Bangladesh's Economic Landscape: The Role of Inflation

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ABSTRACT

This paper investigates the root causes of inflation in Bangladesh using a systematic literature review (SLR) methodology. Internal factors, such as excessive money supply and government spending, are analysed alongside external influences like global production costs and rising commodity prices. The study assesses how inflation impacts various sectors, including households, businesses, and government fiscal policies. Particular attention is given to how inflation exacerbates poverty among low-income families while higher-income groups adjust their investment strategies. The primary findings highlight the need for action based solutions like enhanced monetary policies, supply chain improvements, and targeted subsidies to mitigate inflation. These strategies will benefit policymakers and researchers seeking to stabilize Bangladesh's economy and safeguard vulnerable populations.

Keywords: Inflation, Bangladesh, Monetary, Policymaker, Poverty, Fiscal, Economy.

INTRODUCTION

Inflation is a pervasive economic phenomenon that impacts the purchasing power of money, the cost of living, and overall economic stability. In recent decades, Bangladesh has experienced significant economic growth and transformation. Despite this progress, inflation remains a persistent challenge. Historically, the country has maintained an average inflation rate of around 6.2%, which is notably higher than the average for the Asia-Pacific region (World Bank, 2024). However, recent data indicates a concerning surge in inflation rates, reaching 7.7% in 2022 and projected to escalate to 9.6% for the fiscal year 2023-24 (Bangladesh Bureau of Statistics, 2024). This upward trend, often referred to in local media as the "burning taka" phenomenon (Rahman, 2023), underscores the urgent need for a comprehensive analysis of its underlying causes, consequences, and potential solutions.

PROBLEM BACKGROUND

In Gazipur, Abdul Halim, 32, reportedly took his own life after strangling his mentally challenged 8-year-old son, Noman, due to frustration over financial struggles. Both were found in their rented flat, where Halim lived with his family. In another tragic incident in Madaripur, Akbar Ali Sarder, a 33-year-old day labourer, committed suicide after years of unemployment, leaving behind a wife and three children. Both incidents highlight the devastating impact of economic hardship on mental health (DhakaTribune, 2024).

Inflation in Bangladesh remains a critical issue, impacting both economic stability and the livelihoods of millions. Over the past decade, inflation has surged due to volatile global markets, rising energy costs, and persistent supply chain disruptions, exacerbated by the COVID-19 pandemic. By mid-2024, food inflation reached alarming levels, disproportionately affecting lower-income households (Bangladesh Bureau of Statistics, 2024). Inflation erodes purchasing power and deepens inequality, particularly for the poor, who spend the majority of their income

on essentials like food and fuel (World Bank, 2024). If left unchecked, inflation poses significant risks to economic growth, job creation, and poverty reduction. Therefore, it is crucial to investigate its root causes, assess its socio-economic impacts, and explore policy solutions to stabilize prices and protect vulnerable groups.

Related Studies

Several studies have examined inflation in Bangladesh. Islam et al. (2022) discuss major macroeconomic determinants of inflation using an ARDL bound test approach. Hossain (2015) explores the relationship between inflation volatility, economic growth, and monetary policy. Hossain and Mujeri (2020) investigate the impacts of inflation on household welfare. Raihan et al. (2023) analyze the effects of inflation on the livelihoods of poor households based on a nationwide survey.

Research Objectives

This study investigated the root causes of inflation in Bangladesh, focusing on internal factors such as excessive money supply and government spending, as well as external factors like global production costs and rising commodity prices. The impact of inflation on households, businesses, and government spending was assessed, with particular attention to how low-income families were disproportionately affected in meeting basic needs, while higher-income groups adapted their investment strategies. Lastly, the importance of solutions, including improving supply chains, boosting local production, and providing targeted subsidies, was emphasized. It was concluded that immediate action is required to implement these strategies effectively to control inflation and safeguard vulnerable populations.

The research questions are:

- What are the main drivers of inflation in Bangladesh, and how have their relative impacts changed over time?
- How does inflation affect different sectors of the Bangladeshi economy?
- What strategies can be implemented to mitigate inflation in Bangladesh?

Research Contribution

This analysis of Bangladeshi inflation enhances knowledge for researchers, economists, policymakers, and especially administrative servants and academics. It offers strategies for improving economic stability through targeted monetary policies, boosting agricultural productivity, and reducing import dependence, aiming to help policymakers implement more effective inflation control measures. The study also lays a foundation for future research on inflation in developing economies, encouraging youth involvement in finding innovative solutions. It reviews current data on Bangladesh and other developing nations, outlines the research methodology, and presents findings with recommendations for policymakers and future research.

Methodology

The systematic literature review (SLR) was chosen for this research due to its comprehensive, evidence-based approach (Liberati et al., 2009). SLR synthesizes findings from peer-reviewed studies, offering a thorough understanding of factors influencing inflation in Bangladesh (Moher et al., 2015). It relies on high-quality data and follows established guidelines like PRISMA, which enhances study credibility and objectivity (Page et al., 2021). This method not only identifies research gaps but also informs future theory and policy development (Liberati et al., 2009; Moher et al., 2015).
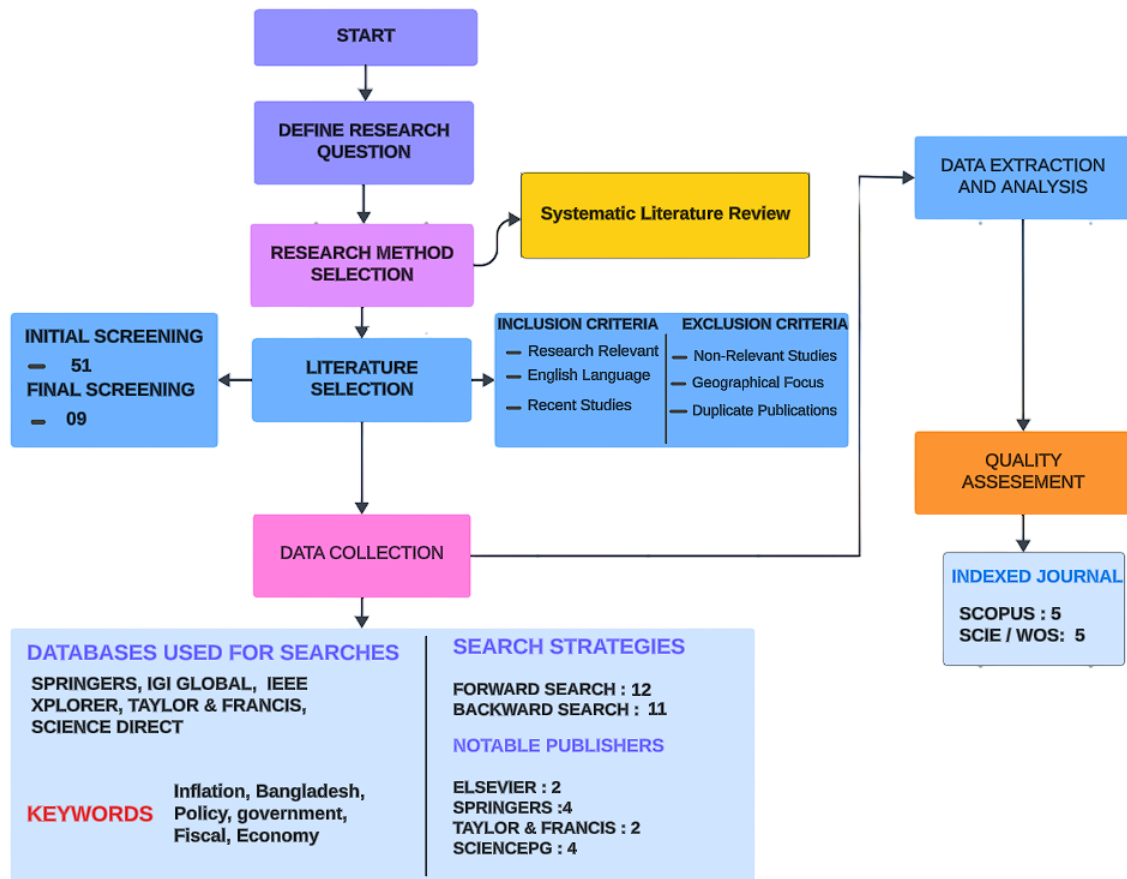
Fig. 1: Methodology Flowchart

Data Collection

The literature was gathered from academic databases such as IEEE Xplore(0), Springer (5 papers), ScienceDirect or Elsevier (3 papers), IGI Global(0), Taylor & Francis (2 papers) etc. These databases were chosen for their extensive collections of peer-reviewed articles and reports in economics, policy studies, and related disciplines, which are essential for examining the dynamics of inflation in Bangladesh. The inclusion of these databases ensures a comprehensive analysis grounded in high-quality academic research.

Search Strategies

The search strategy used Boolean logic with keywords like "Inflation," "Bangladesh," "Policy," "Government," "Fiscal," and "Economy," applying AND/OR operators to titles for focused results. Forward and backward search techniques yielded 12 articles and 11 key references, considering only publications from the last decade. Author citation indexing was avoided to prioritize relevance over citation frequency for recent and context-specific studies.

Inclusion Criteria:
- The selected articles needed to directly address the research questions of the study.
- Only published in English language and most updated versions of the research.

Exclusion Criteria:
- Studies lacking a specific focus on either the research question or Bangladesh were not included.
- If there is multiple publications for same research topic by the same research group.

Data extraction and Quality Assessment

The quality of the selected literature was evaluated based on journal impact factors, and cross-referencing with similar SLRs. Studies were from reputable publishers such as Luminous Insights, Elite Hall Publishing, Springer, Elsevier, Taylor & Francis, Wiley-Blackwell, and Science Publishing Group, ensuring credibility.

- **Scopus: 5 papers**
- **Web of Science / SCIE: 5 papers**

Result & Analysis

Research Data

TABLE 1: Research Data and Analysis Table.

Authors	Biswas, G. K et al. (2023), Islam, R et al. (2022), Hossain, A. A et al. (2015)
RQ1	What are the main drivers of inflation in Bangladesh, and how have their relative impacts changed over time?

Monetary factors: Initially, the money supply played a significant role in driving inflation, but its impact has diminished over time.
Cost-push factors: Rising oil prices, exchange rate fluctuations, food prices, and import costs contribute to increased inflation.
External shocks: Global price volatility, particularly in oil and food, has become more influential in recent years.
Shift in drivers: While domestic factors like the money supply were key in earlier periods, global price fluctuations now play a stronger role in inflation.

Authors	Hossain, M et al. (2020), Shapan, C. M et al. (2016), Raihan, S et al. (2023)
RQ2	How does inflation affect different sectors of the Bangladeshi economy?

Disproportionate impact on vulnerable sectors: Inflation heavily affects agriculture and low-income households.
Key affected sectors: Food, energy, and housing are particularly impacted, leading to reduced access to essential goods.
Impact on poor households: Rising inflation limits access to necessities, especially for low-income groups.
Rice price inflation: Increases in rice prices exacerbate poverty and further reduce economic access to food for vulnerable populations.

Authors	Islam, M. S et al. (2024), Ahmed, S et al. (2023), Noman, N. B et al. (2024)
RQ3	What strategies can be implemented to mitigate inflation in Bangladesh?

Enhance monetary policies to manage inflation.
Stabilize exchange rates to reduce volatility.
Control money supply to limit inflation.
Improve agricultural productivity to stabilize food prices.
Manage fiscal policies to reduce inflationary pressures.
Pursue structural reforms to reduce import dependence and improve efficiency.

Analysis
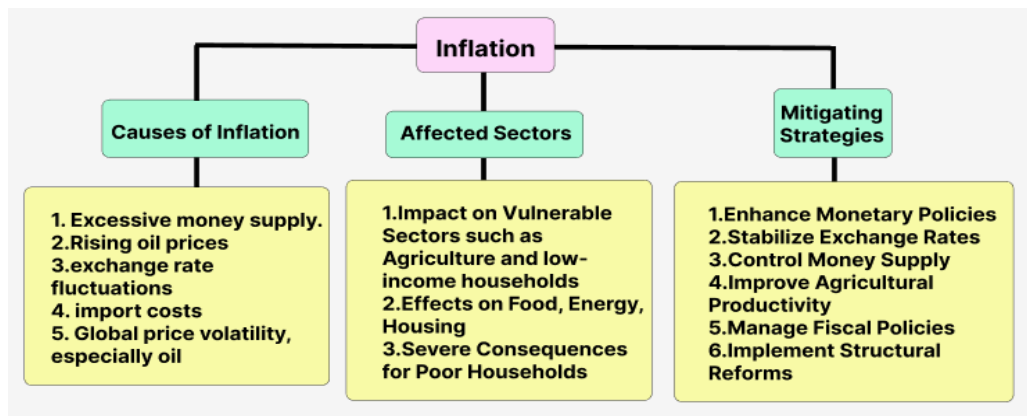
Validation

A Systematic Literature Review (SLR) approach was used to ensure a rigorous and comprehensive analysis of factors influencing inflation. Data were meticulously selected from well-known publishers' journals to uphold the credibility of the findings. A novel, action-based solution is presented, focusing on stabilizing inflation through targeted monetary policies, enhancing agricultural productivity, and implementing structural reforms to reduce import dependence. Public awareness is emphasized as a key component, deemed crucial for fostering collective responsibility and long-term commitment to sustainable economic policies. Immediate intervention is regarded as essential to prevent continued economic strain on vulnerable populations, particularly low-income households.

Conclusion

In conclusion, the purpose of this study was to examine how inflation affects Bangladesh's economy, specifically how it affects consumer purchasing power, economic growth, and the creation of policies. A systematic literature review was conducted, examining a range of studies on inflation trends, causes, and effects across various sectors. To do analysis, data were gathered from both historical and modern sources. Inflation rates were compared with economic indicators including GDP, unemployment, and income levels. There were significant inflationary pressures found, which were related to both domestic policy inefficiencies and global causes. However, gaps remain in understanding sector-specific impacts, particularly in agriculture and informal labour markets. Although valuable insights into inflationary dynamics were provided, the study was limited to secondary data, without primary empirical research.

Future studies could solve these constraints by performing field research, concentrating on regional inflation contradictions, and investigating long-term policy options. The effective implementation of inflation control measures within Bangladesh's economic framework would be further enhanced by such initiatives.

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