Do the official inflation figures in Bangladesh reflect the actual inflation faced by the marginalised households in Bangladesh?

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3 March 2022

BBS's figures of inflation

	November 2021	December 2021	January 2022
National	**5.98**	**6.05**	**5.86**
Food	5.43	5.46	5.60
Nonfood	6.87	7.00	6.26
Rural	**6.20**	**6.27**	**6.07**
Food	5.90	5.93	5.94
Nonfood	6.78	6.94	6.32
Urban	**5.59**	**5.66**	**5.47**
Food	4.37	4.41	4.85
Nonfood	6.99	7.07	6.17

How does BBS estimate inflation?

- The Bangladesh Bureau of Statistics (BBS) calculates the official inflation rates in Bangladesh.

- The BBS constructs Consumer Price Indices (CPIs) for national, rural, and urban areas, and calculates inflation rates for these areas using the respective CPIs.

- The reference groups of the constructed CPIs are the average urban and rural households of Bangladesh.

- The consumption patterns of these households are derived from the Household Income and Expenditure Survey (HIES) of 2005-06.

- In the urban consumer basket, 422 commodities are included, while the rural basket consists of 318 food and non-food items.

- Using the data of HIES 2005-06, the BBS derives the weights of items in the baskets based on the average expenditure incurred by a household on the item expressed in terms of its percentage share in the total expenditure on all items.

Problems with the BBS's estimation of inflation

- First, it is difficult to understand why the BBS is still using the 2005-06 HIES data to derive the weights of the items in the consumption baskets whereas the latest HIES 2016 data has been available since 2017. It is quite reasonable to argue that the food habits of the people in Bangladesh (both poor and nonpoor) have changed over the years since 2005-06. However, changes in food habits are not addressed while calculating the CPI by the BBS.

- Second, and more importantly, the CPIs, calculated by BBS, hardly reflect the inflation faced by low-income households in Bangladesh, both in the urban and rural areas. The average consumption baskets used by the BBS to calculate the CPIs are not truly representative of the consumption pattern of many low-income households.

An alternative estimation of the inflation rates

- The official figures of inflation do not reflect the real scenarios of the stress of the marginalised households in the wake of the price hike.

- In this exercise, we offer an alternative estimation of the inflation rates for the marginalised households in Bangladesh.

- We have identified eight marginalised household groups in Bangladesh who are vulnerable to food insecurity due to the price hike of essential food items.

- In the urban areas, these household groups are readymade garment (RMG) workers, day labourers, rickshaw/van-pullers, and small traders.

- In the rural areas, these groups include landless farmers, day labourers, rickshaw/van-pullers, and small traders.

An alternative estimation..

- We have constructed CPIs for each household group by using the detailed and disaggregated data of the nationwide survey of 10,500 households conducted by SANEM and the GED of Planning Commission of Bangladesh in 2018.

- From this survey data, typical food consumption baskets of these eight household groups are constructed, and respective weights of items in the food baskets are calculated.

- Using these food baskets, the monthly point-to-point food price indices and food inflation rates are calculated based on retail price data collected by the Department of Agricultural Marketing, Ministry of Agriculture, and the Trading Corporation of Bangladesh (TCB). The results are striking!

Our findings

Household groups	% share of food expenditure in total expenditure	Point to point food inflation rate	
		Jan-2022 over Jan-2021	Feb-2022 over Feb-2021
Urban			
RMG workers	60.52	11.33	12.45
Day labourers	61.59	11.47	12.50
Rickshaw/Van-pullers	60.91	11.37	12.48
Small traders	61.51	11.28	12.45
Average for four groups	***61.13***	***11.36***	***12.47***
Rural			
Landless farmers	65.85	11.04	11.96
Day labourers	65.99	11.27	12.11
Rickshaw/Van-pullers	65.01	11.31	12.08
Small traders	64.59	11.21	12.27
Average for four groups	***65.36***	***11.21***	***12.10***
Data source: SANEM-GED household survey 2018. The prices are taken from the Department of Agricultural Marketing, Ministry of Agriculture and Trading Corporation of Bangladesh (TCB)			

Our findings

- Food consumption baskets of the selected marginalised household groups are concentrated on much smaller items than the food basket used by the BBS.

- The average food consumption is 61.13% of the total consumption expenditure of the urban marginalised household groups and 65.36% of the total consumption expenditure of the rural household groups under consideration, which are much higher than the food shares used by the BBS in their CPI calculation: 45.17% for the urban areas and 58.54% for the rural areas.

- In January 2022, according to the BBS, the food inflation rates for the urban and rural areas were 4.85% and 5.94%, respectively. However, our estimation suggests that the marginalised households in Bangladesh are facing food inflation rates that are more than two times the officially reported food inflation rates.

Factors behind price hike

Supply-demand mismatch	Relative price change and additional pressure on demand	Disruption in supply chain
Non-competitive market and weak monitoring	Rise in import cost: exchange rate, shipment and logistics	Rising food prices in the world market
	Rise in fuel prices	

Need to act fast

- COVID-19 impact on income and employment. New poor and increased vulnerability. Recovery process is disrupted due to inflationary pressure.

- Inflation is the "cruellest tax" for marginalised people.

- Our analysis shows that the officially reported food inflation figures are grossly underestimating the actual food inflation faced by the marginalised households in Bangladesh.

- Due to the high reliance on the necessary food items, poor people cannot cut down on necessities and are hit the hardest by soaring prices of necessities.

Three policy suggestions

Proper assessment of the market's demand and supply situation.

Involve all relevant stakeholders in the market monitoring

Expansion of the social protection coverage to include the old and new vulnerable population