

## Prices and Wages

### Consumer Prices

3.1 The global economic recession influenced inflation of the emerging countries like Bangladesh. The softening of inflationary pressures in Bangladesh has been continuing since October 2008. The falling trend in inflation during FY09 was mainly driven by decline in commodity prices in the international markets particularly of foods and fuel, bumper domestic food production and its supply, restoration of business confidence and stability in political situation. The average inflation measured by 12-month average basis (base: FY96=100) depicted a notable decline from 9.9 percent in FY08 to 6.7 percent in FY09 (Table 3.1, Chart 3.1). Similarly 12-month point to point CPI inflation also showed a nosedive fall to only 2.3 percent in FY09 from 10.0 percent in FY08.

The change in both point to point and annual average food inflation showed notable decreases in FY09. The food inflation measured by annual average basis declined significantly to 7.2 percent in FY09 as against 12.3 percent in FY08. The point to point food inflation also declined to only 0.3 percent in FY09 as compared to 14.1 percent in FY08. The average non-food inflation followed downward trend during FY09 which fell to 5.9 percent in June 2009 from 6.3 percent in June 2008. On the other hand, the point to point non-food inflation increased from 3.5 percent in June 2008 to 5.9 percent in June 2009 (Table 3.1, Chart 3.1).

3.2 Monthly percentage change in CPI inflation showed mixed trends in FY09. Monthly general

Chart 3.1

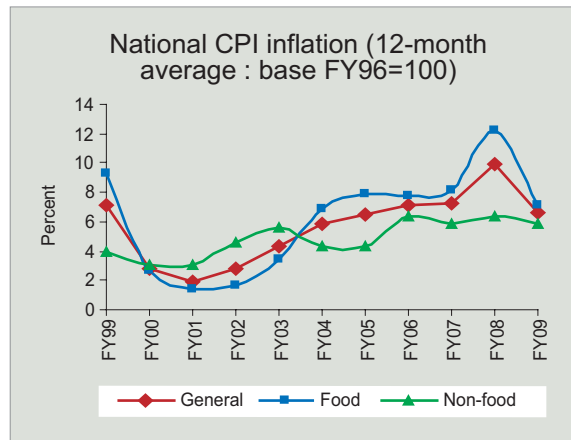
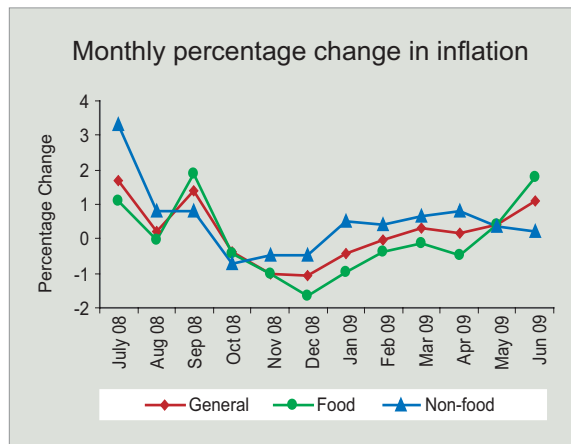


Chart 3.2



CPI from October to February, 2008-09 indicated negative magnitude and since March 2009 it recorded positive figures. Monthly percentage changes in CPI increased by 1.7 percent in July 2008 which was the highest in FY09. Monthly food Inflation indicated mostly declining trend while non-food inflation showed increasing trend in most of the months (Chart 3.2).

The prices of food items were relatively lower mainly due to lower import prices in the international markets, lower and subsidized input costs and bumper domestic production of food grains.

Aided by some effective policy measures taken by the government with timely and adequate supply of agricultural inputs like fertilizers, seeds, pesticides and fuel resulted in bumper harvest of *Aus*, *Aman*, *Boro*. Other sub-sectors of agriculture also significantly influenced in achieving higher agricultural output growth in FY09. The actual production of *Boro* stood at 17.80 MMT metric tons in FY09 as compared to the production of 17.76 MMT metric tons in FY08. On the other hand, *Aman* production was 11.6 MMT metric tons in FY09 which was 9.7 MMT metric tons in FY08. Moreover, withdrawal of ban on food export by India had some positive impacts on the availability of food supply.

The data on inflation reveal that inflation in Bangladesh is influenced by food and fuel prices. Higher food and fuel prices obviously affect inflation rate. The recent declining trend in food and non-food inflation may be explained by the decline in global commodity prices like petroleum, rice, pulses, onion, edible oil and other food items and higher domestic production of food due to favourable weather condition and some effective measures taken by the Government which included conducting open market operation, exemption of duties on essential commodities, sufficient import of foodgrains, strengthening of internal procurement and its supply, expansion of subsidies on fuel and fertilizer and widening of social safety net programmes etc.

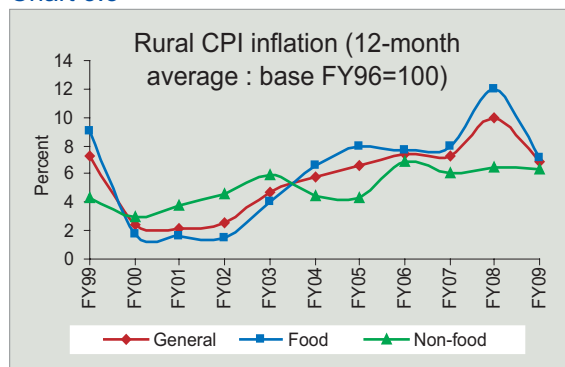
The government's downward adjustment of fuel prices contributed positive impact on transport cost which resulted in lower non-food inflation.

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

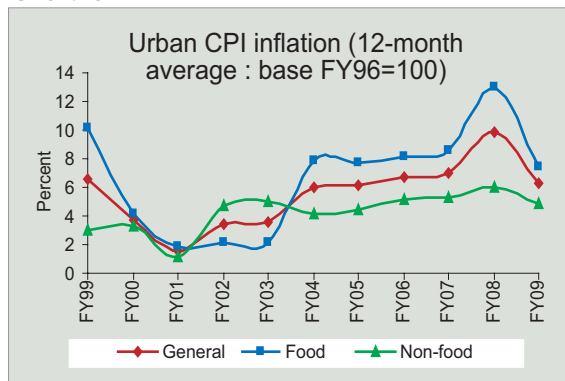
Group	Weight	FY07	FY08	FY09
<b>a. National level</b>				
General Index	100.00	176.04 (7.20)	193.54 (9.94)	206.43 (6.66)
Food	58.84	184.16 (8.11)	206.78 (12.28)	221.64 (7.19)
Non-food	41.16	165.79 (5.90)	176.26 (6.32)	186.67 (5.91)
<b>b. Rural</b>				
General Index	100.00	177.41 (7.28)	195.14 (9.99)	208.45 (6.83)
Food	62.96	182.16 (7.93)	203.93 (11.95)	218.38 (7.09)
Non-food	37.04	169.33 (6.10)	180.19 (6.41)	191.59 (6.33)
<b>c. Urban</b>				
General Index	100.00	172.72 (7.02)	189.65 (9.80)	201.49 (6.24)
Food	48.80	189.03 (8.53)	213.73 (13.07)	229.60 (7.43)
Non-food	51.20	157.17 (5.34)	166.69 (6.06)	174.69 (4.80)

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

**Chart 3.3**



**Chart 3.4**



Rural CPI carries higher weight in general CPI as compared to urban CPI which are 70.89 percent and 29.11 percent respectively. Annual average CPI inflation in the rural areas decreased to a moderate rate of 6.8 percent in FY09 from 10.0 percent in FY08 (Table 3.1, Chart 3.3). The component of food prices declined significantly to 7.1 percent in FY09 from 12.0 percent in FY08, while the non-food component decreased slightly to 6.3 percent in FY09 from 6.4 percent in FY08.

Annual average CPI inflation in the urban areas decreased to 6.2 percent in FY09 from 9.8 percent in FY08 (Table 3.1, Chart 3.4). The food prices component of urban CPI gradually decreased to 7.4 percent in FY09 from 13.1 percent in FY08. The non-food component also decreased to 4.8 percent in FY09 from 6.1 percent in FY08. Urban consumers experienced a slightly higher rate of 7.4 percent food price inflation in FY09, whereas the rate was 7.1 percent for the consumers in rural areas.

3.3 Higher production in the food producing and exporting countries due to favourable weather condition, decrease in using foods as biofuel particularly in the USA and European countries against falling demand of those countries, have contributed to decline in international prices of foods significantly. After creating a new record of USD 147 per barrel in July 2008, international price of petroleum showed nosedive fall to near USD 40 per barrel in FY09 which also contributed to ease pressure on inflation.

International prices of food and non-food items went down significantly in FY09 and onward as compared to that of the previous fiscal year. The prices of the rice, wheat, palm oil, soybean oil, sugar and petroleum recorded decrease of 15.4, 29.6, 26.7, 32.1, 30.6 and 39.0 respectively upto September 2009 (Table 3.2, Chart 3.5).

**Table 3.2 Changes in international prices of major commodities (percentages)**

Commodity	2005	2006	2007	2008	2009* (Sep)
Petroleum	41.3	20.5	11.4	37.1	-39.0
Rice	17.1	5.5	9.5	110.7	-15.4
Wheat	-2.8	25.8	33.1	27.7	-29.6
Palm oil	-15.4	13.4	72.5	20.0	-26.7
Soybean oil	-16.0	11.2	45.0	41.8	-32.1
Sugar	-0.7	46.5	-32.4	-25.0	-30.6

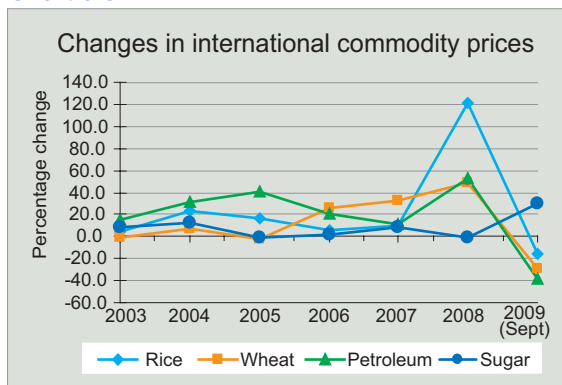
Source : International Financial Statistics, IMF, September, 2009  
\* Average upto September 2009.

**Table 3.3 Inflation# trend in SAARC countries**

Name of Countries	2005	2006	2007	2008	2009* (Sep)
1. Bangladesh@	6.5	7.16	7.2	9.9	5.2
2. India	4.2	5.8	6.4	8.3	11.7*
3. Pakistan	9.1	7.9	7.6	20.3	17.1
4. Sri lanka	11.6	10.0	15.8	25.2	6.6

Source : Bangladesh Bureau of Statistics (BBS) International Financial Statistics (IFS), IMF.  
# Consumer Price Index (base : 2000 =100)  
\* = August  
@ = Consumer Price Index (base : FY96 = 100), figures relate to financial year (July - June)

**Chart 3.5**



**Chart 3.6**

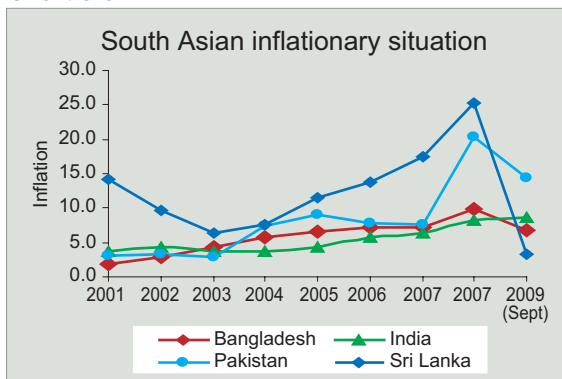


Table 3.4 Annual average national level CPI by consumption basket sub-groups (base : FY96=100)

Group/sub-group	Weight	FY07	FY08	FY09	% Change (4-3)	% Change (5-4)
1	2	3	4	5	6	7
<b>General index</b>	<b>100.00</b>	<b>176.04</b>	<b>193.54</b>	<b>206.43</b>	<b>9.94</b>	<b>6.66</b>
<b>1. Food, beverage and tobacco</b>	<b>58.84</b>	<b>184.16</b>	<b>206.78</b>	<b>221.64</b>	<b>12.28</b>	<b>7.19</b>
<b>2. Non-food of which</b>	<b>41.16</b>	<b>165.79</b>	<b>176.26</b>	<b>186.67</b>	<b>6.32</b>	<b>5.91</b>
i) Clothing & footwear	6.85	156.79	164.53	173.10	4.94	5.20
ii) Gross rent, fuel & lighting	16.87	162.32	174.70	184.46	7.62	5.59
iii) Furniture, furnishing, household equipment & operation	2.67	162.61	178.48	194.75	9.76	9.12
iv) Medical care & health expenses	2.84	178.49	185.67	189.25	4.02	1.93
v) Transport and communications	4.17	201.15	211.01	222.12	4.90	5.27
vi) Recreation, entertainment, education & cultural services	4.13	171.47	174.86	181.44	1.98	3.76
vii) Miscellaneous goods and services	3.63	151.44	166.69	188.84	10.07	13.29

Source : Bangladesh Bureau of Statistics

3.4. The South Asian countries depicted declining trends in inflation during FY09. Among those, Bangladesh (5.2 percent in September 2009), Sri Lanka (6.6 percent in September 2009), showed below double digit inflation. Pakistan was the highest among those countries having 17.1 percent inflation in September 2009 (Table 3.3, Chart 3.6).

### Wage Rate Trends

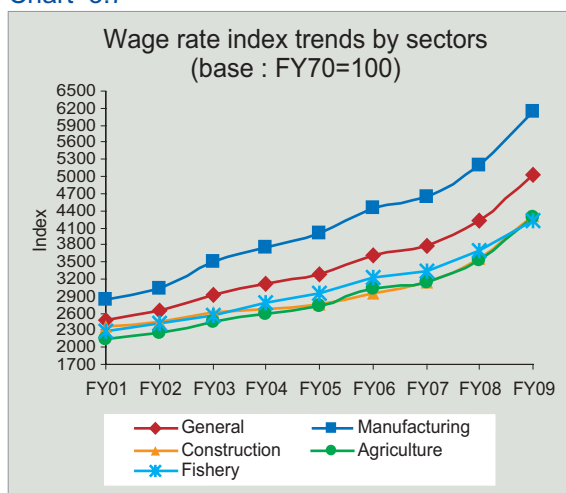
3.5 The BBS data show the robust growth in wage rate in FY09. The growth of annual wage rate (Table 3.5, Chart 3.7) stood at 18.9 percent in FY09 than 11.9 percent of FY08. The wage rate in the manufacturing, construction, agriculture and fisheries sectors increased by 17.9, 21.5, 21.3 and 14.9 percent respectively in FY09 as compared to 12.1 percent, 13.2 percent, 11.7 percent and 10.6 percent respectively in FY08. Wage rates for all the sectors were double or triple as compared to the rate of consumer price inflation (6.7 percent) in FY09. It is notable that the income levels of the poor people as well as production costs for all the sectors have increased due to higher wage rates which resulted in higher commodity prices and higher purchasing power of the poor people.

Table 3.5 Trends of wage rate indices

(base : FY70=100)					
	FY05	FY06	FY07	FY08	FY09
General	3292.9 (5.85)	3615.4 (9.79)	3778.8 (4.52)	4227.4 (11.87)	5025.7 (18.88)
Manufacturing	4015.0 (6.63)	4444.6 (10.70)	4635.9 (4.30)	5196.8 (12.10)	6128.36 (17.93)
Construction	2758.2 (3.36)	2948.5 (6.90)	3134.8 (6.32)	3549.2 (13.22)	4311.3 (21.47)
Agriculture	2719.2 (5.33)	3021.5 (11.12)	3155.7 (4.44)	3524.0 (11.67)	4273.7 (21.27)
Fishery	2957.3 (6.58)	3217.7 (8.81)	3332.0 (3.55)	3686.1 (10.63)	4236.5 (14.93)

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

Chart 3.7



### Near Term Inflation Outlook

3.6 Inflationary pressures have subsided quickly in parallel with the rapid cooling of global economic activities. Commodity prices fell sharply from mid-year highs, undercut by the weakening demand from the emerging economies in recent years. By December 2008, the IMF commodity price index had declined by almost 55 percent from its July peak last year. The sharp deterioration in global growth prospects associated with the global financial turmoil during September and October 2008, led to accelerated downward price adjustment through November 2008. Commodity prices broadly stabilized in December 2008. Since then prices have mostly fluctuated within a range, with several so far short-lived rallies for some commodities.

The global market experienced continued price fall of essential commodities like rice, wheat, edible oil and crude oil etc. The latest prediction of the FAO shows that global production of rice and wheat would be higher than the estimation of the last year. Higher global prediction of rice has been attributable to bumper production of rice in India and China. On the other hand, higher production of wheat is estimated due to increase acreage and enhanced yield in Morocco and Australia. In addition, new estimation for production of wheat has been made for enhanced production in India and Mexico. International prices of rice in Thailand decreased to the range of USD 70-186/tons in March 2009 as compared to same month last year. The data provided by Medium Grain Rice Market show that China will export 1.3 million tons of high quality rice to Japan, South Korea, Sub-Sahara Africa and low income Asian countries. Price of rice declined in both domestic and international markets in Thailand because of lower external demand.

**Table 3.6 Global inflationary situation**

	(Percentage change)			
	2007	2008	2009*	2010*
Advanced economies	2.2	3.4	0.1	1.1
Emerging and developing economies	6.4	9.3	5.5	4.9
Emerging Asia	4.9	7.0	2.7	3.2
Bangladesh	9.1	7.7	5.3	5.6
India	6.4	8.3	8.7	8.4
Pakistan	7.8	12.0	20.8	10.0
Sri Lanka	15.8	22.6	4.6	13.0

Source : WEO, October 2009, IMF \* Projection

As oil markets have been seriously affected by the rapid decline in global economic activity, the oil prices collapsed to about USD 36 a barrel in February 2009, after peaking at all time record high of USD 143 a barrel on 11 July, 2008. Since then prices have broadly stabilized in the USD 75 a barrel, started to go up somewhat and on an annual basis, global oil production increased by 0.9 million barrel per day (mbd) in 2008, double of the increase recorded in the previous year. On the other hand, global oil demand fell by 0.4 mbd in 2008. This decline was entirely attributable to sharply decelerating demand in advanced countries particularly in the United States and Japan. Oil demand in emerging and other developing economies continued to increase through 2008, albeit at a slowing pace in all regions but the Middle East.

With higher production and falling demand in 2008, on average supply exceeded demand by 0.7 mbd, implying substantial inventory accumulation at the global level. In the aggregate, supply is likely to fall more than demand due to global demand decrease, largely because of further decrease in OECD demand and oil market tightness is expected to reemerge in 2009 (WEO, April 2009). So price is expected to stabilize and rise moderately in emerging and developing economies in the near future.

CPI inflation is projected at 0.1 percent in advanced countries and 5.5 percent in emerging markets and developing countries whereas the rate is estimated at 2.7 percent for Emerging Asia in 2009. For 2010, the inflation rates are projected to 1.1 percent for advanced countries, 4.9 percent for emerging and developing economies and 3.2 percent for emerging Asia (Table 3.6).

Bangladesh has been showing softening of inflation rates for a couple of months due mainly to price fall of oil and other essential commodities in the domestic and international markets. As per projection of the IMF, Bangladesh would contain 6.4 percent inflation for 2009 due to some effective measures already taken by the authority including adoption of growth-supporting monetary and financial policies.

The persistent recession in the global economy tamed the high inflationary pressure in South Asian countries. India, Pakistan and others have already adopted measures to curb the

higher inflationary situation. Table 3.3 shows that inflation in Pakistan fell down to 17.1 percent September 2009 as against 20.3 percent in December 2008. Sri Lanka achieved significant progress in curbing inflation where inflation declined to only 6.6 percent in September 2009 compared to 25.2 percent in December 2008.

In this global recessionary situation, easing of inflationary pressure likely to continue particularly in emerging and developing countries like Bangladesh. Although in the beginning of FY09, annual average inflation of Bangladesh started with double digit level of 10.0 percent in July 2008, came down to single digit level of 6.7 percent in June 2009. The plummeting trends in global commodity prices by and large ceased in the beginning of 2009, and continued upward trend in domestic real estate prices and the liquidity overhang in the economy may have inflationary consequences. Therefore, the declining trend in CPI inflation in FY10 is expected to be smaller and slower from 6.7 percent of end FY09 to 6.5 percent by end FY10.