

Price and Inflation

Overview

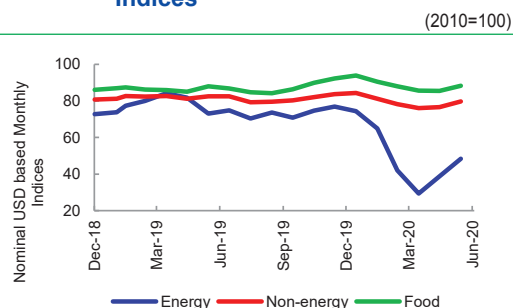
3.1 The global inflation environment remained benign during 2019 because of low commodity prices and accommodative monetary policy stance undertaken by most central banks across the world. Global inflation eased to 2.3 percent in 2019 from 2.5 percent in the previous year. But, during the first half of 2020, industrial production and supply chains were disrupted by the rapid and unprecedented breakout of the COVID-19 and consequential lockdown across most countries. In Bangladesh, the twelve-month point-to-point general inflation crept up from 5.5 percent in June 2019 to 6.0 percent in June 2020 because of uncertainty and supply chains disruption caused by the COVID-19 pandemic. The twelve-month point-to-point food inflation edged up to 6.5 percent in June 2020 from 5.4 percent in June 2019. On the other hand, the twelve-month point-to-point non-food inflation eased to 5.2 percent at end June 2020 from 5.7 percent of end June 2019 amidst volatility due to subdued demand for elastic items. Consequently, headline twelve-month average inflation¹ stood at 5.7 percent in FY20, slightly higher than the target of 5.5 percent due to food availability and a number combined fiscal and monetary policy measures taken by the government and Bangladesh Bank.

Global Inflation Scenario

3.2 The World Bank Commodity Price

¹ Headline twelve-month average inflation is measured based on the year-on-year percentage change of twelve-month average National CPI (a combination of rural and urban CPI), base 2005-06=100, source: Bangladesh Bureau of Statistics).

Chart 3.1 International Commodity Price Indices



Source: World Bank Commodity Price Data, World Bank.

Data showed that rice price stood at USD 520 per metric ton in June 2020, increasing from USD 420 per metric ton in June 2019 with some volatility; While wheat prices went down to USD 200.5 per metric ton from USD 222.4 per metric ton amid volatility. Monthly indices of world bank commodity price data (Chart 3.1) showed that food price index remained stable around USD 88 during June 2019 to June 2020 with some fluctuations in the range of USD 84.2- 93.9. In non-food category, before the COVID-19 in November-December 2019, oil prices picked up to USD 63.4 per barrel in December 2019 from USD 54.0 in December 2018. However, oil prices dropped sharply in January - April 2020 by the COVID-19 led lockdown. Oil price plunged to USD 21.0 per barrel in April 2020, the historical lowest since January 2016, and increased at USD 39.5 in June 2020.

3.3 The rapid transmission of the COVID-19 pandemic across the world has changed the global economic scenario along with losses of human lives and livelihoods. The surge of the COVID-19 in the third quarter of FY20 led lockdown across the globe and

contracted the world economic activities, weakening demand condition. Reflecting these developments in the global commodity prices braced consumer price inflation in early 2020 in a number of economies. During the period, many emerging markets and developing economies including advanced economies experienced easing of inflation, although a sort of pressure from rising food prices triggered by the COVID-19 was also visible.

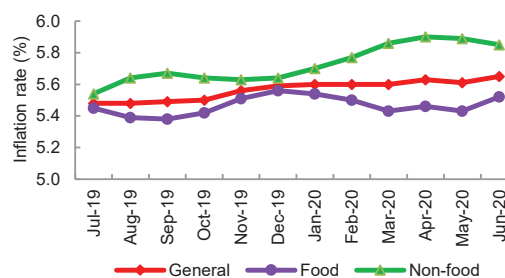
Inflation in Bangladesh

3.4 The twelve-month point to point general inflation increased to 6.0 percent in June 2020 amid fluctuations from 5.5 percent in June 2019, driven by the increase in food inflation, emanated mostly from uncertainty due to the COVID-19 pandemic. Point to point food inflation moderated to 4.9 percent in March 2020 with minor fluctuations from 5.4 percent of June 2019 due to adequate supply of food while there was a pickup of 6.5 percent in June 2020 caused by disruption of supply chain. On the other hand, a moderate pressure in point to point non-food is experienced in the second half of FY20 on the back of higher remittance inflows and increase in medical care along with health related expenses. However, point to point non-food inflation eased to 5.2 percent in June 2020 due to subdued demand for elastic items because of losing employment and cut of salaries. Consequently, headline twelve-month average inflation went up to 5.7 percent in June 2020, slightly higher than the target ceiling as well as actual inflation of 5.5 percent recorded in June 2019 (Chart 3.2 and appendix-3, Table VII).

3.5 In FY20, twelve-month average food inflation experienced broadly a stable trend with a trifling volatility ranging from 5.4 to 5.6 percent and ended up with 5.5 percent in June

Chart 3.2 Trends of CPI Inflation in FY20

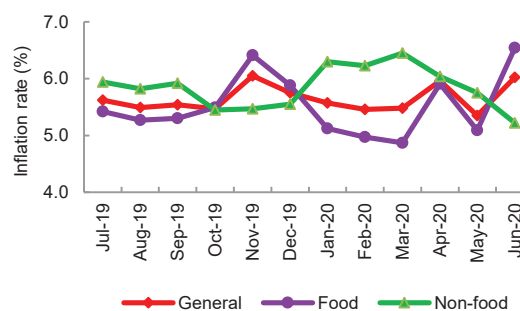
(twelve-month average : FY06=100)



Source: BBS.

Chart 3.3 Trends of CPI Inflation in FY20

(Point-to-point : FY06=100)



Source: BBS.

Table 3.1 Annual Average CPI based Inflation

(FY06=100)

Group	Weight	FY17	FY18	FY19	FY20
a. National level					
General Index	100.00	231.82 (5.44)	245.22 (5.78)	258.65 (5.48)	273.26 (5.65)
Food	56.18	248.90 (6.02)	266.64 (7.13)	281.33 (5.51)	296.96 (5.56)
Non-food	43.82	209.92 (4.57)	217.76 (3.73)	229.58 (5.43)	243.00 (5.85)
b. Rural					
General Index	100.00	231.02 (4.95)	244.17 (5.69)	256.74 (5.15)	271.20 (5.63)
Food	61.41	243.08 (5.55)	259.86 (6.90)	273.55 (5.27)	289.08 (5.68)
Non-food	38.59	211.83 (3.88)	219.21 (3.48)	230.01 (4.93)	242.74 (5.53)
c. Urban					
General Index	100.00	233.29 (6.35)	247.17 (5.95)	262.17 (6.07)	277.06 (5.68)
Food	46.52	263.09 (7.10)	283.19 (7.63)	300.30 (6.04)	315.83 (5.17)
Non-food	53.48	207.38 (5.54)	215.83 (4.08)	229.00 (6.10)	243.34 (6.26)

Note: Figures in parentheses represent annual inflation
Source: BBS.

2020 from 5.5 percent in June 2019 (Chart 3.2). Annual point-to-point food inflation exerts a mixed trend, following uptrend till November 2019, downtrend up to March 2020 and then again takes the shape of rising trend emanating mainly from uncertainty and disruption of supply chains due to the COVID-19 led shutdown. At the end of June 2020, the annual point-to-point food inflation jumped to 6.5 percent from 5.4 percent in June 2019 (Chart 3.3 and Appendix-3, Table VII).

3.6 On the other hand, in FY20, except a stable situation during October-December 2019, the annual average non-food inflation gradually increased and ruled headline inflation (Chart 3.2). The average non-food inflation rose to 5.9 percent in June 2020 from 5.4 percent in June 2019. In contrast, annual point-to-point non-food inflation followed moderately an erratic trend in FY20. The annual point-to-point non-food inflation went up to 6.5 percent in March 2020 from 5.7 percent in June 2019; then started falling, reaching 5.2 percent in June 2020, on the back of subdued demand due to two months' general holiday and lockdown (Chart 3.3 and Appendix-3, Table VII).

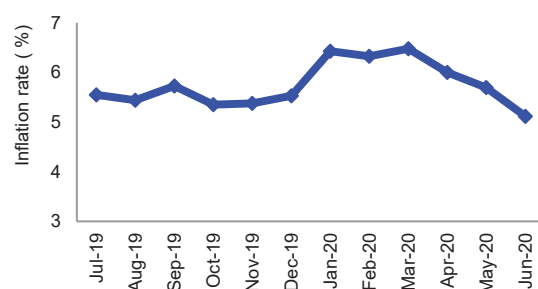
3.7 Core inflation (excludes prices of food and energy) on point-to-point basis also showed an irregular trend in FY20. However, core inflation decreased by 54 basis points to 5.1 percent in June 2020 from 5.7 percent in June 2019 (Chart 3.4).

Rural and Urban Inflation

3.8 The annual average rural inflation increased to 5.6 percent in June 2020 from 5.2 percent in June 2019. The average food and non-food inflation of rural area also increased in June 2020 as compared to the previous year.

Chart 3.4 Core CPI Inflation

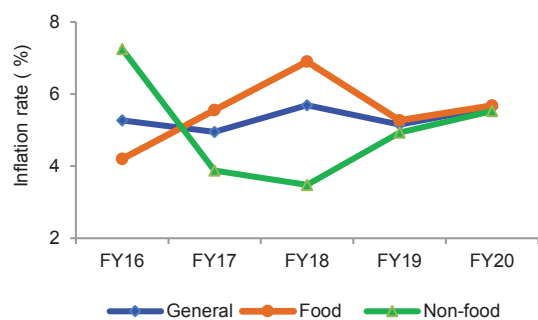
(point-to-point)



Source: BBS, and RD, BB.

Chart 3.5 Rural CPI Inflation

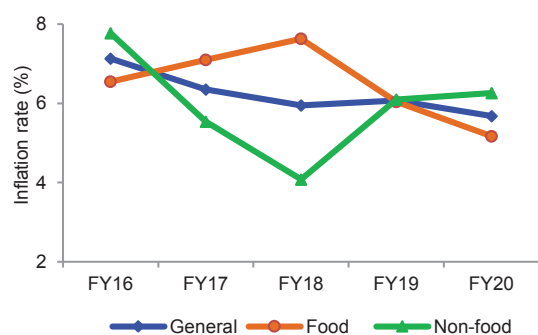
(twelve-month average : FY06=100)



Source: BBS.

Chart 3.6 Urban CPI Inflation

(twelve-month average : FY06=100)



Source: BBS.

Rural food inflation rose to 5.7 percent in June 2020 from 5.3 percent in June 2019 and non-food inflation leaped from 4.9 percent in June 2019 to 5.5 percent in June 2020 (Table 3.1

Table 3.2 Annual Average National Level CPI by Consumption Basket Sub-groups

Group/sub-group	Weight	(base: FY06=100)				
		FY18	FY19	FY20	% Change FY19	% Change FY20
General index	100	245.22	258.65	273.26	5.48	5.65
1. Food, beverage and tobacco	56.18	266.64	281.33	296.86	5.51	5.52
2. Non-food of which	43.82	217.77	229.58	243	5.42	5.85
i) Clothing & footwear	6.84	255.24	277.64	290	8.78	4.45
ii) Gross rent, fuel & lighting	14.88	200.25	206.98	220.7	3.36	6.63
iii) Furniture, furnishing, household equipment & operation	4.73	249.68	265.25	282.67	6.24	6.57
iv) Medical care & health expenses	3.47	209.28	215.31	230.07	2.88	6.86
v) Transport and communications	5.8	218.8	235.23	248.48	7.51	5.63
vi) Recreation, entertainment, education & cultural services	4.28	183.65	186.72	190.13	1.67	1.83
vii) Miscellaneous goods and services	3.82	223.81	239.87	259.27	7.18	8.09

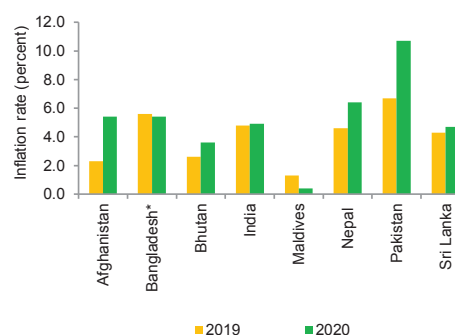
Source: BBS.

and Chart 3.5).

3.9 On the other hand, the annual average general and food inflation in urban area went down in June 2020 as compared to the previous year while non-food inflation slightly went up, with a bit volatility. Urban general inflation eased to 5.7 percent in June 2020 from 6.1 percent in June 2019. Urban food inflation declined from 6.0 percent in June 2019 to 5.2 percent in June 2020. However, the average urban non-food inflation rose to 6.3 percent in June 2020 from 6.1 percent in June 2019 (Table 3.1 and Chart 3.6).

Inflation in SAARC and peer Asian Countries

3.10 Table 3.3 displays cross-country comparison of the trends of inflation of Bangladesh with SAARC and some South and East Asian peer economies. Among the SAARC countries, in 2019, Pakistan had the highest inflation rate of 6.7 percent followed by Bangladesh (5.6 percent), India (4.8 percent), Nepal (4.6 percent), and Sri Lanka (4.3 percent). Maldives experienced the lowest rate of inflation at 1.3 percent in 2019 in this region. Bhutan and Afghanistan registered 2.6 percent and 2.3 percent inflation in 2019 respectively. However, almost all other SAARC countries except Bangladesh and Maldives projected

Chart 3.7 Inflation in SAARC Countries

Note: All figures are end of the period

Sources: 1. BBS.

2. WEO, October 2020, IMF.

Table 3.3 Inflation in SAARC and Other Asian Countries

Countries	End of the period				
	2016	2017	2018	2019	2020 ^P
1. Afghanistan	4.4	5.0	0.6	2.3	5.4
2. Bangladesh [®]	5.5	5.7	5.6	5.6	5.4
3. Bhutan	3.3	4.3	3.7	2.6	3.6
4. India	4.5	3.6	3.4	4.8	4.9
5. Maldives	0.8	2.3	1.4	1.3	0.4
6. Nepal	9.9	4.5	4.1	4.6	6.4
7. Pakistan	2.9	4.1	3.9	6.7	10.7
8. Sri Lanka	4.0	6.6	4.3	4.3	4.7
Other Asian Countries					
9. Indonesia	3.5	3.8	3.3	2.8	2.1
10. Korea	1.0	1.9	1.5	0.4	0.5
11. Malaysia	2.1	3.8	1.0	0.7	-1.1
12. Myanmar	9.1	4.6	5.9	8.6	6.1
13. Singapore	-0.5	0.6	0.4	0.6	-0.4
14. Thailand	0.2	0.7	1.1	0.7	-0.4

^P ProjectionSources: [®] BBS.

WEO, October 2020, IMF.

higher inflation for 2020 than actual inflation of 2019 (Table 3.3 and Chart 3.7).

Wage Rate Trends

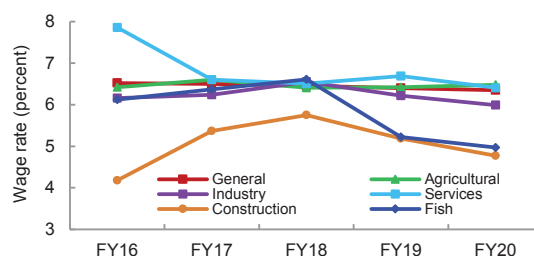
3.11 The growth of general wage rate index stood at 6.4 percent in FY20 similar to growth of 6.4 percent in FY19. Among the sub-sectors of general wage rate index, agriculture sector indices growth improved by 6 basis points to 6.5 percent, while the industry and service sector indices growth decelerated in FY20 as compared to the previous year. However, among the sub-sectors of industry sector, the index of production sector registered the highest growth rate of 8.2 percent in FY20, while the construction sector scored the lowest growth rate of 4.8 percent in FY20 (Table 3.4 and Chart 3.8).

Near Term Inflation Outlook

3.12 In line with the restrained growth outlook, there exists huge uncertainty regarding inflation projection. Reflecting the weak economic activities such as lower aggregate demand, hence, lower commodity prices (including historical low price of fuel), some economies have revised inflation projection downward for 2020. On the other hand, headline inflation is likely to increase in many countries in 2020 due to the unleash of restrained demand as buyers increase consumption which they could not buy due to lockdown, and the disruption of production and supply chains. However, in advanced economies, inflation is projected at 0.8 percent in 2020. Similarly, in emerging market and developing economies, inflation is projected at 5.0 percent. Consistent with the anticipated pickup in economic activity for undertaking different fiscal (stimulus spending and others) and monetary measures

Chart 3.8 Growth Rate of Wage Index

(FY11 = 100)



Source: BBS.

Table 3.4 Trends in Wage Rate Indices

(base: 2010-11=100)

	FY17	FY18	FY19	FY20
General	141.46	150.59	160.23	170.39
	(6.50)	(6.46)	(6.40)	(6.35)
Agriculture	141.22	150.27	159.92	170.28
	(6.59)	(6.41)	(6.42)	(6.48)
Agriculture	141.19	150.23	159.91	170.32
	(6.60)	(6.40)	(6.44)	(6.51)
Fish	143.19	152.63	160.59	168.58
	(6.37)	(6.61)	(5.22)	(4.97)
Industry	140.27	149.45	158.74	168.24
	(6.24)	(6.55)	(6.22)	(5.99)
Construction	137.43	145.32	152.86	160.17
	(5.37)	(5.75)	(5.19)	(4.77)
Production	146.01	157.81	170.66	184.65
	(7.22)	(8.08)	(8.14)	(8.21)
Services	145.01	154.44	164.78	175.33
	(6.60)	(6.51)	(6.69)	(6.41)

Note: Figures in parentheses are annual percentage changes.

Source: BBS.

Table 3.5 Global Inflationary Situation

	End of the period			
	2018	2019	2020 ^P	2021 ^P
World	3.6	3.5	3.2	3.4
Advanced Economies	2.0	1.4	0.8	1.6
Euro Area	1.8	1.2	0.4	0.9
Emerging Market and Developing Economies	4.9	5.1	5.0	4.7
Emerging and Developing Asia	2.7	3.3	3.2	2.9
Bangladesh	5.8	5.5	5.6	5.9
China	2.1	2.9	2.9	2.7
India	3.4	4.8	4.9	3.7
Pakistan	3.9	6.7	10.7	8.8
Sri Lanka	4.3	4.3	4.7	4.6
United States	2.4	1.8	1.5	2.8

^P Projection

Source: WEO, October 2020, IMF.

to restore economic activities, global headline inflation is expected to rise marginally in 2021.

3.13 In 2021, consumer price inflation is expected to increase at 1.6 percent in advanced economies and 0.9 percent in euro area (World Economic Outlook, October 2020). In contrast, in emerging market and developing economies and, emerging and developing Asia inflation is projected to be marginally lower for 2021 than 2020 (Table 3.5).

3.14 In the latest publication– ‘Food Outlook, June 2020’, Food and Agriculture Organization (FAO) has forecasted world cereal production at 2780.5 million tonnes for 2020, nearly 69.6 million tonnes higher than 2019, assuming normal weather for the remainder of the season and based on the conditions of crops already harvested and in the ground. Among the global cereal items, one of the major item–rice production is set at 508.7 million tonnes for 2020 against the production of 500.6 million tonnes in 2019. In contrast, global wheat production is forecasted slightly lower than the previous year’s good harvest at 758.3 million tonnes for 2020.

3.15 In Bangladesh, total government procurement of food grains stood at 1.9 million metric tons in FY20, lower by 0.6 million metric ton than that of FY19. Government and private imports of food-grains were 6.4 million metric tons in FY20, which was about 0.6 million metric

tons higher than the imports of food-grain in FY19. The government distributed 2.8 million metric tons of food grains under its Public Food Distribution System (PFDS) in FY20, which was slightly higher than the preceding financial year’s amount.

3.16 In this backdrop, Bangladesh government has set a target of the annual average inflation rate 5.4 percent for FY21. During the first two months of FY21 (July-August), the average headline inflation remained stable at 5.7 percent level but slightly higher than the annual target, although the average food inflation up surged to 5.6 percent in August 2020 from 5.5 percent in June 2020, while non-food inflation declined to 5.7 percent in August 2020 from 5.9 percent in June 2020. Crop losses related to the recent widespread, prolonged and severe floods and the COVID-19 pandemic triggered in the recent increases of headline inflation while there were good harvest of rice– ‘Boro’ and ‘Aus’ in FY20. This domestic price pressure is likely to continue in coming months. Moreover, external shocks arising from increasing food prices in the international markets may also put pressure on domestic inflation. However, BB’s expansionary and accommodative monetary policy stance for FY21 along with the government initiatives in combating the COVID-19 fallout would help to keep inflation stable within the target level.