

CURRENT STATE OF PRICE HIKE: AN ANALYSIS OF FOOD ITEMS

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Abstract

In this paper an attempt has been made to review the present state (in 2011) of price of essential commodities and its impact on economy of our country. This paper has been prepared based on data more or less from the year 2005 but for the convenient of research work we have highly emphasized on the data from November 2010 to October 2011. Analysis of recent data indicates the upward trend of consumer price index (CPI) in general and prices of essential commodities exceed beyond the limit of poor income group or fixed earners. National (CPI) average is 10.24 percent and 12.42 percent for the month of October' 2011. While the food prices of rural areas continued to boost at accelerating rate compare to the food prices of urban areas. It is really a threat for the developing country like Bangladesh. The price of essential commodities is increasing hastily since 2005 and climbed at the highest peak of the decade in 2008. However, prices declined a bit in 2009 but again started to increase from 2010 and till November 2011 prices of most of the essential commodities have risen more than those of 2008. If taken 2005 as base year, the scenario of food prices in 2011 becomes a matter of stun and awe. We have scrupulously reviewed the relevant credentials and literatures which indicate that shortfall & volatility in commodity production, relative price (fuel, electricity etc.), consumption pattern, trade policy, financial market, syndicate and hoarding are mainly responsible to make the price of essential commodities sky rockets. However, we have tried to mention some remedial policies against forceful price hike.

Key words: Price hike, Essential commodities, Inflation, Consumer price index (CPI), Accelerate rate etc.

Introduction

Price hike of essential commodities is a “buzz” word which has become the major challenge faced by the people of Bangladesh. Especially, the poorest segment of our country and the limited earners hit hard by the quick movement of price of essential commodities. To adapt with this challenge, they have to give up some important factors for continuing the minimum standard of living like education, nutrition etc. Moreover, the economy has been experiencing a creeping inflation over the recent past. Now, near to the end of 2011 it is double digit and the last September it was the maximum during this year. Supply – side factors dominated particularly higher international commodity prices and shortfall in domestic food grain production. The historical movement of inflation indicates that inflation in Bangladesh varies proportionately with food prices.

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The situation of quick rises in international prices during 2005-2011 attributed to higher cost of domestic food production. The prices of fuel, seeds, fertilizers, labor wages, insecticides and transport costs are also gone up.

The major macroeconomic variables of Bangladesh economy such as revenue, expenditure and balance of payment position are badly affected by the higher prices of food items.

Objectives

In this paper an initiative has been taken to evaluate the current price movements of essential commodities and to provide possible remedies against price hike.

Scope

This paper covers the present market situation of price movements that is about more or less within the year 2005 to 2011. This research only covers the essential commodities. Overall price movements of economy are not the concern of this paper.

Methodology

This research is conducted on the basis of secondary information and the market research done by various parties. Information has been collected from relevant papers and documents provided by the different government departments and international organizations, publications of different research think tanks and news paper and web site. The steps that can be taken are-

- Identifying the required data category and relevant sources
- Collecting the secondary data from the respective sources
- Compiling the data and analyzing
- Making conclusions and recommendations

Findings and Analysis

A) Price changes and trends:

Global food and oil price hike have also increased the bar of food price in the local market. The food price of essential commodities is increasing hastily since 2005 and climbed at the highest peak of the decade in 2008. However, prices declined a bit in 2009 but again started to increase from 2010 and till November 2011 prices of most of the essential commodities have risen more than those of 2008. If taken 2005 as base year, the scenario of food prices in 2011 becomes a matter of stun and awe. From the table-1, it is comprehensible that the prices of coarse, medium and fine rice have been doubled in 2011 than those of 2005. The price of Atta (white) increased by 83.33 percent by November comparative to 2005. The price of soybean and palm oil increased by 147 percent and 151.22 percent respectively by November 2011 relative to 2005. The price of garlic in 2005 was Tk. 54/Kg while it increased by 122.22 percent by November 2011. The prices of different types of pulses have increased over the years at incredible rate. The prices of baby food items, powder milk and sugar are also on an upward movement. It might be very difficult for the poor people to manage three meals a day when the prices

of essential commodities are on the rise at accelerating rate and volatile. As a result of this volatile nature of price of essential commodities, the poorest segment and the limited earners are in great distressed.

Table 1. Percentage of retail price change of essential commodities (yearly)

Commodity	Unit	2005	2006	2007	2008	2009	2010	2011 up to November	% change of price
									Base Year-2005
Rice (Coarse)	1 kg	16	17	21	31	22	29	32	1
Rice (Medium)	1 kg	19	19	24	35	26	34	40	1.105263
Rice (Fine)	1 kg	24	23	27	40	32	39	50	1.083333
Atta (White)	1 kg	18	20	27	37	20	23	33	0.833333
Soyabean Oil	Liter	49	53	73	104	75	80	121	1.469388
Palm Oil	Liter	39	45	71	85	60	69	98	1.512821
Masur Dal	1 kg	48	59	65	90	99	100	90	0.875
Potato	1 kg	18	17	17	14	21	13	16	-0.11111
Onion	1 kg	30	16	33	21	26	23	27	-0.1
Garlic	1 kg	54	70	56	34	55	125	120	1.222222
Ginger	1 kg	83	50	47	66	68	109	65	-0.21687
Powder Milk (Dano)	2 kg	637	681	890	1114	1089	981	1050	0.648352
Sugar	1 kg	43	45	32	35	43	48	60	0.395349
Egg (Farm, Red)	4 pieces	21	17	17	22	26	24	24	0.142857

Source: Department of Agricultural Marketing, MoA, November 2011

- For 2011, data is collected from January to November 20 from various retail shop and arot.
- Percentage change is calculated by authors

B) Consumer Price Index and Trend of Food and Non-food Inflation

A measure that examines the weighted average prices of a basket of consumer goods and services, such as transportation, essential food and medical care. Specially, here we consider consumer goods i.e.; essential food items. However, the CPI measures how much the price of consumer goods has changed over a given time period. It measures the inflation and deflation. Large rises in CPI during short period of time indicate period of inflation and large drops indicate deflation.

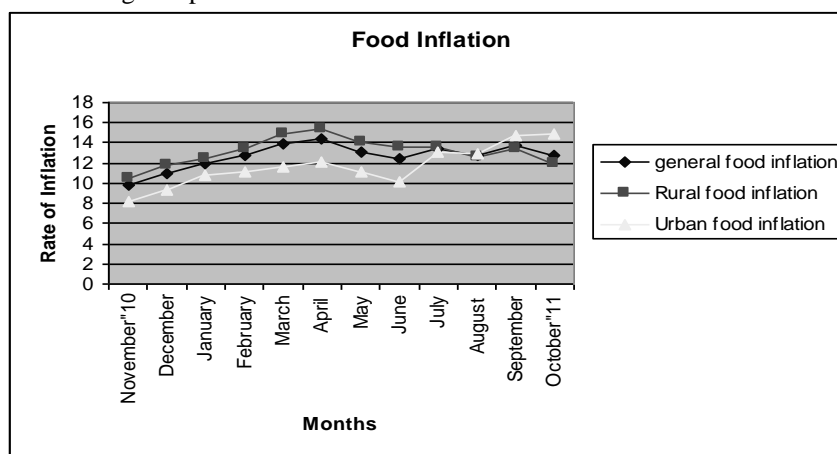


Fig. 1. Food Inflation (Rural & Urban)

From the table-2 shows that recent data indicates the upward trend of consumer price index (CPI) in general and prices of essential commodities exceeds beyond the limit of poor income group or fixed earners. National (CPI) average is 10.24 percent and 12.42 percent for the month of October' 2011. While the food prices of rural areas continued to boost at accelerating rate compare to the food prices of urban areas. It is really a threat for the developing country like Bangladesh. This is clearly shown in the figure-1.

From the month of November 2010 to July 2011 the trend of rural food inflation is over the urban food inflation. As a result of this the overall inflation is increasing at national level.

Table 2. Consumer Price Index (CPI) and Inflation Rate

CPI Classification	Nov 2010	Dec 2010	Jan 2011	Feb 2011	Mar 2011	Apr 2011	May 2011	June 2011	July 2011	Aug 2011	Sep 2011	Oct 2011
National:												
General Index	238.89	240.75	242.48	244.48	245.97	246.24	246.39	249.11	254.72	259.66	264.85	265.94
Inflation	7.54	8.28	9.04	9.79	10.49	10.67	10.20	10.17	10.96	11.29	11.97	12.42
Food Index	265.22	268.19	270.44	272.57	274.99	275.02	273.95	277.11	285.31	290.13	298.29	299.15
Inflation	9.80	11.01	11.91	12.77	13.87	14.36	13.16	12.51	13.40	12.70	13.75	12.82
Non-food Index	203.43	203.71	204.88	206.15	206.65	207.23	209.24	211.39	213.61	219.11	220.04	221.41
Inflation	3.33	3.27	3.85	4.36	4.32	3.97	4.78	5.73	6.46	8.76	8.77	9.05
Rural:												
General Index	242.31	244.30	245.83	247.99	249.96	250.18	250.23	252.84	257.49	262.34	267.74	268.84
Inflation	8.10	8.91	9.56	10.47	11.33	11.49	10.93	10.91	11.09	11.34	11.85	11.01
Food Index	261.90	264.85	266.53	269.10	272.01	272.04	270.79	273.67	280.07	284.11	292.22	293.14
Inflation	10.53	11.76	12.43	13.49	14.84	15.38	14.05	13.53	13.53	12.59	13.35	11.94
Non-food Index	209.01	209.37	210.64	212.11	212.49	213.02	215.28	217.42	219.10	225.35	226.15	227.53
Inflation	3.25	3.26	3.88	4.46	4.39	3.90	4.79	5.69	6.14	8.74	8.69	9.01

Urban:												
General Index	230.56	232.09	234.33	235.24	236.25	236.64	237.05	240.03	247.98	253.14	257.82	258.87
Inflation	6.14	6.71	7.72	8.09	8.40	8.62	8.37	8.33	10.65	11.20	12.29	12.47
Food Index	273.29	276.33	279.97	281.02	282.23	282.29	281.65	285.48	298.08	304.79	313.06	313.80
Inflation	8.12	9.32	10.74	11.12	11.66	12.04	11.13	10.20	13.12	12.94	14.67	14.87
Non-food Index	189.84	189.92	190.84	191.62	192.42	193.12	194.54	196.72	200.24	203.91	205.17	206.52
Inflation	3.55	3.29	3.76	4.11	4.13	4.18	4.77	5.84	7.32	8.80	9.00	9.17

Source: Bangladesh Bureau of Statistics

**Table formatted by authors

The average inflation of food and non-food items is 12.67 percent and 5.55 percent respectively. From which inflation for essential food items is relatively higher than the average inflation of non-food items. From figure-2 it is found that now the inflation for food items is 12.82 percent which was 9.80 percent at the very beginning of November 2010.

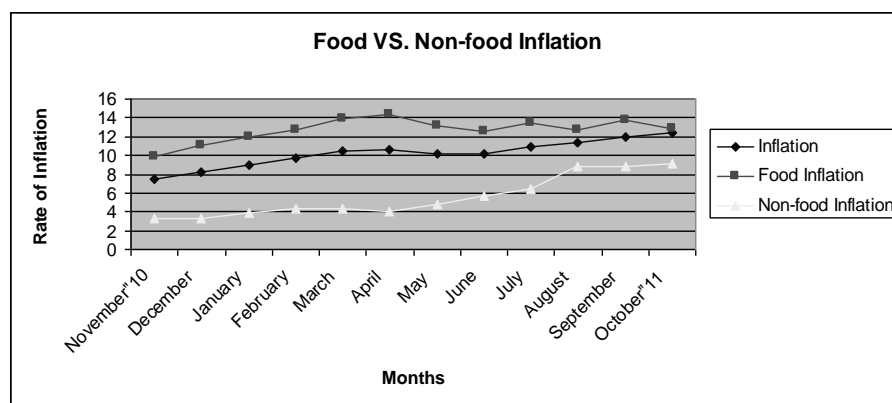


Fig. 2. Food VS. Non-food Inflation

The average people of Bangladesh are highly worried about their food consumption because they have to pay more for daily foods than the non-foods.

Price Hike: It's Impact in Bangladesh

Bangladesh, a net importer of food grains, has been seriously affected by food shocks, driven by higher international prices and domestic production shortfalls. The prices of rice and wheat in the domestic market are still much higher than those of the preceding year. Bottlenecks in the distribution and retail marketing chain, hoarding and panic buying by consumers aggravated the domestic price situation. The administrative action

by the government was largely counter-productive and failed to arrest the upward trends in prices. Despite a bumper Aman harvest this year, there is a fear to get the expected higher market price than its production cost. As a result, the poor farmers are disappointed. From the disappointment actual production may be declined. To resolve this matter the govt. takes an effective decision to procure Aman rice from local market in the wake of fall in prices of paddy. "Production cost per kilogram of Aman rice this year is Tk 25.75 and the procurement would be surely more than Tk. 26 and less than 29 a kg". (Food Procurement and Monitoring Committee). The nutrition of the poor is at risk when they are not insulated from price increase. Higher food prices lead the poor to limit their food consumption and shift to even less-balanced diets with harmful effects on their health in the short and long-terms. High food inflation has two important implications. First, high food inflation increases the price of food-related non-food items and since higher proportion of the consumption basket of the poor in Bangladesh is allocated to food items, the poor have to buy some food items at higher prices. Ideally, households buy less of the relatively more expensive items, food in this instance. But since the poor mostly survive at the subsistence level with little scope to further reduce food consumption, there is not much reprieve through the substitution effect. As such, the poor bear almost the full brunt of food inflation. Second, since food inflation reduces the real income of the poor, there is less money left after food purchases to consume other necessary goods and services such as education, health, fuel and energy. In other words, the income effect also hurts the poor more. Thus, higher inflation adversely affects the welfare of the poor, because they have no substitute for food, on one hand and their real incomes are reduced, on the other. The empirical exercise recently carried out by Bangladesh Bank demonstrates that the poor people generally face a higher rate of inflation than the non-poor in Bangladesh. This is likely to have further adverse effects on the welfare of the poor in both rural and urban areas in the country. The analysis also shows that the higher inflation rate of the poor in recent years has mainly arisen from higher food prices which have larger weights in the consumption basket of the poor. These findings thus have significant implications for designing appropriate anti-inflation policies by the government. Similar picture is also obtained from estimates of inflation for selected marginalized groups recently published in the Bangladesh Economic Outlook.

Remedial Policies

Remedial Policies by Government

In addition to the govt. steps already taken, the following measures are forwarded to arrest inflation.

- Among these, BGB's Operation Dal-Bhat and Open Market Sale (OMS) initiatives by Trading Corporation of Bangladesh and Food Directorate are the most notable, with some positive impact on market prices.
- Some private entrepreneurs have also started OMS program and has come forward to sell their products at factory price to consumers directly. They include Partex Group, Abul Khair Group, Meghna Group, PHP, Imam Group, Masud and Brothers, Alam and Brothers, S Alam, Mostafa Group and Mabco.
- Government has withdrawn existing 5% import duty on rice and wheat in an attempt to arrest the price rise. The government is also contemplating to reduce import duty on a number of essential items.

- The government has also prepared a draft Anti-hoarding Act articulating the period for which businesses will be allowed to stock their goods (at three levels: import, wholesale and retail level).

Actions should be taken as Remedies

With continuation these activities followings are to be taken into consideration.

1. The government may officially identify certain food products as “Essential Commodities” and declare its intention to maintain stability of prices of such commodities through policy and institutional interventions in greater public interest.
2. The government needs to reexamine the effectiveness of the “Essential Commodities Control Order (1981) and explore the need to enact a law styled as “Supply and Regulation of Essential Commodities Ordinance (2007)” to provide a statutory basis to the government’s targeted emergency measures for keeping prices of certain “essential commodities” within the means of common citizens.
3. There is a serious dearth of information regarding demand, supply and prices of essential commodities (both domestically produced and imported). Relevant data and information are not collected, analyzed and made available to the market agents in an accessible manner. The government has recently taken some initiatives to strengthen its market monitoring activities by way of establishing a temporary Price Monitoring Cell (PMC) under the MOC. The PMC monitors the value of L/Cs opened for imports of a set of essential commodities as well as compiles information on retail prices of essential commodities as observed in selected markets in Dhaka city. The current capacity of the PMC is totally inadequate to serve the purpose of the formulating informed policy decisions. On the other hand, the Department of Agricultural Marketing (DAM) under the MOA has a much more comprehensive market intelligence service which covers up to district level data on agricultural products, but the information collected and analyzed by DAM does not have wide dissemination including among the policymakers.
4. The DAM should be provided with adequate manpower and financial resources to convert it to a more effective organization. The DAM should be given the responsibility to estimate the region-wise demand and supply capacity with the help of other agencies and this information may be disseminated through the proposed DMS.
5. If possible, government should introduce zero tariffs for selected essential commodities (currently zero import tariff has been provided for rice and wheat) particularly for the ones for which import price is high.
6. The government should encourage the commercial banks to facilitate formation of groups of small scale importers (in terms of capital) to import essential commodities so that they may take the benefit of economies of scale (bulk import). This will help new players to enter the market and with the growing number of importers/traders, the popular perception and speculation about syndication may be removed.
7. The government should monitor international prices of imported essential products on a regular basis through its institutional mechanisms and disseminate

the information among concerned authorities and in the market to prevent price fixing and supply manipulation through syndication.

8. Power distribution to the agricultural sector should be increased with a view to reduce the use of diesel for irrigation through load management. In this regard government must increase the local electricity generation capacity and may consider a wider application of solar power to generate electricity in rural areas with the help of NGOs.
9. The government needs to provide subsidy directly to the farmers on petroleum usage for irrigation. Modalities for this subsidy should be developed with strict monitoring mechanism (so that only genuine farmers may be benefited) and tight border security to prevent smuggling. To this end, either issuance of Entitlement Card or use of voter/National ID card may be considered.
10. As the government and private entrepreneurs are currently meeting only 12.50 per cent of the total demand for seeds, initiatives should be taken to increase supply of quality seed by private sector and NGOs. Towards this, special support for production of breeder's seed and supplying those seed at subsidized rate to NGOs and private sector companies for production of truthful level seed is necessary. This will reduce their production cost and increase seed supply and thereby production.
11. In case of letter of credit (L/C), banks usually determine the margin on the basis of bank-client relationship – a higher margin could raise the price of food grains and emergency necessary items. In case of emergency daily necessary items, L/C margins should be fixed as low as possible.
12. The GoB should take necessary measures to rejuvenate the moribund TCB and turn it into a modern corporation in line with the public procurement regulations. Experts and professionals from related disciplines must be recruited with mandate of taking decisions on importing essential commodities as recommended by DMS and acting as a watchdog to monitor the overall market situation. The relationship between TCB's operational procedures and the public procurement regulations needs to be examined carefully. TCB has already taken an initiative to import edible oil and whole milk powder which is a welcome decision to stabilize the price of these commodities in the coming days particularly in view of the sharp rise of global price of these items.
13. The government may repeatedly transmit the message that the honest business persons and entrepreneurs have nothing to fear and be apprehensive about. The distinction between people who have breached public trust by abusing state power to amass personal wealth and those who indulge in corrupt practices while conducting their business will need to be made. In case of the latter, the thrust will have to be on playing henceforth by the newly instituted rules of the game. The members of the law enforcement will need to play an important role in restoring business confidence in the country.
14. For domestically produced products, the best option is to remove the existing market imperfections and inefficiencies in the value chain. By establishing producers' cooperative and marketing organization and by creating a more direct

link between producer and consumer it would be possible to have a positive impact at the retail price of essential commodities. This would also be a mechanism to provide reasonable (fair) price to producers. The government may encourage the existing NGO networks/private sectors to take a more proactive interest in this segment of the supply chain i.e. in the area of marketing of agricultural commodities.

15. The government must urgently identify some suitable locations within and around Dhaka and other big cities to establish new *Arots* so that more options will be available for both producers and retailers. This is expected to reduce the monopoly power of the vested interest groups in existing *Arots* by infusing more competition at this level of the market structure.

Conclusion

Essential commodities especially food in our country is important concern at policy level to ensure welfare of the mass people. In this regard price hike comes to top most concern with respect to food security because if price hike causes food insecurity for the mass of people of our country. Availability of food, though indispensable for food security, is not enough to significantly improve food security at the household level. For improved household food security, all out efforts are needed to ensure nutrition of the poor through improving their accessibility to food and ensuring full biological utilization of the food. The overall food security can be well attained when increased accessibility to food is ensured through enhanced skill in domestic agriculture and increased availability of cereals and non-cereals, through attaining food accessibility by sustained increase in income of the poor and through education and health services leading to effective utilization of food of the malnourished people.

It is expected that the people of the country will be able to enjoy their desired needs through essential commodities. For ensuring this situation price hike in essential commodities are to be controlled. All the government initiatives should be targeted to increasing production, reducing cost, ensuring fair competition (competition law may be enacted and enforced) and gaining confidence of business community. All these actions will make a balance between demand and supply and control price hike of essential food items.

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