

# Fuel Price Hike: How Necessary Was It?

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# Introduction

- ❑ On 3<sup>rd</sup> November 2021, Bangladesh Petroleum Corporation (BPC) raised the prices of diesel and kerosene at the retail level – to be effective from zero hours on 4<sup>th</sup> November 2021
- ❑ The prices of diesel and kerosene have been increased to **Tk. 80/litre from Tk. 65/litre – indicating a 23.1% rise**
- ❑ The price of furnace oil has also been raised to **Tk. 62/litre from Tk. 59/litre – a 5.1% increase**
- ❑ Amid the surging global energy prices, this decision came in order to recover the apparent losses incurred by the state-owned BPC, which is the monopoly of the market
  - As has been claimed, BPC was losing Tk. 20 crore per day before the price adjustment as it was selling diesel at Tk. 13.01/litre and furnace oil at Tk. 6.21/litre lower than the prices which would keep them in break-even

# Petroleum prices and BPC

## Trend of petroleum prices

- ❑ The previous price adjustments for diesel and kerosene took place in April 2016 in view of the low fuel prices on the international market
  - A cut of 4.4% for both - from Tk. 68/litre to Tk. 65/litre
  - The prices have been kept unchanged till the latest hike
  
- ❑ The prices in the global market have gone through considerable volatility since April 2016
  - USD 42.3/barrel on April 2016
  - Hit its lowest in April 2020 (USD 23.3/barrel) following the COVID-19 outbreak
  - USD 83.7/barrel in October 2021- the highest since April 2016 (106.7% increase from October 2020)

**Figure: Price of Brent crude (USD/barrel)**

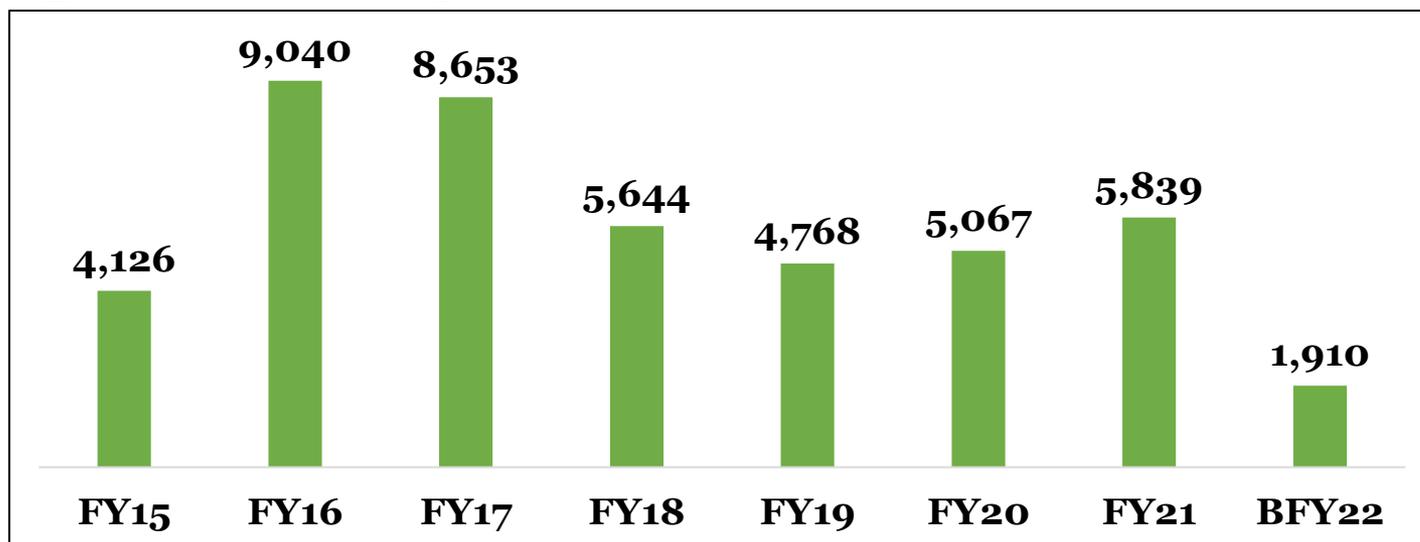


Source: World Bank Pink Sheet

## BPC's profits in recent years

- During the FY15-FY21 period, BPC amassed a profit of nearly **Tk. 43,138** crore (according to MoF statistics)
  - BPC anticipated a profit of Tk. 1,910 crore during FY22
  - During the FY08-FY14 period, BPC incurred a **total net loss of Tk. 38,646 crore** (according to MoF statistics)

**Figure: Profits made by BPC (in crore Tk.)**



Source: Bangladesh Economic Review and budget documents by MoF

## BPC's contribution to the government exchequer

- BPC also contributes to the government exchequer through various duties and taxes
  - BPC was expected to pay Tk. 8,384 crore to the government in FY22 in the form of tariff and taxes as well as dividends

**Table: BPC's contribution to the government exchequer (crore Tk.)**

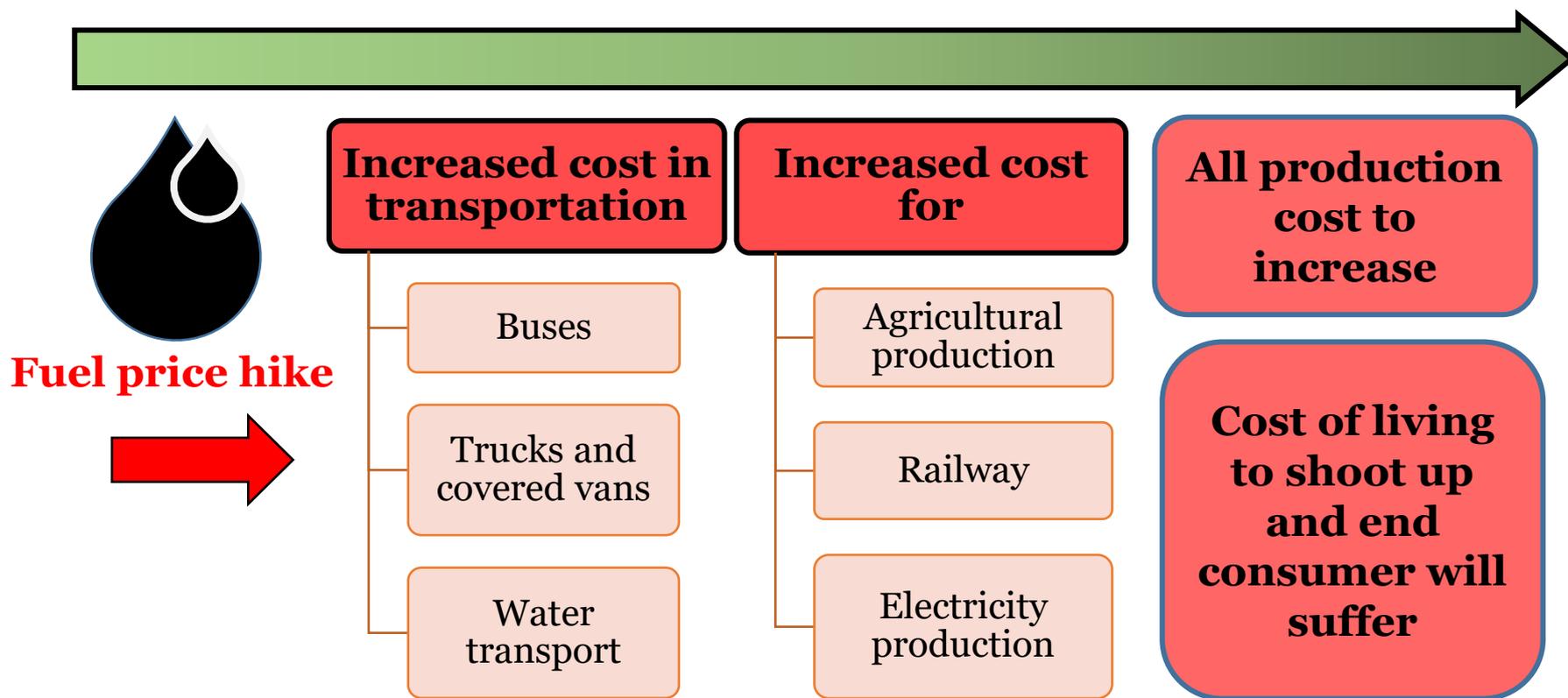
Tax/Revenues	FY17	FY18	FY19	FY20	RBFY21	BFY22
Import duty	1,724	1,856	1,809	1,568	1,931	2,333
VAT	5,458	5,671	6,565	6,074	4,774	5,505
Income tax	867	820	917	1,181	260	247
Dividend	1,200	750	300	300	300	300
Transfer of surplus	-	-	-	5,000	-	-
<b>Total</b>	<b>9,249</b>	<b>9,097</b>	<b>9,590</b>	<b>14,123</b>	<b>7,265</b>	<b>8,384</b>

Source: BPC Annual Report and budget documents, MoF

- Government has also mobilised a total of **Tk. 10,000 crore 'idle money'** from BPC over two instances (Tk. 5,000 in FY20 and another likely Tk. 5,000 in FY21)
- The total tax incidence for both diesel and kerosene is close to **34%** (which comprise four types of tariffs and taxes **including customs duty, VAT, AIT and advanced tax**)

## Impact of price hikes

- ❑ The price hikes of diesel and kerosene will have both immediate and medium-term impacts on various sectors of the economy.



# Context of price hikes

## *The price hikes of diesel and kerosene came at a time when prices for daily necessities were already exhibiting an upward trend*

- ❑ Compared to the corresponding period of FY21, prices of several commodities shot up in November 2021 (based on TCB data). For instance:
  - Coarse rice: 2.2%; Flour (loose): 15.5%; Soyabean oil (loose): 46.6%; Potato: 41.2%; Rui fish: 20.0%; Chicken (broiler) 17.6%; Sugar: 24.0%; Eggs (farm): 10.3%
- ❑ The inflation data provided by Bangladesh Bureau of Statistics (BBS) only shows marginal increase in point-to-point basis and declining trend in moving average basis!! (up to September 2021)
  - This appears to be quite detached from the actual scenario on the ground
  - Raises questions regarding the reliability of inflation data

## ***Bangladeshi Tk. has depreciated against USD by 1.1% between November 2020 and November 2021***

- ❑ This indicates costlier imports and, in turn, leads to higher cost of living

## ***COVID-19 has given considerable rise to poverty in Bangladesh***

- ❑ CPD (2020) indicated that the poverty rate (upper) in Bangladesh could be as high as 35.0%, from 24.3% in 2016, because of COVID-19. This would mean that an additional 1.75 crore people could have fallen into poverty
- ❑ According to BIGD and PPRC (2021), 3.24 crore people have become poor in Bangladesh due to COVID-19
  - Of these, 79 lakh people have become poor after April 2021

# What are the concerns?

**In the backdrop of the price hikes of diesel and kerosene, several key concerns emerge which require immediate policy attention**

- ❑ How to ensure macroeconomic stability?
- ❑ How to ensure distributive justice?
- ❑ What are the implications for COVID-19 recovery?
- ❑ How to enhance governance and enforcement capacity of BPC?
- ❑ How to set up a better price adjustment process?
- ❑ What are the medium-term reform agendas related to BPC?

# CPD's recommendations

- ❑ In view of recovery from the adverse impacts of COVID-19, **stability of fuel price is critically important** given the 'strategic' nature of the commodity
- ❑ In this backdrop, CPD recommends *reinstating the earlier prices of diesel and kerosene at an immediate basis*
  - The accumulated profits of BPC should be enough to provide some cushion despite the previously accrued losses
  - The government can keep the prices at their previous levels **through subsidies or tax and tariff cuts**
  - Forecasts by multilateral agencies (e.g., World Bank) predict a downward movement of fuel prices in 2022
- ❑ **Absorbing the price shock and focusing on recovery** should be the government's prime concern at this point in time

- ❑ The government should ensure the enforcement of its measures so that the common people do not fall prey to the whims of bus, launch or transport owners.
- ❑ BPC's accountability and transparency should be improved. Corruption of fuel marketing companies should be stopped
- ❑ Consultation with all stakeholders should be part of the price setting mechanism instead of arbitrary price setting practice

# Stay Well, Stay Safe

