

Skyrocketing Prices Amid Stable Inflation?

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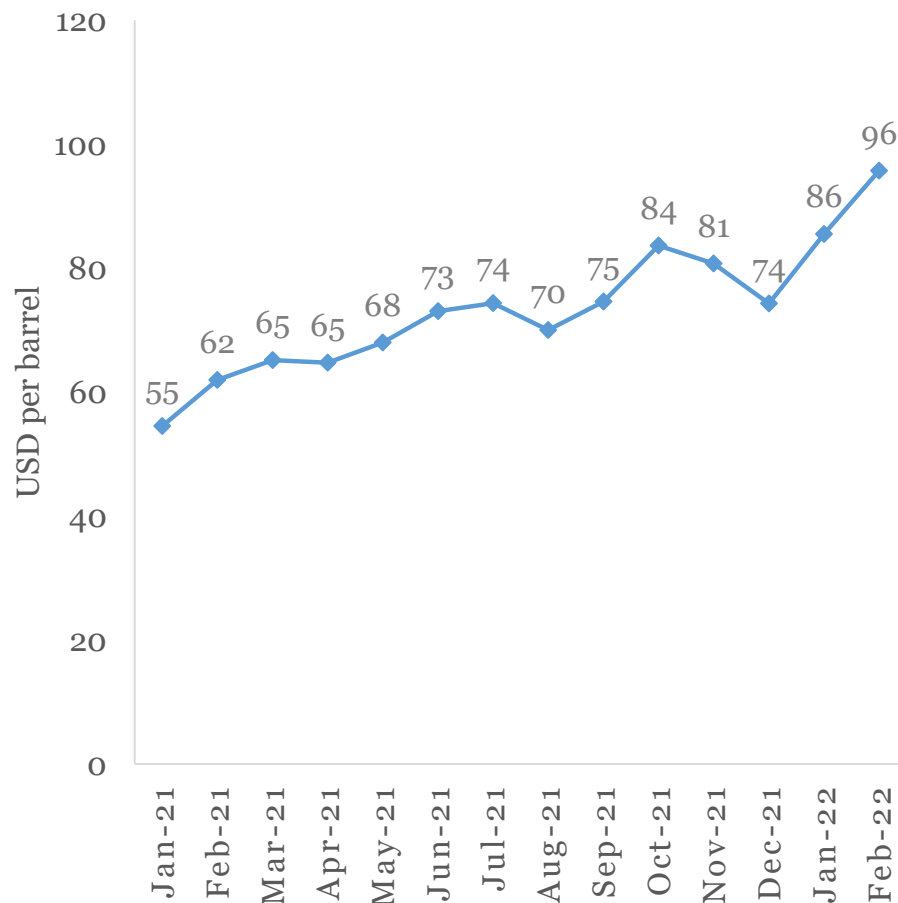
Prices of essentials: Is the only way 'up'?

- ❑ The struggle of the poor and low-income group that began with the outbreak of Covid-19 in early 2020 is now worsened by the **unabated rise in the prices of essentials**.
- ❑ These people are still grappling with their limited budgets as the pressure of price hikes continues to mount.
- ❑ This is affecting the economic recovery process as **a large section of people are still struggling to stay afloat**.
- ❑ In Bangladesh, there is a tendency to blame external factors for high prices even if certain commodities do not have any connections with the global demand.
- ❑ As the country imports a few important commodities, higher prices of those will be passed onto the consumers. Unfortunately, such pass-through is reflected only in the case of price hike.

Increasing price of Brent crude oil in world market – a concern for Bangladesh

- ❑ The oil prices for Brent crude oils have increased by 83.9% over the last 12 months.
- ❑ This increase is worrisome since the share of Brent oil in the globally traded crude oil is more than 50%.
- ❑ Therefore, the Bangladesh government will have to prepare to face such price hikes strategically—without any delay.
- ❑ The demand for fuels has been high as countries have been striving to recover from the pandemic slowdown.
- ❑ **Bangladesh should make advance purchases to reduce the pressure of high prices.**
- ❑ High payment for expensive fuel will be a stress on the country, given the shrinking fiscal space.

Price of Brent crude oil from January 2021 to February 2022 (USD per barrel)

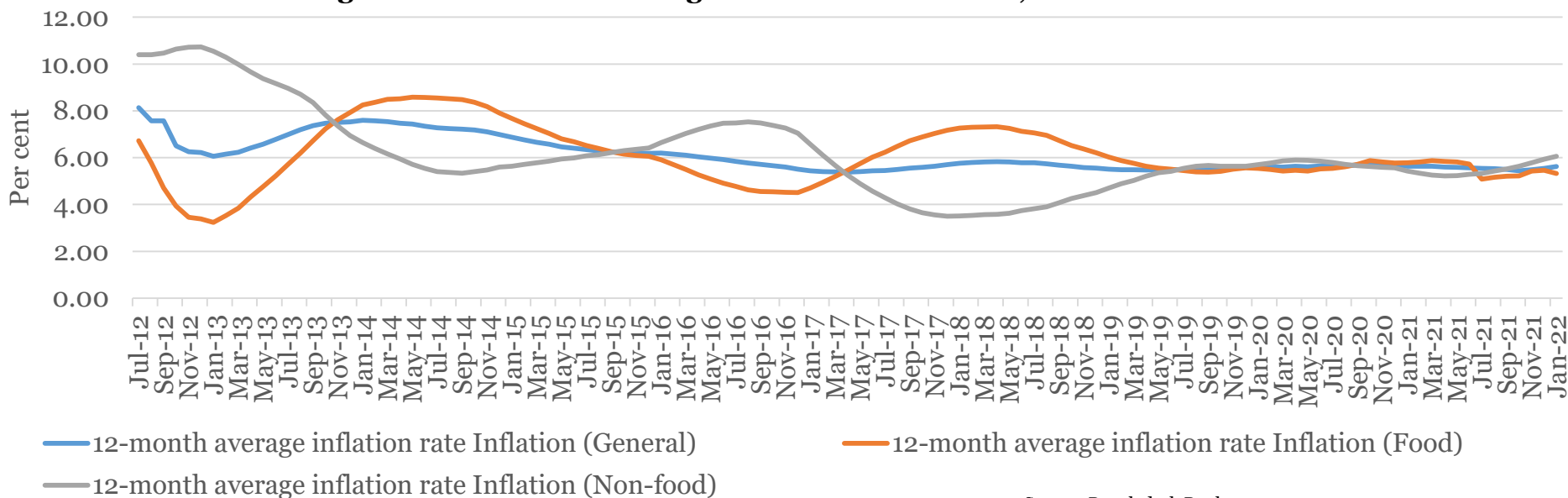


Source: CPD illustration based on data from World Bank

CPI inflation trends hide the rapidly rising prices

- ❑ The 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past ten years
 - Increases in food inflation were generally accompanied by decreases in non-food inflation, so the overall general inflation rate has remained largely stable in the short-term
 - In the long-term, the overall general inflation rate has experienced a slight decline

Figure: 12-month average CPI inflation rate, Jul'12-Jan'22



Source: Bangladesh Bank

CPI consumption basket: Does it reflect consumption pattern?

Table: Food expenditure as a share of income (in per cent)

	National	Rural	Urban
2000	42	48	32
2005	45	50	36
2010	53	57	45
2016	46	52	37

Table: Food expenditure as a share of consumption expenditure (in per cent)

	National	Rural	Urban
2000	55	59	45
2005	54	59	45
2010	55	59	48
2016	48	50	43

Table: Weights used for food in calculation of CPI (base year 2005)

	National	Rural	Urban
2000			
2005	56	61	47
2010	56	61	47
2016	56	61	47

❑ **Engel's law** states that *as income increases, people spend a smaller proportion of their total income on food*

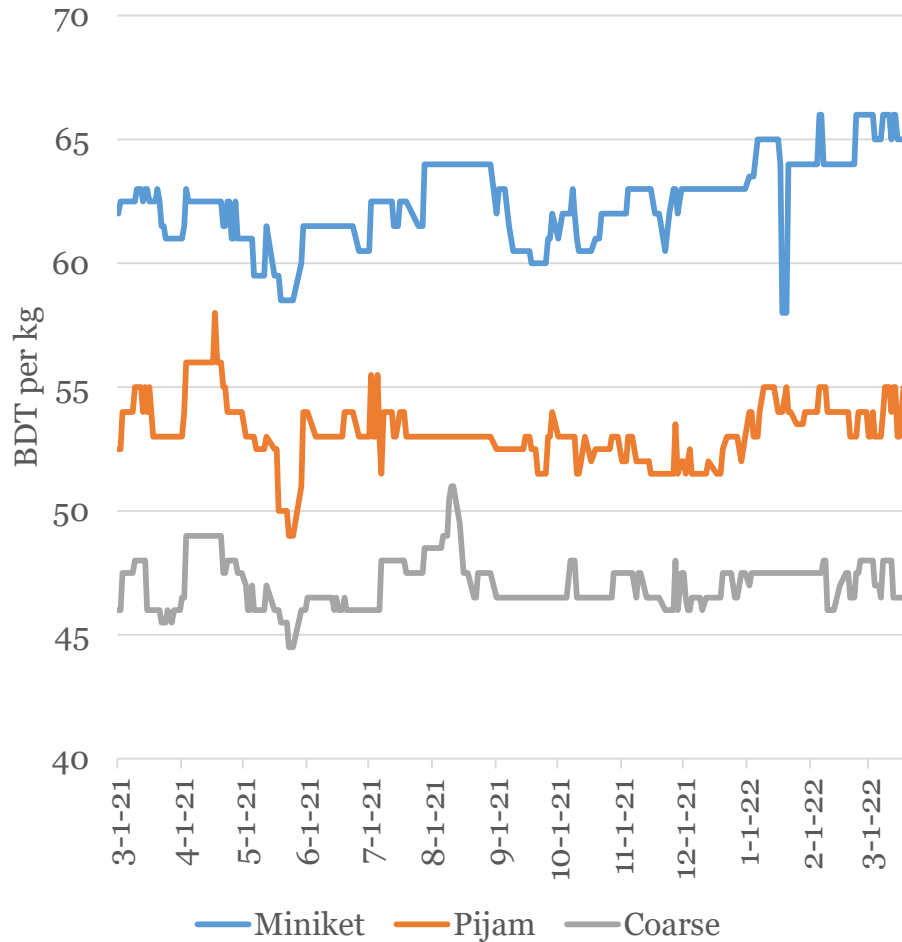
- In Bangladesh, *nominal* household income increased by 7.86% per year on average and *real* household income increased by 0.16% per year on average between 2010 and 2016
 - *food expenditure as a share of income* **decreased** from **53%** in **2010** to **46%** in **2016**
 - *food expenditure as a share of total consumption expenditure* **decreased** from **55%** in **2010** to **48%** in **2016**

❑ However, the *weights used for food in the calculation of CPI are significantly higher than share of food expenditure in either income or consumption expenditure*

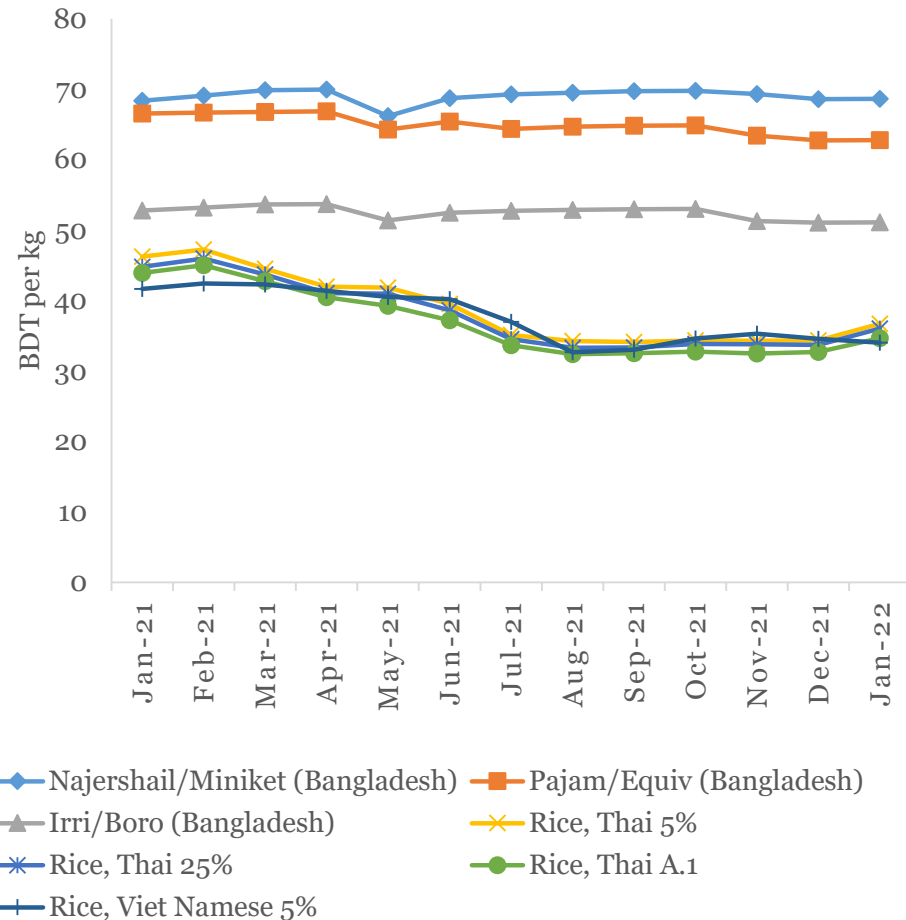
❑ **Thus, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market in 2022**

Price of **rice**: increasing in domestic market; higher than international market

Average daily price of rice in Dhaka, Mar'21-Mar'22 (BDT per kg)



Price of rice in Bangladesh vs. international markets, jan'21-jan'22 (BDT per kg)

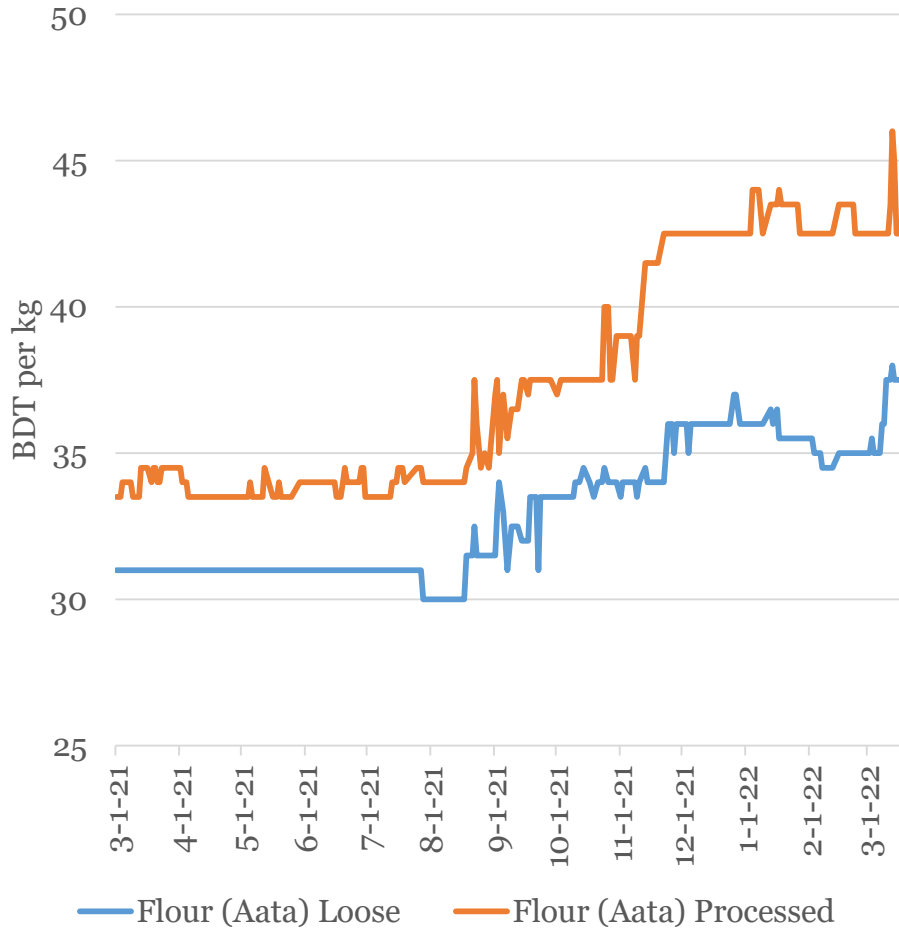


Source: CPD illustration based on data from Trading Corporation of Bangladesh

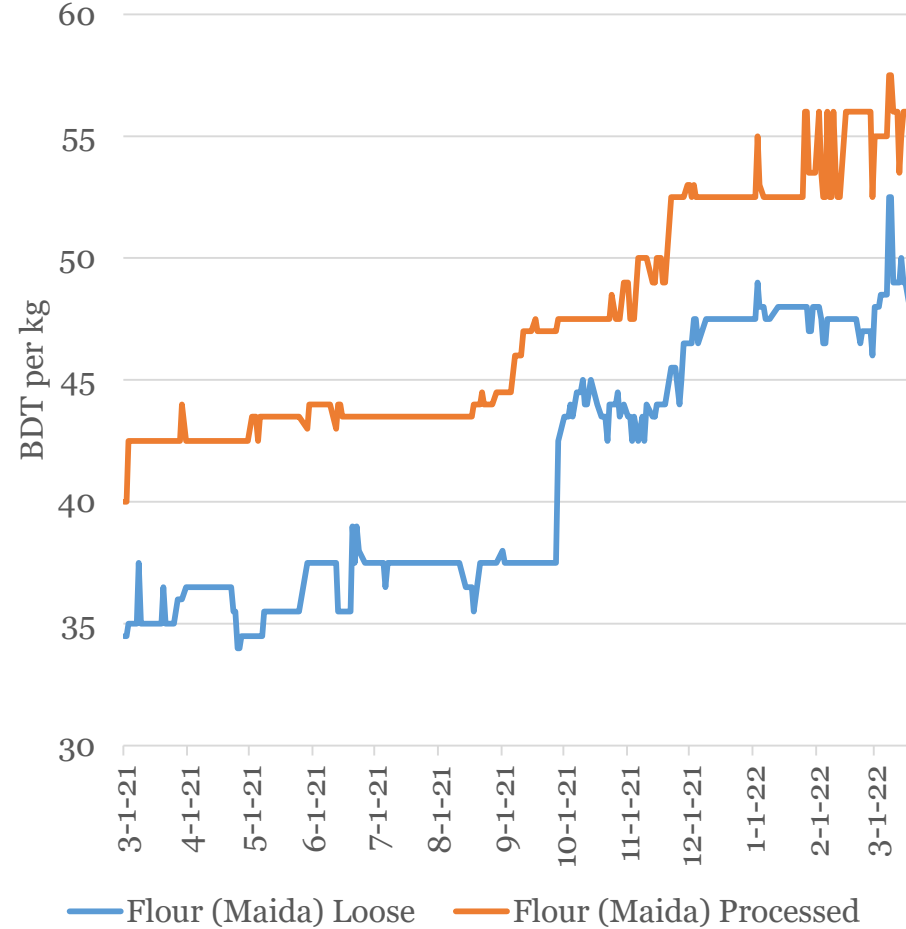
Source: CPD illustration based on data from BBS and World Bank

Price of flour: increasing trend since last year

Average daily price of flour (aata) in Dhaka, Mar'21-Mar'22 (BDT per kg)



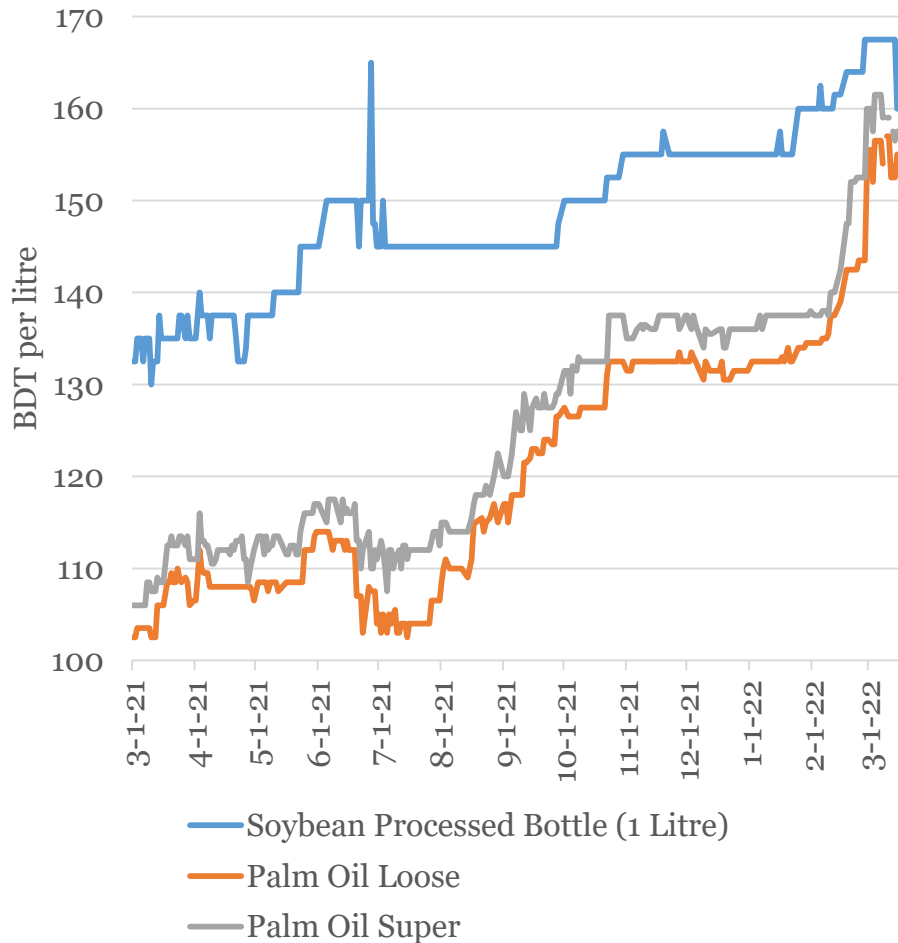
Average daily price of flour (maida) in Dhaka, Mar'21-Mar'22 (BDT per kg)



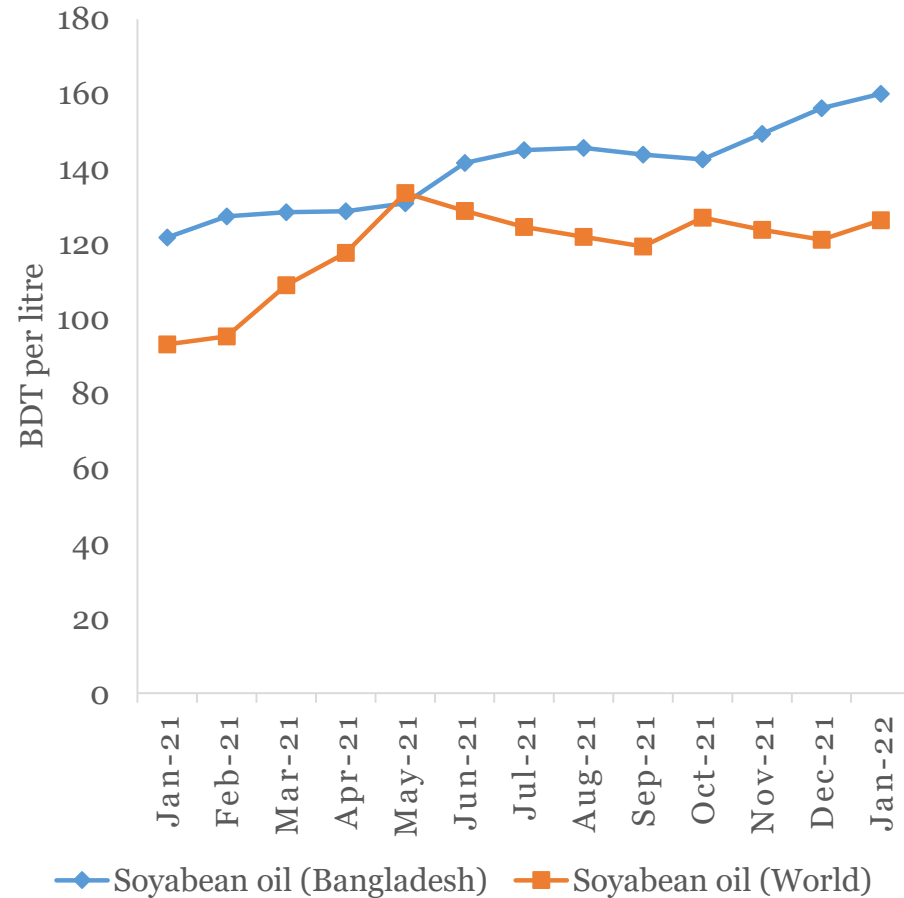
Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of edible oil: increasing in domestic market; higher than international market

Average daily price of edible oil in Dhaka, Mar'21-Mar'22 (BDT per litre)



Price of soyabean oil in Bangladesh vs. international markets (BDT per litre)

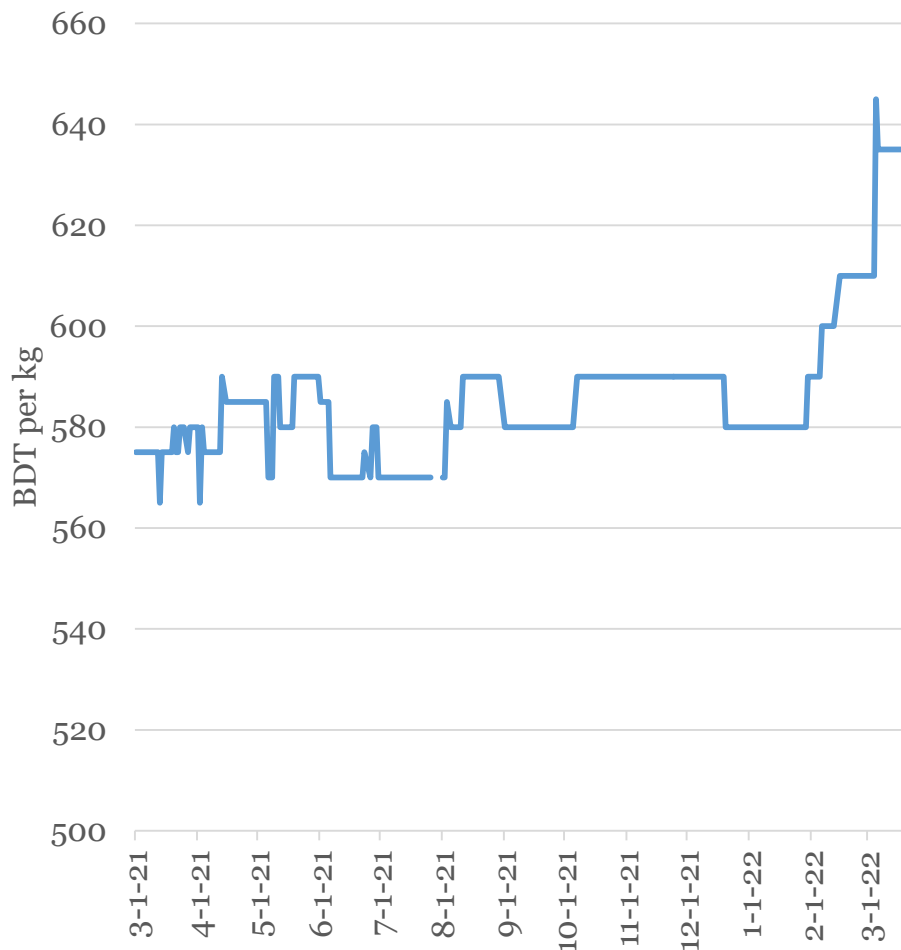


Source: CPD illustration based on data from Trading Corporation of Bangladesh

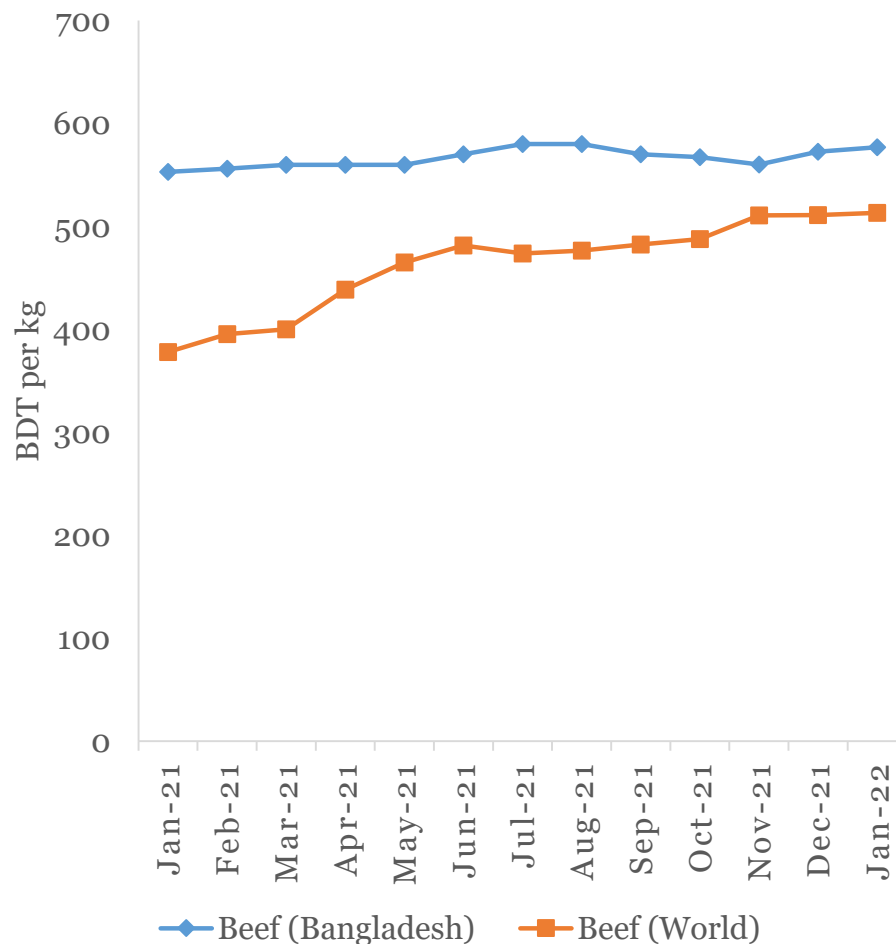
Source: CPD illustration based on data from BBS and World Bank

Price of **beef**: domestic prices rising significantly faster than international prices

Average daily price of beef in Dhaka, Mar'21-Mar'22 (BDT per kg)



Price of beef in Bangladesh vs. international markets (BDT per kg)

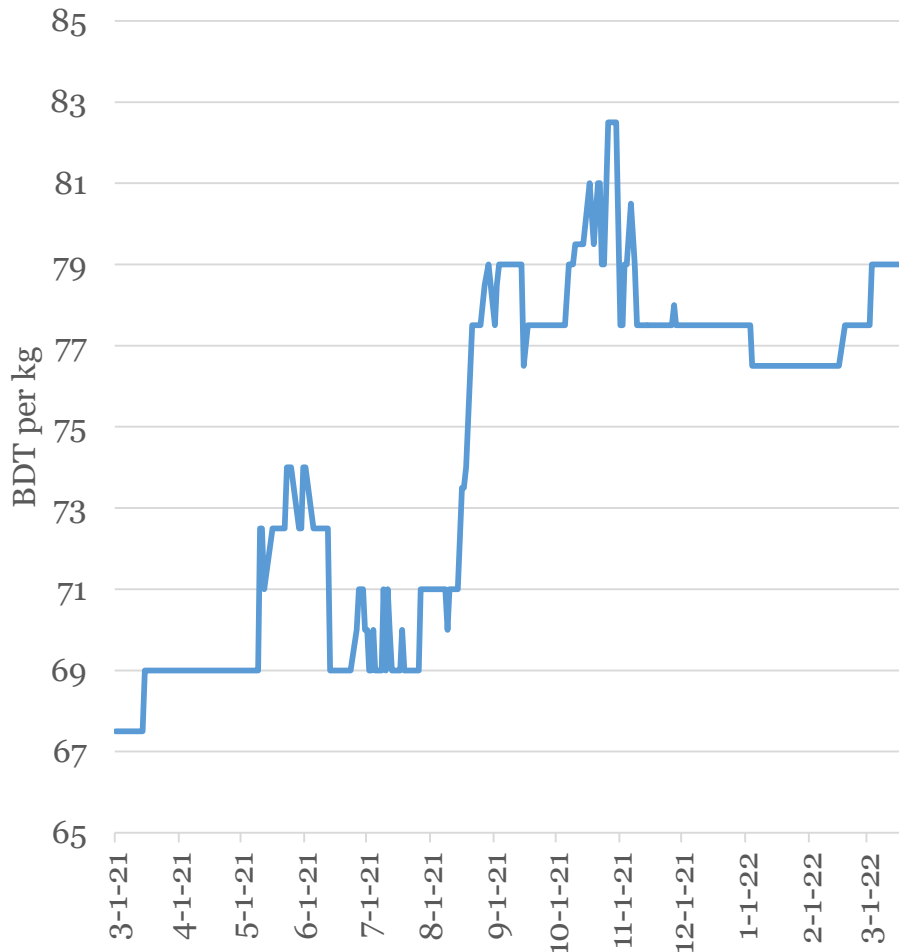


Source: CPD illustration based on data from Trading Corporation of Bangladesh

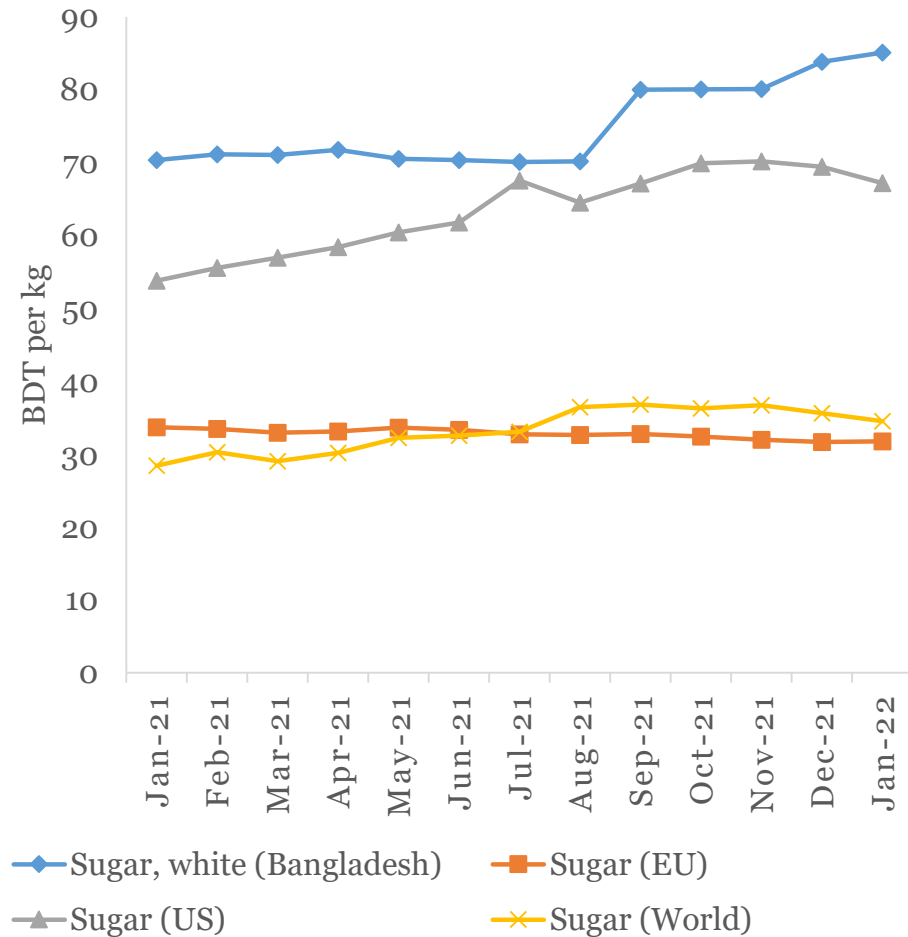
Source: CPD illustration based on data from BBS and World Bank

Price of **sugar**: domestic prices increasing; prices higher than in EU, US, & world markets

Average daily price of sugar in Dhaka, Mar'21-Mar'22 (BDT per kg)



Price of sugar in Bangladesh vs. international markets (BDT per kg)



Source: CPD illustration based on data from Trading Corporation of Bangladesh

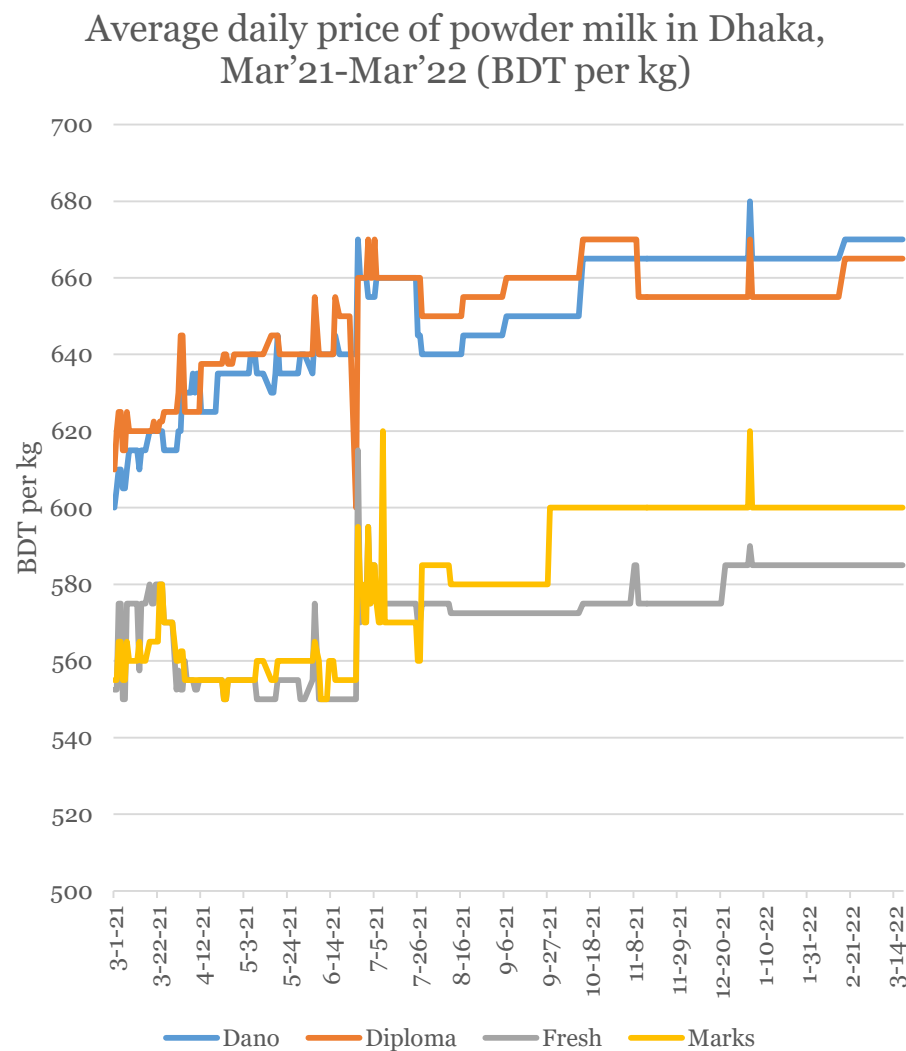
Source: CPD illustration based on data from BBS and World Bank

Price of milk: powder milk price increasing, while **liquid milk more expensive than in Spain**

	Milk, per litre in 2022 in BDT	Average monthly earnings of employees in 2017 in USD
Dhaka, Bangladesh	80.2	149
Ostrava, Czech Republic	62.25	1,331
Malaga, Spain	62.9	2,227

Source: CPD compilation based on data from Numbeo and ILOSTAT

❑ A litre of milk in Dhaka is now more expensive than a litre of milk in Ostrava, Czech Republic or Malaga, Spain!



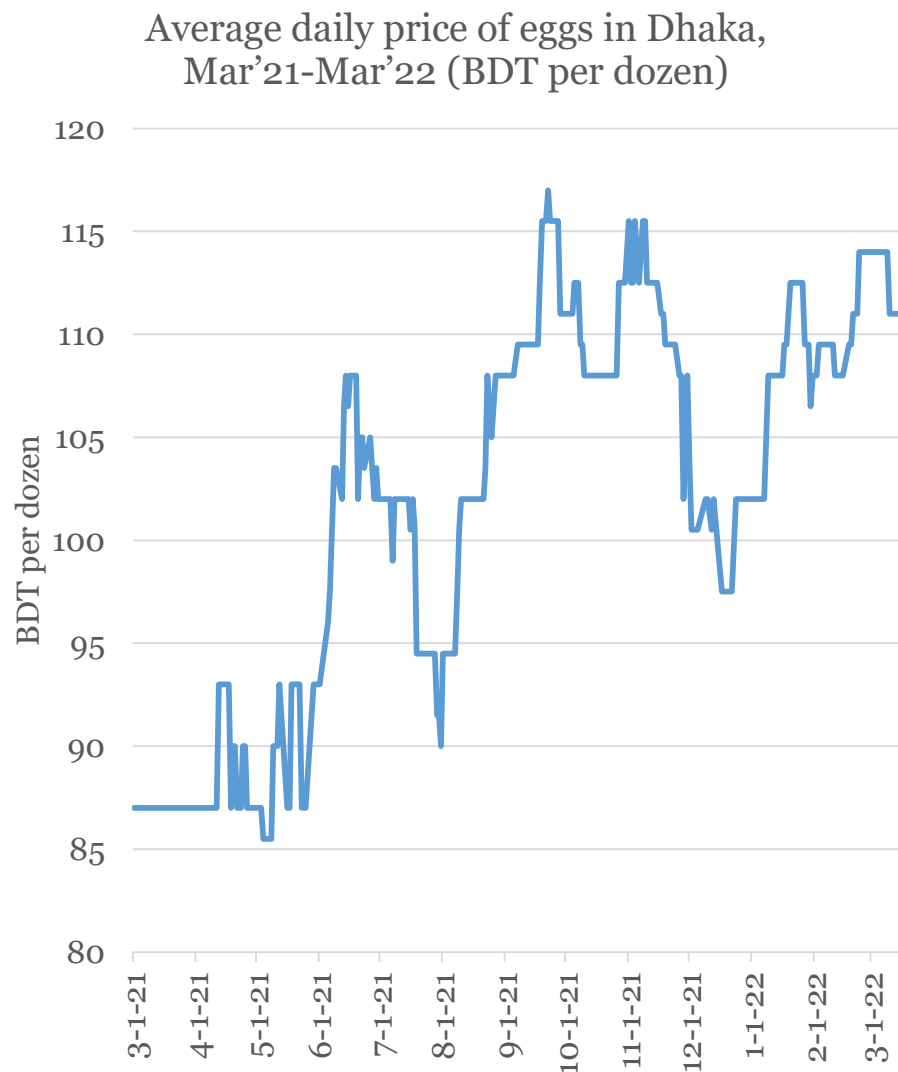
Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of **eggs**: domestic prices increasing; Dhaka prices higher than city in USA

	Eggs, per dozen in 2022 in BDT	Average monthly earnings of employees in 2017 in USD
Dhaka, Bangladesh	110.57	149
Dayton, OH, United States	103	3,955
Cyberjaya, Selangor, Malaysia	85.72	669

Source: CPD compilation based on data from Numbeo and ILOSTAT

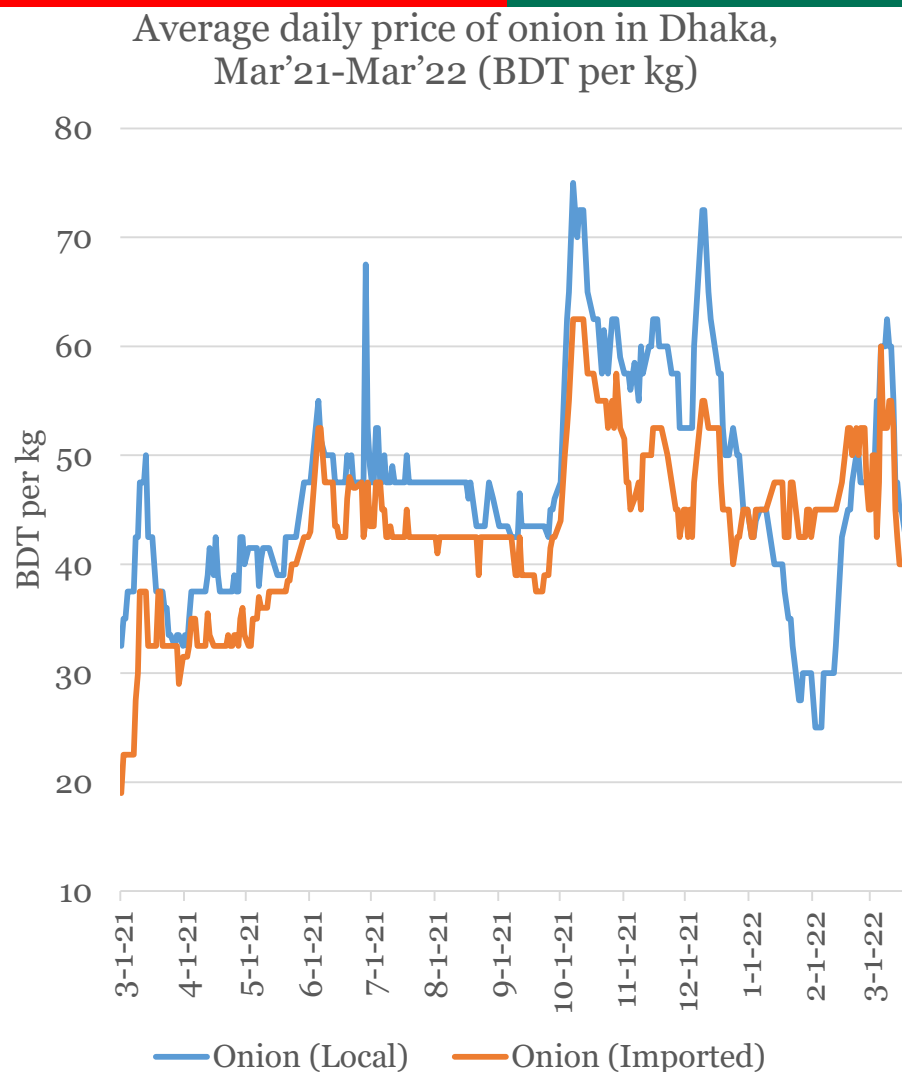
❑ A dozen eggs in Dhaka are now more expensive than a dozen eggs in Dayton, USA or Cyberjaya, Malaysia!



Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of **onions**: rising trend of highly volatile prices

	Onion, per kg in 2022 in BDT	Average monthly earnings of employees in 2017 in USD
Dhaka, Bangladesh	55.22	149
Belgrade, Serbia	40.9	335
Baku, Azerbaijan	37.46	307



Source: CPD compilation based on data from Numbeo and ILOSTAT

❑ Onions in Dhaka are now more expensive than in Belgrade, Serbia or Baku, Azerbaijan!

Source: CPD illustration based on data from Trading Corporation of Bangladesh

Price of **cigarettes** still quite low: Is Bangladesh a smoker's paradise?

❑ The price of a pack of 20 cigarettes (Marlboro) have increased by only BDT 20 or less per year in Dhaka during the ten-year period from 2011 to 2021.

❑ A pack of 20 cigarettes (Marlboro) costs BDT 2516.73 in Perth, Australia which is 8.35 times more expensive than the price in Dhaka.

	Pack of 20 cigarettes (Marlboro) in 2022 in BDT
Perth, Australia	2,516.73
Hamilton, New Zealand	2,103.52
Bristol, United Kingdom	1,468.61
Galway, Ireland	1,422.32
Oslo, Norway	1,346.01
Chicago, IL, United States	1,286.12
Vancouver, Canada	1,204.14
Dhaka, Bangladesh	301.2

Source: CPD compilation based on data from Numbeo

- ❑ The need for strong market intelligence is critical.
- ❑ Unscrupulous market players have always been active to take advantage of difficult periods, by stockpiling and creating artificial crises in the market.
- ❑ Efficient market management through close monitoring and supervision will be critical to keep the commodity prices under control during Ramadan and beyond.
- ❑ The volume of sale of essential commodities through the open market system (OMS) should be increased.
- ❑ **Distribution of these commodities must be managed effectively and without any corruption, so that the eligible people have access to these items at low prices.**
- ❑ The government should provide direct cash support to the poor, enhance social protection for low-income families, and extend stimulus to the small businesses for their survival during difficult times.

Conclusions & Recommendations

- ❑ The government should prepare for maintaining adequate food stock not only through better agricultural production, but also through importing food.
- ❑ There is a need for actual demand estimation of rice and other food items in the country.
- ❑ During a crisis, food-exporting countries would not export food without meeting their domestic demands first. If they decided to export, the prices would be exorbitant. Therefore, planning the production and import of food should be done early on.
- ❑ The role of the competition commission needs to be strengthened particularly in the case of the essential consumer goods market. The Commission should develop a database, regularly monitor the dominant market players' operations, examine the market control and manipulation (if any), and take proper measures.
- ❑ **Inflationary pressure will hamper a sustainable and inclusive pandemic recovery, since the real purchasing power of many people will decline, causing further inequality.**

Thank You