

# INFLATION IN THE FOOD SECTOR IN BANGLADESH: CAUSES AND CONSEQUENCES

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**Abstract:** The most recent threat to the global economy is the rising food prices. Population did play an important role behind the rising food prices in the recent past. But the scenario has changed over the past thirty years. More than population the rise in the per capita income has fuelled demand, thereby creating the demand supply gap. The ever-expanding demand-supply gap is the contributing factor for this food price rise. In the recent times the shortage in the food supply has led to violence in many parts of the world. This paper attempts to examine the extent to which the recent inflationary impetus in Bangladesh may be attributed to adverse cost conditions or supply side considerations. The paper attempts to identify the background and the domestic and international factors behind the recent price hikes in Bangladesh. The paper analyzes the basic effects due to the food shortage and consequent price hikes in Bangladesh. This paper also shows some policy implications for the global food security.

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## Introduction:

Few subjects invite as much public emotion as the topic of inflation. Inflation reduces the purchasing power of consumers and there is strong global evidence that in democratic countries inflation affects electoral outcomes. There is also evidence that inflation hurts the poor more than the rich and anti-inflation policies are one important way to reduce poverty. Given this strong socio-political influence of inflation, it is understandable why inflation tends to worry governments more than any other economic problem. In Bangladesh the recent increase in inflation has drawn national attention. It is worrying for both the people at large and the government. (Uddin, S, Chowdhury, N.M & Hossain, M.A 2014) Various theories of why the rate of inflation has increased have been offered including a populist perception that inflation is caused by trading mafias (syndicates) who are hoarding goods and thereby driving up prices to make windfall profits. Such populist views have been lent credence by anti-hoarding measures taken by the government including crackdown on business inventories and setting up of fair price shops by Para-military forces (BDR shops). (Saha, S.Kumar, 2013)

Some have blamed the cost-push pressures emerging from increases in world commodity prices, especially food grain and petroleum.

Linked to this there is a populist demand to insulate the domestic economy from these price increases through various administrative means including price controls. (Ahmed, 2008)

Food problem has taken a precarious form in the whole world, now-a-days. The supply of food is scarce in relation to the demand. The climatic

changes and the natural disasters are also creating the problem. This problem is more complicated for the

uncontrolled rise of oil price. Many countries of the world use cereal for producing ethanol or bio-fuel. They have been given a huge amount of subsidy for producing ethanol or bio-fuel. As a result, the vast amount of land would go for producing ethanol rather than producing cereal. This situation is surely a threat for food security in the whole world. Commensurate with the World Trade Organization (WTO) policy, uninterrupted reduction of subsidy in agricultural sector and on the other hand, increasing subsidy in ethanol producing sector is blamed to have added to the crisis. (Luis.C and Roberto,C, 2008)

Although one of the world's poorest and most densely populated countries, Bangladesh has made major strides to meet the food needs of its increasing population, through increased domestic production augmented by imports. The land is devoted mainly to rice and jute cultivation, although wheat production has increased in recent years; the country is largely self-sufficient in rice production. Nonetheless, an estimated 10% to 15% of the population faces serious nutritional risk. Bangladesh's predominantly agricultural economy depends heavily on an erratic monsoonal cycle, with periodic flooding and drought. Although improving, infrastructure to support transportation, communications, and power supply is poorly developed. Bangladesh is limited in its reserves of coal and oil, and its industrial base is weak. The country's main endowments include its vast human resource base, rich agricultural land, relatively abundant water, and substantial reserves of natural gas. (Taslim, 1980)

**Objective of the Study:** To identify the major domestic and international factors contributing to the recent food shortage and consequent price hikes

in Bangladesh; and their impact on the living standard.

**Rationale of the Study:** Recent surge in global inflation is also believed to be an instance of inflation emanating from the oil crisis. In Bangladesh economy, a series of incidents occurred over the recent couple of years prompting researchers to recognize the significant role of supply side phenomena influencing inflation in Bangladesh. This paper attempts to examine the extent to which inflationary impetus in Bangladesh may be attributed to adverse cost conditions or supply side considerations. **(Rahman, M. M 2015)**

A series of reports in the international media have drawn attention to the role of professional speculators and hedge funds in driving up the prices of basic commodities-in particular, foodstuffs. The sharp increase in food prices in recent months has led to protests and riots in a number of countries across the globe. Besides, the entire continent is now grappling with unbridled inflation. Except for the three oil shocks, India could always avoid high inflation. Recently, the country's wholesale price index witnessed 7% inflation as opposed to the 3.1% of last October. China was not ready before the Olympics to let inflation reach its 11-year high. Its inflation is almost 9%; triple the pace of last year.

**(The Daily Star, Internet Edition, 21-04-2008)**

Pakistan's inflation of almost 21% has gone up to an all-time high. So has Sri Lanka's with 26%. Thailand's price hike has reached a 7-year high. Despite efficient macro management, Singapore's inflation has hit its 25-year high. The storm is sweeping over Asia, regardless of the forms of the governments, while many of us are linking inflation with democracy. **(Paul, Dr. Biru Pasha, the Daily Star, Internet Edition, 06-03--2008)**

On Tuesday, April 22, a UN spokesperson referred to a "silent tsunami" that threatens to plunge more than 100 million people on every continent into hunger. Rosette Sheer, an executive director of the UN World Food Program (WFP) noted: "This is the new face of hunger-the millions of people who were not in the urgent hunger category six months ago but now are".

**Methodology:**

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 | 0.17  | 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.

**Research Design:** The study is based on the secondary data and the major reason is the breadth of data availability. Different government organizations conduct numerous studies on a large, national scale on inflation time to time. It is not possible for individual researchers to collect survey on inflation of different trend for long time period. So analysis on secondary data is the appropriate way for this research.

Another reason of using secondary data is that the data collection process is often guided by expertise and professionalism that may not be available to individual researchers or small research projects. For example, data collection is often performed by staff members who specialize in certain tasks and have many years of experience in that particular area and with that particular survey. Many smaller research projects do not have that level of expertise available, as data is usually collected by students working at a part time or temporary job.

**Data Collection:** Data are collected from peer reviewed journals, newspapers and different web site of government of Bangladesh.

**Data Analysis:** Many of these data sets are longitudinal, meaning that the same data has been collected from the same population over several different time periods.

**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. **(Saha , Sanjoy Kumar, 2013)**

(million metric tons)

**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      |

| 2010-2011 |        |      |        |       |        |      |         |       |        |       |        |      |
|-----------|--------|------|--------|-------|--------|------|---------|-------|--------|-------|--------|------|
| July      | 222.82 | 7.63 | 242.23 | 8.98  | 197.62 | 5.54 | 229.55  | 7.26  | 251.59 | 8.72  | 200.65 | 4.87 |
| August    | 224.18 | 7.87 | 244.12 | 9.38  | 198.23 | 5.47 | 233.31  | 7.52  | 257.44 | 9.64  | 201.46 | 3.76 |
| September | 225.58 | 8.12 | 246.05 | 9.78  | 198.83 | 5.41 | 236.53  | 7.61  | 262.23 | 9.72  | 202.29 | 3.69 |
| October   | 226.85 | 8.12 | 247.77 | 9.83  | 199.45 | 5.31 | 238.68  | 6.86  | 265.16 | 8.43  | 203.03 | 3.82 |
| November  | 228.25 | 8.14 | 249.74 | 9.98  | 200.00 | 5.04 | 238.889 | 7.54  | 265.22 | 9.80  | 203.43 | 3.33 |
| December  | 229.78 | 8.13 | 251.96 | 10.12 | 200.54 | 4.73 | 240.75  | 8.28  | 268.19 | 11.01 | 203.71 | 3.27 |
| January   | 231.46 | 8.14 | 254.36 | 10.24 | 201.17 | 4.51 | 242.48  | 9.04  | 270.44 | 11.91 | 204.88 | 3.85 |
| February  | 233.27 | 8.21 | 256.93 | 10.40 | 201.89 | 4.37 | 244.28  | 9.79  | 272.57 | 12.77 | 206.15 | 4.36 |
| March     | 235.22 | 8.36 | 259.72 | 10.67 | 202.60 | 4.27 | 245.97  | 10.49 | 274.99 | 13.87 | 206.65 | 4.32 |
| April     | 237.20 | 8.54 | 262.60 | 11.00 | 203.26 | 4.15 | 246.24  | 10.67 | 275.02 | 14.36 | 207.23 | 3.97 |
| May       | 239.10 | 8.67 | 265.26 | 11.20 | 204.06 | 4.10 | 246.39  | 10.20 | 273.95 | 13.16 | 209.24 | 4.78 |
| June      | 241.02 | 8.80 | 267.83 | 11.34 | 205.01 | 4.15 | 249.11  | 10.17 | 277.11 | 12.51 | 211.39 | 5.73 |

**Table-3 Trend of CPI in Bangladesh**

| Consumer Price Index (CPI) And Inflation Rate<br>(Point To Point) |         |           |        |           |          |           |
|---|---------|-----------|--------|-----------|----------|-----------|
| 2005-2006=100   |         |           |        |           |          |           |
| Period  | General |           | Food   |           | Non Food |           |
|   | Index   | Inflation | Index  | Inflation | Index    | Inflation |
| 2011-2012   | 170.19  | 8.69      | 183.65 | 7.72      | 152.94   | 10.21     |
| 2012-2013   | 181.73  | 6.78      | 193.24 | 5.22      | 166.97   | 9.17      |
| 2013-2014   | 195.08  | 7.35      | 209.79 | 8.56      | 176.23   | 5.55      |

| Consumer Price Index (CPI) And Inflation Rate<br>(Point To Point) |         |           |        |           |          |           |
|---|---------|-----------|--------|-----------|----------|-----------|
| 2005-2006=100   |         |           |        |           |          |           |
|   | General |           | Food   |           | Non Food |           |
|   | Index   | Inflation | Index  | Inflation | Index    | Inflation |
| Nov'13  | 194.76  | 7.15      | 210.27 | 8.55      | 174.92   | 5.08      |
| Dec'13  | 195.82  | 7.35      | 211.87 | 9.00      | 175.26   | 4.88      |
| Jan'14  | 198.08  | 7.50      | 213.65 | 8.81      | 178.26   | 5.53      |
| Nov'14  | 206.86  | 6.21      | 223.81 | 6.44      | 185.14   | 5.84      |
| Dec'14  | 207.78  | 6.11      | 224.29 | 5.86      | 186.62   | 6.48      |
| Jan'15  | 210.12  | 6.04      | 226.61 | 6.07      | 188.98   | 6.01      |

Source: Bangladesh Bureau of Statistics.

**Factors behind the high price:** There are two types of factors: Domestic and International factors:

**Domestic Factors:**

**1. Labor Cost:** Wage increases (ahead of productivity) are often seen as one of the key reasons behind cost-push inflation. Wage increase without any commensurate increase in productivity kicks off a wage price spiral, allowing for sustained inflation. Built-in inflation; induced by adaptive expectations, is often linked to the "price/wage spiral" because it involves workers trying to keep their wages up (gross wages have to increase above the CPI rate to net to CPI after-tax) with prices and then employers passing higher costs on to consumers as higher prices as part of a "vicious circle." Built-in inflation reflects events in the past, and so might be seen as "hangover" inflation (Inflation-Wikipedia, the Free Encyclopedia). Under the assumption of little or no improvement of workers' productivity growth, wage inflation at such high level is an indication of cost escalation over time. It, therefore, appears that wage inflation cannot be a dominant factor in explaining the price behavior in Bangladesh. This is what one

would normally expect in a labor surplus environment. (Majumder M.A, 2006) (Ahmed, 2009)

**2. Import Cost:** Typically import occupies a significant place in the Bangladesh economy, accounting for as high as above 20 percent or more of GDP in FY12. At the margin, most of the essential food items (for example, sugar, rice, wheat, onion and edible oil) and, more generally, machineries, intermediate goods and raw materials used in production are imported. Cost of imports can, therefore, be expected to have a substantial influence on domestic inflation directly via final goods or indirectly through intermediate goods. (Majumder M.A, 2006) (Ahmed, 2009)

**3. Exchange Rate:** Exchange rate is one of the major key reasons for the recent price hikes. Center for Policy Dialogue (CPD) and Bangladesh Institute of Development Studies (BIDS) have made the argument that recent increases in inflation in Bangladesh significantly originated from the increase in global price of oil and other imported commodities. After experiencing moderate increase for quite a few months, the exchange rate jumped from 66.40 BTD /USD in January 06 to 70.05 BDT/USD in

April 06 and April 2013 the exchange rate is 77.94 BDT/USD. Exchange rate exerts inflationary pressure mainly via import prices. Historically, exchange rate in Bangladesh exhibited steady increase over time.

In the FY 12-13, country's total export is 13 billion US\$ which is highest than the previous year. The main item of export is readymade garments which contributes 75.0% of the total export earnings. Main markets of export goods are EU, USA and Canada. Besides US dollar remained stable against Bangladesh taka in the interbank foreign exchange market despite higher demand for the greenback, as there was sufficient liquidity. The demand for dollar increased mainly due to large size import payments.

Several banks enjoyed adequate supply of dollar from their sources and they experienced a steady demand for the greenback because of reserve attitude of importers to open letters of credit. So it can be seen that though USD value is more or less same against BD taka .But this situation is not a normal situation, it is imposed by the government of Bangladesh because of the pressure of the garments industry and the garments businesses. And this artificial situation is one of the major factor behind the high price. (Saha , Sanjoy Kumar 2013)

**4. Supply Bottlenecks:** Production in agriculture and fisheries sectors in Bangladesh is still subject to the whims of nature to a notable extent. It has been claimed that one of the main causes of the high food inflation throughout the FY05 was poor harvest of aus, aman and wheat crops. The yearly Production of these three crops went down by 18.12, 14.76 and 22.11 percent respectively in FY 05 over the FY 04.

(Majumder. M.A, 2006)

**5. Market Syndication:** Higher inflation causes prices to go up, Government is rightly citing higher price of imported goods as a reason for the current inflation. Another reason for the price hike is reduction in imports. A very critical factor in the mismatch of supply and demand may be obstruction in the free movement of some goods or a part thereof or a deliberate withholding of supply, which is also called syndication. Unfair cartel among the suppliers might seriously hamper the course of the economy by engendering inflation via the creation of a false supply shortage even during a

period of robust growth in production' Monopolistic control of several food items such as sugar, onion pulses and edible oil by market syndication seems to have led this situation. Obviously such manipulation is a type of supply side disturbance. (Ahmed. N, 2009)

The point-to-point inflation has crossed double digit for the first time in this fiscal year which was unusual in the past decade. According to Bangladesh Bureau of Statistics (BBS), inflation rate in February was 10.16 percent. For food, this rate was 12.72 per cent. But most economists have not agreed with this statistics. They said that the real inflation is close to 20per cent at this moment. Any commodity which could be purchased at taka 100 in the past is now selling at taka 111 now. In other words, the real income of taka 100 has been reduced to taka 90 within a year. In April, 12 point to point inflation in food sector is 7.74%. (Majumder, M.A, 2006)

#### **International Factor:**

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

Developed 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:

The uses of 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. Cereals and edible oil has contributed significantly to the increase of food prices. Rising demand for food and feed, bio-fuel, high oil prices, climate change, slowdown in agricultural productivity growth and malfunctioning of world grain markets contributed to the international grain prices increase. (Rahman, M. Mizanur, 2015)

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. (Saha, Sanjay Kumar, 2013)

**2. Oilseeds and Related Products:** Low stocks and strong export demand for soybeans are reflected in the CPI for these products, which gained 2.9% in 2007. While much of this category is supplied by soybeans, substitutes exist and will help moderate increases. In 2008, the CPI is set to rise 7% to 80% due to continued strong export demand from countries where changing diets require more vegetable oil. (Uddin, S., Chowdhury, N.M & Hossain, M.A 2014)

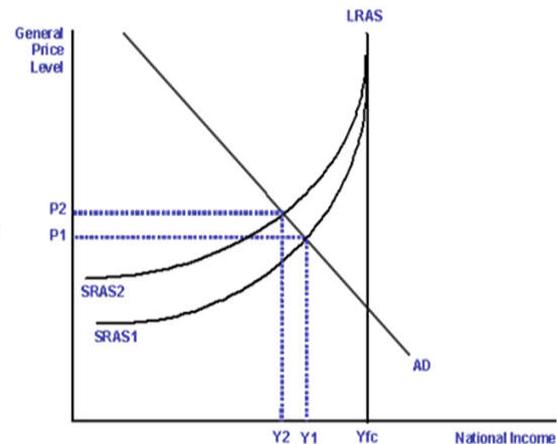
**3. Environmental Disasters:** Continuing drought in farming areas has led to drastically reduced agricultural production. For example, in Australia, a two year drought, scarcity of water has reduced their wheat crop and farming in rural Australia are in a dilemma as to whether to sell their land or to keep on farming. Drought in Kazakhstan, flood in India, flood and cyclone (Sidr) in Bangladesh, cold temperature in China etc. are also the factors behind the high price. Food prices are expected to rise three to four percent this year, according to the U.S. Department of Agriculture. That's because of the terrible Midwest drought in 2012 that withered crops in the field. As a result, prices for corn, soybeans and other grains rose. Since it usually takes several months for these commodities prices to translate to the food you buy, most of the drought's effect will occur in 2013.

(Saha, Sanjay Kumar, 2013)

#### 4. Cost-push inflation:

Also called "supply shock inflation" caused by drops in aggregate supply due to increased prices of inputs, for example. Take for instance a sudden decrease in the supply of oil, which would increase oil prices. Producers for whom oil is a part of their costs could then pass this on to consumers in the form of increased prices. Other things remaining the same, the higher the cost of production, the smaller is the amount produced. At a given price level,

rising wage rates or rising prices of raw materials such as oil lead firms to decrease the quantity of labor employed and to cut production, an increase in the general price level. In the above figure, aggregate supply (AS1) shifting to (AS2) and causing price level to increase while output shrink (Inflation- Wikipedia, the Free Encyclopedia) ([https://en.wikipedia.org/wiki/Cost-push\\_inflation](https://en.wikipedia.org/wiki/Cost-push_inflation))



#### 5. Speculation behind the rise in Food Price:

The debate about food commodity speculation began when prices for staple foods rocketed in 2007. Maize prices in Ethiopia rose by almost 200 percent between June 2007 and June 2008, while the price of wheat shot up by almost 300 percent in Somalia and 90 percent in Sudan. This hyperinflation of the prices of basic foodstuffs prompted demonstrations in countries around the world. Any attempt to get to the bottom of the problem inevitably leads to discussion about food speculation. Non-governmental organizations like Food watch, Oxfam, or Weed (World Economy, Ecology and Development) say financial players bear a large part of the blame for the food crisis, and that banks and hedge funds are investing large sums of money in food stuffs with the intention of making big profits. (Kazi, M, Arif, M & Munshi, A, 2012)

The question of whether speculators can influence commodity prices by purchasing futures contracts is the subject of intense academic debate. Many people, notably Paul Krugman, dismiss the role of investors in pushing up everything from crude oil to wheat prices. These critics question whether what happens in the futures market can affect "spot" prices (i.e. the price of purchasing the physical commodity for immediate delivery). Unless

higher futures prices induce people to hoard commodities now in order to sell them later, experts like Krugman don't believe speculation has an impact. Other, such as Prof. Stefan Tangermann of the University of Gottingen, note that futures markets are in some respects unlimited compared to the physical market. So if speculators are willing to pay unjustifiably high prices, knowledgeable players will sell as much as possible to them, ultimately driving the market back down.

Food price inflation caused food riots in 2008, when prices rose a whopping 6.8%. Commodity speculators also caused higher food prices in 2008 and 2009. As the global financial crisis pummeled stock market prices, investors fled to the commodities markets. As a result, oil prices rose to a record of \$145 a barrel in July, driving gas prices to \$4.00 a gallon. Part of this was based on surging demand from China and India, which escaped the brunt of the subprime mortgage crisis. This asset bubble spread to wheat, gold and other related futures markets, driving up global food prices dramatically around the world. As a result, food riots by people facing starvation erupted in less-developed countries.

(Saha, Sanjay Kumar, 2013)

5. Four Reasons for Long-term Food Price Inflation Grocery prices have risen 2-3% each year between 1990-2011. There are four global policy shifts that are causing this inflation in world food prices.

**First**, the U.S. government subsidizes corn production that is used for bio-fuels. This takes corn out of the food supply, raising prices.

**Second**, the World Trade Organization (WTO) limits the amount of corn and wheat that the U.S. and European Union (EU) can subsidize and store in stockpiles. This reduces the cushion available to add to the food supply when there are shortages, thus adding to food price volatility.

**Third**, as more people around the world are growing more affluent, they eat more meat. Grains are going to feed the animals that provide meat, further reducing the supply and increasing price volatility.

**Fourth**, higher oil prices lead to higher food prices. Food is transported great distances, especially if imported. Higher oil and gas prices increase shipping costs, which translates into higher food prices.

(Shamim, A and Mortaza, G, 2005)

### **Analysis of the Problem:**

**1. Impact of Poverty:** Because of the high price of food in the last 2.5 years in Bangladesh, 8.5 percent of the people newly join the group that is below the poverty line. In 2005 forty percent of our people lived below the poverty line but today this number is 48.5 percent (The Daily Naya Diganta, June 4, 2008).

2. Uncertainty about future inflation may discourage investment and saving in Bangladesh.

3. Redistribution Rent Seeking - happens when resources are used to merely transfer wealth rather than produce it. e.g. a company tries to gauge and combat the costs of inflation.

4. Inflation redistributes income from those on fixed incomes, such as pensioners, and shifts it to those who draw a variable income, for example from wages and profits which may keep pace with inflation.

5. Debtors may be helped by inflation due to reduction of the real value of debt burden.

6. International trade: Where fixed exchange rates are imposed, higher inflation than in trading partners' economies will make exports more expensive and tend toward a weakening balance of trade in Bangladesh.

7. Rising inflation can prompt trade unions to demand higher wages, to keep up with consumer prices. Rising wages in turn can help fuel inflation. In the case of collective bargaining, wages will be set as a factor of price expectations, which will be higher when inflation has an upward trend. This can cause a wage spiral. In a sense, inflation begets further inflationary expectations.

8. Hoarding: people buy consumer durables as stores of wealth in the absence of viable alternatives as a means of getting rid of excess cash before it is devalued, creating shortages of the hoarded objects

9. Increased Production:

Five key issues are seen as vital to increasing rice production in the world:

- An agronomic revolution in the Asian rice production to reduce existing yield gaps.
- Acceleration in the delivery of new post harvest technologies.
- Introduction of higher-yielding rice varieties.
- Research on rice varieties.
- Strengthening and upgrading of rice breeding and research pipelines.

10. Besides strong inflationary pressure emanating from both domestic and external sources that led the CPI inflation to overshoot the targeted range of 6.5 percent to 7.0 percent for FY 08.

11. Low level of investment and overall economic activity resulting from high price due to the natural disasters and shaken business confidence in Bangladesh. **(Monetary Policy Statement, Jan-Jun,2008)**

**(Bangladesh Economic Reviewer 2006 & 2007 Ministry of Finance, Government of Bangladesh)**

#### **Policy implications for global food security:**

1. Global food security: identifying the reasons of global food insecurity and making rules and policy decisions based upon the reasons.
2. Reject the bio-fuel policy by the developed country and to find alternative fuel and have to take R&D program and other necessary structural adjustment.
3. Control the price and use of the bio-fuel & oil by the every country's government.
4. For producing water plant electricity, intra and inter country co-operation should be taken for alternative use of the bio fuel for producing electricity.
5. Expand the searching facilities for identifying the new sources of natural gas and oil by every country's government.
6. Taking steps for reducing climatic change and environmental disaster especially by the developed countries governments.
7. Ensuring the financial security and the food security for countries which are mostly affected through the climatic change and the agricultural sector of Leduc's should be sufficiently subsidized for expanding food production by the government of developed countries e.g. providing budgetary support for LDCs for coping with the price hike of oil and food and also for the effect of the climatic change like, crop and wealth loss by governments of respective countries.
8. There requires an effective regulatory body that could closely monitor the market with effective intervention. Domestic production and supply chain needs to be strengthened to prevent artificial food crisis created by the market syndication.

9. Need technological advancement and infrastructure development for developing food grain production and productivity of land and labour.

10. For protecting 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 can be made among member countries of SAARC countries.

11. 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.

12. 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.

13. Ensure fair price of the crops and crops insurance need to be introduced to protect farmers from crop damage.

#### **CONCLUSION:**

In a country like Bangladesh, people mainly suffer from inflation in the food sector, which is almost 40% assume experts estimate. The spiraling of food prices in the last one-year originated from both domestic and global factors. The domestic production of food in the first place was not adequate for ensuring a fair price. The global food prices started soaring, and are still on the rise. People can wait for everything but food. This inelasticity of demand for food caused food prices to skyrocket in the country. In addition to inadequate agricultural output, a 40% increase in grain prices and 80 % increase in energy prices in global markets have made Bangladesh's domestic inflation severe. Unfortunately, many of us fail to understand the global link to inflation, and thereby shove the full responsibility onto the shoulder of government. Hence, differences in political set up do not significantly matter in fighting inflation. The only thing that matters here is an appropriate economic policy.

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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