

Price and Inflation

Global Inflation Scenario

3.1 Along with a temporary waiver in United States sanction on Iranian oil exports to certain countries and record-high United States crude oil production, weakening global growth added downward pressure on prices toward the end of 2018. Global energy prices declined by 17 percent during October 2018 - February 2019. Low core inflation and subdued impulses from commodity prices to headline inflation led to decline in market pricing of expected inflation, especially in the United States and Euro Area (World Economic Outlook, April and October 2019).

Consumer Prices in Bangladesh

3.2 Annual average inflation based on Consumer Price Index (CPI) exerted a downward trend throughout FY19 except for the last two months of the financial year. The headline inflation rate stood at 5.48 percent in June 2019, while the Bangladesh Bank Monetary Policy Statement (MPS, January-June 2019) had an inflation forecast range of 5.30-5.60 percent for the same period. The average inflation rate was 5.78 percent in FY18 (Table 3.1, Chart 3.1, Appendix-3 Table VII). The average Inflation rate steadily dropped since July 2018 (5.78 percent) until April 2019 (5.47 percent). For each of the following two months of FY19 the inflation rate was

Table 3.1 Monthly Inflation in FY19

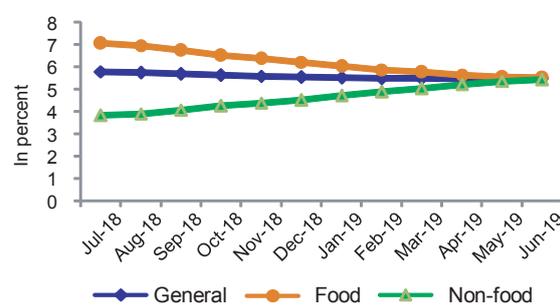
(12-month average: FY06=100)

| Months | General | Food | Nonfood |
|--------|---------|------|---------|
| Jul 18 | 5.78 | 7.06 | 3.82 |
| Aug 18 | 5.74 | 6.95 | 3.90 |
| Sep 18 | 5.68 | 6.74 | 4.07 |
| Oct 18 | 5.63 | 6.52 | 4.26 |
| Nov 18 | 5.58 | 6.37 | 4.38 |
| Dec 18 | 5.55 | 6.21 | 4.51 |
| Jan 19 | 5.51 | 6.02 | 4.71 |
| Feb 19 | 5.49 | 5.87 | 4.89 |
| Mar 19 | 5.48 | 5.76 | 5.03 |
| Apr 19 | 5.47 | 5.64 | 5.21 |
| May 19 | 5.48 | 5.55 | 5.36 |
| Jun 19 | 5.48 | 5.51 | 5.42 |

Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

Chart 3.1 Monthly CPI Inflation in FY19

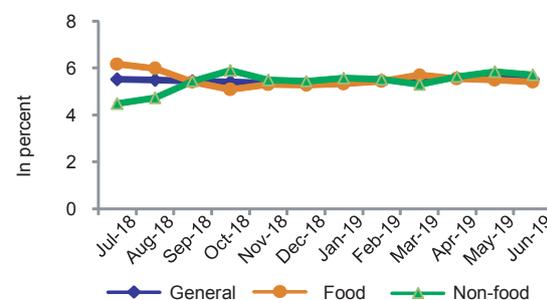
(12-month average: FY06=100)



Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

Chart 3.2 Monthly CPI Inflation in FY19

(Point-to-point : FY06=100)



Source: Bangladesh Bureau of Statistics.

slightly higher at 5.48 percent. Dipping food inflation was mainly responsible for the decrease in headline inflation rate despite increasing non-food inflation rate during the financial year. The twelve month point-to-point inflation rate stood at 5.52 percent in June 2019 compared to 5.54 percent in June 2018.

3.3 Annual average food inflation had a continuous fall during July 2018 (7.06 percent) - June 2019 (5.51 percent). The average food inflation rate was 7.13 percent in June 2018. On the other hand, the annual point-to-point food inflation ended up 5.40 percent in June 2019, which was 6.18 percent in July 2018, marked with increments for some months of the financial year under review. The point-to-point food inflation stood at 5.98 percent in June 2018 (Appendix-3 Table VII).

3.4 Annual average non-food inflation gradually rose throughout the financial year. The average non-food inflation rate was 3.82 percent in July 2018. At the end of financial year in June 2019 the rate stood at 5.42 percent following an uninterrupted upward trend. The annual average non-food inflation rate was 3.74 percent in FY18. On the other hand, annual point-to-point non-food inflation rate displayed mixed trend throughout FY19. The annual point-to-point non-food inflation rate was 4.49 percent at the beginning of the financial year in July 2018. The rate exhibited erratic course down the financial year till June 2019 when it finally

Table 3.2 Annual Average CPI based Inflation

(base: FY06=100)

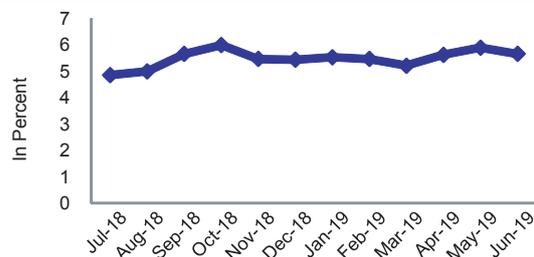
| Group | Weight | FY16 | FY17 | FY18 | FY19 |
|--------------------------|--------|------------------|------------------|------------------|------------------|
| a. National level | | | | | |
| General Index | 100.00 | 219.86 (5.92) | 231.82 (5.44) | 245.22 (5.78) | 258.65 (5.47) |
| Food | 56.18 | 234.77 (4.90) | 248.90 (6.02) | 266.64 (7.13) | 281.32 (5.51) |
| Non-food | 43.82 | 200.74 (7.47) | 209.92 (4.57) | 217.77 (3.74) | 229.58 (5.42) |
| b. Rural | | | | | |
| General Index | 100.00 | 220.12 (5.27) | 231.02 (4.95) | 244.17 (5.69) | 256.75 (5.15) |
| Food | 61.41 | 230.31 (4.20) | 243.08 (5.55) | 259.86 (6.90) | 273.55 (5.27) |
| Non-food | 38.59 | 203.92 (7.25) | 211.83 (3.88) | 219.21 (3.48) | 230.01 (4.93) |
| c. Urban | | | | | |
| General Index | 100.00 | 219.37 (7.13) | 233.29 (6.35) | 247.17 (5.95) | 262.17 (6.07) |
| Food | 46.52 | 245.66 (6.55) | 263.09 (7.10) | 283.19 (7.64) | 300.30 (7.64) |
| Non-food | 53.48 | 196.50 (7.77) | 207.38 (5.54) | 215.83 (4.07) | 229.00 (4.07) |

Note: Figures in parentheses represent annual inflation.

Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

Chart 3.3 Core CPI Inflation

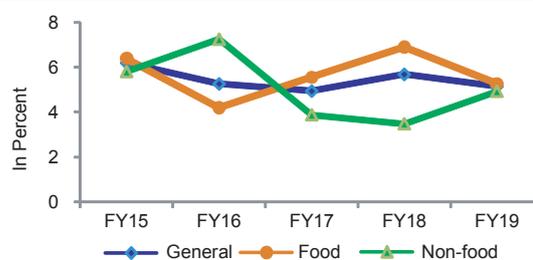
(base: FY06=100)



Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

Chart 3.4 Rural CPI Inflation

(12-month average :FY06=100)



Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

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

(base: FY06=100)

| Group/sub-group | Weight | FY17 | FY18 | FY19 | % Change FY18 | % Change FY19 |
|--|--------|--------|--------|--------|---------------|---------------|
| General index | 100 | 231.82 | 245.22 | 258.65 | 5.78 | 5.48 |
| 1. Food, beverage and tobacco | 56.18 | 248.90 | 266.64 | 281.32 | 7.13 | 5.51 |
| 2. Non-food of which | 43.82 | 209.92 | 217.77 | 229.58 | 3.74 | 5.42 |
| i) Clothing & footwear | 6.84 | 243.56 | 255.24 | 277.64 | 4.80 | 8.78 |
| ii) Gross rent, fuel & lighting | 14.88 | 194.01 | 200.25 | 206.98 | 3.22 | 3.36 |
| iii) Furniture, furnishing, household equipment & operation | 4.73 | 235.85 | 249.68 | 265.25 | 5.86 | 6.24 |
| iv) Medical care & health expenses | 3.47 | 206.70 | 209.28 | 215.31 | 1.25 | 2.88 |
| v) Transport and communications | 5.8 | 210.78 | 218.80 | 235.23 | 3.80 | 7.51 |
| vi) Recreation, entertainment, education & cultural services | 4.28 | 177.56 | 183.65 | 186.72 | 3.43 | 1.67 |
| vii) Miscellaneous goods and services | 3.82 | 217.51 | 223.81 | 239.87 | 2.90 | 7.18 |

Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

settled at 5.71 percent. The annual point-to-point non-food inflation rate was found 4.87 percent for June 2018 (Appendix-3 Table VII).

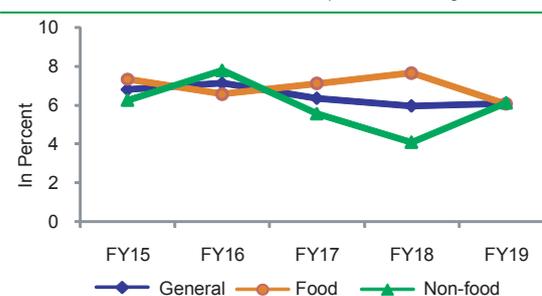
3.5 Core inflation (non-food, non-fuel) on point-to-point basis increased by 0.55 percentage point to 5.66 percent in June 2019 compared to 5.11 percent in June 2018 (Chart 3.3).

3.6 In FY19, the average rural inflation rate of 5.15 percent was 0.92 percentage point lower than the average urban inflation rate of 6.07 percent. The annual average rural inflation rate stood at 5.69 percent in FY18. The average rural food inflation decreased to 5.27 percent in June 2019 from 6.90 percent in June 2018. On the other hand, the average rural non-food inflation increased to 4.93 percent in June 2019 compared to 3.48 percent in June 2018 (Table 3.2, Chart 3.4, Appendix-3 Table VII).

3.7 The annual average urban inflation increased to 6.07 percent in June 2019 from 5.95 percent in June 2018. The average

Chart 3.5 Urban CPI Inflation

(12-month average :FY06=100)



Source: Bangladesh Bureau of Statistics and Research Department, Bangladesh Bank.

urban food inflation declined to 6.04 percent in June 2019 from 7.64 percent in June 2018. In the reverse manner, the average urban non-food inflation rose to 6.10 percent in June 2019 from 4.07 percent in June 2018 (Table 3.2, Chart 3.5, Appendix-3 Table VII). Annual average national level CPI by consumption basket sub-group is revealed in Table - 3.3.

3.8 Total foodgrains production (rice and wheat) stood at 37.4 million metric tons in FY19, which was same in FY18. Total government procurement of foodgrains stood at 2.4 million metric tons in FY19, higher by

0.8 million metric ton than that of FY18. Government and private imports of foodgrains totalled at 7.0 million metric tons in FY19, which was about 2.8 million metric tons lower than FY18 food grains imports. The government distributed 2.6 million metric tons of foodgrains under its Public Food Distribution System (PFDS) in FY19, which was slightly lower than the preceding financial year's amount.

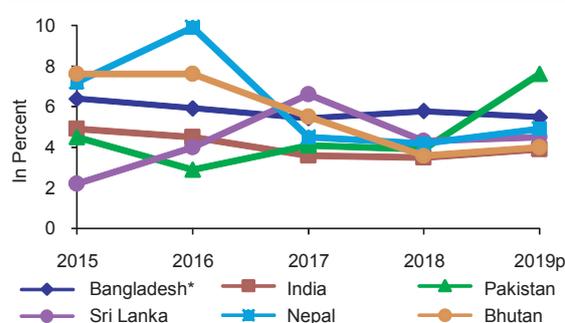
Inflation in SAARC and Other Asian Countries

3.9 Among the SAARC countries, Pakistan had the highest inflation rate of 7.3 percent in 2019 followed by Bangladesh (5.5 percent) and Nepal (4.5 percent), Sri Lanka (4.1 percent), Bhutan (3.6 percent) and India (3.4 percent). Maldives experienced the lowest rate of 1.5 percent in 2019 in this region. Among the other Asian countries, Myanmar recorded the highest inflation rate of 7.8 percent, while Korea ended up with the lowest rate of 0.5 percent (Table 3.4, Chart 3.6).

Wage Rate

3.10 The growth of general wage rate index declined by 0.06 percentage point to 6.40 percent in FY19. The industry sector index had lower growth rate in FY19, whereas the agriculture and services sector indices growth improved compared to the preceding year. The production sub-sector index reported the highest growth rate of 8.14 percent, while the construction sub-

Chart 3.6 South Asian Inflationary Situation



Sources: 1. BBS, figures relate to financial year (July-June).
2. World Economic Outlook, October 2019

Table 3.4 Inflation in SAARC and Other Asian Countries

| Countries | 2015 | 2016 | 2017 | 2018 | 2019 ^P |
|------------------------------|------|------|------|------|-------------------|
| 1. Bangladesh [@] | 6.4 | 5.9 | 5.4 | 5.8 | 5.5 |
| 2. India | 4.9 | 4.5 | 3.6 | 3.4 | 3.4 |
| 3. Pakistan | 4.5 | 2.9 | 4.1 | 3.9 | 7.3 |
| 4. Nepal | 7.2 | 9.9 | 4.5 | 4.2 | 4.5 |
| 5. Bhutan | 7.6 | 7.6 | 5.5 | 3.5 | 3.6 |
| 6. Sri Lanka | 2.2 | 4.0 | 6.6 | 4.3 | 4.1 |
| 7. Maldives | 1.9 | 0.8 | 2.3 | 1.4 | 1.5 |
| Other Asian countries | | | | | |
| 8. Thailand | -0.9 | 0.2 | 0.7 | 1.1 | 0.9 |
| 9. Singapore | -0.5 | -0.5 | 0.6 | 0.4 | 0.7 |
| 10. Malaysia | 2.1 | 2.1 | 3.8 | 1.0 | 1.0 |
| 11. Indonesia | 6.4 | 3.5 | 3.8 | 3.2 | 3.2 |
| 12. Korea | 0.7 | 1.0 | 1.9 | 1.5 | 0.5 |
| 13. Myanmar | 7.3 | 9.1 | 4.6 | 5.9 | 7.8 |

^P Projection

Sources: [@] BBS, Consumer Price Index (Base: FY06=100) and figures relate to financial year (July-June).
World Economic Outlook, October 2019.

sector index scored the lowest growth rate of 5.19 percent in FY19 (Table 3.5, Chart 3.7).

Near Term Inflation Outlook

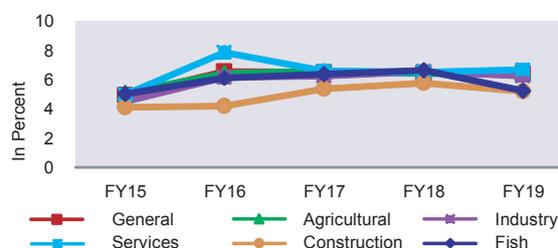
3.11 Consistent with the softening of energy prices and the moderation in growth, consumer price inflation is expected to average 1.5 percent in 2019 in advanced economies, down from 2.0 percent in 2018. Headline inflation is expected to rise gradually in the euro area from 1.2 percent in

2019 to 1.4 percent in 2020. Inflation in emerging market and developing economies excluding Venezuela is expected to inch down to 4.7 percent this year (Table 3.6). As inflation expectations become better anchored around targets in some economies and the pass-through from previous depreciations wanes further, inflation in the emerging market economy group is set to moderate to about 4.4 percent over the medium term (World Economic Outlook, October 2019)

3.12 Food and Agriculture Organization (FAO) in its biannual flagship publication Food Outlook May 2019 warned that food markets in 2019/20 would face some additional uncertainties beyond their own fundamentals. A fast-changing trade environment and the rapid spread of African Swine Fever constitute important challenges to overcome. However, prospects point to generally well supplied markets, which is seen to contribute to a lower food import bill in 2019. Less attractive margins and adverse weather are tentatively forecast to constrain world rice production in 2019 at 516.8 million tons from expanding beyond the 2018 all time high. Despite the forecast stagnation, world rice supplies should remain ample in 2019/20, bolstering expectations of global rice utilization expanding further. Given the expectations of a strong rebound in world wheat production and a less buoyant growth overall demand, global wheat markets should remain

Chart 3.7 Growth Rate of Wage Index

(base:FY11=100)



Sources : Bangladesh Bureau of Statistics.

Table 3.5 Trends in Wage Rate Indices

(base: FY11=100)

| | FY16 | FY17 | FY18 | FY19 |
|--------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| General | 132.81 (6.52) | 141.46 (6.50) | 150.59 (6.46) | 160.23 (6.40) |
| Agriculture | 132.48 (6.41) | 141.22 (6.59) | 150.27 (6.41) | 159.92 (6.42) |
| Agriculture | 132.44 (6.42) | 141.19 (6.60) | 150.23 (6.40) | 159.91 (6.44) |
| Fish | 134.59 (6.12) | 143.19 (6.37) | 152.63 (6.61) | 160.59 (5.22) |
| Industry | 132.02 (6.16) | 140.27 (6.24) | 149.45 (6.55) | 158.74 (6.22) |
| Construction | 129.97 (4.18) | 137.43 (5.37) | 145.32 (5.75) | 152.86 (5.19) |
| Production | 136.18 (7.70) | 146.01 (7.22) | 157.81 (8.08) | 170.66 (8.14) |
| Services | 136.03 (7.86) | 145.01 (6.60) | 154.44 (6.51) | 164.78 (6.69) |

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

Table 3.6 Global Inflationary Situation

(in percent)

| | 2017 | 2018 | 2019 | 2020 ^P |
|--|------|------|------|-------------------|
| Advanced Economies | 1.7 | 2.0 | 1.5 | 1.8 |
| United States | 2.1 | 2.4 | 1.8 | 2.3 |
| Euro Area | 1.5 | 1.8 | 1.2 | 1.4 |
| Emerging Market and Developing Economies | 4.3 | 4.8 | 4.7 | 4.8 |
| Emerging and Developing Asia | 2.4 | 2.6 | 2.7 | 3.0 |
| Bangladesh | 5.6 | 5.6 | 5.5 | 5.5 |
| India | 3.6 | 3.4 | 3.4 | 4.1 |
| Sri Lanka | 6.6 | 4.3 | 4.1 | 4.5 |
| Pakistan | 4.1 | 3.9 | 7.3 | 13.0 |

^P Projection

Source: World Economic Outlook, October 2019.

adequately supplied in 2019/20 with inventories rising - especially among the major exporters and prices expected to remain under pressure. Total wheat production in 2019 is pegged at 767 million tonnes, up 5.0 percent from 2018. The FAO

food rice index for April 2019 stood at 170.1, which was 172.7 in June 2018

3.13 In the FY20 national budget, the annual target for the average inflation rate was set at 5.50 percent. In the first six months of FY20 (July-December 2019), the average inflation rate of 5.59 percent exceeded the annual target by 0.09 percentage point. The average food and non-food inflation rates for the same month were found 5.56 percent and 5.64 percent respectively. The inflation expectation

surveys conducted by Bangladesh Bank revealed public perception of rising price pressure over the near term. Inflationary pressure during the spells of high and rising economic growth are quite prevalent as all the available factors of production running at or around capacity levels. There is also some risk of crop loss driven further increase in inflationary pressure in FY20 if the floods prolong or recur, calling for Bangladesh Bank's uninterrupted surveillance on price stability.