

Prices and Wages

Consumer Prices

3.1 The rising trend of inflation for a couple of years as measured by CPI continued during FY07. The expanding pressures of domestic demand supported by continued high monetary and credit growth, increase in international prices of major consumer goods (Table 3.3) particularly foods and petroleum products, adjustment in domestic fuel price, price manipulations through business syndication, and loss of business confidence resulting from anti corruption and anti hoarding drive in the country contributed to inflation spirals. While 12 month point to point CPI inflation (base: FY96=100) showed a significant increase from 7.5 percent in FY06 to 9.2 percent in FY07, average inflation measured by 12-month average movements in CPI, demonstrated a marginal increase from 7.16 percent in FY06 to 7.20 percent in FY07 (Table 3.1, Chart 3.1). The point to point food and non-food prices inflation showed mixed trends during FY07. The food inflation spurred from 8.8 percent in June 2006 to 9.0 percent in October 2006, thereafter showing a declining trend and fell to 6.7 percent in January 2007 which was the lowest rate of food inflation in FY07. The rate of food inflation began to increase again from February 2007 and recorded 9.8 percent at the end of June 2007 which was the highest rate after October 2004 (10.5 percent). The non-food inflation on the other hand, decreased from 5.7 percent in June 2006 to 4.7 percent in December 2006. The rate of non-food inflation then indicating an increasing tendency reached to 8.3 percent in June 2007.

3.2 The 12-month average food prices inflation showed a mixed trend whereas non-food price indicated decreasing trend upto March 2007 and

Chart 3.1

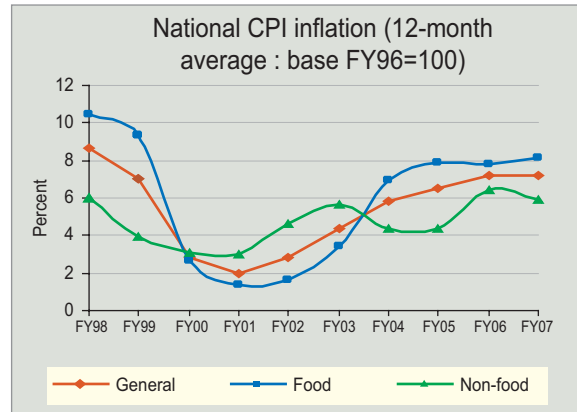


Chart 3.2

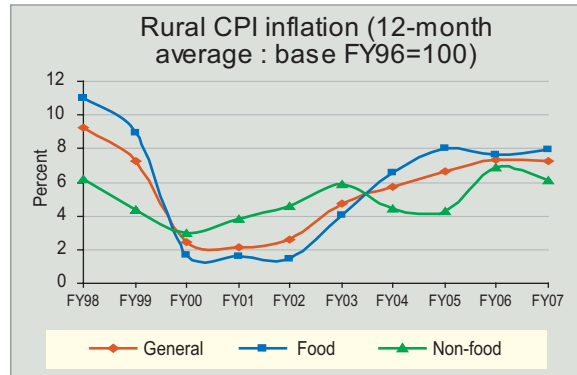
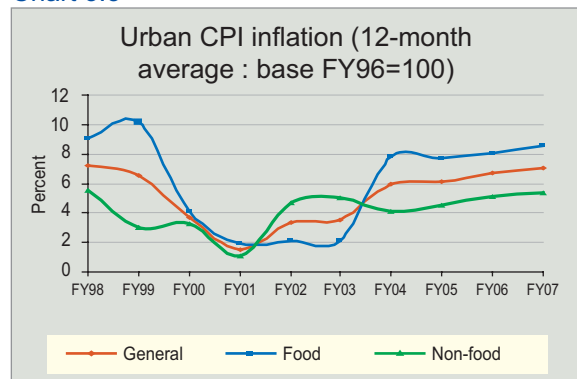


Chart 3.3



thereafter started increasing till June 2007. The food price inflation increased at a higher rate by 8.1 percent in FY07 compared with 7.8 percent increase in FY06, while the non-food component increased at a lower rate by 5.9 percent in FY07 compared with 6.4 percent increase recorded in FY06 (Table 3.1, Chart 3.1). The food price trend was largely affected by the higher cost of foods for both domestic and international markets. Annual average CPI inflation in the rural areas increased at a slightly lower rate by 7.3 percent in FY07 compared to 7.4 percent increase of FY06 (Table 3.1, Chart 3.2). The component of food prices rose at a higher rate by 7.9 percent in FY07 relative to 7.6 percent increase in FY06, while the non-food component increased lower by 6.1 percent in FY07 against 6.9 percent rise in FY06. Annual average CPI inflation in the urban areas increased by 7.0 percent in FY07 against 6.7 percent increase in FY06 (Table 3.1, Chart 3.3). The food prices component of urban CPI increased by 8.5 percent in FY07 compared with 8.1 percent increase in FY06, while the non-food component increased by 5.3 percent in FY07 compared with 5.1 percent increase in FY06. Urban consumers experienced 8.5 percent food price inflation in FY07 whereas the rate was 7.9 for the consumers in rural areas. The situation may be attributed to higher cost of domestic food production due to high price of fuel, seeds, fertilizers and insecticides etc. and higher transport cost. Moreover, supply shock for food items due mainly to high prices of imported foods in the international markets, the activities of business syndication and loss of business confidence contributed to higher food inflation. On the other hand, rural consumers faced 6.1 percent inflation for the non-food component which was 5.3 percent for the consumers in urban areas. It may be explained by the fact that the Government's upward refixation of energy prices in April 2007, particularly of randomly used kerosene and diesel, fueled in higher transport cost. These inter alia, encouraged the price hike of non-food essential items in rural areas.

3.3 Growth of money supply and domestic credit remained high in FY07. Broad Money and

Table 3.1 Annual average CPI inflation (base FY96=100)

Group	Weight	FY05	FY06	FY07
a. National level				
General Index	100.00	153.24 (6.49)	164.21 (7.16)	176.04 (7.20)
Food	58.84	158.08 (7.90)	170.35 (7.76)	184.16 (8.11)
Non-food	41.16	147.14 (4.33)	156.56 (6.40)	165.79 (5.90)
b. Rural				
General Index	100.00	154.03 (6.62)	165.37 (7.36)	177.41 (7.28)
Food	62.96	156.82 (7.99)	168.77 (7.62)	182.16 (7.93)
Non-food	37.04	149.29 (4.27)	159.59 (6.90)	189.33 (6.10)
c. Urban				
General Index	100.00	151.29 (6.14)	161.39 (6.68)	172.72 (7.02)
Food	48.80	161.14 (7.71)	174.18 (8.09)	189.03 (8.53)
Non-food	51.20	141.90 (4.49)	149.20 (5.14)	157.17 (5.34)

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

Table 3.2 Inflation[#] trend in SAARC and other neighbouring countries

Name of Countries	2003	2004	2005	2006	2007
1. Bangladesh [@]	4.4	5.8	6.5	7.16	7.2
2. India	3.8	3.8	4.3	5.8	6.7 (Apr.)
3. Pakistan	2.9	7.4	9.1	7.9	7.4 (May)
4. Nepal	5.7	2.8	6.8	7.6	4.6 (May)
5. Bhutan	2.1	4.6	5.3	5.0	-
6. Sri Lanka	6.3	7.6	11.6	13.7	13.7 (May)
7. Maldives	-2.9	6.4	3.3	3.7	6.4 (May)
Other Asian Countries					
8. Thailand	1.8	2.8	4.5	4.6	1.9 (June)
9. Singapore	0.5	1.7	0.5	1.0	1.1 (May)
10. Malaysia	1.1	1.5	3.0	3.6	1.5 (June)
11. Indonesia	6.6	6.2	10.5	13.1	6.0 (May)
12. Korea	3.6	3.6	2.8	2.2	2.6 (June)

Source : (i) Bangladesh Bureau of Statistics (BBS).
(ii) International Financial Statistics (IFS), IMF, August 2007.
[#] Consumer Price Index (base: 2000=100).
[@] Consumer Price Index (base : 1995-96=100), figures relate to financial year (July-June).

domestic credit recorded growth of 22.3 percent and 20.7 percent respectively in December 2006 while it stood at 17.1 percent and 14.5 percent in June, 2007 due to better monetary

management. The increasing trends in two important macroeconomic variables viz exports and workers' remittances supported the growth of net foreign assets with a significant share of broad money growth resulted in higher inflation in FY07. The growth in broad money was much higher than programmed at 14 percent and the nominal GDP growth rate of 12.5 percent in FY07. If money supply is growing ahead of nominal Gross Domestic Products (GDP), inflation cannot be far behind. Moreover, owing to disruption of production in the exporting countries against increasing demand in emerging market economies, international

Table 3.3 Changes in international prices of major commodities (Percentages)

Commodity	2003	2004	2005	2006	2007*
Petroleum	15.8	30.8	41.3	20.4	-4.1
Cotton	37.1	-2.3	-11.0	5.2	0.0
Rice	4.0	23.2	17.1	5.5	5.7
Wheat	-1.6	7.3	-2.8	25.8	5.4
Palm oil	25.0	5.9	-15.4	13.4	52.2
Soybean oil	22.1	18.0	-16.0	11.2	27.9
Sugar	8.8	12.2	-0.7	1.3	6.7

Source : International Financial Statistics, IMF, August 2007
* Upto June 2007

Chart 3.4

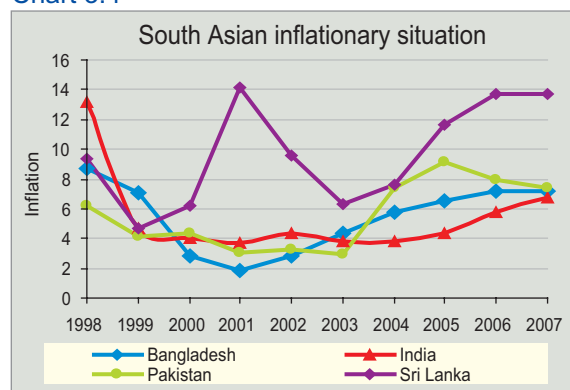


Chart 3.5

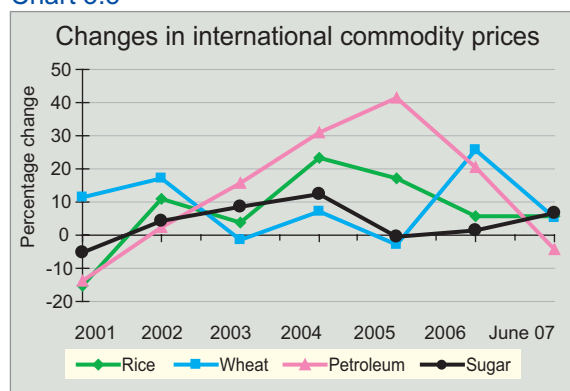


Table 3.4 Annual average national level CPI by consumption basket sub-groups (base : FY96=100)

Group/sub-group	Weight	FY05	FY06	FY2007	% Change (4-3)	% Change (5-4)
1	2	3	4	5	6	7
General index	100.00	153.24	164.21	176.04	7.16	7.20
1. Food, beverage and tobacco	58.84	158.08	170.35	184.16	7.76	8.11
2. Non-food of which	41.16	147.14	156.56	165.79	6.40	5.90
i) Clothing & footwear	6.85	142.15	148.35	156.79	4.36	5.69
ii) Gross rent, fuel & lighting	16.87	141.43	152.05	162.32	7.49	6.78
iii) Furniture, furnishing, household equipment & operation	2.67	143.18	151.21	162.61	5.60	7.54
iv) Medical care & health expenses	2.84	162.47	169.62	178.49	4.40	5.23
v) Transport and communications	4.17	179.94	191.66	201.15	6.51	4.95
vi) Recreation, entertainment, education & cultural services	4.13	150.23	165.42	171.47	10.11	3.66
vii) Miscellaneous goods and services	3.36	137.78	143.25	151.44	3.97	5.72

Source : Bangladesh Bureau of Statistics.

prices of foods went up significantly. Side by side, international petroleum price has been hovering over near USD 70 per barrel which fueled inflation as internal prices are linked to international prices. In order to siphon off the burden of oil subsidy as well as to make oil prices symmetric with international oil prices, the Government refixed the internal fuel prices (increasing the prices of Kerosene and Diesel by 21.2 percent, Petrol by 16.1 percent and Octane by 15.5 percent) in April 2007. This upward adjustment of fuel prices affected the prices of essential commodities. Other non-economic factor like business syndication and loss of business confidence in the domestic business community might have contributed to high prices of daily essentials.

3.4 The South Asia region recorded mixed inflationary trends in FY07 due mainly to higher prices of fuel and essential goods in the global markets. The available data showed that CPI inflation in Bangladesh, India, Maldives, Korea and Singapore experienced upward trends during 2007 having inflation of 7.2 percent (June 2007), 6.7 percent (April 2007), 6.4 percent (May 2007), 2.6 percent (June 2007) and 1.1 percent (May 2007) respectively. By contrast to this trend, CPI inflation in Pakistan (7.4 percent in May 2007), Indonesia (6.0 percent in May 2007), Nepal (4.6 percent in May 2007), Thailand (1.9 percent in June 2007) and Malayasia (1.5 percent in June 2007) decreased though inflation of those countries were still high in 2007. Sri Lanka topped the list among those which are facing higher inflation.

Wage Rate Trends

3.5 BBS data show that wage rate increased in almost all sectors in FY07, although it depicted volatile scenarios in last couple of years. Annual average wage rate indices (Table 3.5, Chart 3.6) indicate that the general wage rate increased at a lower rate by 4.5 percent in FY07 than that (9.8 percent) of FY06. The wage rate in the manufacturing, construction, agricultural and fisheries sectors increased by 4.3 percent, 6.3 percent, 4.4

Chart 3.6

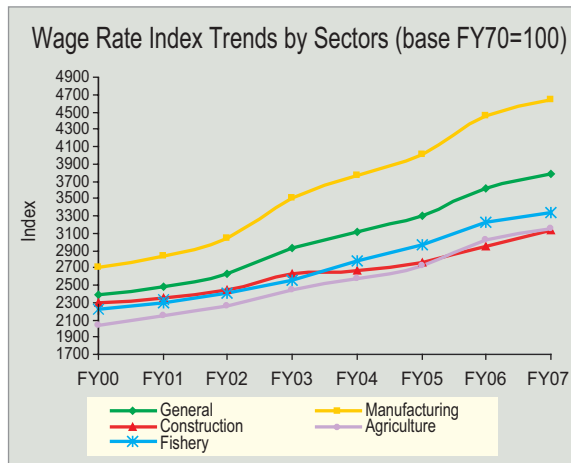


Table 3.5 Trends of wage rate indices

		(base FY70=100)				
		FY03	FY04	FY05	FY06	FY07
General		2926.3	3111.1	3292.9	3615.4	3778.8
		(10.96)	(6.32)	(5.84)	(9.79)	(4.52)
Manufacturing		3501.0	3765.4	4015.0	4444.6	4635.9
		(15.37)	(7.55)	(6.63)	(10.70)	(4.30)
Construction		2624.3	2668.5	2758.2	2948.5	3134.8
		(7.39)	(1.68)	(3.36)	(6.90)	(6.32)
Agriculture		2442.6	2581.5	2719.2	3021.5	3155.7
		(7.96)	(5.69)	(5.33)	(11.12)	(4.44)
Fishery		2562.6	2774.8	2957.6	3217.7	3332.0
		(6.30)	(8.28)	(6.58)	(8.81)	(3.55)

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

percent and 3.6 percent respectively in FY07 as compared to 10.7 percent, 6.9 percent, 11.1 percent and 8.8 percent respectively in FY06. Wage rates increases of manufacturing, agricultural, fisheries and construction sectors stayed below the rates of consumer price inflation (7.2 percent) in FY07. It appears from this scenario that the income level of that section of people increased at a lower rate which resulted in lower purchasing power of the population living below the poverty line due mainly to higher cost of living.

Medium Term Inflation Outlook

3.6 Global economy passed through a mixed trend in consumer price inflation in 2006. Advanced economies experienced a stable position of inflation while inflation decreased slightly in emerging markets and developing countries. Inflation in South Asian countries recorded upward trend in 2006. Inflationary pressures in Asian region remained generally well contained with monetary tightening and currency appreciation. But due to worldwide continuous increase of petroleum and food prices, Asian countries may face more challenge for higher inflation. To meet the problem some further tightening measures are likely to be needed in these countries. However, consumer price inflation is projected to remain lower at 2.1 percent in advanced countries while the rate is estimated at 5.9 percent in emerging markets and developing countries, and at 6.6 percent in South Asia for 2007 (Table 3.6). However, Bangladesh has been experiencing a moderate inflation rate for a couple of years due mainly to price hike of oil and other importable commodities in the international markets. Sri Lanka recorded the highest inflation rate in Asian region. India and Pakistan contained inflation at a moderate level. Bangladesh enchainned its inflation under two digits for 2006, which is projected at 7.2 percent for 2007 as authorities have already taken some precautionary measures including adoption of contractionary monetary and appropriate financial policies by the Bangladesh Bank.

After reaching a record high of USD 76 a barrel in August 2006, the average petroleum price in international market declined sharply to around USD 55-60 during October-December 2006. Though the oil price fluctuated, it remained strong in response to increasing global demand in emerging markets like China, India and Middle East in 2006 which grew by 0.8 million barrels a day (mbd), less than expected and below 1.3 mbd growth in 2005. Looking forward, the International Energy Agency (IEA) is projecting global oil consumption growth of 1.6 mbd in 2007.

Table 3.6 Global inflationary situation

(Percentage changes)

	2005	2006	2007*	2008*
Advanced economies	2.3	2.3	2.1	2.0
Other emerging market and developing countries	5.2	5.1	5.9	5.3
South Asia	5.0	6.4	6.6	4.9
Bangladesh	7.0	6.5	7.2	6.3
India	4.2	6.1	6.2	4.4
Pakistan	9.3	7.9	7.8	7.0
Sri Lanka	10.6	9.5	17.0	11.5

Source : WEO, October 2007, IMF.

* Projection.

Future and options market indicated that the oil price will experience risk on the upside. At the same time, the IMF non-fuel commodity index rose record high by 28 percent in 2006, driven by a surge in metal (57 percent) and agricultural prices (10 percent). The non-fuel commodity index is expected to be high further in 2007 as global foods and metals prices remain strong.

Global food prices rose by 10 percent in 2006, due to higher prices of corn, wheat and soybean oil. Wheat stock reached at the lowest level in 26 years, driven by poor production of wheat of major producing countries due to adverse weather condition. The largest ethanol consumer USA is using corn as a raw material for bio-diesel ethanol and for higher bio-diesel which use soybean and other edible oils. Looking forward, recent proposals to augment production against their growing demand in the USA and Europe will likely put additional upward pressure on corn, wheat and edible oil prices.

In this backdrop, it may be predicted that in 2007 inflation will remain almost stable in advanced economies while there is a possibility of higher inflation in emerging markets and developing countries particularly in South Asian region.