017.

**Table 3.6 Trends of Wage Rate Indices**

(base: FY11=100)

	FY14	FY15	FY16	FY17
General	118.82 (5.50)	124.69 (4.94)	132.81 (6.52)	141.46 (6.50)
Agriculture	118.44 (5.68)	124.51 (5.12)	132.48 (6.41)	141.22 (6.59)
Agriculture	118.40 (5.64)	124.46 (5.12)	132.44 (6.42)	141.19 (6.60)
Fish	120.81 (7.97)	126.85 (5.00)	134.59 (6.12)	143.19 (6.37)
Industry	119.07 (4.97)	124.38 (4.47)	132.02 (6.16)	140.27 (6.24)
Construction	119.93 (4.56)	124.84 (4.09)	129.97 (4.18)	137.43 (5.37)
Production	121.86 (9.27)	127.28 (4.44)	136.18 (7.70)	146.01 (7.22)
Services	120.16 (5.75)	126.15 (4.98)	136.03 (7.86)	145.01 (6.60)

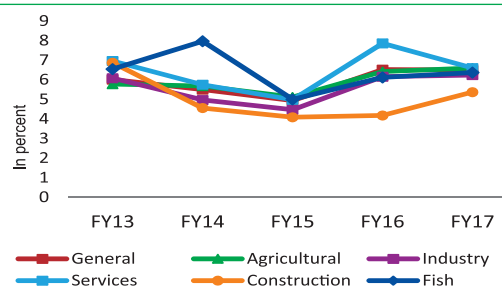
Note: Figures in parentheses are annual percentage changes.

Source: BBS.

most food commodities are expected to elevate the global food import bill to its second highest level on record. FAO forecasts that world rice production in 2017 would be marginally below the 2016 record output of 501 million tonnes. Global wheat production in 2017 is forecast at 752.8 million tonnes, down slightly from 2016's output. The FAO food price index for June 2017 was 175.3, which was 7.0 percent lower than that for 2016.

3.15 In FY18 national budget, the target for the average inflation rate was set at 5.50 percent. At the end of October 2017, the average inflation rate of 5.45 percent was slightly below the annual target level. The average food and non food inflation for the same month were 6.89 and 3.66 percent respectively. Bangladesh Bank's latest inflation expectation survey reveals that one-year-ahead inflation expectation for June 2018 is above 6 percent. Based on the econometric estimate the projected average inflation rate for H1 FY18 lies around 5.5-5.9 percent. Looking ahead, given the domestic inflation dynamics, food price developments and tapering base effects, some price pressures may emerge

**Chart 3.8 Growth Rate of Wage Index (base:FY11=100)**



Sources: BBS.

**Table 3.7 Global inflationary situation**

	(Percentage change)			
	2015	2016	2017	2018 <sup>P</sup>
Advanced Economies	0.3	0.8	1.7	1.7
United States	0.1	1.3	2.1	2.1
Euro Area	0.0	0.2	1.5	1.4
Emerging Market and Developing Economies	4.7	4.3	4.2	4.4
Emerging and Developing Asia	2.7	2.8	2.6	3.2
Bangladesh	6.2	5.7	5.7	5.8
India	4.9	4.5	3.8	4.9
Sri Lanka	2.2	4.0	6.0	5.0
Pakistan	4.5	2.9	4.1	4.8

<sup>P</sup> Projection

Source: World Economic Outlook, October 2017.

during FY18. Subdued global inflation and favourable regional inflation may somewhat ease the emerging domestic inflationary pressure.