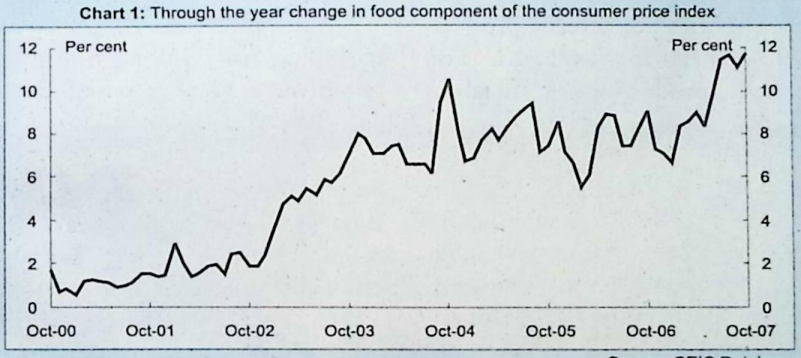
POLITICALLY, Bangladesh stands at a crossroad in 2008, with credible elections and sustained democracy being a realistically attainable choice. Yet, it is an economic issue that can overshadow all socio-political developments. Rising food price inflation -- agflation -- is arguably the greatest problem facing the country today. And while there are domestic factors at play, the global nature of agflation makes it difficult for the policymakers to stem its rise.

Although agflation started picking up in 2003, it has gathered pace in the past few months (Chart 1). Food prices rose by 11.7 per cent during the 12 months to October 2007, to be over 50 per cent higher than their 2002 levels.

Chart 1: Through the year change in food component of the consumer price index



Source: CEIC Database

There are many reasons for high and rising agflation. While the impact of Cyclone Sidr is not visible in the chart, it does show the impacts of the floods in the summer of 2007. As it was, prior to the flooding, there were already disruptions to the supply chain caused by various demolition drives and anti-corruption operations earlier in the year. The anti-corruption drive was, at least in part, a response to alleged market collusion that may have fuelled agflation before 2007. In addition to these shocks and microeconomic reasons, the depreciation of the taka against the Indian rupee also fuelled agflation in Bangladesh since late 2003.[1]

However, even if these domestic reasons were absent, it is likely that we would have to contend with high and rising agflation. This is because agflation is a global problem, as shown in Chart 2, which compares agflation in Bangladesh with international averages.

And the global agflation is set to continue into 2008, as a recent Financial Times article reports:

Global food prices will come under further pressure today as benchmark prices for cereals at much higher levels kick in, making it almost inevitable that a second wave of food price inflation will hit the world's leading economies. In Chicago wheat and rice prices for delivery in March 2008 have jumped to an all-time record, soyabean prices are at a 34-year high and corn prices at an 11-year peak. Knock-on price rises are set to hit consumers in coming months, raising inflationary pressure and constraining the ability of central banks to mitigate the slowdown in their economies. A first wave of surging cereal prices hit the wholesale market during the summer and has fed through the supply chain and contributed to rising inflation.[2]

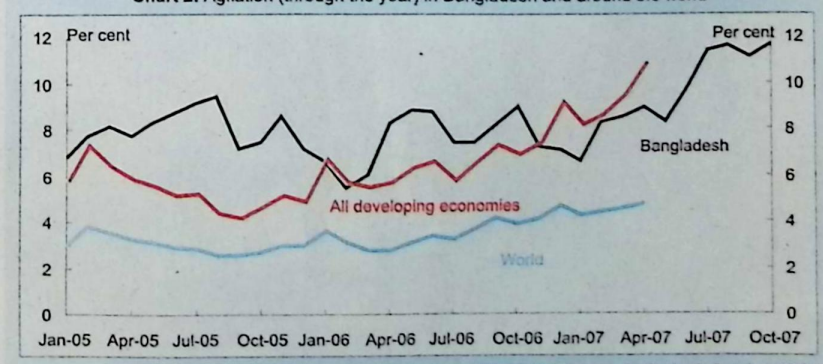
There are two major reasons behind this. The first -- rising income in the emerging world -- is a welcome development that the world will need to cope with. Rising income in the emerging world means that millions of people in these countries can now afford to have meat and dairy items on a regular basis. This has increased the price of farm and poultry produces. But animals are fed grain, so prices of cereal crops also rise.

The emergence of China, India and other such economies is not a sudden development. And it's not only food prices that have increased recently as a result of increased demand from the emerging economies. Prices of oil and various metals have also been at historic highs in recent years.

That said, changes in diet and food consumptions that have come with rising prosperity have been gradual, whereas the rising global agflation is a much more sudden phenomenon. The more recent global agflation is a direct result of strong demand for subsidised corn-based ethanol as a fuel for cars.

With oil prices rising to around one hundred dollars a barrel, it is not surprising that consumers are

Chart 2: Agflation (through the year) in Bangladesh and around the world



Source: CEIC Database for Bangladesh; IMF World Economic Outlook October 2007