

# Turning Point

**Bank Job Aid**

**Focus Writing Module - 4**



**Presented by**

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**Turning Point Job Aid**

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**A Complete Preparatory Package for Bank Job Written Part**

## Session Content

1. What are the causes of rising inflation?
2. How price hike caused sufferings for the middle and lower income people?
3. What are the economic impacts of inflation?
4. What are the steps govt. has taken to lessen inflationary pressure?

### Data Supplement for Realizing Inflation Trend

#### Consumer Price Index 2010 – 2023

2010 -11	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20	2020 -21	2021 -22	2022 -23*
10.92	8.69	6.78	7.35	6.41	5.92	5.44	5.78	5.48	5.65	5.56	6.15	9.02

**2005-06 to 2021-22** : base year was 2005-06

**2022-23 and onwards** : base year 2021-22

#### General Inflation (%)

2020- 21	2021- 22	2022- 23*	May 2022	June 2022	July 2022	May 2023	June 2023	July 2023	Sep 2023	Oct 2023
5.56	6.15	9.02	7.42	7.56	7.48	9.94	9.74	9.69	9.63	9.93

\* Base Year 2021-22

**Consumer Price Index (CPI):** The Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time. Two independent sets of commodities (goods & services) are used to compute CPIs for rural and urban areas. The rural basket covers 318 items while the urban basket consists of 422 commodities. The national CPI is calculated by combining the urban and rural indices using weight factors.

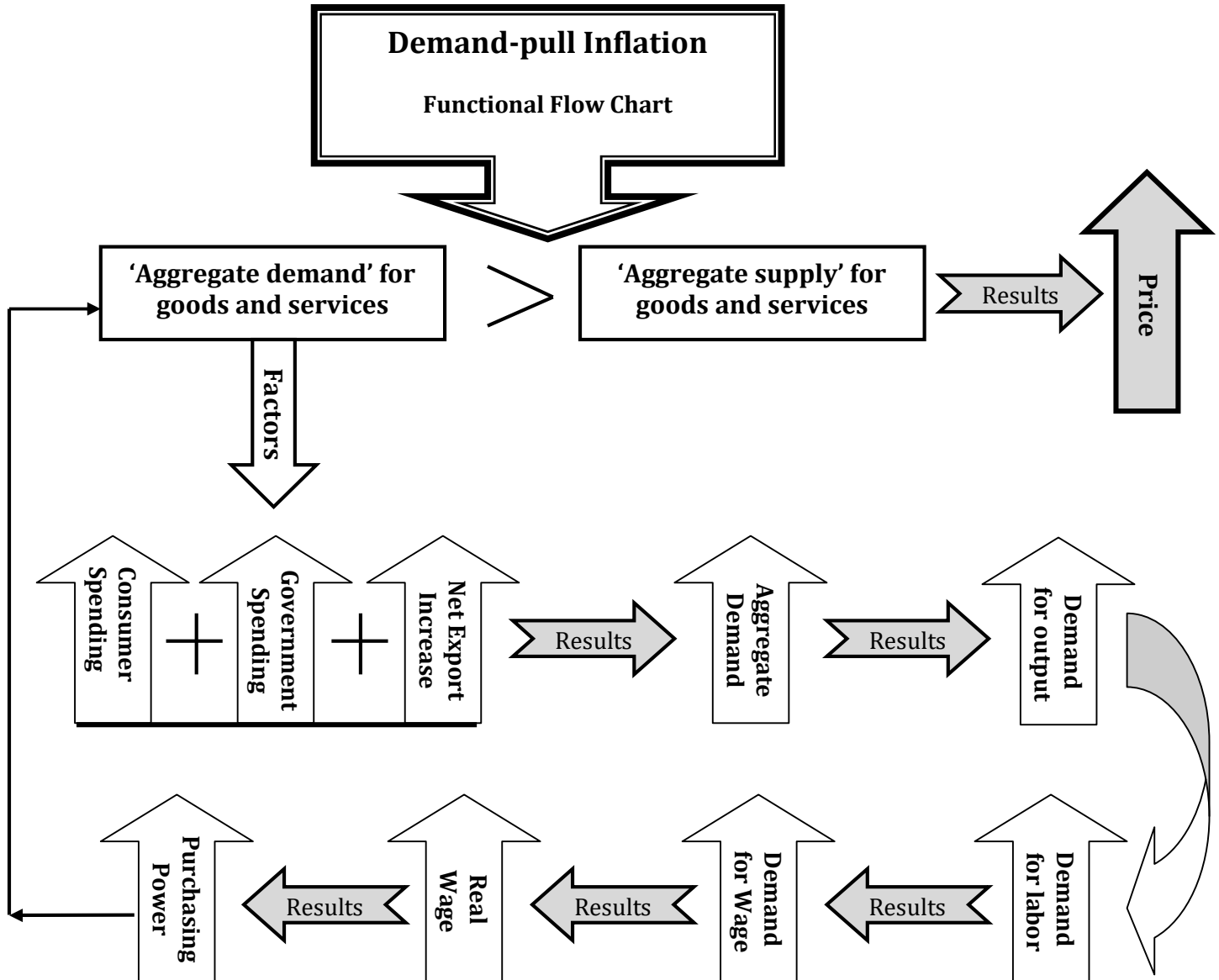
**Deflation:** Deflation is the general decline of the price level of goods and services, typically associated with a contraction in the supply of money and credit.

**Hyperinflation:** Rapid and unrestrained price increase in an economy, typically exceeding 50% each month over time is known as hyperinflation. It is caused by extremely rapid growth of money supply, especially by excessive amount of money printing.

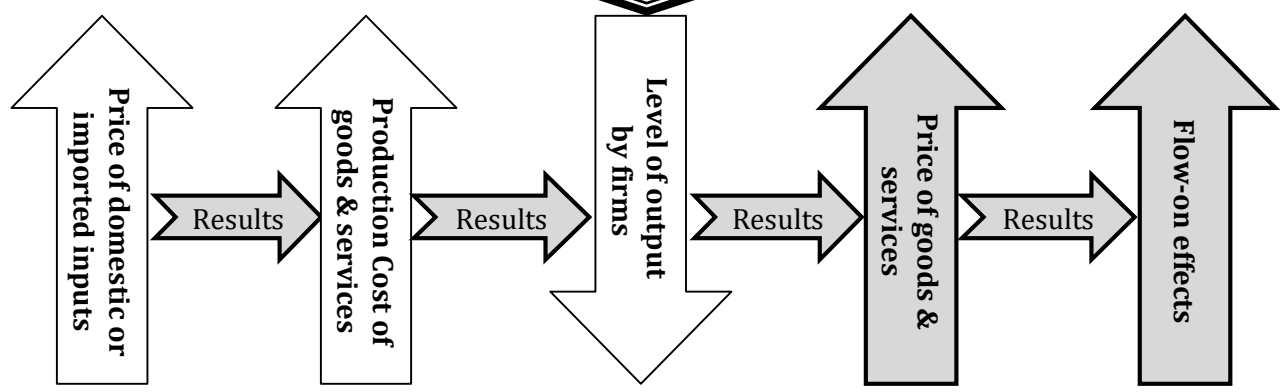
## Causes of Rising Inflation

The main causes of inflation can be grouped into four broad categories:

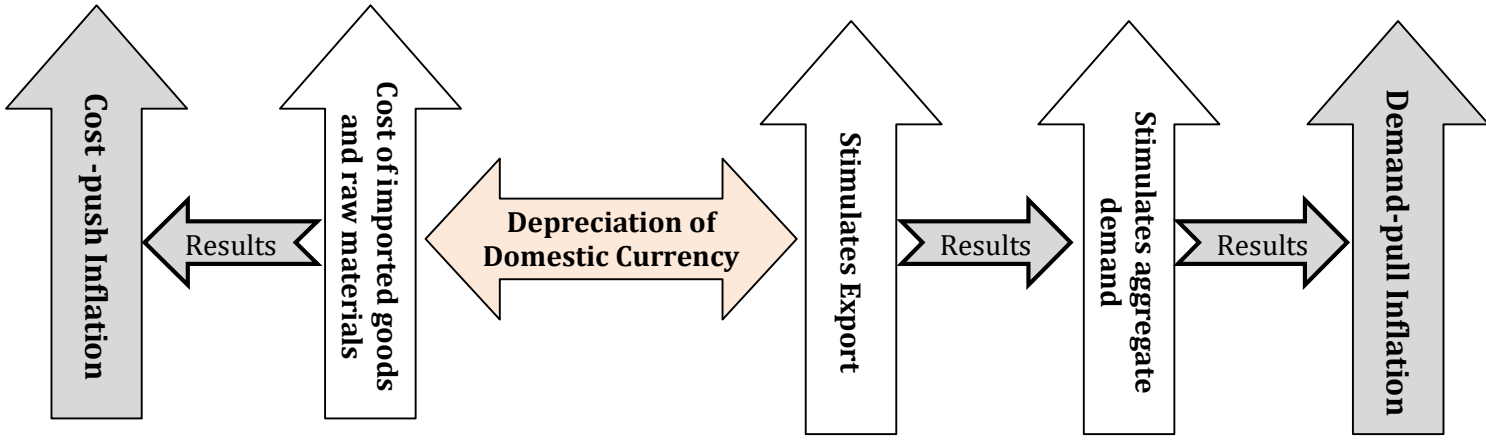
1. Demand-pull inflation,
2. Cost-push inflation,
3. Exchange rate pushed inflation and
4. Inflation expectations



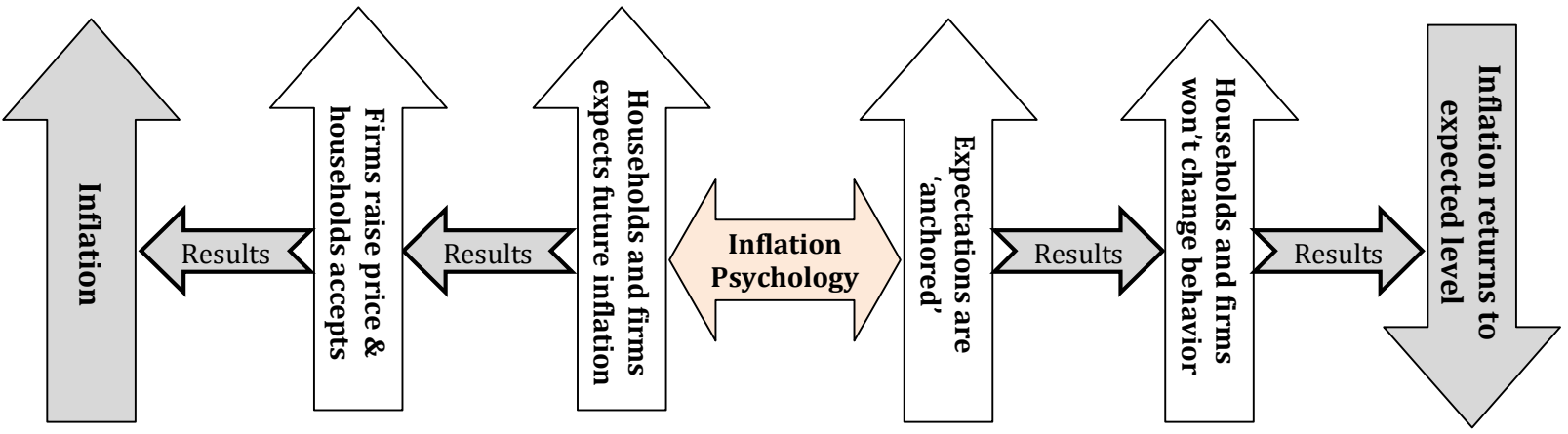
### Cost-push Inflation Functional Flow Chart



### Exchange Rate Pushed Inflation



### Inflation Expectations



## **Causes of Rising Inflation**

Former US President Ronald Reagan very perfectly uttered on inflation, *'Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man'*. The highest rate (9.93% in Oct, 2023) of inflation in last 12 years is showing its frightening violence in consumer market from mid 2022 and hitting the lower income people to the hardest. A number of global and local circumstances fuelled the situation getting worst, like as:

- Initial blow came from the exchange rate disruption in 2022, devaluing local currency significantly, making importation costlier and intriguing cost-push inflation to a large extent. Costlier imported petroleum products and raw materials pushed the production cost up and fuelled inflationary pressure.
- Sky-rocketing exchange rate and consequently rising importation cost resulted in less importation and fuelled demand pull inflation as well. Price of imported food items and daily necessities reached to a level out of reach for the low income people.
- Monetary transmission mechanism by the central bank did not come into effect while they increased repo rate keeping the commercial bank's interest rate in cap. Central Bank couldn't use interest rate, the sharpest tools of inflation control and thus the inflation rate is showing its turbulence.
- The steps taken for revenue mobilization is also inflationary as indirect tax such as custom duty, VAT, supplementary duty on various commodities have been increased in budget for FY 2023-24.
- The government taking loans from the central bank is equivalent to directly injecting money into the economy. Government is used to take loan from Bangladesh Bank to meet up budget deficit. So, instead of doing what needed to be done in terms of monetary policy, we did the exact opposite and let inflation roaring loudly.
- Government took various austerity measures to stabilize the inflationary pressure. However, 5% salary increase for the government employees, inflating car loan, initiating various refinance schemes ultimately increased money flow and made the pressure severe.

## **Inflationary Sufferings for the Middle and Lower Income People**

Former US President Ronald Reagan very perfectly uttered on inflation, *'Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man'*. The highest rate (9.93% in Oct, 2023) of inflation in last 12 years is showing its frightening violence in consumer market from mid 2022 and hitting the middle and lower income people to the hardest. Major sufferings are:

- Inflation reduces real income and mounting inflation reduced the middle and lower income people's purchasing power significantly. People are getting poorer to tackle the current blow of unbearable inflation.
- Inflation reduces the purchasing power of money, disproportionately affecting the fixed-income earning groups and poorer segment of the population, creates uncertainty, distorts price signal, exacerbates income inequality, undermines confidence, contributes to financial instability, affects international competitiveness, and can lead to a wage-price spiral.
- Inflation eroding the savings base of middle and lower income people. To maintain the daily necessary requirements, people are liquating their savings and ultimately getting poorer.
- Inflationary pressure bounds people to compromise with their basic needs; they are compromising with food and nutritional intake, minimum health services and other life leading requirements which finally affect the public health and nutrition significantly.
- Rising inflation agitates general public and turn to public unrest if not addressed timely. The middle and lower income people may furiously response against the ruling regime and cause disorder.

Inflation depletes savings, impedes planning, outstrips real wages and discourages investment. Slow growth and inflation have a tendency to accompany large deficits and increasing debt. Production is the only answer to the question against inflation that may lead to come out from this vicious cycle.

## **Economic Impacts of Inflation**

**Debilitate Consumer's Purchasing Power:** In an inflationary environment, unbearable rising prices inevitably reduce the purchasing power of some consumers, and this erosion of real income is the single biggest cost of inflation. Inflation can also distort purchasing power over time for recipients and payers of fixed interest rates.

**Impairing Growth:** When prices are high, consumers delay making purchases if they can, anticipating lower prices in the future. For the economy this means less demand, less economic activity and production, less income generated by producers, and lower economic growth.

**Speculative Investment:** In time of rising inflation, speculation on a pool of products may encourage speculative investment, unethical hoarding of goods or raw materials that leads to raise the price artificially.

**Higher Profits:** Inflation benefits the producers of essential products; especially food and spices, medical and life saving items and offers big return against investment for the shareholders. This encourages the benefited producers to produce more and thus the demand supply gap narrows over time and price falls.

**More Employment and Better Income:** When production increases, there is an increased demand for the various factors of production, especially manpower. Therefore, employment and their income increase during inflation.

**Benefits to Borrowers:** During inflation, the purchasing power of money decreases. Therefore, if the borrower is paying a rate of interest which is less than the inflation rate, then he gains in the process. This is because the real value of the money that the borrower returns is actually less than that of the money borrowed.

**Lenders face Losses:** Since borrowers benefit from inflation, lenders stand a chance of losing during such periods. This is because they receive an amount having lower purchasing power than the amount loaned.

## **Steps taken for addressing rising inflation**

Unbearable inflationary pressure has got the prime concern of the political leadership, regulators, businessmen and general consumers as well. A number of measures have been taken to abate the pressure though there is little to be satisfied as the pressure hasn't been released yet. Major steps taken so far are:

- **Monetary Policy Stance:** The latest monetary policy issued by the Central Bank is a contractionary one aiming to make investment costlier and thus reducing money supply. This stance will compromise with growth expectation in current FY and lessen inflationary pressure.
- **Raising Interest Rate:** Bangladesh Bank has also raised the repo rate from 6.50 percent to 7.25 percent and withdrawn the lending cap that will make the money costlier and reduce money supply in turn.
- **Exchange Rate Stabilization:** Bangladesh Bank sold \$15 billion from reserve to lessen the rising exchange rate and restore stability in foreign exchange market. Stable exchange rate is expected to bring discipline in international business and thus soothing furious inflation rate. Moreover, BB has increased monitoring to prevent over and under-invoicing, along with implementing other measures to reduce exchange rate pressure.
- **Supply Side Intervention:** Bangladesh Bank has implemented effective supply-side interventions and undertaken various steps to stimulate employment and investment opportunities while ensuring a sufficient flow of funds to productive sectors aiming to boost aggregate supply and reducing supply – demand gap.
- **Demand Side Intervention:** Government has taken initiatives against the syndicates who are creating bottlenecks in supply chain artificially which will stabilize the demand side simultaneously. Steps against hoarding of necessary goods and price monitoring mechanism will bring public confidence and thus will reduce extra purchasing tendency of the consumers.