

# Bangladesh Economic Update

## Food Prices and Inflation Trajectory

January - February 2011



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## **Food Prices and Inflation Trajectory**

Bangladesh has been experiencing a rising trend of food inflation in recent months at the backdrop of global hike of food grain prices. The food price rises created a range of macro-vulnerabilities in the country. One aspect is the impact on domestic food inflation and overall inflation. This rising food inflation has a severe impact over the marginalized people. The causes and consequences of recent food inflation is analysed below.

This issue of the Bangladesh Economic Update attempts to investigate three major indicators of the economy. These are: food inflation, general inflation and impacts of world food price in Bangladesh. The update then provides an assessment on the impact of food inflation with poverty and inequality. The Update also reviews the past record of the inflation and makes a forecast on the possible movement of inflation.

### **1. Increase in food prices and impact on inflation**

The inflationary situation in Bangladesh is on the rising trend, especially since August 2009, primarily owing to the soaring increase in food prices. The food price hike has accelerated the general inflation rate in the country. If the food price level rises at an existing rate of 1.31 percent per month and if adequate anti inflationary measures are not taken, the overall general inflation might touch a 'double digit figure'. The current rate of rise in inflationary pressure suggests that the rate of general inflation might reach to 10.71 percent by the end of this fiscal year and the food inflation may reach to 12.84 percent in June 2011.

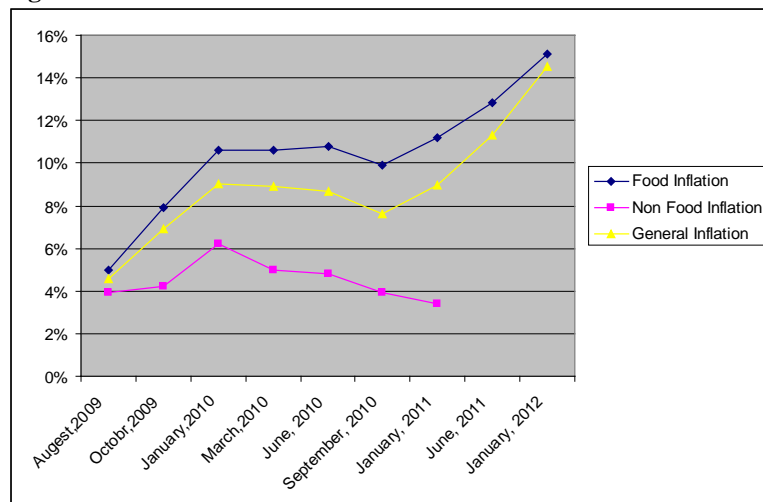
Should there be a double digit inflation, this would pose a severe threat to the macro-economic stability in the country. Bangladesh has already experienced a double-digit food inflation rate on point-to-point basis since July 2007. The soaring prices of essential commodities, especially, food

*If the food price level rises at an existing rate of 1.31 percent per month, the overall general inflation might touch a 'double digit figure'.*

prices could hurt the poor and worsen equity. Persistent high inflation may unleash forces that jeopardize macroeconomic stability and economic growth. Last year, the International Monetary Fund (IMF) also warned Bangladesh that excess liquidity and resurgent international commodity and food prices might push inflation to double-digit levels by year-end (The Daily Star, 30 October 2009).

Food inflation leaves a harmful impact on the purchasing power when the per capita GDP does not correspond with inflation. From August 2009 to June 2010, the food inflation has risen by 5.7 percent whereas GDP growth rate has fallen by 0.1 percent, indicating that the purchasing power of the people shrunk drastically.

**Fig 1: National Inflation Rate**



Source: Authors' projection for June 2011 to January 2012

*The dominance of food inflation is still substantial in the overall inflation, with 10.8 percent in January 2011, making overall inflation at 8.99 percent.*

The point to point variation in the national inflation rate during the last one year varied between 4.6 percent and 9.1 percent. It came down from 8.7 percent in June 2010 to 7.26 percent in July and went up to 7.61 percent in September 2010. The dominance of food inflation is still substantial in the overall inflation, with 10.8 percent in January 2011, making overall inflation in that month at 8.99 percent. This is mainly due to the high price of rice in the domestic market.

## *1.1 The Food Price Situation*

The overall food price situation in the country has raised serious concerns. Prices of essential food commodities particularly, rice has shot up even after good harvest of Boro crop. The retail prices of food grain in the local market have increased significantly in the recent months and likely to increase further until the next harvest. Prices of other essential food commodities like wheat flour and rice have also gone up.

*During January to December 2010, the gap between wholesale and retail price of rice was 5 percent while for wheat it was 3.63 percent.*

The wholesale prices of both wheat and rice rise at a higher rate than those of the retail prices of both the commodities during the year 2010. During January to December 2010, the wholesale average price of rice increased by 25 percent while the wheat price has risen up by 16.67 percent. At the same time the retail prices of rice have gone up by 20 percent while the wheat prices have increased by 13.04 percent. The gap between wholesale and retail price of rice is 5 percent while for wheat it is 3.63 percent. The main reason of enormous gap between the wholesale prices and retail prices is liable to the hoarding of food grains by the wholesalers. This provides room for the wholesalers to maneuver the prices in favour of them. This maneuverability allows them to dictate retail price at the cost of the consumers.

### *1.1.1 Wholesale Price Situation*

Rice and wheat are the staple food of Bangladesh. Change in prices of these food stuff affects the people most adversely than changes in prices of any other commodities.

In Bangladesh, prices for rice and wheat have risen quite abruptly in the first quarter of the current budgetary cycle. The price surge in the international market is due to shortage of supply, especially for export ban imposed by many countries (e.g. Russia, Ukraine) and natural disaster occurred in some of the major food exporting countries.

*Between September 2009 and September 2010, the nominal rice and wheat prices increased by 63 percent and 33 percent respectively.*

Between September 2009 and September 2010, the nominal rice and wheat prices increased by 63 percent and 33 percent respectively. The corresponding real prices also have risen by 53 percent and 24 percent, with a substantial rate of increase in rice prices.

There is a 16.67 percent increase in wholesale rice price from January to September, 2010 in nominal terms. However, the wholesale price has risen moderately from August 2010 to December 2010.

**Table 1: Change of rice and wheat prices during 2008-2010**

Period	Nominal Price		Real Price	
	Rice	Wheat	Rice	Whet
<b>Sep 09 to Sep 10</b>	63.13%	32.61%	52.76%	24.18%
<b>Sep, 08 to Sep, 09</b>	-39.17%	-44.87%	-41.85%	-47.30%
<b>Jan, 09 to Sep, 09</b>	-20.90%	-11.81%	-26.57%	-18.14%
<b>Jan,10 to Sep, 10</b>	24.17%	18.69%	17.64%	12.45%

Source: Bangladesh Food Situation report from July to September 2010 (FPMU)

*During January 2010 to September 2010, the rice and wheat prices shot up by 24.17 percent and 18.69 percent respectively in nominal terms, but in real terms the rate of price hike was 17.64 percent and 12.45 percent respectively.*

Between September 2009 to September 2010, rice price has increased by 63.13 percent while the wheat price has risen up by 52.76 percent and 24.18 percent respectively. During the period of September 2008 to September 2009, the prices of rice have decreased by 39.17 percent and wheat price decreased by 47.87 percent in nominal terms. At the same time, the prices of rice and wheat were reduced by 41.85 percent and 47.30 percent respectively in real terms. This was due to the global economic recession which eroded the purchasing power of the recession hit countries. This caused the reduction of food import cost of Bangladesh which lowered the wheat and rice prices. During January 2009 to September 2009, the prices of rice and wheat were decreased by 20.9 percent and 11.81 percent respectively in nominal terms and 26.5 percent and 18.14 percent in real terms. It shows that nominal price of rice and wheat is increasing at a higher rate than that of the income level. During the period of January 2010 to September 2010, the rice and wheat prices shot up by 24.17 percent and 18.69 percent respectively in nominal terms, but in real terms the rate of price hike was 17.64 percent and 12.45 percent respectively.

**Table 2: Quarterly rice and wheat price change in 2010**

Month	Rice	Wheat
<b>Jan-March</b>	8.33%	0.57%
<b>March-May</b>	-3.84%	8.82%
<b>May-July</b>	12%	1.51%
<b>July-Sep</b>	5.35%	22.38%

Source: Author's calculation based on Bangladesh Food Situation Report from July to September, 2010 (FPMU)

The quarterly food inflationary change suggests that from January 2010 to March 2010 rice price has increased by 8.33 percent and wheat price has increased by 0.57 percent in nominal terms. From March to May 2010, the rice price was reduced by 3.84 percent while wheat price has risen up by 8.82 percent. During May to July 2010, the rice price has soared up by 12 percent and wheat price has risen up by 1.51 percent. From July to September 2010, analysis shows that rice price has risen up by 5.35 percent while wheat price has increased drastically by 22.28 percent.

### *1.1.2 Retail Food Price Situation*

Retail prices of wheat and rice has risen steadily during the period of January-September, 2010. The wheat prices have witnessed a dramatic increase since August. Since March 2010, both rice and wheat prices have been higher than the 2009's value. In 2010, the gap in prices has increased constantly until August, where a slight reduction has been identified recently.

The retail price of rice in January 2010 was 24.75 taka per kilogram. However, in March 2010, the retail price of rice and wheat was 26.75 and 22 taka per kilogram respectively. During the above mentioned period, the retail price of rice has increased relentlessly and on the other hand, the wheat price was on the declining trend. In July 2010, the retail price of rice was 27.5 taka per kilogram and wheat price was recorded 23 taka per kilogram. In September 2010, the retail price of rice was 28 taka per kilogram and wheat price was 26 taka per kilogram. This shows that both the rice and wheat prices have increased during July to September 2010.

**Table 3: Percentage change of rice and wheat price in 2010**

<b>Period</b>	<b>Rice</b>	<b>Wheat</b>
<b>Jan-Mar</b>	8.33%	1%
<b>Apr-Jun</b>	7.69%	1%
<b>July-Sep</b>	7.14%	13.63%

Source: Authors' calculation from Food Situation Report from July to September, 2010 (FPMU)

During the period of January to March 2010, the retail price of rice has increased by 8.33 percent while the wheat price has decreased by 4.34 percent. Over the next couple of months from April to June 2010, the retail price of rice has risen up by 7.69 percent whereas the wheat price has remained unchanged. Conversely, the retail price of wheat during the period of July to September has risen at a higher rate by 13.63 percent.

### ***1.2 Comparison of Food Price and General Inflation***

*In January 2011, the food inflation was 11.21 percent and general inflation reached to 8.99 percent.*

In June 2010, inflation has risen to 10.8 percent whereas the general inflation also increased to 8.7 percent. After that the food inflation decreased slightly in September 2010, but from then it has continued to rise. In January 2011, the food inflation was 11.21 percent and general inflation has risen to 8.99 percent.

**Table 4: Food Inflation, non Food Inflation and general Inflation**

<b>Month</b>	<b>Food Inflation</b>	<b>Non Food Inflation</b>	<b>General Inflation</b>
<b>August,2009</b>	5%	3.9%	4.6%
<b>October,2009</b>	7.9%	4.2%	6.9%
<b>January,2010</b>	10.6%	6.2%	9%
<b>March,2010</b>	10.5%	5%	8.9%
<b>June, 2010</b>	10.8%	4.8%	8.7%
<b>September, 2010</b>	9.9%	3.9%	7.61%
<b>January, 2011</b>	11.21%	3.4%	8.99%
<b>June, 2011</b>	12.84%	-	10.71%
<b>January, 2012</b>	15.05%	-	13.13%

Sources: Author's Projection from WFP Report 2010

According to the twelve-month inflationary analysis, food inflation was only 5 percent in August 2009 whereas the general inflation rate was stable at 4.6 percent. However, after that the food inflation has risen at an alarming rate. This is mainly due to food and non food commodity prices have skyrocketed internationally and eventually supply shock has been created at the local market that raised the local prices. On the other hand, internal inability to monitor the market mechanism is also an important element of price hike (Table 4).



**Table 5: Percentage change in food and general inflation**

Period	% change in Food inflation	% change in General Inflation
Aug 2009 – Oct 2009	2.9%	2.3%
Jan 2010 – March 2010	2.7%	-0.1%
Apr2010 - Jun2010	0.1%	-0.2%
June 2010 - Sep2010	-0.9%	-1.09%
Sept 2010 - Jan 2011	1.63%	1.38%

Source: Authors' projection from WFP report 2010

*From September 2010 to January 2011, the food prices have risen up by 1.63 percent.*

Comparative analysis between percentage change in food prices and general prices levels says that from January 2010 to March 2010 the food prices shot up by 2.7 percent while the general price decreased by 0.1 percent. During April 2010 to June 2010, the food prices increased by 0.1 percent while the general price level decreased by 0.2 percent. From September 2010 to January 2011, the food prices have risen up by 1.63 percent which is attributed to the rise in general food price by 1.38 percent for the same period.

## **2. Global Food Price and Inflation in Bangladesh**

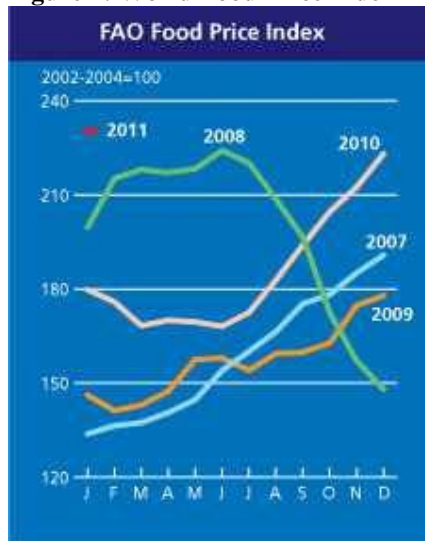
*If the world food price increases by 1 percent, the food price in Bangladesh increases by 0.23 percent and the general inflation by 0.18 percent.*

During the last quarter of the year 2010, the average global food price index increased by 2.93 percent whereas the average local food price increased by 0.70 percent and the general inflation rate of Bangladesh in the last quarter increased by 0.53 percent.

From the above calculation of the period of October-December 2010, it is found that if the world food price increases by 1 percent, the food price in Bangladesh increases by 0.23 percent and the general inflation by 0.18 percent.

A dramatic increase in the world food price is observed in the recently published FAO food price index. The continued increase in food prices has led many a commentators to suggest of a global crisis and increasing political and economical instability, particularly in the under developed and developing countries. The price that drastically increased in 2007 had faced a downward trend after June 2008. But from 2009 the price has started to rise again and has continued till then.

**Figure 2: World Food Price Index**



Source: FAO Food Price Index 2010

The FAO Food Price Index (FFPI) has risen for the seventh consecutive month, averaging 231 points in January 2011, up by 3.4 percent from December 2010.

The FAO Cereal Price Index has averaged 245 points in January, up 3 percent from December which was the highest since July 2008, but it is 11 percent less than April 2008 price index. The increase in January mostly reflected continued increases in international prices of wheat and maize, amid tightening supplies, while rice prices fell slightly, as the timing coincides with the harvesting of main crops in major exporting countries.

**Table 6: Quarterly comparison between World food prices and Bangladesh food prices and inflation rate in 2010**

Time Period	World Food Price Index	Bangladesh Food Price Index	Bangladesh General Inflation Rate
Jan-March	-7%	0.2%	0.1%
April-June	-1.2%	0.4%	0.3%
July-Sept	12.79%	-1.1%	-1.2%
Oct-Dec	8.78%	2.11%	1.6%

Source: FAO World Food Price Index Report 2010.

The FAO food price index in January to March, 2010 decreased by 7 percent and at the same time it is been observed that the food price in Bangladesh has risen by 0.2 percent as the domestic supply remains insufficient, awaiting the Boro harvest in June and the general inflation rate of the country has also risen by 0.1 percent. From April to June, the international food price index fell by 1.2 percent but Bangladeshi food price index and general food inflation rate gone up by 0.4 percent and 0.3 percent respectively due to shortage of supply in between the harvests Aus and Boro. Furthermore, the Aus production was less than the harvests due to climatic variability of sudden flood.

So in spite of fall in international price index from Jan 2010 to June 2010, Bangladeshi local price did not fall rather it has risen at a moderate rate.

*During October to December 2010, the world food price index has risen by 8.78 percent that generated a steady increase in Bangladesh food price by 2.11 percent as well as the general inflation rate by 1.6 percent during the same period.*

During the period of July to September 2010, the world price index has risen up by 12.79 percent but food inflation in Bangladesh reduced to 1.1 percent. This is mainly because the period of July to September is Boro harvesting season in Bangladesh and that huge quantity of Boro rice was supplied to the local market which contributed to the reduction of local market price and also the general inflation rate decreased by 1.2 percent at that period.

During the period of October to December 2010, the world food price index has risen by 8.78 percent that generated a steady increase in Bangladesh food price by 2.11 percent as well as the general inflation rate by 1.6 percent during the same period.

### **3. Food Inflation Raises Poverty and Inequality**

Food inflation has a profound nexus with poverty and inequality. Food inflation hits hard the poor since their purchasing power decreases due to the erosion in real income. The real situation is a little bit complex. From the economics theory, when the real wage decreases demand for labor increases. Therefore, the employment should rise since there is a trade off between inflation and unemployment. The result depends on whether the employment effect of inflation outweighs the real wage effect on poverty. But the Bangladesh empirical data indicates that the real wage effect on poverty outweighs the employment effect of inflation.

There exists a positive relationship between food inflation and poverty. As the food inflation increases, the additional number of people goes under the poverty line. The rising trend of food prices and unemployment make the problem even more complex. As the food prices are in the rising trend it may pave the way for more people to go under the poverty line while they were above the poverty line before the food price rises. In Bangladesh 40 percent of 160 million people live on less than one dollar a day. A rapid population growth, rising food prices and unemployment as well as the threat of climate change turns Bangladesh into a more food insecure state.