

Inflation Trends in Bangladesh Economy and its Impacts on Households in the Last Decade (2012-2022): An Empirical Analysis

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Abstract: The inflation rate for consumer prices in Bangladesh is increasing over time. In the past 34 years the inflation rate moved over between 2.0% and 11.4%. For 2022, an inflation rate of 7.7% was calculated. During the observation period from 2012 to 2022, the average inflation rate was 6.05% per year. Overall, the price increase was 725.52%. An item that cost 100 taka in 1987 costs 889.06 taka at the beginning of 2023. Estimates of the impact on households due to inflation in Bangladesh are given in this study by using secondary data that are collected from different institutions. The findings imply that because the poor spend a greater percentage of their income on food, the current inflation has a greater negative impact on them. The findings show that recent inflation is mostly caused by increasing food costs, and that the inflation rate experienced by the poor is larger than that of the non-poor groups. This paper emphasizes how crucial it is for the government to implement pro-poor growth and anti-inflation policies in order to lessen the negative consequences of recent inflation on the underprivileged.

Keywords: Bangladesh; Economy; Inflation; Households; Insecurity.

1.1 INTRODUCTION

One of the main macroeconomic issues in the economy is inflation, a well-established phenomenon. Everyone is primarily concerned about the general movement of a country's total price level, especially if the movement is upward. Inflation is now essentially a major concern for both rich and emerging economies. In most emerging nations, inflation has been rising at an alarming rate since the 1970s. Because of the financial and economic dualism, widespread eminent control over wages, prices, exchange rates, imports, and exports, as well as the abundance of subsidies and incentives—many of which are frequently misplaced—the problem of inflation is, in a way, more complicated in developing countries.

Concerns over the inflation rate's detrimental impact on the economy and its negative welfare effects on various socioeconomic groups, especially the poor, have increased significantly in recent years. Reduced real income for households is among the direct negative repercussions of increasing inflation. Additionally, changes in relative prices brought on by inflation may lead to inefficiencies and injustices. Recognizing the significant costs of inflation for the underprivileged and poor in Bangladesh is crucial. The

conventional wisdom holds that the poor pay a high price for inflation. Since they hold a higher percentage of their assets in liquid form than non-poor people, the poor have less access to the financial system and therefore less ability to hedge against inflation. As a result, their purchasing power declines, especially for those groups whose earnings are fixed in nominal terms.

Since Bangladesh's founding in 1971, the nation has experienced a variety of developments, including slow economic growth, a high prevalence of poverty, and a chronically high rate of inflation. In particular, inflationary drives degrade overall economic wellbeing of the populace by diminishing limited buying power, but they also exacerbate social conflict and erode public faith in the social and economic fabric of the nation. This study provides a fairly succinct description of the trend in Bangladesh's inflation rates 2011 to 2022 and its dominance on the households during this period.

1.2 LITERATURE REVIEW

The major point of this paper is a trend analysis of Bangladesh's inflation rates from 2011 until the present. While several reports, essays, and other publications have been made about inflation in Bangladesh. However, the literature review in this

regard places a lot of emphasis on conducting additional study. The research studies that were examined here came from a variety of journals, articles, reports, websites, etc.

Khatun, Fahmida, Ahamad, and Mazbahul G. (2012) observed the main determinants of inflationary trends in Bangladesh from FY1981 to FY2009 in "Investigating the causes of inflationary trends in Bangladesh: an ARDL limits F-Test Approach,". Increased domestic rice production and effective fiscal-monetary integration were judged to be the most important policy alternatives for reducing inflationary pressure in Bangladesh, according to the report's empirical findings.

In "Recent Inflation in Bangladesh: Trends, Determinants and Impact on Poverty," Rahman, Bhattacharya, Shadat, and Deb (2008) investigated current trends in overall inflation levels and examined changes in the price levels of several basic consumer goods. Their research also examined inflation in Bangladesh from a regional comparative perspective, attempted to calculate the effect of inflation on poverty levels using the most recent data on household income and spending, and reviewed a number of government initiatives to address both the causes and effects of inflation.

In their study "Inflation and Economic Growth in Bangladesh: 1981-2005," Ahmed and Mortaza (2005) empirically investigated the link between inflation and economic growth in the context of Bangladesh. The empirical data showed a statistically significant long-run negative association between the country's inflation and economic growth, as shown by a negative long-run relationship between the CPI and real GDP.

The researchers do believe that the study, "Inflation Patterns in Bangladesh's Economy and its Impacts on Households in the last decade", is a useful and instructive supplement to previous research on Bangladesh's inflation trends.

1.3 NEED OF THE STUDY

The main reason for choosing this topic was to learn about inflation and its influence on human life in a nutshell. Bangladesh is a rising economy, but it is amply effected by factors like inflation. Due to inflation, households in Bangladesh suffer to varying extents. However, from this study we may get a clear idea about how the changing trend of

inflation influences the economy as well as the households of Bangladesh.

1.4 OBJECTIVE OF THE STUDY

It has been sought to conduct the research with a view to achieving some defined objectives from the very beginning of the investigation. The paper's goals are listed below:

- To gain a basic understanding of inflation.
- To understand Bangladesh's inflation rate trends from 2012 to 2022.
- To quickly ascertain the causes of inflation in Bangladesh.
- To learn about its impact on households.
- To offer some suggestions for ways to maintain a low or moderate inflation rate.

1.5 RESEARCH METHODOLOGY

This study is an empirical and descriptive study. The study essentially states Bangladesh's inflation rates since 2011 to onwards and provides a very quick analysis of the pattern. This research uses neither mathematical nor statistical methods. There has been no survey. Data has been gathered from secondary sources in order to complete the research in accordance with its aims. Economic Trends, Bangladesh Bank Bulletin, Bangladesh Economic Review, Annual Report of Bangladesh Bank, Statistical Pocket Book of Bangladesh, CPD, IMF, and various published books, journals, and research works that are pertinent to the study have all been used to gather pertinent information. Additionally, professional knowledge has been used to help people grasp various terminologies better.

2.1 ANALYSIS AND INTERPRETATION

2.1.1 TRENDS IN INFLATION

The annual percentage change in the average consumer's cost of acquiring a basket of goods and services, which may be set or modified at predetermined intervals, such as annually, is reflected in inflation as measured by the consumer price index. Most often, the Laspeyres formula is employed.

Inflation in Bangladesh was 7.7% in 2022, up 38.73% from 2021. Bangladesh's 2020 inflation rate was 5.69%, up 0.1% from 2019. The inflation rate in Bangladesh for 2019 was 5.59%, up 0.5%

from 2018. Bangladesh's 2018 inflation rate was 5.54%, down 0.16% from 2017. Inflation rate was the lowest in 2016 and it was 5.51.

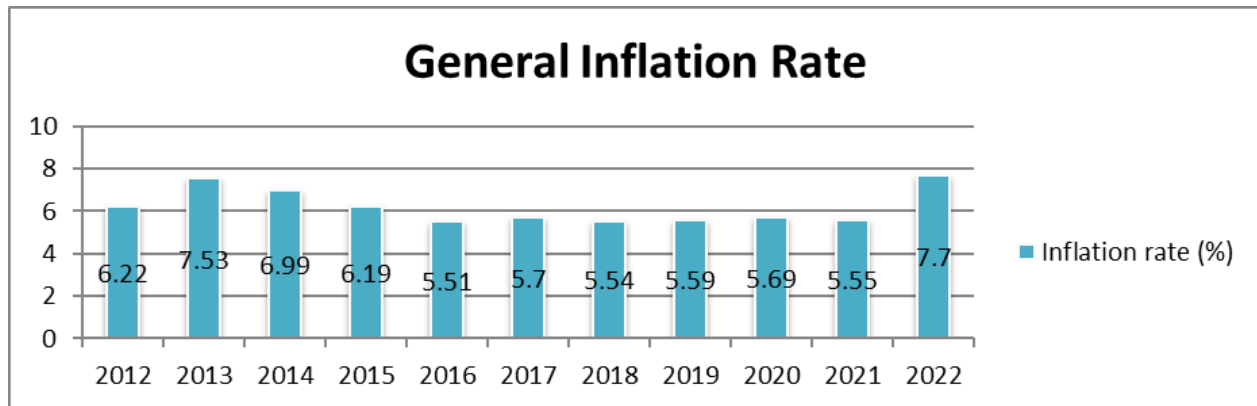


Figure 1: Inflation rate from 2012-2021 (Source-Macrotrends).

The food inflation rate in Bangladesh was high in 2014. From 2018, it showed a downward trend,

and it reached 1.9% in 2021, which was the lowest during the period of 2012 to 2022.

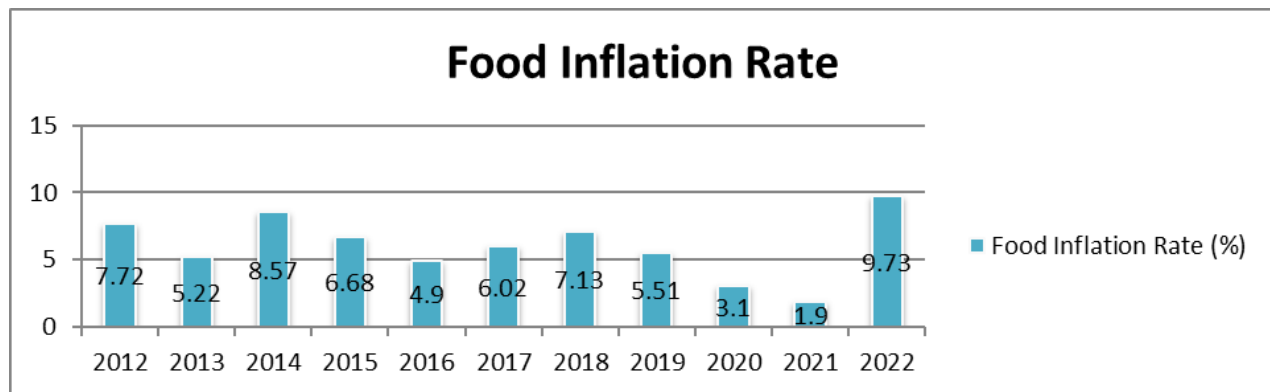


Figure 2:-Food inflation rate from 2012-2021 (Source-BB annual report).

The non-food inflation rate shows a downward trend from 2012 to 2022. The highest rate (10.21%) was in 2012 and the lowest rate (3.74%) was in

2018. In 2022, the non-food inflation rate was 9.73%.

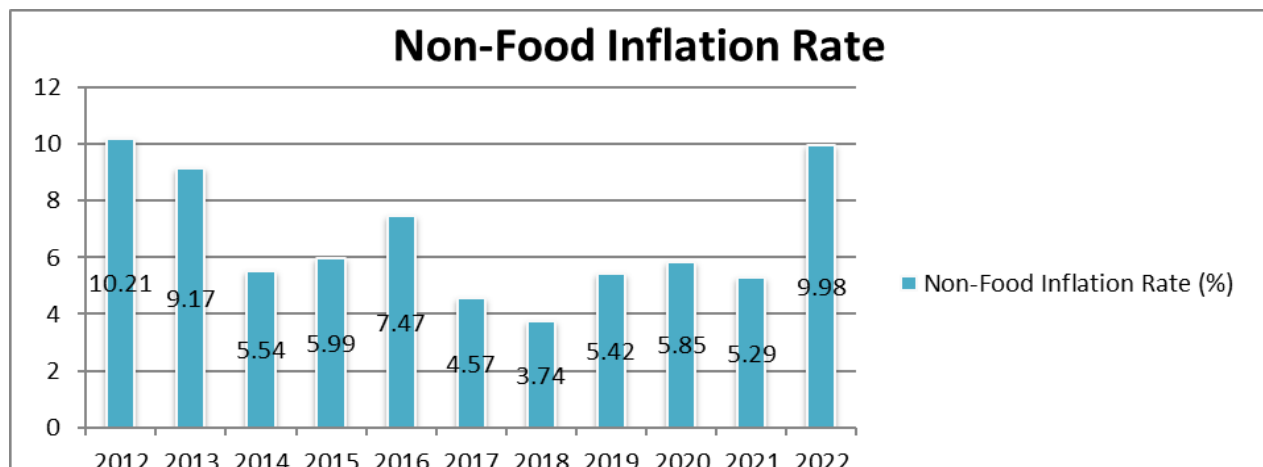


Figure 3: Non-food inflation rate from 2012-2021 (Source-BB annual report).

2.1.2 IMPACT ON HOUSEHOLDS

Consumer price index reflects changes in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used. Data are period averages.

The consumer price index in Bangladesh shows an upward trend from 2012 to 2022. It also shows a dramatic increase in CPI within this period. As higher CPI indicates higher prices, it gives birth to higher rate of inflation. The households have to spend more when the inflation rate is high.

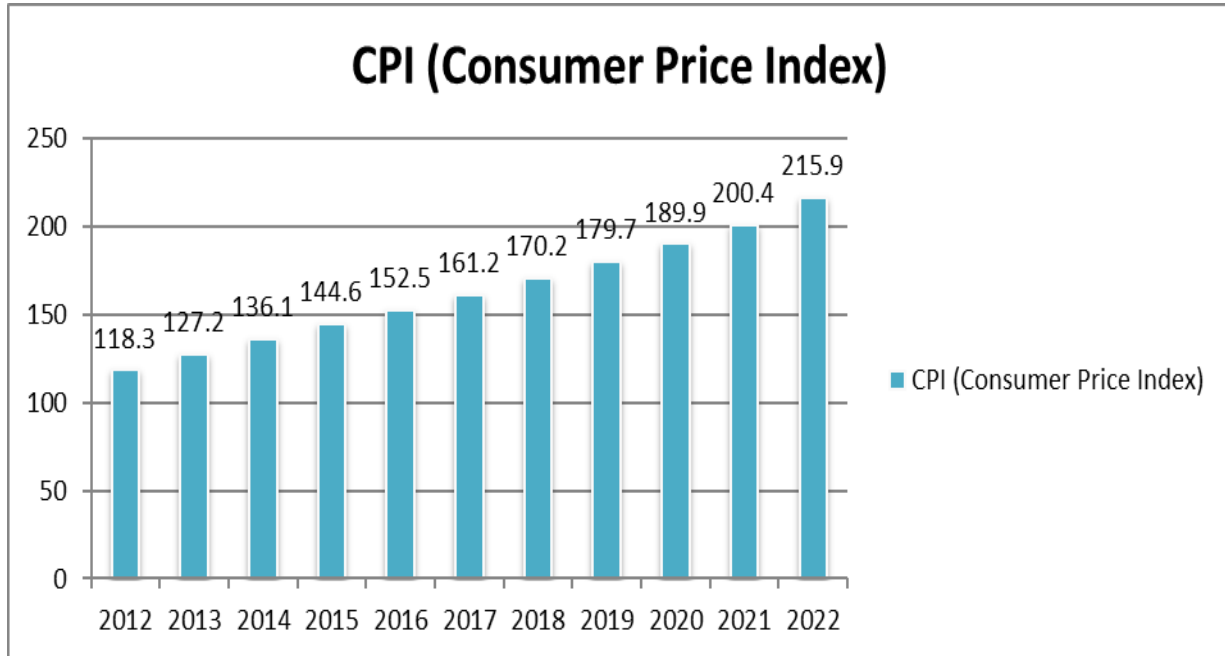


Figure 4: CPI of Bangladesh from 2012-2021 (Source-World Bank). [Consumer price index (2010 = 100) – Bangladesh].

2.1.3 URBAN AND RURAL INFLATION RATE

The households in urban areas face higher level of inflation from food to non-food category. The

food inflation shows an unsteady trend which affects the households in urban areas to some extent. The non-food inflation rate was low compared to the rate in 2013.

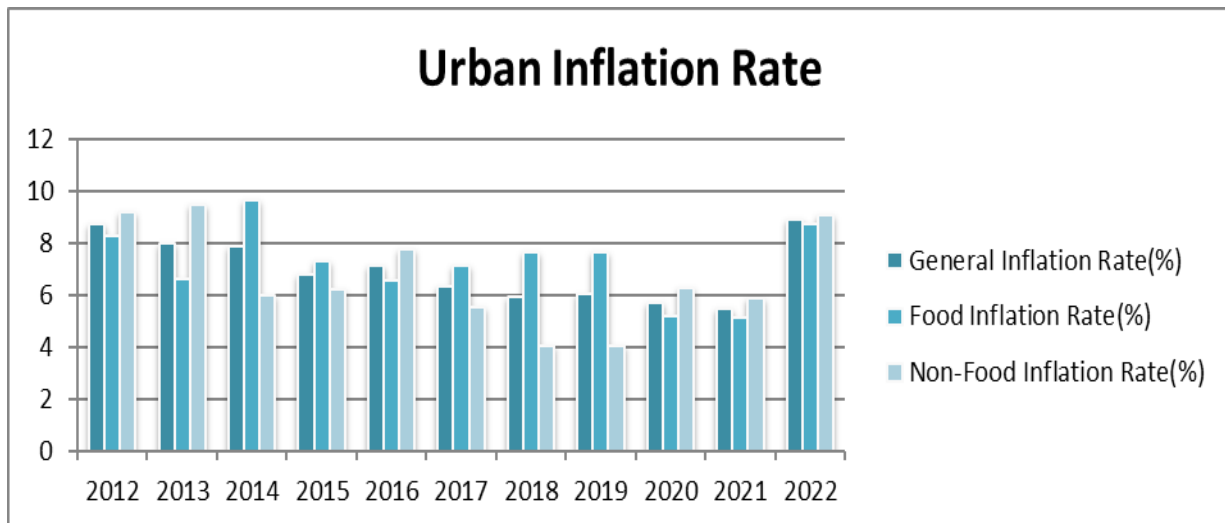


Figure 5: Urban inflation rate from 2012-2021(Source-BB annual report).

Inflation also left its mark on rural households. Inflation rates of all levels were more adjustable as compared to the rates in the urban areas. Food

inflation rate in the rural areas was higher than in the urban areas in 2022.

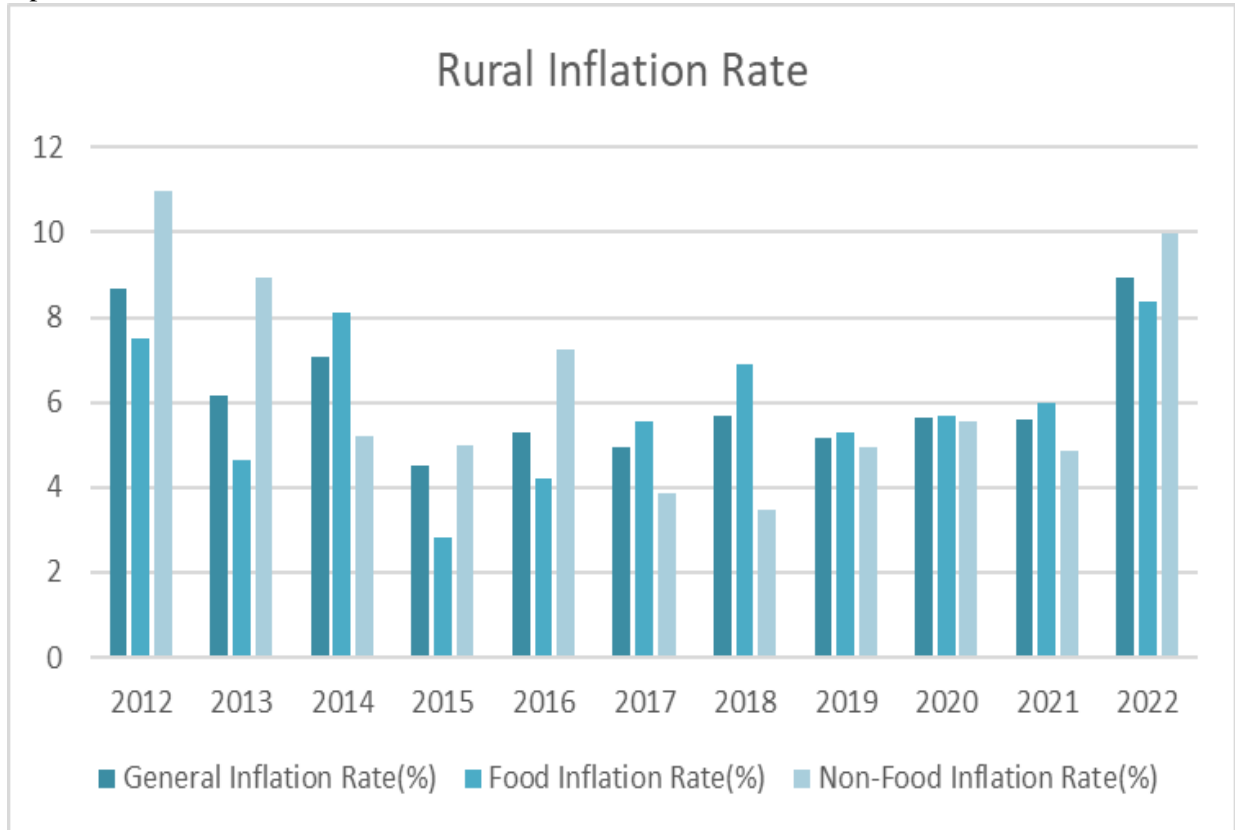


Figure 6: Rural inflation rate from 2012-2021 (Source-BB annual report).

2.1.4 INFLATION ON NECESSARY COMMODITY

Among the necessary commodity prices, the price of beef was highly affected by inflation. The

price of beef was BDT 750 in 2022 compared to BDT.284 in 2013. The price of rice was showing an upward trend from 2013 to 2022. Recently the price of a dozen of egg has reached the level of BDT.150 in 2022.

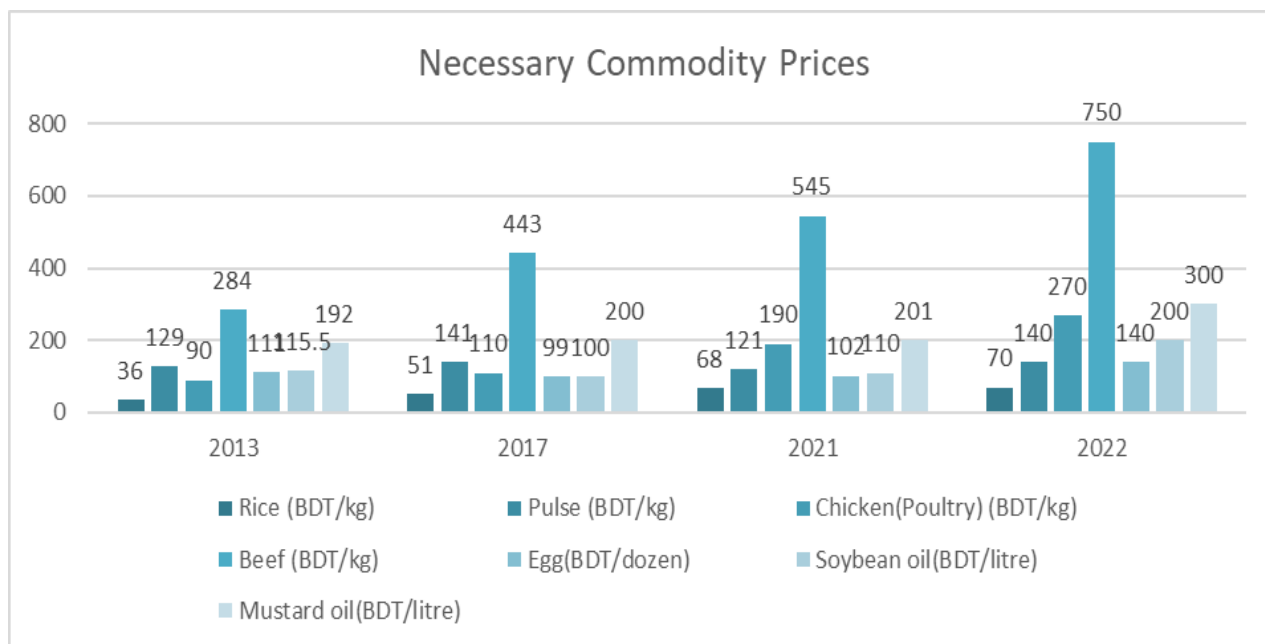


Figure.7: Commodity prices for selected years (Source-Data Bank).

Inflation was prevalent in the price of Chili among the following necessary commodities. Households had to spend more on the necessary

commodities, though the income of the households didn't increase that much.

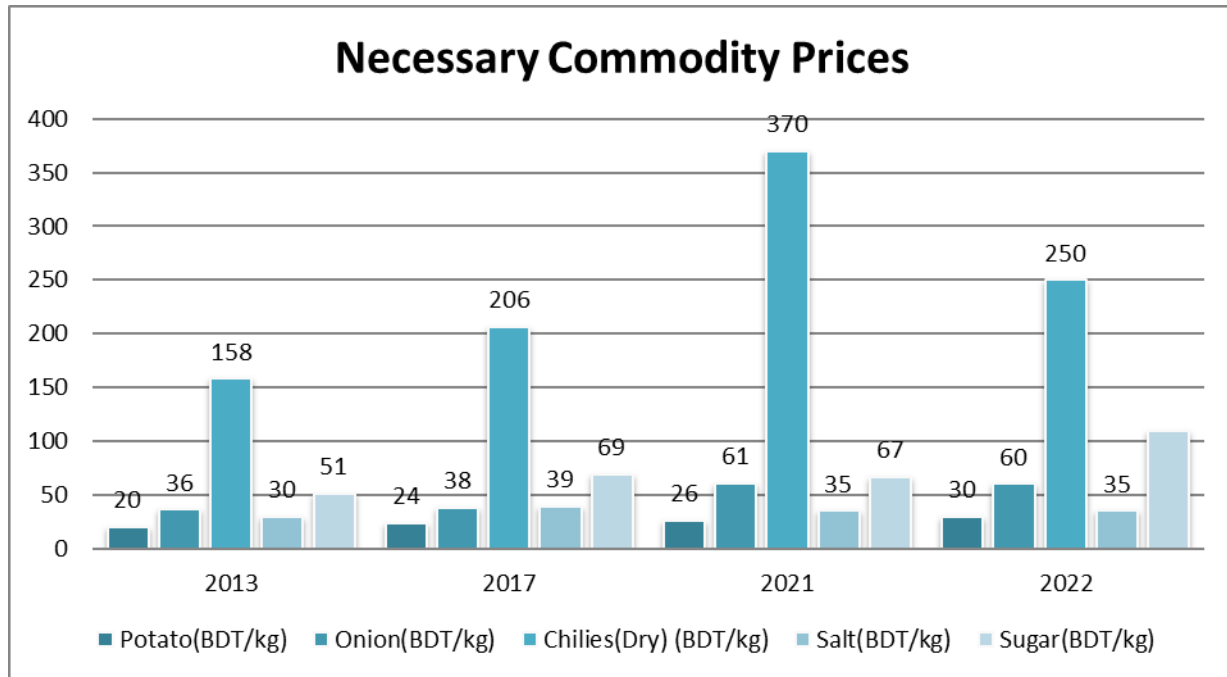


Figure 8: Commodity prices for selected years (Source-Data Bank).

2.1.5 INFLATION AND CONSUMPTION EXPENDITURES

Inflation was one of the major factors which gave a downward trend to consumption

expenditure as percentage of GDP. Households were affected more or less due to inflation.

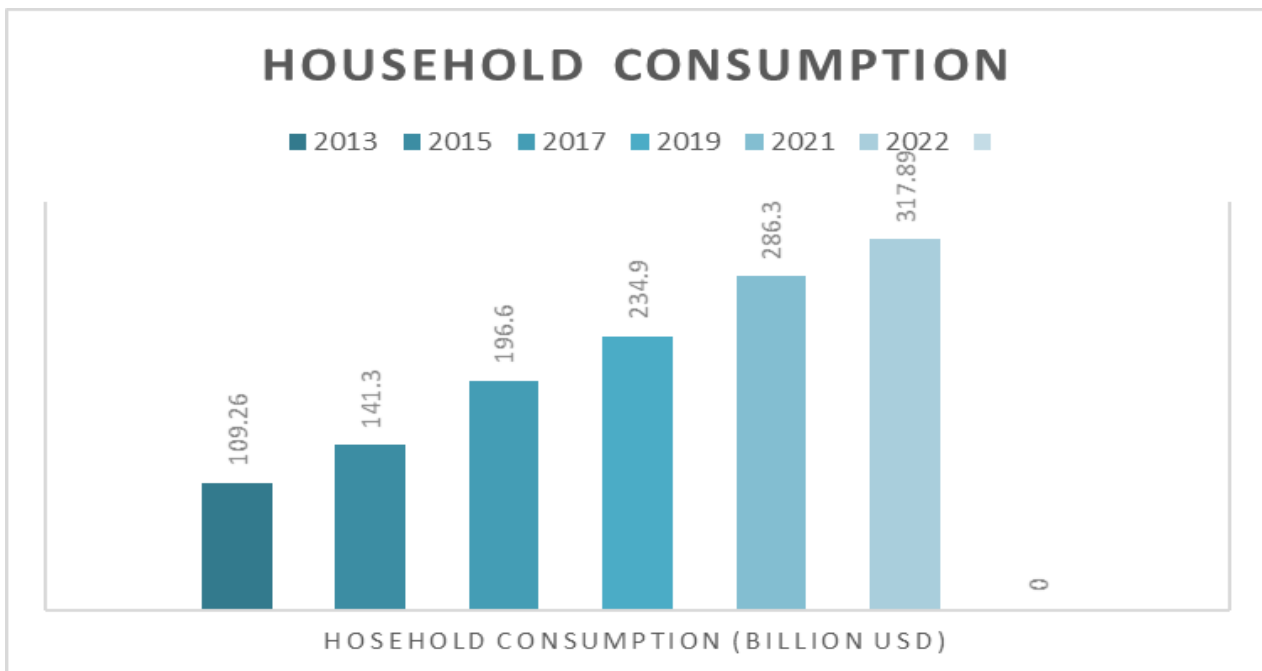


Figure 9: Consumption expenditure as percentage of GDP for selected years (Source-World Bank).

Though household consumption has increased, it didn't work for all the households in the same way. Only the high income and upper middle income class households were able to keep pace

with the growing inflation rates. The household consumption reached a level of 286.3 billion USD in 2021, in spite of having an unequal income distribution.

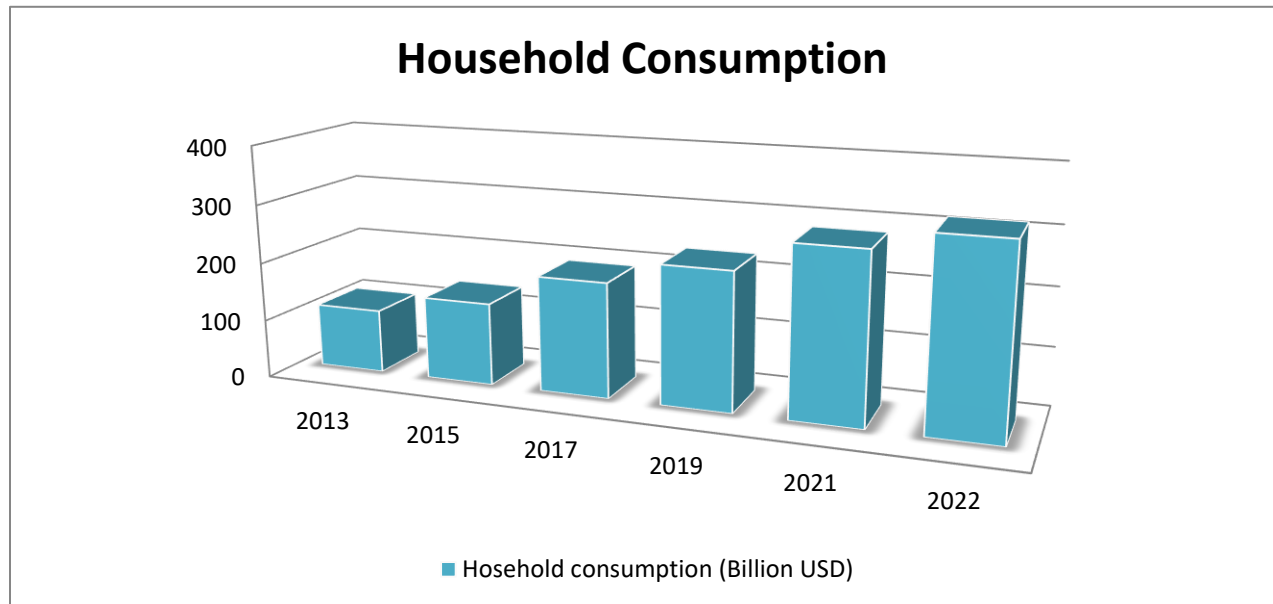


Figure 10: Household consumption for selected years (Source-The Global Economy.com, Macrotrends).

The welfare of a household is greatly impacted by food insecurity. The good news is that, despite the observed rise in food insecurity during the first few months of the pandemic (last year), the proportion of households reporting moderate or severe food insecurity has not increased as of September 2021, despite recent COVID-related

spikes and the nationwide lockdown. A rebound appears to be taking place, but it's likely that conditions were worse a few months ago (during the rigorous lockdown time). Urban households appear to be recovering a little more slowly than rural ones. These are early signs of household resilience in Bangladesh.

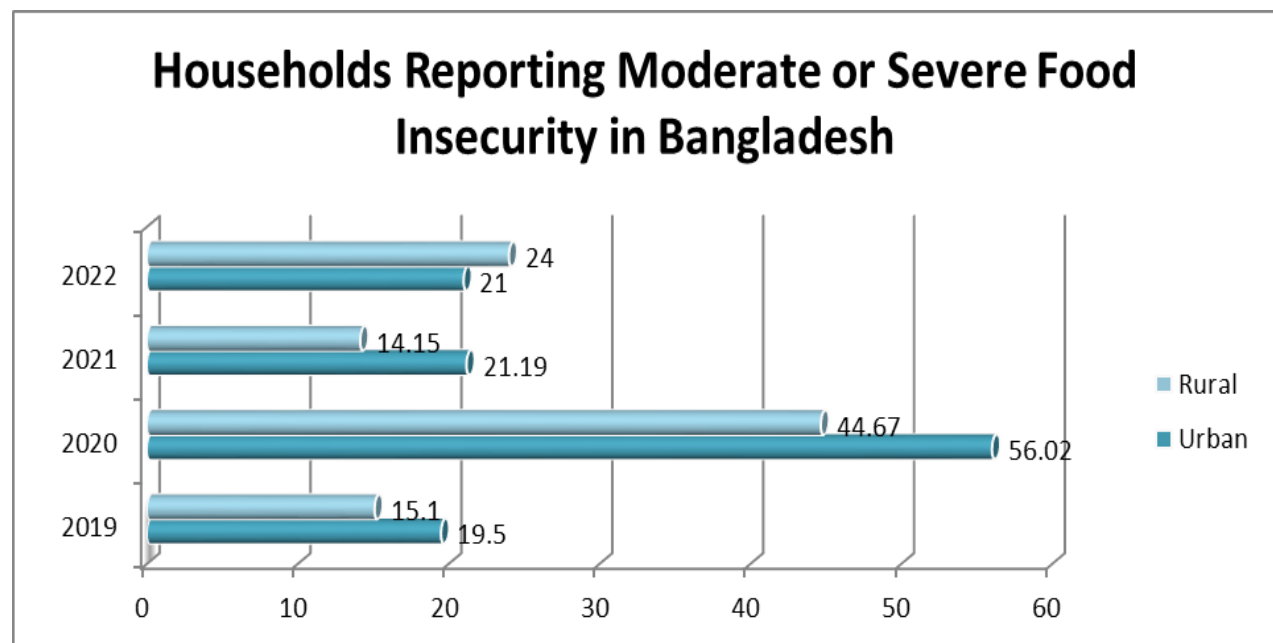


Figure 11: Food insecurity for selected years (Source-International Food Policy Research Institute).

It's vital to highlight that Bangladesh's total food insecurity has increased in comparison to pre-pandemic times, even though the prevalence of moderate and severe food insecurity has returned to pre-pandemic levels. This is due to a considerable increase in mild food insecurity compared to 2019. In other words, a significant

number of previously food secure households now experience mild food insecurity. When you tabulate the prevalence of any food insecurity reported by households, this becomes abundantly evident (i.e., mild, moderate or severe food insecurity).

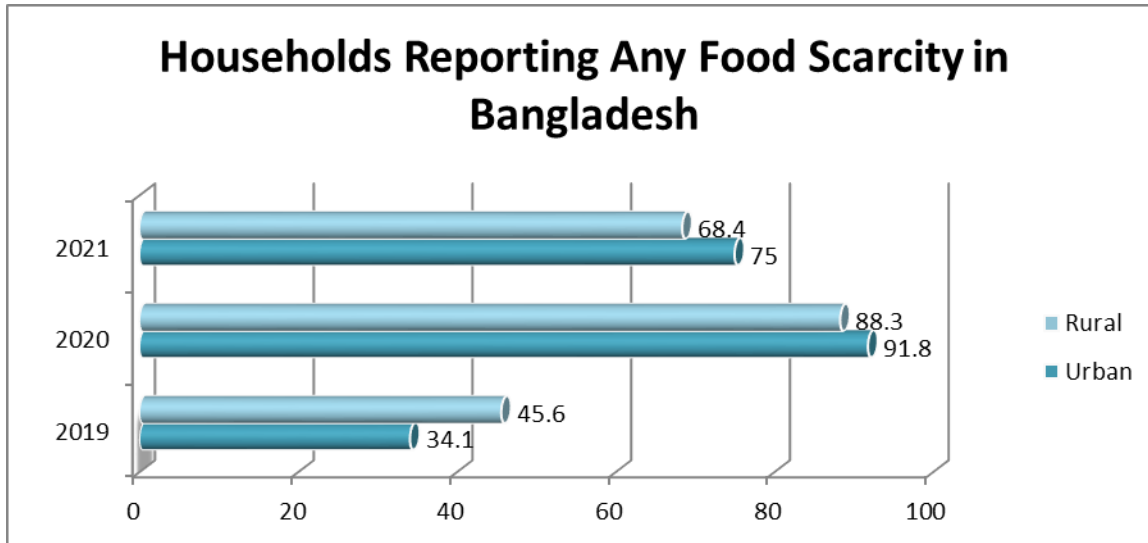


Figure 12: Food scarcity for selected years (Source- International Food Policy Research Institute).

With over 58.5 million people, or 36% of the total population, suffering from Mild Chronic Food Insecurity (IPC Level 2) and 69.8 million people, or 43% of the total population, classified as IPC Level 1 (No Chronic Food Insecurity), Bangladesh has made significant strides in food security in recent years compared to many of its Asian counterparts. Nearly 35 million individuals, or 21%

of Bangladesh's total population, experience moderate to severe chronic food insecurity (IPC Levels 3 and 4), with 11.7 million of those individuals experiencing severe chronic food insecurity (IPC Level 4), and 23.1 million of those individuals experiencing moderate chronic food insecurity (IPC Level 3).

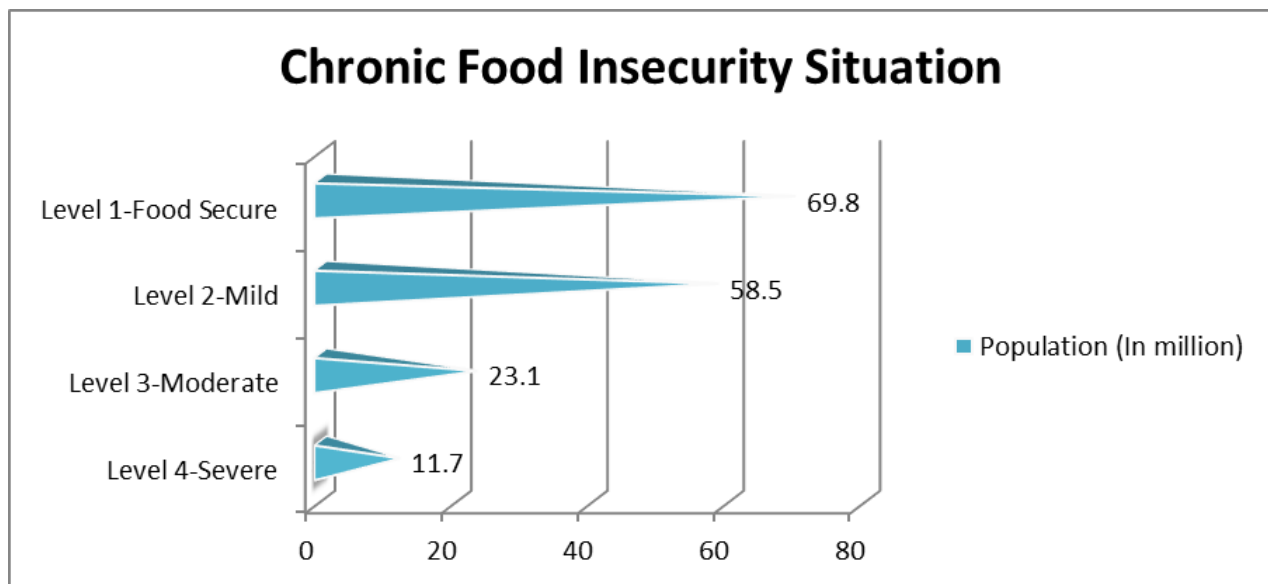


Figure 13: Chronic food insecurity situation (Source- IPC Analysis Report on the Chronic Food Insecurity Situation-2021).

In IPC CFI Levels 3 and 4, six districts have a share of households that is 35% or above. These include Cox's Bazar, Bandarban, Jamalpur, Kurigram, Gaibandha, and Sunamganj. The total population in IPC CFI Levels 3 and 4 exceeds 1 million in four districts: Chattogram, Dhaka,

Mymensingh, and Gaibandha. Although 15% of the population in Chattogram and Dhaka is IPC CFI Level 3 or higher, these cities are still categorized as IPC CFI Level 2 (Mild), which explains why such a substantial fraction of the population is in Levels 3 and 4.

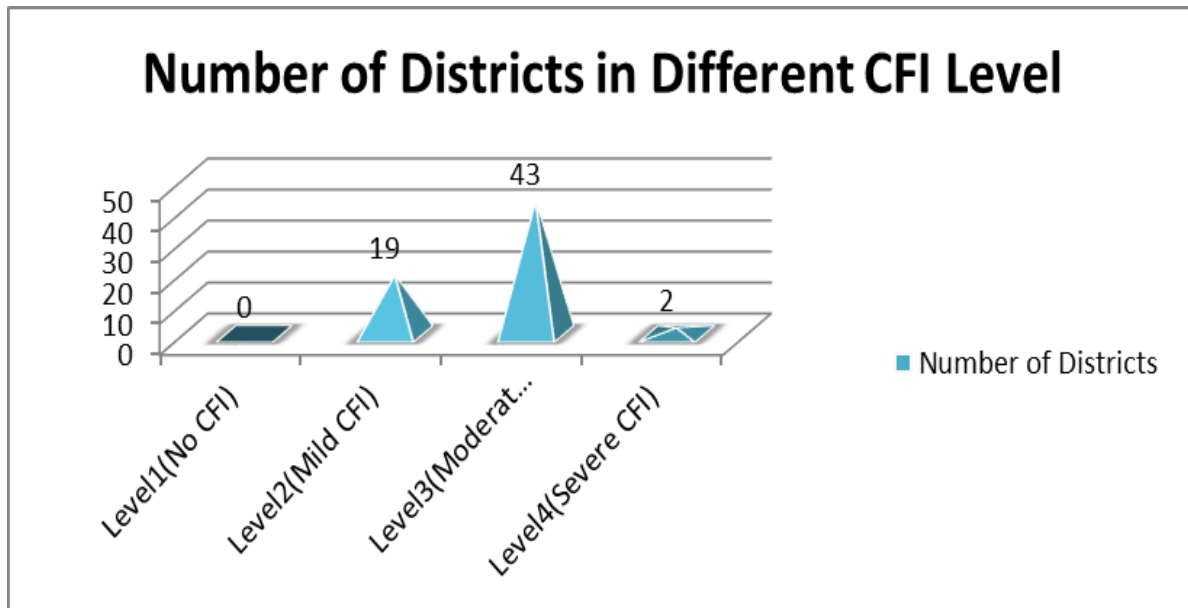


Figure 14: Number of districts in different CFI (Chronic Food Insecurity) Levels (Source- IPC Analysis Report on the Chronic Food Insecurity Situation).

Recent inflation has created havoc all around the country. An estimated 30% of Bangladeshis are food insecure, despite the fact that the economy has recovered from the shocks brought on by the pandemic. According to the poll, the percentage of persons who reported going to bed hungry nearly

doubled from 7% in June of previous year to 13% in May. Over the past year, there has been a noticeable decline in the number of people who eat smaller meals. From 17 percent in June of last year, it dropped to 9 percent in May of this year.

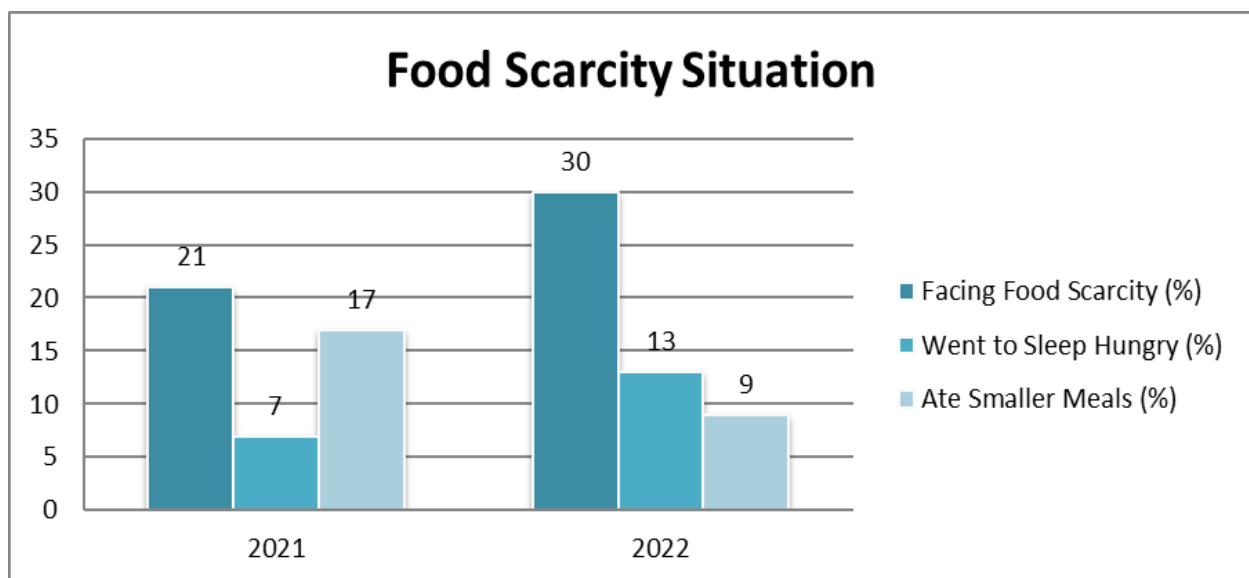


Figure 15: Food Scarcity Situation for 2021 and 2022 (Source-The Daily Star).

3.1 POLICY RECOMMENDATION

Global hunger is getting worse every day. Furthermore, due to the serious risks that climate change poses to the nation's agricultural productivity, Bangladesh is expected to be the net loser in any significant changes to the global food production map. In order to deal with the global commodity boom, Bangladesh must embrace both long-term and short-term measures. According to the study presented above, Bangladesh's recent inflation can be attributed to both demand and supply side issues. These factors indicate that there is less likelihood of a reducing high inflationary trend in Bangladesh in the near future. The administration has already implemented certain measures to curb inflation. To stop the price spiral, the government must take more sensible action. This study presents a few suggestions that are broken down into supply-side and demand-side policy approaches.

- The increase of broad money should be consistent with the projected real GDP growth in order to reduce the strain of inflation on the economy.
- Since the majority of the government's borrowing from non-bank sources is non-inflationary, the government may choose to borrow more from non-bank sources (national savings schemes) by bringing back a few long-term savings plans that were previously in place.
- By avoiding the interventionist exchange rate policy of the Bangladesh Bank, steps can be taken to make the exchange rate responsive to those of surrounding nations.
- Sterilization may counteract the increase of reserve money resulting from reserve buildup. Bangladesh Bank has the option to sell interest-bearing government securities.
- A higher reserve requirement could result in a higher reserve-deposit ratio, which would reduce both the money multiplier and the money supply.
- To combat inflation, we need also strengthen the management of our food grain stocks. Considerable supplies have resulted in high wastage due to insufficient storage space and technology. In case of shocks, the government

should have enough food grain buffer stock (wheat and rice). People will feel more confident as a result.

- The use of electronic and print media could boost the current information-dissemination system on the costs of key commodities.
- The weekly monitoring of domestic and foreign prices of critical goods may help the government's surveillance efforts.
- The government should support small and medium traders in addition to large importers for the import of important goods and assist them in obtaining financing from commercial banks in order to increase competition in the market.
- The current Public Food Distribution System (PFDS), which consists of Targeted Food Transfer Programs, the sale of rations to Essential Priority (EP) and Other Priority (OP) groups, and the Open Market Sale (OMS) program, is insufficient (covering only about 7% of the total amount of food required) to have any significant impact on the costs of essential food items. The government should therefore extend PFDS to those who are most negatively impacted by the price spiral.
- The government should encourage the formation of producers' cooperatives, which will seek to ensure fair prices for their products while also helping to remove superfluous intermediaries in the supply chain. The market price will be stabilized as a result.
- The Fertile Soil, the most valuable resource, is a gift from nature to Bangladesh. More funding for research and extension activities in the agricultural sector is required in order to create or improve current technologies that will increase agricultural output while also establishing agro-based companies and strengthening storage, marketing, and management capabilities.
- To break up any collusive oligopolistic power wielded by the private sector and increase the competitiveness of the distribution network, the government should draw on the experience of the Trading Corporation of Bangladesh (TCB) by bolstering its capacity with skilled labor.

• The BB's policies on lending, interest rates, and exchange rates are essential for containing inflation. When the BDT is undervalued, the nation purchases some foreign inflation; however, at this time, a significant BDT appreciation may not be a viable choice due to the potential disruption to the nation's export industry and labor market. However, the BB should permit a slight appreciation of the BDT so that it can contribute in some tiny way to reducing currency-induced inflation. Thus, in order to combat the rising inflationary trend, a comprehensive coordinated policy is needed.

4.1 CONCLUSION

One of the pillars of macroeconomic stability in an economy is a low rate of inflation. Bangladesh has seen various levels of inflation since its inception over the years. The current decade likewise portends an uncertain picture of inflation from its inception.

In order to promote growth and lower inflation, the Bangladesh Bank has been following an

accommodating monetary policy. However, because of how persistently high inflation is, it has also frequently increased cash reserve ratios (CRR), repurchase agreements (repo), and reverse repo. The truth is that such inconsistent policy has not been successful in containing demand-driven inflation. The impact of rising inflation on low-income households is being mitigated through a number of safety net initiatives, in particular Vulnerable Group Development, Food for Work, and open market rice sales.

According to Hossain (2010), the poor monetary policy design and implementation are to blame for Bangladesh's inflation instability. The Bangladesh Bank's and the IMF's recommended policies would largely have no impact on inflation brought on by changes to the supply side of the market. Another significant problem in this regard is the unstable political environment. As a result, the government should implement stringent but necessary measures in accordance with Bangladesh's inflation scenario while taking the wider world into account.

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