

## Food inflation in Bangladesh: causes and consequences

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### Abstract:

This paper explains the historical trend of food inflation in Bangladesh. The paper investigates the main factors that were the driving forces of food inflation in Bangladesh over the years. Using 12 years data it is found that some of the short run factors like floods, cyclones, droughts, lack of grain reserves and high oil prices as well as some of the long run factors such as controlling supply chain through syndication, negligence of agriculture sector, trade liberalization and increasing trade deficit, increasing dependency on import, fluctuations of food grain prices in domestic Market and currency depreciation are mainly responsible for rising food inflation in Bangladesh. Consequences of food inflation are most severe on poor and middle class people. Due to middle men and brokers farmers did not get the benefit of increase of price of food grain.

### Introduction:

Bangladesh is an agricultural country. About 48% people directly and more than 80% indirectly depend on agriculture. The Food and Agriculture Organization (FAO) considered Bangladesh as one of the thirty-seven countries in 'crises' due to the rise in food prices. Bangladesh still is a developing country. About 43% are living below \$1 a day. Agriculture alone is the highest subsidy provided sector. Government of Bangladesh have to spend this large amount of money to keep the price of daily necessities inside the purchasing power of poor and lower middle class people. In spite of those efforts price of essential food fluctuate a lot in Bangladesh. As a result marginalized people suffer a lot because an average household in the country spends close to two-third of its income on food. Price hikes force them to cut back on the quantity or quality of their food as well as change their consumption patterns.

### Objectives:

The main objectives of the paper are:

- To identify the causes of the food inflation in Bangladesh with special focus on the period of food crisis in 2007-08.
- To find out the consequences of food inflation in Bangladesh.

The rest of the paper is organized as follows: first section describes the present situation of the food inflation in Bangladesh. Second section explain the trend of food inflation over the years in Bangladesh. In third section I analyze the causes of the food inflation in Bangladesh. Fifth section explains the consequences of food inflation and last section is about policy recommendations and conclusions.

### Food inflation scenario in Bangladesh:

World Food Program (WFP) titled the 2007/2008 food price hikes as the 'silent tsunami', which was caused by a number of interlinked and mutually related factors. In fact, the price of daily necessities started rising few years before 2008 when it reached the peak. Global prices of rice, wheat, corn, coarse grains and oilseed doubled between 2005 and 2007. The rising inflation has become a major threat to people from all segments of the society. This higher inflationary trend does not bode well with respect to the socio-economic progress, particularly, on the poor and vulnerable groups. Rapidly higher food inflation has made it difficult for the low income households to carry on with their daily basic expenditures. According to the World Bank, four million people have been pushed below the poverty line due to abnormal rise in food price. Another statistics of the World Bank shows that between January 2007 and March 2008, the gross income of the poor decreased by 36.7 per cent mainly due to surge of food items, pushing 2.5 million households below the poverty line. Even the bumper boro harvest could not save the people from the grip of high inflation. On the other hand, the adverse impact of inflation has created a stumbling block to macroeconomic stability and curtailed the pace of economic growth, which is necessary to poverty reduction and meeting other development challenges and goals.

Climate change, natural calamity along with increasing demand of biofuels contribute to this shortfall of food grain. Since Bangladesh is net importer of food grains, they have to face a negative impact of this consequence..

However, it is also crucial to look into the other factors triggering the commodity prices up, aside the facts that Bangladesh operates at a lower scale of economy hinged on the agro based productions.

#### Food availability and consumption situation in the country:

Since its independence food grain demand was increasing continuously in Bangladesh. In 1970 food grain production was 11 million metric tons while in 2003 it reached to 25 million metric tons. In 2004, the food grain production declined by about 13 hundred thousand metric ton compared to 2003, which was revived in 2005 with a production figure of 27.26 million metric ton (table 1). The total production of food grain in the year 2006-07 was 28.05 million metric ton. For the fiscal 2007-08, the government set a production target of 33.63 million metric ton of food grains. As there has been a serious damage in rice production (Aman rice) due to two rounds of floods and devastating cyclone SIDR, the target has been revised at 29.54 million metric ton for the current fiscal.

Table-1: Food Grain Situation: Production, Import and Aid

		(million metric tons)						
		2002	2003	2004	2005	2006	2007	2008 targeted revised
Production	Rice	24.3	25.188	26.19	25.16	26.53	27.32	28.70
	Wheat	1.61	1.51	1.25	0.98	0.74	0.74	0.84
Total		25.91	26.70	27.44	26.13	27.27	28.06	29.54
% change			3.05	2.80	-4.77	4.33	2.90	5.30
Imported	Rice	0.12	1.55	0.796	1.27	0.498	0.70	1.96
	Wheat	1.17	1.41	1.70	1.82	1.77	1.63	1.21
Total		1.29	2.97	2.50	3.08	2.27	2.33	3.16
% change			130.10	-15.75	23.41	-26.56	2.83	35.72
Aid (total)		0.501	0.25	0.29	0.29	0.19	0.09	0.24
% change			-50.10	13.78	0.35	-33.10	-53.09	164.84
Grand total		27.70	29.92	30.23	29.51	29.72	30.48	32.94

Source: DG Food Ministry of food and disaster management DAM, Bangladesh Bank.

Table-2 Trend of CPI in Bangladesh

Consumer Price Index(CPI) and Rate of Inflation at National Level (Base : FY96=100)												
Period	Twelve-Month Average Basis						Twelve-Month Point to Point Basis					
	General		Food		Non-food		General		Food		Non-food	
	Index	Inflation	Index	Inflation	Index	Inflation	Index	Inflation	Index	Inflation	Index	Inflation
2006-2007	176.04	7.20	184.16	8.11	165.79	5.90	184.89	9.20	194.19	9.82	173.19	8.34
2007-2008	193.54	9.94	206.78	12.28	176.26	6.32	203.45	10.04	221.57	14.10	179.32	3.54
2008-2009	206.43	6.66	221.64	7.19	186.67	5.91	208.02	2.25	222.13	0.25	189.98	5.94
2009-2010	221.53	7.31	240.55	8.53	196.84	5.45	226.11	8.70	246.29	10.88	199.94	5.24

<b>2010-11</b>												
July	222.82	7.63	242.23	8.98	197.62	5.54	229.5 5	7.26	251.5 9	8.72	200.6 5	4.87
August	224.18	7.87	244.12	9.38	198.23	5.47	233.3 1	7.52	257.4 4	9.64	201.4 6	3.76
September	225.58	8.12	246.05	9.78	198.83	5.41	236.5 3	7.61	262.2 3	9.72	202.2 9	3.69
October	226.85	8.12	247.77	9.83	199.45	5.31	238.6 8	6.86	265.1 6	8.43	203.0 3	3.82
November	228.25	8.14	249.74	9.98	200.00	5.04	238.8 9	7.54	265.2 2	9.80	203.4 3	3.33
December	229.78	8.13	251.96	10.12	200.54	4.73	240.7 5	8.28	268.1 9	11.01	203.71	3.27
January	231.46	8.14	254.36	10.24	201.17	4.51	242.4 8	9.04	270.4 4	11.91	204.8 8	3.85
February	233.27	8.21	256.93	10.40	201.89	4.37	244.2 8	9.79	272.5 7	12.77	206.1 5	4.36
March	235.22	8.36	259.72	10.67	202.60	4.27	245.9 7	10.49	274.9 9	13.87	206.6 5	4.32
April	237.20	8.54	262.60	11.00	203.26	4.15	246.2 4	10.67	275.0 2	14.36	207.2 3	3.97
May	239.10	8.67	265.26	11.20	204.06	4.10	246.3 9	10.20	273.9 5	13.16	209.2 4	4.78
June	241.02	8.80	267.83	11.34	205.01	4.15	249.1 1	10.17	277.11	12.51	211.3 9	5.73
<b>2011-12<sup>P</sup></b>												
July	243.11	9.11	270.64	11.73	206.09	4.29	254.7 2	10.96	285.31	13.40	213.61	6.46
August	245.31	9.43	273.36	11.98	207.56	4.71	259.6 6	11.29	290.1 3	12.70	219.11	8.76
September	247.67	9.79	276.37	12.32	209.04	5.14	264.8 5	11.97	298.2 9	13.75	220.04	8.77
October	249.94	10.18	279.20	12.69	210.57	5.58	265.9 4	11.42	299.1 5	12.82	221.41	9.05
November	252.25	10.51	281.95	12.90	212.29	6.15	266.5 5	11.58	298.2 9	12.47	224.16	10.19

Source : Bangladesh Bureau of Statistics. Note : P = Provisional; R=Revised.

### **Trend of food inflation in Bangladesh:**

Inflation has become a matter of concern for Bangladesh since the late 1980s.<sup>2</sup> Food inflation has started to become an issue from mid 2000s. The rate of inflation remained below 5 percent from 1991 to 1994. Due to political instability and fall of domestic production lead to rise the price of food grains. In 1998 Bangladesh has been affected by a severe flood that floated away many agricultural land. Despite the flood the country able to achieve self sufficiency in food production due to an efficient distribution mechanism, and pragmatic macroeconomic policies. As a result import increases each year as well as food inflation (Table-2). From 2000 most of the year Bangladesh is not able to self sufficiency in food grain production. In the (annex) table-1, we see that from 2001 each year food inflation increases each year by substantial amount.

If we divide the present inflationary trend into two stages i.e. between 2001 and early 2005 and 2005 and onwards, we see that price spiral between 2001 and early 2005 was mainly because of non-economic factors like extortion, syndication etc, and economic factors like exchange rate depreciation, inadequate agriculture subsidy, increasing transportation cost, and fuel costs etc, increasing the cost of production (ibid). Moreover, supply shortages of essential commodities due to disruptions in domestic production resulting from natural disasters causes food prices to spur. Price spiral during the period can also be explained in terms of negligence of agriculture sector over the years.

From 2005 onward inflationary pressure, which was fuelled by international commodity and fuel price-hike, was exaggerated due to some macroeconomic disturbances created from policy mismatch like IMF policy prescription that did not suit with the fiscal stances. Arguing that the inflation is a sign of overheated economy with layman's parlance-"too much money is chasing too few goods", IMF has suggested the central bank to follow a contracting and inward-looking monetary policy with increasing interest rate. This in fact has increased the cost of investment and slowed down the economic activities.

One significant characteristic of the current inflationary trend is the rising gap between food and non-food inflation. While the average food inflation was 1.5 per cent compared to the non-food inflation rate of 3.8 per cent during fiscal 2001, it went on to the reverse order in the subsequent years with former increasingly outpacing the later. The average food and non-food inflation rate reached at 11.79 per cent and 7.33 per cent respectively in May 2008.

Another important characteristic of the inflation rate, which is likely to have significant distributional implications on different population groups, is its difference in terms of rural and urban areas. During fiscal 2001 and 2002, average inflation rates in rural and urban areas were very similar: 2.3 per cent in rural areas and 2.4 per cent in urban areas. However, fiscal 2005 onward the average inflation rate was higher in rural area than in urban area, affecting the rural poor most. While food inflation is relatively lower in rural area than that of the urban area, reflecting the prevailing nature of agro-based economy in case of former. The scenario is opposite in case of nonfood inflation.

In terms of different commodity groups in the non-food bundle, the costs of several items such as housing, household items, medical care and health services have shown more rapid increase in the recent period, especially in the rural areas. In addition to the possible shrunk in expenditure on basic non-food items resulting from high food inflation, such price movements could have significant adverse implications not only on the current quality of life and human welfare but also on future human development, especially of the poor.

Thus inflation in Bangladesh is driven by the food inflation. Therefore it entails investigation into the food management and food security position in Bangladesh. It is also important to find how food prices hook up with international commodity market. The following section gives a brief review of the food management system in Bangladesh elaborating the availability and accessibility of food.

Higher prices of food items seriously affected the major macroeconomic variables of Bangladesh economy such as revenue expenditures and balance of payment position. The overall trade deficit increased significantly by 57.1 percent from \$ 3.5 billion in FY07 to \$5.5 billion in FY08. The highest ever trade deficit was attributed to 397.11 percent increase in rice import of \$859.47 million in FY08 against only \$172.90 million in FY07 and price hike in global market of all commodities including other food items, though the trade deficit was partly

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<sup>2</sup> *Events such as the post-independence reconstruction, deficit spending, periodic floods/droughts, political unrest, and disruption of transportation and distribution network caused price instability at various points from the 1970s to till mid-80s.*

offset by higher external aid flows by the donor agencies and higher workers' remittances. Total import payments for food items shot up by 142.70 percent in FY08 as compared to the previous year. Import payments of rice, wheat, milk and cream, sugar, edible oil and pulses recorded staggering increases of 385.6, 33.9, 65.1, 34.7, 72.6 and 67.7 percent respectively as compared to that of FY07.

The food prices were relatively higher in domestic and international markets in FY10. Prices in the international markets have been soaring mainly because of a crop failure in Australia following an invasion of locusts and a wet summer in Canada. Wheat price already reached a two year high as concerned about a ban on grain exports due to drought in Russia and rotting stock of grain in India. Moreover, there was strong evidence that speculation and wild rumor have distorted prices on the commodity markets which has driven up prices. Rice (coarse) price in the domestic markets stood at Taka 38.6 per kg. or 15.2 percent higher in June 2010 from Taka 33.5 per kg. in June 2009 (BBS).

Fast growing prices of food items enormously eroded the purchasing power as well as standard of living of hard core poor, government and non-government employees, industrial workers, the unemployed and the people with limited income which pushed down a large number of people below the poverty line. If the current food inflationary trend continues for a long span time, Government's poverty alleviation programme would face a great challenge. Moreover, the plan for reducing 50 percent poverty within 2015 under Millennium Development Goals (MDGs) would be very difficult to achieve.

The data of Bangladesh Bureau of Statistics revealed the fact that rice accounts for 71 percent and 60 percent per head total calorie intake in a day in rural and urban areas of Bangladesh. Another Report of Food and Agriculture Organization showed that the share of food in total expenditures for the poorest 30 percent is about 69 percent. Both the people living in rural and urban areas experience short term welfare losses of even only for 10 percent price hike of rice which is higher in the lower section of people. To arrest the higher inflation, the Government has already adopted several precautionary measures such as reducing import duty on food items, raising foodgrains imports, extensive rehabilitation programmes for flood affected areas and effective measures for higher food production. Bangladesh Bank continued its prudent monetary policy stance and a more flexible exchange rate management without accelerating inflationary pressures. Moreover, the Government has launched a guaranteed employment programme for rural people during lean seasons. Several Social Safety Net Programmes like food for work, vulnerable group feeding, vulnerable group development, test relief and open market sales of essential commodities were expanded for the poor section of people living below the poverty line.

### **Causes of food inflation:**

In the past 15 years food price rises due to many short term reasons like flood, drought, lower reserve of food grain, high oil price etc. Besides those short term causes there are some long term causes remain that concentrate the food crisis over the years. Food inflation in Bangladesh is triggered by both domestic and international reasons. Without solving those reasons Bangladesh can not control food inflation.

#### **International reasons: Short term**

The World Bank reports that global food prices rose 83 per cent over the last three years.

International food price level has been influenced by the following Short term issues:

- Droughts in major wheat-producing countries in 2005-06 while floods and cyclones in rice producing countries.
- Low grain reserves
- High oil prices;
- A doubling of per-capita meat consumption in some developing countries
- Diversion of 5 per cent of the world's cereals to agro fuels.

Domestic prices have been hampered frequently by the international prices. Agricultural commodity prices increased for five months running (through January 2007) in international markets, up more than 10 percent, led by strong gains in fats & oils and grains—up 23 and 14 percent, respectively. There has been a steady increase in wheat prices over the past few years mainly due to shortfalls in production. Global wheat production declined in 2006-07 by over 5 percent. Facing a crisis of its own, India banned all wheat exports starting in 2007. Bangladesh imports a large quantity of wheat from India and therefore, any supply restriction from India had an great impact on domestic prices in Bangladesh. Earlier in June 2006, India had also banned the export of pulses. Import through formal channels will naturally stop while informal channels risk premium will rise even if imports do not stop completely. As a result import price of food grains doubled in Bangladesh, as food grain

prices went up in the international market, the LC settled price, generally used as the reference price for rice/wheat import in Bangladesh, increased from US\$ 210 in July 2005 to US\$ 462 in March 2008. On the other hand, price of Thai rice increased from US\$ 265 in July 2005 to US\$ 580 in March 2008. The price of wheat also more than doubled from US\$ 145 in July 2005 to US\$ 482 in March 2008. On the other hand, LC settled price increased from US\$ 194 to US\$ 354 during the same period.

#### **Long term factors:**

According to FAO over the last 20 years, food production has risen steadily at over 2 per cent a year, while the rate of population growth has dropped to 1.14 per cent a year. Population is not outstripping food supply. The overpopulation argument seems like an obvious one, but when considering who consumes what, in what quantities and whether much use of resources are actually productive or not suggests that there may be other issues, though overpopulation concerns could become real at some point. For example

- A lot of land goes into producing products that could be considered unnecessary or excessive in their production (e.g. tobacco, sugar, beef, bio-fuels, urbanization, etc).
- Some 80 per cent of the world's production is consumed by the wealthiest 20 per cent of the world suggesting an inequality in resource use due to social, economic and political reasons,

#### **Impact of Bio-fuels:**

Rich countries have attempted to blame demand from rising poorer countries as a bigger cause. Former US President George Bush has blamed higher food prices to higher demand from India and China, but the leaked World Bank study stated that: "Rapid income growth in developing countries has not led to large increases in global grain consumption and was not a major factor responsible for the large price increases." The report mentions the following ways in which bio-fuels have distorted food markets:

- Grain has been diverted away from food to fuel; (Over a third of US corn is now used to produce ethanol.
- About half of vegetable oils in the EU goes towards the production of bio-diesel.
- Farmers have been encouraged to set land aside for bio-fuel production.
- The rise in bio-fuels has sparked financial speculation in grains, driving prices up higher.

The World Bank has also estimated that an additional 100 million more people have been driven into hunger because of the rising food prices. Another institute, the International Food Policy Research Institute (IFPRI) estimates that 30 per cent of the increase in the prices of the major grains is due to bio-fuels. In other words, biofuels may be responsible for some 30-75 million additional people being driven into hunger.

#### **Domestic long term reasons:**

##### **Controlling Supply Chain through Syndication:**

Syndication probably the most destructive reason for food inflation over the last few years. This is the man made obstacles to control the normal of supply of goods in the market. Unfortunately, there are no data to identify such cases. However, according to information of some traders suggests that the presence of market power either through collusion between two or more traders or because of the existence of large individual traders may be a problem at the import stage. There are roughly 10 to 20 trading houses in Bangladesh who have the capability to import in bulk (edible oil, sugar, wheat, pulses) and the financial capacity to hold on to the stocks in order to influence prices. But they too face constraints: commodities are perishable, there is competition from small suppliers and there are vagaries of international prices. In the supply chain of good produced domestically, there are just too many traders at the levels of middlemen (traders collecting from producers), Aratdars (link between beparis and wholesalers essentially performing a storage and matching functions), wholesalers and retailers for syndication to be possible. Extreme caution is needed in the drive against syndication. Indiscriminate crackdown on traders can aggravate the problem by creating panic in the trading system. To play it safe, traders may choose to cool their business for a while by not importing at all or not importing as much as they would have imported under normal conditions. Those syndicateholders mainly import product from a country when it is quite cheap in that country and reserve it and thus create an artificial shortage in the market. Specially during the time of some religious festival like Eid-ul-fitr, the food items are really needed that time . At that time syndicateholders supply their products at very high price. As a result, a real shortage can emerge and domestic prices increase even in the absence of collusion. People are now confined to them and due to their political connection no government take any actions against them.

**Negligence of agriculture sector:** Bangladesh has an agrarian economy. Agriculture contribute about 25% of the GDP. But allocation of public expenditure in this sector reduced drastically in the last few years. shrinking government support to agriculture has made the production hardly viable over the years. Drastic reduction in public expenditure in agriculture increased the input costs and shrinking price incentives in an imperfect unregulated market structure ultimately swept the farmers out of their business. Just after the liberation in 1971, share of ministry of agriculture in total annual development programme was 30.97 per cent while it came down to only 2.59 per cent in 2001 (MoA 2001). In terms of share of GDP, real public investment in agriculture did not grow over the years. In fact between 2001 and 2005 real public investment in agriculture marked a negative growth sliding to 0.16 per cent in fiscal 2005 before raising it to 0.48 per cent in 2007.

Poor performance of agriculture sector is the result of low budget allocation in agriculture sector. For instance growth rate of agriculture sector was 6.92% in 2000 while in 2002 it was -0.62% which created many adverse effects in the subsequent period. To keep this sector alive and make the farmer affordable to buy the agricultural inputs, government is giving subsidy. In 2008-09 government allocated BDT 1650 crore as subsidy. But this allocation is not enough especially when cost of agricultural inputs as well as fuel price are rising rapidly and farmers don't get fair price of their product. Besides this benefit of this subsidy has not reached to the marginal farmers. Subsidy is also not enough compare to other neighboring countries. Subsidy in Bangladesh amounts to 1% of GDP while in India agricultural subsidy accounts for 9% of GDP.

#### **Trade liberalisation and increasing trade deficit:**

1990s is the decade of trade liberalization in Bangladesh. Due to various commitment of bilateral and multilateral trade agreement, Bangladesh made continuous effort to reduce tariff to facilitate global trade. Over the last decade the (weighted) average tariff reduced to 6.98 per cent in February 2007 from 23.6 per cent in June 1993; un-weighted average tariff reduced from about 49 per cent to about 13 per cent. Number of restricted items which were 193 in the import policy of 1991-93 was reduced to 63 in the import policy of 2003-06. This has intensified the dependency of import. As a result trade deficit has increased by 85 percent to US\$ 3458 million in 2007 from US \$ 1865 million in 2000. High trade deficit also leads currency to depreciate thus has an impact on inflation.

#### **Increasing Dependency on Import:**

As a result of trade liberalisation, dependency of import increased significantly, especially, from India and China. These two countries are the main sources of Bangladesh's import, especially, of food and other essential commodities. Bangladesh accounted for, on an average, around 28-30 per cent of her total import from these two countries in the last four years or so. At the same time, in the last few years, Indian Rupee and Chinese Yuan has appreciated by 15-17 per cent and 4-6 per cent, respectively, against dollar while between 2003 and June, 2007 taka depreciated by about 19 per cent, meaning that cost of import from these countries increased substantially, which has an impact on inflation

#### **Fluctuations of Food Grain Prices in Domestic Market**

As the price of rice and wheat becomes double in the international market, it has affected in the domestic market. It is largely due to the fact that Bangladesh is a net food importing country. According to government statistics, the nominal rice and wheat prices increased by 66 per cent and 69 per cent respectively between March 2007 and March 2008. The corresponding real price rises were 51 per cent and 53 per cent. The rate of increase of wheat price was slightly higher compared with rice price.

#### **Currency Depreciation:**

Depreciation has three broad implications: first, depreciation further stimulates inflationary pressure; second, depreciation means that country's terms of trade eventually deteriorate, implying that cost of import is higher than the cost of export, which in turn causes a negative impact on trade balance. Thus further lead currency to depreciate; third, since price is sticky in the short run, it gradually adjusts in line with the rate of currency depreciation. This means that export lose competitiveness after a certain period of time, stimulating currency to depreciate further to maintain the export competitiveness, thus, puts further pressure on inflation.

#### **Consequences of food inflation in Bangladesh:**

The rise in food prices is having serious impacts on food consumption and nutrition. Poor and limited income earners hit hard by the food inflation.

#### **Impact on farmers:**

Since rice is the staple food in Bangladesh, most of the farmers are rice producers and most of them belong to the small and marginal category. But the farmers are not benefited by the increase in price of rice. A study conducted by Unnayan Onneshan in 2005 shows that there exists a huge gap between the farmers' selling price of paddy and market price of rice both in the advanced and backward areas. The empirical findings show that farmers' net loss of income from the market is Tk 8.7 billion. The middleman and brokers grab most of the income. Any price increase of domestically produced rice could bring benefit to the majority of the rice growers through providing a share of higher prices to them, only when reasonable and competitive rice prices are maintained after harvest. The gain resulting from any subsequent rise in rice prices in the retail market largely accrues to the millers, stock holders, other dealers, and probably a few large rice producers without much benefit to the majority of the small rice producers who form the overwhelming majority. In the case of imported rice, the margin from higher retail prices is shared between the importers and the wholesalers and retailers. On the other hand, since the vast majority of the population in both rural and urban areas are net purchasers of rice, this large group especially the poor faces significant disadvantages and real income erosion when rice price increases.

#### **Impact on poor and middle class people:**

The major consequence of food inflation is the erosion of real income of the people resulting from the general increase in prices. The burden of income loss differs across different income groups. Undoubtedly the household groups who are employed in the formal sector and whose salaries/wages are fixed in nominal terms and are re-fixed periodically are the worst sufferers. The same is true for those employees in the informal sector who have income fixed in nominal terms. In Bangladesh, a major concern, however, is the inflation-induced loss of real income of the poor. Rise in inflation need to be compensated by the increase in wage. The Bangladesh Bank analysis shows that the daily agricultural wage rate in real terms over the period from January 2005 to September 2007 has not declined, rather it has shown a slightly increasing trend. This shows that agricultural labourers, who constitute the largest poor group in the country, usually turn out successful in maintaining the level of their daily real wage at a certain level.

#### **Conclusion and Policy Recommendations:**

Bangladesh is an agricultural economy. So most of the poor people and their livelihood is directly linked with this a sector. Bangladesh is also a net food importing country. The rapid population growth and the growing food requirements pose a difficult challenge given the limited availability of cultivable land in Bangladesh. The re-occurring disasters further complicate the stability of food production, endangering the food security. Given the current context, the food insecurity is not only a national concern but also a global concern. Therefore, it is important to pursue specific direct measures nationally, regionally and globally to dampen inflationary pressures especially that of containing food prices resulting from supply shocks and other events.

- Domestic production and supply chain needs to be strengthened to prevent artificial food crisis prompted by the market syndication. This requires an effective regulatory body that could closely monitor the market with effective intervention. It is proved that an ad hoc mechanism like allowing armed forces to control the market can never be effective.
- Develop food grain production and productivity of land and labourers through technological advancement and infrastructure development.
- To protect food crisis in future, large food reservation needed which could be useful to address the immediate supply shocks at the country level. Regional food bank should be made among member countries of SAARC countries. SAARC remains ineffective even after more than 25 years of its formation.
- In this regard, it could be suggested that the regional countries can create South Asian Agriculture Fund (SAAF) under the SAFTA to develop the regional agriculture. The same kind of fund could be created under bilateral arrangement. Besides tariff reduction period should be longer for LDCs under any kind of free trade agreement. Also a compensatory fund for tariff reduction should be established for the resource poor countries.
- Inserted efforts are needed to be taken both from government and non government perspective to create awareness among people. There are many foods which are comparatively cheaper but rich in nutritional substance. Include those food items in their daily menu can save their money and at the same time provide the necessary nutrition.
- Efforts need to be made to create proper substitute of rice like potato so that impacts of reduction of rice production will be less severe. Attention should also given to increase non-cereal production.
- Fair price of the crops of the farmers should be ensured. The prevalence of middlemen should be reduced. Crops insurance need to be introduced to protect farmers from crop damage.



- Prudent monetary policy needed to be implemented to control this inflation. An effective government procurement policy is needed to reduce the seasonal volatility of rising prices of domestically produced rice and other agricultural products as well as to protect the interest of farmers. It is important to adopt effective policies that reduce seasonal variability in the prices of different commodities especially rice, and provide a remunerative and fair price of rice to the growers after harvest. For vegetables and other non-rice food crops, the priority would be to strengthen the marketing links, both horizontally and vertically by promote market integration and supporting processing and high value activities.

Bangladesh is not capable enough to support its agriculture given the resource constraints. In fact, the government support in agriculture is not sufficient and declined over the period, which is well below the WTO's allowable limit for the last ten years. The right choice for Bangladesh and other LDCs to bargain for the creation of funding mechanism is to protect the consumers in general from abnormal food price hike and to make sure that the poor farmers can get support at least from the level of those in the developing countries.

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#### Annex:

Index	2001-02	2002-03	2003-04	2004-05	2005-06
General	130.26	135.97	143.9	153.23	164.21
(% change)	-2.79	-4.38	-5.83	-6.48	-7.17
Food	132.43	137.01	146.5	158.08	170.34
(% change)	-1.63	-3.46	-6.93	-7.91	-7.76
Non-food	127.89	135.13	141.03	147.14	156.56
(% change)	-4.61	-5.66	-4.37	-4.33	-6.4

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