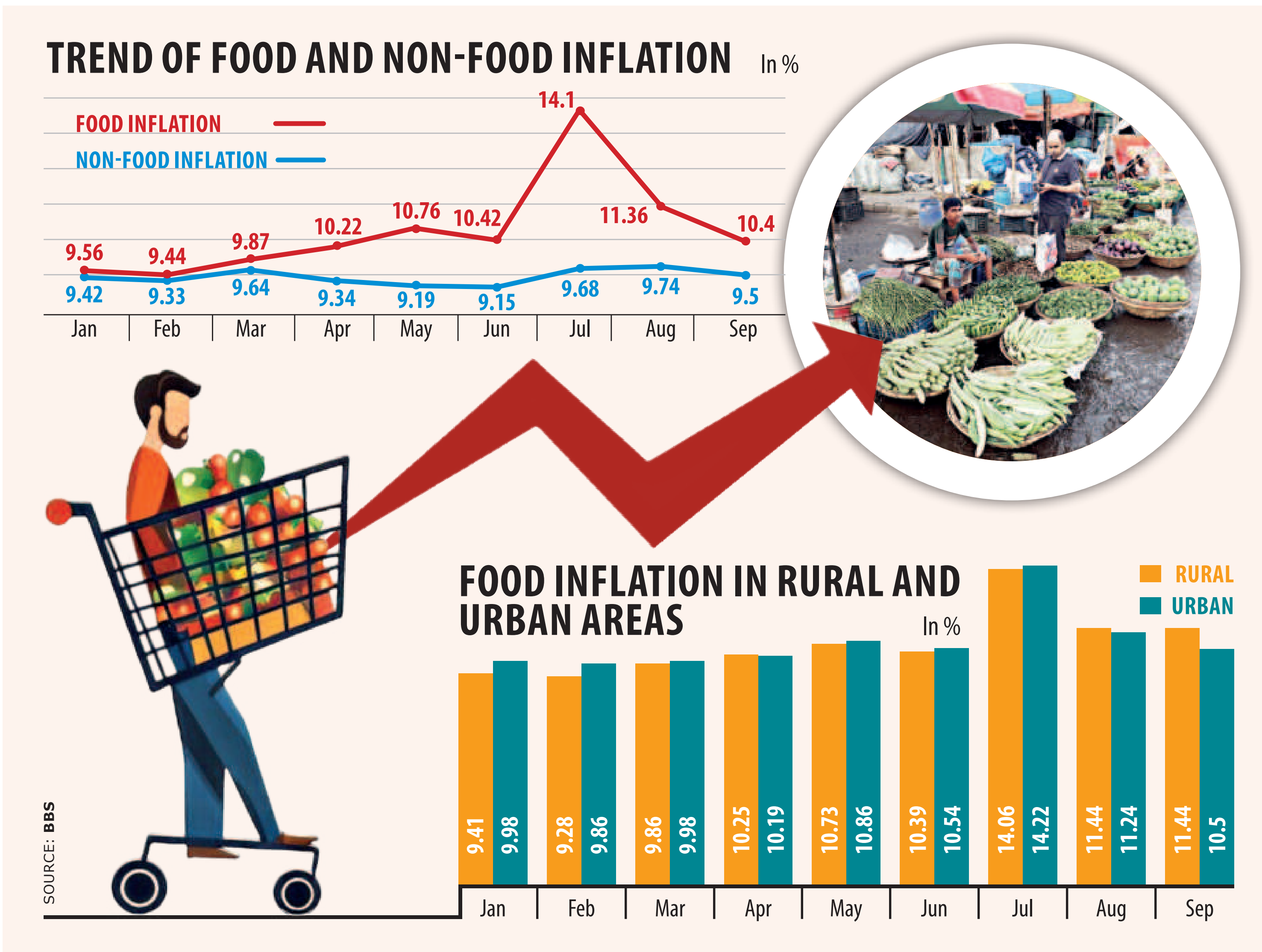
Food inflation has remained above 10% for six months. Here is why



SOHEL PARVEZ

Dhaka residents complaining about sky-high prices of food, especially vegetables, has been a common sight over the last several days.

In recent weeks, prices of most vegetables have shot up, hovering around Tk 100 a kilogramme (kg).

Prices of some vegetables have even crossed the Tk 100 mark, further straining the budgets of low- and fixed-income families, who are now spending a larger portion of their income on food.

Food inflation has remained above 10 percent for six consecutive months since April this year.

Meanwhile, overall inflation has hovered above 9 percent since March 2023 although the Bangladesh Bank has been raising the policy rate since May of the previous year to curb demand and control inflation.

Including a hike in the repo or policy rate to 9.5 percent last month, the BB has increased the interest rate 10 times since May of 2022.

This raises the question of why food prices have remained stubbornly high and whether it is related to demand-induced inflation, for which the central bank has been raising its key policy rate to make the money costlier and reduce excess demand.

On this issue, a senior official of the BB said they have little to do in containing the food prices.

"We have found that food prices have risen due to supply-side problems such as recent floods. Supply-side issues cannot be addressed by tweaking the policy rate," the official said.

"Crops getting ruined after being submerged under flood is a different phenomenon. This has to be addressed by increasing supply."

In the past two months, overall food inflation eased, but the decline was not significant enough to ease pressure on consumers' wallets.

Last month, food inflation stood at 10.4 percent, down from 11.36 percent a month ago, according to Bangladesh Bureau of Statistics data.

Selim Raihan, a professor of economics at Dhaka University, said food prices cannot be reined in solely by raising the policy rate.

Prices of some vegetables have even crossed the Tk 100 mark, further straining the budgets of low- and fixed-income families, who are now spending a larger portion of their income on food

"You will have to wait if you want to see the impact of a higher policy rate on inflation. What is needed now is to increase the availability of food in the market. Prices will not decline without a significant increase in supply," he said.

The government should also remove import tariffs on food items, at least for a specific period, to bring down the prices.

Increased demand for food during Eid-ul-Adha, along with supply disruptions, may have caused the surge in food inflation in the April-June quarter of 2024, Bangladesh Bank said in its quarterly report published at the end of last month.

"Heatwaves in April 2024 and Cyclone Remal in May 2024 significantly affected agricultural production, contributing to the rise in food prices."

Food inflation increased significantly from 9.87 percent in March this year to 10.22 percent in April. It hit 10.42 percent by the end of June, the banking regulator said.

"Global issues, including the ongoing Russia-Ukraine war, tensions in the Red Sea and the Gaza crisis, further disrupted supply chains and led to high production input costs."

In the fourth quarter of the last fiscal year, point-to-point food inflation surged both in urban and rural areas.

Devastating floods in the eastern districts and heavy rainfall damaged crop fields in August and squeezed the supply of vegetables.

At present, similar damage is now being reported because of the same two factors in the north-eastern districts.

Mustafa K Mujeri, executive director of the Institute for Inclusive Finance and Development, said food is a basic necessity and it is not possible to reduce demand for it by increasing the policy rate.

"The majority of the population lead their life above the subsistence level. So, the scope to bring down inflation by raising the policy rate is low. You must increase the supply. This is a fiscal policy issue," he said.

"The market here is not competitive, which is why prices go up without any valid reason. The weaknesses in the value chain also need to be addressed."

Mujeri, a former chief economist at the central bank, said the authorities concerned had undertaken many efforts to monitor the market and cut the scope to make high profits.

READ MORE ON B3

Vietnam, China sign 10 deals on economic cooperation

AFP, *Hanoi*

Vietnam and China signed 10 agreements on Sunday, including on expanding cross-border railway links, payments and economic cooperation.

The signings followed a meeting between Vietnamese Prime Minister Pham Minh Chinh and visiting Chinese Premier Li Qiang.

They agreed to work on a technical plan for a rail link between Lao Cai in northern Vietnam and Hekou in China's Yunnan province.

The two sides also signed a memorandum of understanding (MoU) on the implementation of cross-border payment services via QR codes and an agreement to study a model for an "economic cooperation zone" across their border.

China is Vietnam's biggest trade partner, but the two countries share historic tensions -- including in the South China Sea, a waterway through which trillions of dollars of trade pass each year.

The two sides signed an MoU on cross-border payment and an agreement on an economic cooperation zone across their border

Vietnam's top leader To Lam and Li agreed on Saturday to boost defence and economic cooperation, Vietnamese state media reported.

The two agreed to "maintain regular high-level exchanges and cooperation in defence, security, and foreign affairs... expanding the implementation of new mechanisms", the Nhan Dan newspaper said.

Vietnam would facilitate more high-tech Chinese investment in the country and Beijing would strengthen market access for Vietnamese agricultural products, the newspaper said.

Tensions have flared recently between the two nations over territorial claims in the South China Sea.

China has for years sought to expand its presence in contested areas of the sea, brushing aside an international ruling that its claim to most of the waterway has no legal basis.

HSBC cost cuts expose new CEO's bigger problem

REUTERS, *London*

There's always a case to be made for cost cuts at HSBC. The $160 billion lender employed 214,000 people in June and arguably suffers from duplication across its different bits. Still, new CEO Georges Elhedery has a much bigger job than finding the modest savings that he is reported to be eyeing. Growth is the bank's key challenge.

Elhedery is drawing up plans to axe about $300 million of costs, the Financial Times said on Thursday. The move would hit top management layers, according to the report, suggesting that the cuts could fall most heavily on the London head office rather than client-facing staff around the world. Elhedery may combine two of HSBC's three business lines: the commercial banking division and the global banking and markets unit (GBM).

There's some sense to that idea. The commercial-banking division, which accounted for 39 percent of group revenue excluding corporate costs in the first half of 2024, offers transaction banking services like cash management and trade finance to companies big and small. Meanwhile GBM, which brought in 23 percent of first-half revenue, includes the markets-focused trading businesses and investment banking. But there's some overlap in terms of clients and products. Over the six months to June 30, for example, $676 million or 6 percent of the commercial bank's revenue came from its share of products offered by GBM. Combining the two could save money by sharing risk teams and senior management.

PHOTO: AFP

There are downsides to such a combination, though. Jane Fraser, the boss of Citigroup, recently dismantled a business known as Institutional Clients Group, which covered everything from markets to corporate and investment banking. She argued that it increased accountability to have the people running individual business lines closer to the CEO.

There's also a question of transparency: investors could find it harder to get their heads around the performance of a unit that offers everything from small-company banking to underwriting giant debt and equity offerings for multinationals.

Moreover, the modest savings from such a move won't do much to solve Elhedery's main problem: falling rates. Analysts reckon net interest income will fall 7 percent this year and 2 percent next, based on Visible Alpha data. That component of the top line, which measures the difference between the money HSBC earns on loans and securities and the interest it pays on liabilities like deposits, comprised about half of total revenue last year and is dropping as central banks cut rates. To offset that hit, Elhedery will have to find a way to boost other fee-based businesses, like wealth management. For once, costs are a sideshow at HSBC.

HSBC's new CEO Georges Elhedery is planning to cut around $300 million of costs by targeting the bank's senior-management layer, the Financial Times reported on Oct. 10 citing people familiar with the matter.

Elhedery may combine the commercial banking unit with the global banking and markets business, the report said.

Surendra Rosha, who is co-head of Asia, could run a combined commercial banking and global banking division, while current head of markets Patrick George could run the rest of the enlarged division, according to the report.

China's car sales snap five-month decline on subsidy boost

REUTERS, *Beijing*

China's passenger vehicle sales rose 4.3 percent in September from a year earlier, snapping five months of decline with a boost from a government subsidy to encourage trade-ins as part of a broader stimulus package.

All the gains came from battery-powered vehicles, whose buyers and manufacturers have benefited since July from a doubling of subsidies to consumers, while sales of gasoline cars in China, a market foreign brands once dominated, continue to shrink.

Sales in the world's biggest auto market hit 2.13 million vehicles in September, up from 2.04 million a year earlier. For the first nine months, sales were up 1.9 percent from 2023 levels, according to data from the China Passenger Car Association (CPCA).

Sales of electric vehicles and plug-in hybrids jumped 50.9 percent, accounting for 52.8 percent of overall sales. It was the third month in a row that battery-powered vehicles including plug-ins outnumbered sales of gasoline-engine cars in China.

Gasoline car sales in September were above 1 million, up more than 100,000 from August. But that was far short of September last year, when over 1.29 million were sold in China.

Sales of EVs and plug-in hybrids - a category the Chinese industry group classifies as "new energy vehicles"

READ MORE ON B2

US firms brace for more tariffs as election approaches

AFP, *Washington*

From holding back investments to considering moving abroad, businesses in the United States are bracing for more economic turbulence as the presidential campaign kicks into high gear -- with fresh tariffs rolled out and promises of more.

Republican candidate Donald Trump has proposed at least a 10 percent tariff on imports and up to 60 percent on Chinese goods, intensifying levies he previously imposed on Beijing and others.

Democratic nominee Kamala Harris, meanwhile, serves an administration that largely maintained Trump's tariffs and last month finalized further hikes on $18 billion of Chinese products.

For Robert Actis, whose manufacturing business has been caught in the tariff maelstrom, the future has looked "clouded" over the past five years.

Under Trump, he faced tariffs on steel and aluminum and has struggled to find alternative suppliers for raw materials not produced in the country.

Fresh measures on the materials by the Biden-Harris administration have added to his woes. "I would be very happy to buy from a US producer," said Actis, who imports wires to make stucco netting used in construction, "but there's no one willing to do it."

He has previously been granted tariff exemptions, but the annual applications are not always successful.

Additional costs are gradually being passed to homebuilders, he said.

US tariffs weigh on many industries. The American Apparel & Footwear Association (AAFA) estimates retail prices have risen five percent to 10 percent annually since 2020.

The photo shows Ford's F-150 Lightning being assembled at the Rouge Electric Vehicle Center in Dearborn, Michigan. A recent survey found that 30 percent of US firms reported postponing, scaling down, delaying or cancelling investment plans due to election uncertainty.

PHOTO: AFP/FILE

"Initially, our members tried to eat some of those costs by eating into their profits," said Nate Herman, AAFA's senior vice president for policy.

But this has been tough.

It is unclear that tariffs on China have returned production to the United States, as Trump argues, and at least 14 US textile mills have closed in recent years, Herman told AFP.

Products like certain acrylic sweaters are not produced domestically either, requiring new machinery and trained workers, he said.

"The average age in domestic factories has gone into the 50s because we just can't find workers willing to work in those factories," Herman added.

"For a small company like us, it's millions of dollars" in added costs, said Ray Sharrah, CEO of lighting products maker Streamlight.

"We pay for it, our exporter helps, and ultimately the consumer (pays)," he said. "This is the problem with any tariff."

Uncertainty looms as November's election approaches, but businesses prefer predicability.

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