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Record Fuel Price Hike in Bangladesh: Could It Be Avoided?

Presented by

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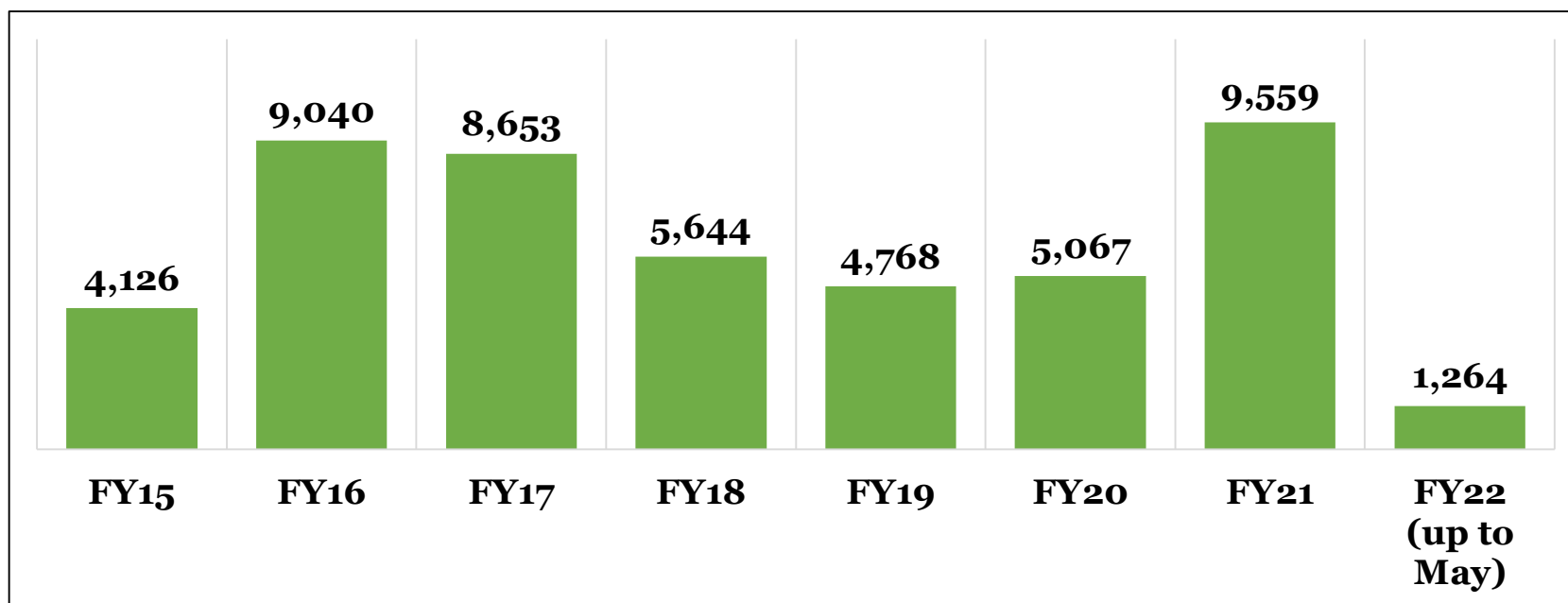
- ❑ On 5 August 2022, the Ministry of Power, Energy and Mineral Resources announced a record hike of petroleum prices at the retail level - to be effective from zero hours on 6 August 2022
 - The prices of diesel and kerosene have been increased to Tk. 114/litre from Tk. 80/litre – indicating a whopping 42.5% rise
 - The price of octane has been raised by 51.7% - from Tk. 89/litre to Tk. 135/litre . Similarly, the price of petrol has been increased to Tk. 130/litre from Tk. 86/litre – exhibiting a 51.2% growth
- ❑ Such sharp increases in fuel prices is unprecedented
 - It must also be noted that the prices of diesel and kerosene were increased by 23.1% on November 2021
- ❑ This increase comes at a time when the country is already facing considerable challenges originating from both domestic and external fronts

Reasons shown behind the price hike

- ❑ According to a press release by the Ministry of Power, Energy and Mineral Resources, the decision to increase fuel prices once again came in order to recover the apparent losses incurred by the state-owned Bangladesh Petroleum Corporation (BPC), which is the monopoly of the market
 - As has been claimed, BPC has lost nearly Tk. 8,015 crore from February 2022 to July 2022 owing to fuel sales at subsidised prices
- ❑ The press release mentioned that a number of countries, including India, have increased their domestic fuel prices in view of the rising prices in the global market
- ❑ It was mentioned that the concern over smuggling of fuel out of the country was another reason behind the hike

- ❑ From FY15 to FY21, BPC amassed a net profit of nearly Tk. 46,858 crore (as per Ministry of Finance (MoF) statistics)
- ❑ During the July-May period of FY22, BPC also accrued a net profit of nearly Tk. 1,264 crore - this is incongruent with the claim of the loss amounting Tk. 8,015 crore from February 2022 to July 2022

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



Source: Bangladesh Economic Review, MoF

- ❑ BPC contributes to the government exchequer through various duties and taxes
 - BPC is expected to pay Tk. 9,251 crore to the government in FY23 in the form of tariff and taxes as well as dividends

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

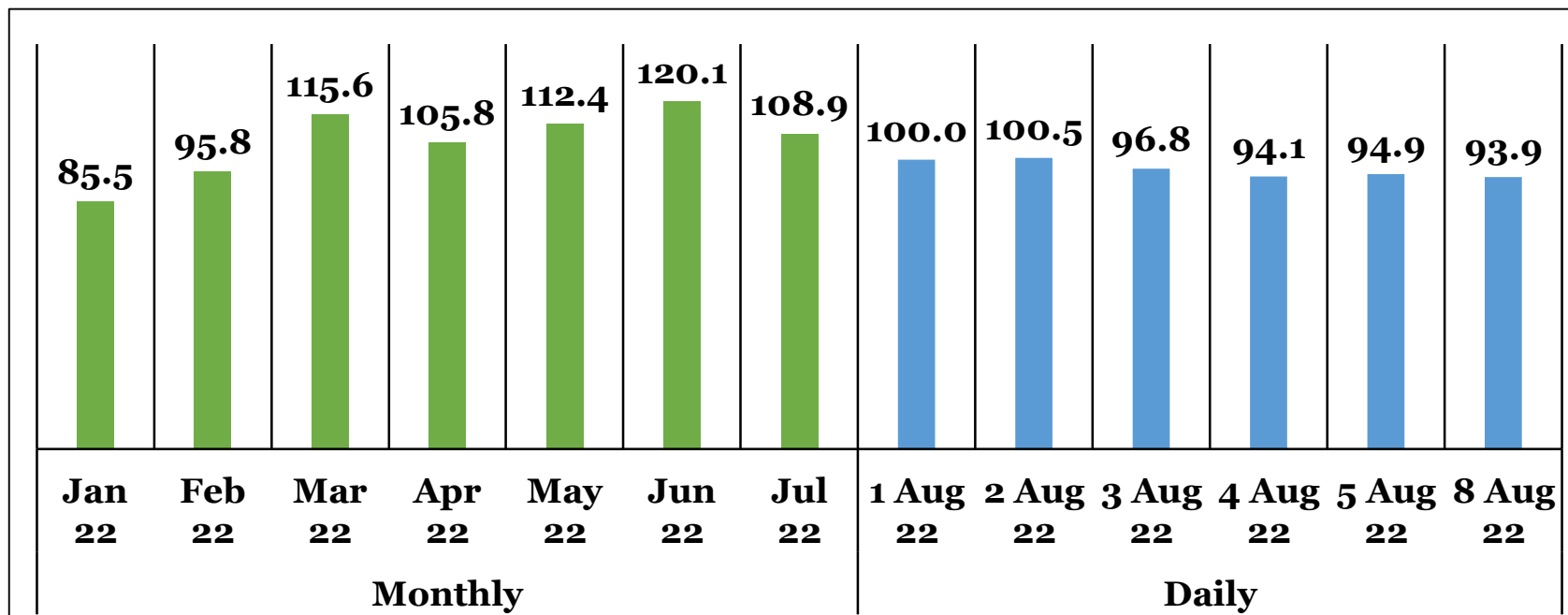
Tax/Revenues	FY17	FY18	FY19	FY20	FY21	RBFY22	BFY23
Import duty (5%,10%)	1,724	1,856	1,809	1,568	1,568	2,324	2,560
VAT (15%)	5,458	5,671	6,565	6,074	6,074	5,030	5,370
Income tax (2%, 5%)	867	820	917	1,181	2,104	886	1,121
Dividend	1,200	750	300	300	300	300	200
Transfer of surplus	-	-	-	5,000	5,000	-	-
Total	9,249	9,097	9,590	14,123	15,046	8,540	9,251

Source: BPC Annual Report and budget documents, MoF

- ❑ The government has also mobilised a total of Tk. 10,000 crore 'idle money' from BPC over two instances (Tk. 5,000 crore in FY20 and another Tk. 5,000 crore 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)

- ❑ At the global markets, petroleum prices have shown downward trends in the recent months
 - This is particularly true if the daily prices during August 2022 are taken into consideration

Figure: Price of Brent crude (USD/barrel)



Source: World Bank Pink Sheet and Bloomberg

Petroleum prices in other countries

- ❑ Amongst the neighbouring countries of Bangladesh, only Nepal and Sri Lanka have higher octane prices, and only Nepal and Bhutan has higher diesel prices
- ❑ Vietnam, a major competitor of Bangladesh in terms of trade, currently has lower fuel prices – adding to its relative competitiveness
- ❑ Oftentimes fuel prices in Bangladesh are compared to countries with much higher per capita income and cost of living (e.g., Singapore, Hong Kong)

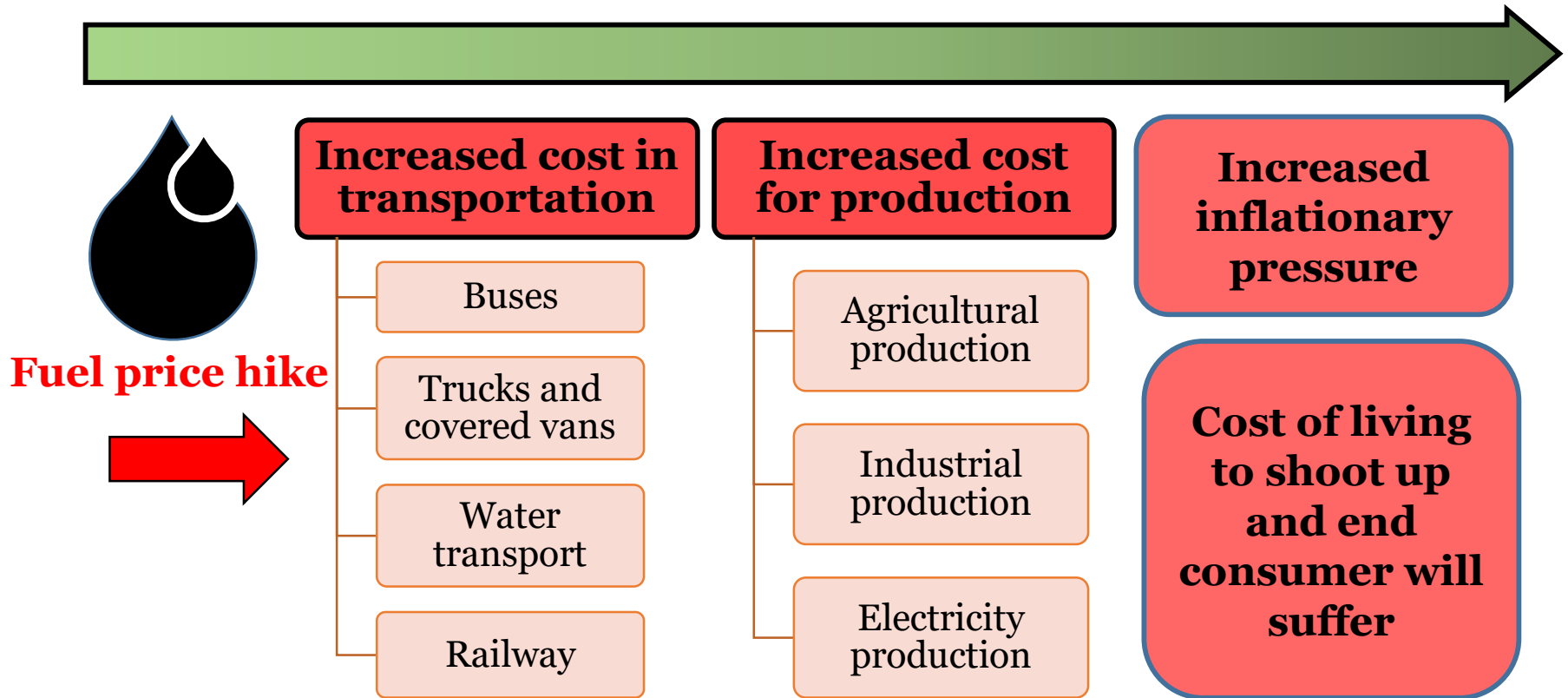
Table: Cross-country comparison of petroleum prices

Country	Price in BDT/Litre		GDP per capita (in USD)
	Octane	Diesel	
Nepal	135.6	128.9	1,222.9
Pakistan	91.1	93.4	1,537.9
India	125.0	112.2	2,277.4
Bangladesh	135.0	114.0	2,503.0
Bhutan	120.6	144.8	3,000.8
Vietnam	106.2	97.9	3,694.0
Sri Lanka	142.9	113.8	3,814.7
Thailand	121.9	91.6	7,233.4
Maldives	101.5	102.8	8,994.6
Hong Kong	282.3	260.7	49,660.6
Germany	168.4	187.5	50,801.8
USA	111.8	128.6	69,287.5
Singapore	192.1	191.5	72,794.0

Source: www.globalpetrolprices.com and World Development indicators, World Bank

Note: Retail price of refined oil is updated as of 1 August 2022.

- ❑ The price hikes of fuel will have both immediate and medium-term impacts on various sectors of the economy
 - This is particularly pertinent for agriculture given the recent rise in fertiliser prices and for industries in the backdrop of the ongoing electricity shortage



Immediate measures

- ❑ Given the fuel price hike is likely to stoke the already difficult inflationary situation, the government must provide immediate support to the poor and limited-income households across the country
 - The number and quantity of items should be increased under the open market sales (OMS) programme
 - Ration cards should be made available for a larger number of people
 - For better targeting of the population for these supports, institutional mechanisms should be strengthened and highest transparency should be ensured
- ❑ Since cost of doing business is expected to shoot up, it will become difficult for micro and small businesses to stay afloat. The government should consider providing stimulus to such businesses
 - The learnings during the implementation of COVID-19 targeted stimulus packages ought to inform this process. That is, bottlenecks in accessing such support should be removed

- ❑ Fuel prices are administered by the government of Bangladesh. It has been observed in recent years, fuel price adjustment in Bangladesh happens in a somewhat arbitrary manner. While the burden of higher prices in the global market has been frequently passed on to the consumers, the same did not happen in case of benefits of low prices
 - Formulation of a fuel price policy and its application in a transparent manner has become an exigency
- ❑ Taking the current inflationary trends into cognisance, the government can consider reducing fuel prices through tax or tariff cuts for a short period
- ❑ The government may consider revising the fuel prices for now and opt for a gradual increase after consulting with relevant stakeholders and Bangladesh Energy Regulatory Commission (BERC)
 - Stakeholder consultation should be part of the price setting mechanism instead of arbitrary price setting practice

Medium term measures

- ❑ The power and energy sector in Bangladesh needs to change its policy focus on primary energy which is currently import dependent
- ❑ The government should invest in primary fuel in the country and diversify the sources
 - New gas exploration initiatives and efficient management of the sector are of paramount importance in this regard
 - Bangladesh should also invest in renewable sources for both generating energy and fulfill its climate commitments
- ❑ BPC should be made an efficient organisation through improved governance, management and accountability

Finally, this record high fuel price in one go could have been avoided if the government had fiscal space.

Unfortunately, the government has not done much for institutional reforms which could improve better resource mobilisation and reduce wastage and corruption.

Thank You



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