

# Spiralling Price Inflation of Food Items and the Issue of Food Security in Bangladesh

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## A synopsis

1. The present trend of spiralling increase in prices of food items has reached a crisis proportion, which have been causing severe price inflation in the market for all necessities of life in particular and an overall inflation in the whole economy in general. In spite of the recent deceleration of inflationary trends in the rice and wheat market and a relative stability in the market of coarse varieties of rice in consequence of a bumper Boro crop in the country, there is no scope for complacency or relieved thinking on the part of the Government that the crisis is over.
2. The Government policy makers have been highlighting the following causes for the price hike of food items:
  - i. Production shortfall of rice in the country caused by two major floods during the Aman season and the devastating cyclone 'Sidr', which destroyed the standing crops in almost all the areas falling in its path;
  - ii. Unprecedented trend of rising prices in the international export markets of rice, wheat, maize (corn), edible oil, pulse, etc. along with the fear of an impending (and suspected to be long-lasting) shortfall of the world's food production in the near future;
  - iii. The galloping increase of international oil price, which will continue to adversely affect the cost of production of food items throughout the world causing widespread price escalation without any prospect of early remission of the crisis in agricultural production in the near future;
  - iv. Machinations of syndicates of importers, big traders and hoarders;

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- v. A perceptible tendency of profiteering by wholesalers and retailers;
  - vi. Sensational reporting by the print media and broadcast media;
  - vii. Panic buying by a section of urban buyers.
  - viii. Diversion of an increasing proportion of world food grain production for production of bio-fuel now that its production has become economically viable because of the dramatic rise of oil price in the last two years; and
  - ix. Diversion of cultivable land in many countries like the U.S.A. and Brazil from edible oilseed production to maize (corn) production used in bio-fuel manufacturing.
3. The following crucial factors are not given the **due importance** in explaining the continuing high inflation:
- i. The Bangladesh Taka has been depreciating menacingly during the last five years after floating Taka in the foreign exchange market on May 31, 2003, when the exchange rate of Taka vis-à-vis dollar was Tk. 58.80 per dollar (selling rate). The present rate is around Tk. 69 per dollar. But, this is not the true picture, because dollar has been going through a **free fall in its value** during the last eight years. In 2000, euro reached a low of only 82 cents per euro. But, by the end of 2000, U.S. Dollar started to depreciate throughout the world. The present exchange rate of dollar vis-à-vis euro is \$1.59, which signifies a process of depreciation of dollar vis-à-vis euro by about **94 percent** in the last eight years. The depreciation of dollar against Japanese yen, British pound sterling, Chinese Yuan, Indian rupee and other major currencies of the world may not be as dramatic as that with euro, but has reached crisis proportions, the rates of depreciation ranging between 50 per cent and 75 per cent with these currencies. **Therefore, the Bangladesh Taka has depreciated enormously against the currencies of all the countries like China, India, Thailand, Japan, Malaysia, Indonesia, South Korea, Singapore, Australia and Canada, which are the main sources of Bangladesh's imports. The range of such depreciation is between 60 per cent and 90 per cent.** Lack of right kind of intervention as well as timely intervention in the foreign exchange market has been accentuating this dollar-driven depreciation of Bangladesh Taka.
  - ii. Bangladesh Bank's over-enthusiasm about building up a presentable(!) foreign exchange reserve has been instrumental behind the current so-called stability of Taka against dollar in the foreign

exchange market (at around Tk. 69 per dollar), which has actually been internalizing the dollar depreciation syndrome in our own import regime. Bangladesh Bank has been adding to the demand for foreign exchange in order to achieve its goal of building up the foreign exchange reserve, which has reached about \$5.5 billion recently. In plain words, **we are importing inflation through this wrong monetary policy.** If Bangladesh Bank would have followed a more sensible role vis-à-vis the foreign exchange market, the present exchange rate of **Taka vis-à-vis dollar should have come down below Tk. 55 per dollar.** The two popular bogies used by Bangladesh Bank that such policies would discourage our garments and knitwear industries and migrant remittances are not very persuasive.

- iii. The parallel foreign exchange flows (both inflows of remittances and outflows of flight capital) through the informal channels are grossly underestimated by our policy makers in the Government. Informal remittances tremendously add to the demand structure for food items, which has not been reasonably estimated by our policy makers when they were clamouring that our food stock would be sufficient to meet the shortage created by the three natural calamities.
- iv. The government has shown unforgivable lethargy in decision-making regarding building up a satisfactory buffer stock of food grain right after the two floods and the cyclone. Unbelievably, only 138,000 tons of food grain could be imported by the Government in the first eight months of the current fiscal year (2007-2008)! Even, the decision-makers showed mysterious attitude regarding import of food grain through government channels offered by India. The resulting delay of five months has aggravated the present crisis through the traders' speculative frenzy and reckless profiteering. Bangladesh has to pay much higher price for the Indian food grain because of this unexplainable delay. (The first 100,000 tons of rice could be bought at \$399 per ton, but the rest 400,000 tons are priced at \$430 per ton because of the depreciation of Taka vis-à-vis Indian rupee in the intervening period, costing us an extra Tk.850 million!)
- v. The advisors and top bureaucrats as well as the top Army persone offered different explanations and versions about the food situation which created lot of confusion and panic in the market. This severe lack of co-ordination and chain of command has been making the market more volatile and speculation-prone.

- vi. The alternative channels of public food distribution have been systematically abolished or made dysfunctional during the last two decades by following the dictates of the donor big brothers and the votaries of unbridled 'open market economy'. The Trading Corporation of Bangladesh (TCB) has been weakened beyond repair and revival. The rationing system has been narrowed down to a few target groups like the armed forces and the police, BDR, Ansar and the VDF. Therefore, the Government does not presently have effective mechanisms to counter the unfair trading practices of the 'syndicates' and profiteers in the food market. This severe weakening of the Government's regulatory power over the monopoly powers and oligopolistic collusions of a few big importers will continue to create crises after crises in the markets for different food items and necessities of life at regular intervals.
- vii. The virtual stagnation in the fields of private investment and the severe curtailment of development works under the Annual Development Plan (ADP) have been instrumental in depriving the marginal and vulnerable groups of the society from adequate purchasing power for the last one year. (Only 23 per cent of the ADP could be implemented in the first eight months of the current fiscal year!) This is creating the so-called 'silent famine' or 'hidden hunger' syndromes in many areas of rural Bangladesh, which are accentuating the price spiral, thereby creating a panicky situation in the market.

#### 4. What should be done to ensure food security?

##### A. The Immediate Context:

- i. The Government has to go on a war footing to build up food grain buffer stock of at least two million tons within the next three months with both internal procurement of Boro rice and wheat and a massive import drive in spite of escalating international prices. There should be an extra mobilization in the next budget to fund such massive efforts with suitable policy adjustments. The required warehouses for storing the buffer stock should be built up as a crash programme.
- ii. The Government should seriously re-think about the wisdom of abolishing the rationing system and virtually winding down the public food distribution system (PFDS) through various channels. Though it will be unwise to go back to the old

rationing system, which became synonymous with black marketing and wholesale corruption, some form of very selective targeting of subsidized food items to low-income groups like garments workers, class IV employees, day labourers, agricultural workers known as *khetmazurs*, construction workers, etc. is the need of the hour.

- iii. The Government may look into the issue of providing subsidized food items as a means of increasing emoluments of fixed and low income groups of employees of government, semi-government, autonomous and semi-autonomous organisations instead of giving monetary benefits like dearness allowances.
- iv. The Government mechanisms for importing of food items should be re-invigorated to strengthen alternative channels of food import as a countervailing strategy to face market machinations of profiteering traders.
- v. The Government must embark on a massive drive to ensure renewed interest of farmers to grow more of Aus crop during the immediate next rice season. Regular supply of subsidized fertilizer, pesticides and seeds and cash incentives for irrigation should be considered.
- vi. The Government should initiate a vigorous media campaign to motivate people to diversify food habits in order to gradually lessen our over-dependence on rice intake in the daily diets.

#### **B. The More Fundamental Issues**

- i. The Government should place the utmost priority to sincerely implement the 1984 Land Reforms Act regarding redistribution of *khas land* to the landless people, the *tebhaga system* of *sharecropping*, agricultural wages, distribution of *char land* and *shikasti and payasti land*, etc;
- ii. **The Government should give serious thinking regarding the issue of agrarian reforms in crucial issues like agricultural marketing, absentee landownership, agricultural credit, local governments' role in agriculture, input subsidy distribution, employment guarantee schemes, land banks cattle banks, etc.** We have a lot to learn from our neighbouring

state of West Bengal and the state of Kerala in India in these dimensions.

- iii. **The Government must strengthen its regulatory system for monitoring and deterring the unfair trading practices of ‘syndicates’, cartels and oligopolistic colluders in the import trade in particular and trading in general.**
- iv. The Government should incorporate the serious issue of rapid environmental degradation and the resulting climatic adversities, which will definitely affect our agriculture and food production in particular and the lives and livelihood of the people in general in the near future. A vigorous media campaign should be launched to conscientise the common people about the impending crisis of environmental disasters that will afflict Bangladesh much more frequently because of global warming (Green House effect), rising sea levels, floods, cyclones, draughts, salinity, water logging, etc.