Star BUSINESS LIFE

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Inflation: the seen and unseen effects

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WAITING for a bus to come around, they were relieved when one finally stopped in front of them. The four passengers boarded the bus, found a seat and settled down. But within a moment, they got annoyed, stood up and stepped out after the young conductor declined to accept the fare they were offering.

The aggrieved commuters wanted to pay Tk 10 each for a trip from the commercial district of Motijheel to Farmgate, Dhaka.

The conductor and the driver were determined to charge Tk 11, up by 37 percent from Tk 8 a month ago.

Other passengers in the bus also protested the hike in fares. The conductor transferred the responsibility of increasing the fare to the bus owner.

This has been a common scene in the city buses during the last two weeks, after the bus service providers increased fares, in response to a Tk 2 increase per litre in petroleum prices by the government earlier this month.

Such price hikes have been apparent in other sectors too, as inflation expectations run high in the face of rising prices of essential commodities, including rice, a staple for a population of over 16 crore.

Makers of tea, a common local beverage, now charge Tk 5 for a cup, up from Tk 4 because of a rise in the price of sugar. Few rickshaw pullers too would agree to accept any fare below Tk 10 for even a short distance in the city.

Inflation led by food prices on the international and domestic market hit 10.67 percent in April on a point-to-point basis, the highest since the 2007-08 food price-led inflation. A month ago, inflation was 10.49 percent.

For the sixth straight month, inflation calculated by the consumer price index has continued to rise, squeezing the scope of people, especially low and mid income groups, to save for a rainy day.

''Now, I have to spend cautiously,'' said Mukti Rani Saha, who has to manage all the expenditures of the family with Tk 30,000 a month. Half the sum is spent on house rent and utilities for an apartment at Katasur, Mohammadpur. Food, other household items and school tuition account for the rest.

''A year ago, I was able to spend more freely. I feel constrained now because of a rise in prices,'' she said.

''My wage has increased, but it is mostly spent on buying essential food items and paying house rent. Food prices are so high that we cannot pinch out any money for other needs, like buying clothes or getting medical treatment for family members''

With food prices on the rise, consumers are finding it hard to keep spending within budget.

AMRAN HOSSAIN

''But compared to others, we are still better off. My part-time domestic help, who works for me and a number of other families in other apartments, is in deep trouble. Despite working at so many places throughout the day, she can hardly ensure a good filling meal for her kids.''

Although the production of staple was good in the past two years, the prices of rice and other essentials, including flour, cooking oil and spices soared, influenced by the high prices of cereal on the international market.

Various processed food, such as noodles, also turned pricey. Prices of apparel spiralled in the wake of high cotton prices on the global market.

House rent and transport fares have also climbed, fueling the overall cost of living.

More money circulating in the domestic economy has also fuelled inflation, which has already crossed the government target of keeping the rate pegged at 6.5 percent on average by the end of fiscal 2010-11. The average inflation reached 8.54 percent in April, exceeding the government target by more than 2 percentage points.

In the last month, rice prices dipped slightly as the prospect of a bumper 'boro' output surfaces. However, the current rice price is still higher than the price that prevailed at the same time last year.

The rise in prices of agricultural commodities, such as rice, benefited the farmers but eroded the purchasing power of fixed and low income groups of people, thousands of whom are not linked to farming and depend solely on buying food from the market.

The nominal income in the major sectors rose. The female worker-dominated clothing industry, which employs more than 30 lakh workers, saw a spike in wages in November last year.

The daily wages in construction and agriculture also increased. But the prevalence of higher inflation eroded their purchasing power.

''My wage has increased, but it is mostly spent on buying essential food items and paying house rent,'' said Mohammad Ripon, a clothing industry worker.

''Food prices are so high that we cannot pinch out any money for other needs like buying clothes and or getting medical treatment for family members,'' said Ripon, who works at a factory in the Ashulia industrial belt, on the outskirts of Dhaka

In the face of high prices, the government has expanded its safety net operation through various programmes and increased the open market sale of rice and flour at Tk 24 and Tk 20 for a kilogram, to help out the poor and low income families.

But many, like those working as day labourers and in factories in Dhaka can not take advantage of this as they do not find the time from their strict shift timings to queue up for the subsidised food items.

In the face of high rice prices, World Bank (WB) in its latest economic update warned about the risks of exacerbating poverty in Bangladesh, where nearly a third of the population lives below the poverty line income of $125 a day.

WB said food items constitute 66 percent of the total consumption expenditure of the poorest 40 percent households here. Rice, the main staple, accounts for about 33 percent of the total household expenditure for these households, it said.

''The rise in food prices, therefore, has adverse implications for poverty reduction,'' it said, citing estimates that the rate of poverty cut would have fallen by about 1.6 percentage points due to 19 and 45 percent increase in rice and wheat prices from June to December 2010.

Ariful Islam, who works as an assistant at a light engineering workshop in Old Dhaka, got a rise; from Tk 3,600 a month to Tk 2800. To take the money in full support his family, the young worker tried hard to never miss a day at work.

''Earlier, I used to remain absent for a day or two from work every week. Now I do not. If I do not go to work for a day, I will lose my income for that day and it will create pressures on my family to make ends meet,'' he said.

The prospect of a quick respite from inflation looks dim. Last week, Bangladesh Institute of Development Studies (BIDS) said inflation might remain high in the near term due to high global inflation, increased import costs amid a depreciation of the taka, and spiralling fuel and energy prices.

The fallout from higher government spending is also likely to further push inflation up.

Ansar Ali, a small farmer-cum-rickshaw puller from Pirganj in Rangpur, is not aware of all these factors behind the rise in food prices.

But soaring inflation has led Ali to demand higher fares from his passengers, to enable him to meet his family expenses and ensure that his three children continue going to school.

''The rise in prices has affected us. But we will be able to manage somehow, as long as there are income opportunities.''

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How to ease inflationary pressure

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THE government should increase investment in infrastructure to facilitate a rise in job opportunities so that the unemployed and underemployed people can withstand the negative impacts of high inflation, said economists.

The safety net will also require expanding, in both coverage and entitlement, to support destitute women, the elderly and the disabled, they added.

"Public investment will generate wealth and will create employment opportunities for the unemployed and underemployed people. It's the most powerful tool," said Zahid Hussain, senior economist of World Bank in Bangladesh.

Hussain said high inflation deepens the miseries of the unemployed and underemployed and the creation of income opportunities is important.

The suggestion came as the government is set to announce the budget for fiscal 2011-12 next week.

In the past several months, rising food inflation has strained the low and fixed income groups and given rise to worries over a slowdown in poverty reduction.

In April, food inflation hit a three-year high at 14.36 percent on a point-to-point basis, due to the high price of rice and other necessities. Overall inflation shot up.

In the last month, rice prices dipped, buoyed by the prospect of a bumper boro, the principal crop.

Mahabub Hossain, former director general of Bangladesh Institute of Development Studies (BIDS), hoped that a decline in rice prices would contribute to a fall in food inflation, as rice takes up a bigger share of the consumption basket.

"Food inflation is likely to fall in the next two-three months because of a fall in paddy prices," he said, suggesting the government make allocations to buy from the domestic market to stop a steep fall in paddy prices.

"It is very important. Due to an increase in production this year, paddy prices will slump, resulting in a loss of farmers' enthusiasm to grow rice next year. If that happens, rice prices will go up again," he warned.

He also said the government should reduce the gap between the market price and the subsidised price to stop leakage.

"The government should not keep too much subsidy. A large gap between the market price and subsidised price of rice has resulted in leakage and wastage this year," said Hossain.

To provide income support to the poor, he recommended the government take employment generation schemes to develop basic infrastructure, such as canal digging and road maintenance.

BIDS Research Director Zaid Bakht favoured strengthening of safety net programmes.

"At the same time, the government should buy and store food in a way that it can intervene in the market timely, to dampen inflation expectations whenever necessary," he said.

"Investment in the productive sectors should be increased to facilitate job creation," said Bakht.

"Overall fiscal management will be important. If projects suffer from inefficiencies and wastages, it will cause a spike in money supply," he added.

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A woman shuffles through children's clothes at a store in Dhaka. Even though wages have increased in all the major sectors, the burdens of high inflation have left people struggling to purchase necessities other than food, like clothes.