Oil price and its impact on Bangladesh economy

RESEARCH PAPER

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Abstract

This paper showcases the effect of oil pricing in Bangladesh's economy. Previously oil prices especially crude oil prices skyrocketed because of syndicates and high demand across the globe. Recently owing to electric vehicles and internal conflict between the syndicates, crude oil price dropped to such a level that a gallon of oil is now cheaper than water. However in Bangladeshi retrospect the result of this reduced price is hardly perceived as oil prices remain unchanged. This poses an alarming threat on Bangladeshi economy in a global context. While other Nations benefit from the reduced oil prices and are competing more aggressively against Bangladeshi products leveraging this cushion of arbitration of pricing. So the industrial sector, the transportation sector and energy sector bears the brunt from this price discrepancy. My study aims to effectively highlight the reasons for this price gap, strategies to overcome this problem and hopefully shed light on the impact of oil pricing on our economy in present and near future. I have used secondary data available from websites, interviews and articles online to gather data and used quantitative statistical tools to analyze according to the needs and scope of this report.

Introduction

The plunging price of crude oil is, perhaps the most shocking story around the globe. For the past decades, due to constantly increasing oil consumption in nations e.g. China, USA, Russia and conflicts arising in oil producing nations like Iraq, Kuwait and Syria, oil production had trouble coping with the pressing requirements, resulting in price hikes and spikes in trends. Only fairly recent times saw a paradigm shift in crude oil price. It was September 2014 when crude oil prices plummeted. It spelled disaster for OPEC and other oil-producing countries and their oil export based economies. But this was a blessing in disguise for oil importing nations like Bangladesh as prices have fallen to around $60 per barrel in January from $115 last June. What's astonishing is oil price in Bangladeshi markets still hasn't adjusted to this and remain unchanged. This begs everyone to think about the baffling question. Why is it so? Answering that question is my main focus in this study. I will also delve into the macroeconomic factors that is influenced from the oil pricing currently and try to explain the non-declining pricing strategy of oil in Bangladesh. I will do so by comparing the trends and data of global and domestic crude oil prices forecasted by World

Bank and my own research with BPC, I will further share my insight about fuel pricing and the role it could play on our economy in the near Future.

Literature review

Since the inception of the industrial period it was coal that powered the forges and machines of industry until the post-industrial era. Fairly recently the focus shifted to crude oil (petroleum, diesel, patrol, octane etc.). Machines we see around us today are powered by oil and petroleum however not every nation is an oil producing nation like Iraq, Saudi Arabia or Syria and as such rest of the Asian and the European countries that lacked oil as a national resource was dependent solely on the oil exporting countries and a number of industries around the world became dependent on the production of crude oil from the oil exporting countries.

The Oil exporting countries made alliances and they regulated the flow of import and the pricing through many organizations and syndicates such as OPEC (Oil Producing and Exporting Countries). However conflicts and other macro-economic factors affected the global economic scenario which ultimately resulted in an epic fall in the price of crude oil during the September of 2014 and is still on an all-time low rate. While this dawned an eclipse on the oil exporting and oil dependent economies and countries, it was a blessing for the oil importing countries including Bangladesh as they could now buy oil at a price cheaper than water. The oil importing countries used this opportunity to strengthen their economy by competing over globally exported products and consumer goods which came from an industry that depended on oil price.

However Bangladeshi economic scenario was as shocking as it can get as its' domestic oil price remain unchanged. The oil price is regulated by the corporation BPC (Bangladesh Petroleum Corporation) and it resulted in a monopoly over price and supply of oil in our country. When asked for the reason they replied they are keeping the price high as in the past they had given benefits to Bangladeshi citizens through subsidy and discounted oil price for which they incurred a huge loss. They are now using this opportunity to recollect their loss and create a further cushion for future events of subsidy if needed.

My independent study tells a different story to this theory which will be stated below and quantified using statistical tools and analysis. But the high price on petroleum is affecting our economy in an extremely negative way. For example the Industries that rely on petroleum such as the transportation industry, the power industry, the logistics and supply chain industry and ready-made garments industry suffer the brunt of this overpriced petroleum. This triggers a chain reaction that yields reduced global income and is hampering our foreign trade as we are losing our price competitiveness to other countries like Cambodia and Vietnam.

My study carefully aims at solving and possibly shedding some light recommendations that can pave the way to revamp our economy through a different strategy altogether.

Methods and Materials

My study is predominantly based on primary data and secondary data which was collected through interviews and one on one sessions with executives of BPC and its other stakeholders as well as online sources like research papers, journals, scholarly articles and other online sources. The analysis was done through excel and other tabular software and as time and resources were limited for this study I couldn’t focus on the holistic report which had many important facets that needed to be covered but however I elaborated and completed my primary objective in this study which is to find out the impact of oil pricing in Bangladesh economy.

Primary Objective

To focus on the supply and demand of oil in Bangladesh

Secondary Objective

- To show Institutions Responsible for Policy, Regulation, Supply and Management of the Oil Market in Bangladesh

- To overview Impacts of Oil Marketing, Pricing and Subsidies to show Strategy for Oil Pricing and Subsidy Reforms and Oil Market Deregulation in Bangladesh.

Rationale of the study

Bangladesh as an oil importing country was supposed to capitalize on the global lower prices of crude oil due to new project development, alternative sources and changing market scenario due to shift of consumption pattern and Global dynamics. This research work analyzes the price of crude oil worldwide and its apparent impact in Bangladesh perspective. The price of crude oil sold by Brent oil that primarily dictates global price for purchasing oil stooped to prices below per barrel to such extent that a gallon of oil costed less than a gallon of water. The present study aims to analyze the expected impact of this lower crude oil price and the actual impact on our country at present. This study also highlights the effect on domestic growth which comes from reduced oil price. In theory, the decreasing oil prices should lead to a higher level of consumer purchasing power and spending habit and hence add to real GDP. But such a scenario is still not seen after the continuous trend of reduced oil price persists. The rationale of my study will try to give a clear conceptual answer to this problem

Limitations

This research aims to answer the main objective and secondary objectives of this study while staying within the constraints of bounded rationality of limited resources and time. As I was not a part of the BPC, I was not privy to the details that were confidential to the executives that I interviewed. So some of the data given were a ballpark figure but that satisfied the main objective of this study. However the study interprets the objectives of our topic as articulately as possible and still has room for future improvements.

Analysis

Oil markets have encountered regular scenes of price hikes and falling trends, since the time oil was collected commercially and in huge quantities in Pennsylvania in 1859. Crude oil costs (WTI in 2015 US dollar) have fluctuated as high as of $145 to as low as $15 per barrel over the period 1946. The control of oil markets by the primary global oil organizations, the purported Seven Sisters, sponsored by the UK and U.S. governments, implied low and generally consistent oil costs until the last part of the 1960s. Nonetheless, a new era dawned with the establishment of OPEC in 1960, the 1968 coup de at in Libya which prompted new arrangements at first with the autonomous oil organizations and afterward with the Seven Sisters over all significant oil makers in the Middle East and globally, also the beginning of a descending pattern in U.S. oil creation in 1971. Accordingly, oil markets entered another stage as the Seven Sisters lost control to business sectors and oil makers, oil costs quadrupled, introducing a time of high oil value unpredictability and continuous times of highs and lows frequently set off by military and political factors. US Energy Information Administration (EIA). Starting from 1986 there have been six scenes of sharp decrease in crude oil price (30% or more in every scene), in a generally brief timeframe (in between seven months), and with moderately enormous impacts on the worldwide economy

Following four years of relative steadiness at around $105 per barrel, oil costs have declined forcefully since June 2014 and are required to stay low for an impressive timeframe. The drop in costs probably denotes the finish of the ware super cycle that started in the 2000s. Since the past scenes of such stark decreases matched with generous variances in movement and expansion, the causes and outcomes of and strategy reactions to the ongoing dive in oil costs have prompted escalated debates.

The sheer unpredictability because of absence of interest could again prompt a radical fall in worldwide unrefined petroleum costs. The market demand for the product is so low right now that oil-creating nations are running out space to store petroleum and may need to take a gander at further cuts if request viewpoint doesn't improve. Oil costs have fallen by the greater part during the previous month as organizations cut back or close creation expansion to the drop sought after, a value war broke out recently between Saudi Arabia and Russia. The chart indicating the cost of oil from January 2012 – April 2017 gives testament to this fall.

Fig. Oil prices over the last few years

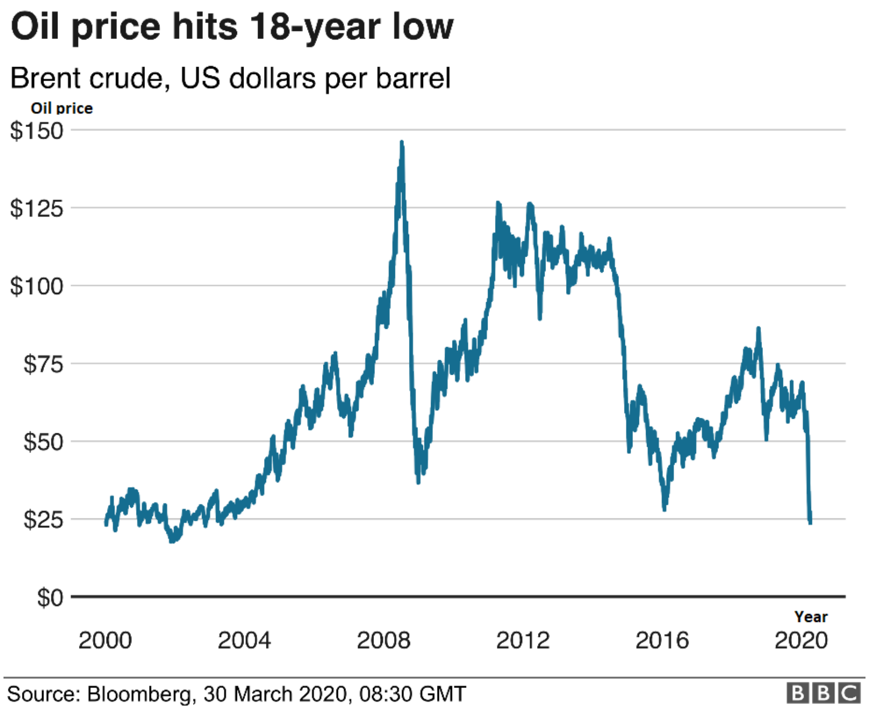


Fig. Oil prices over the last ten years

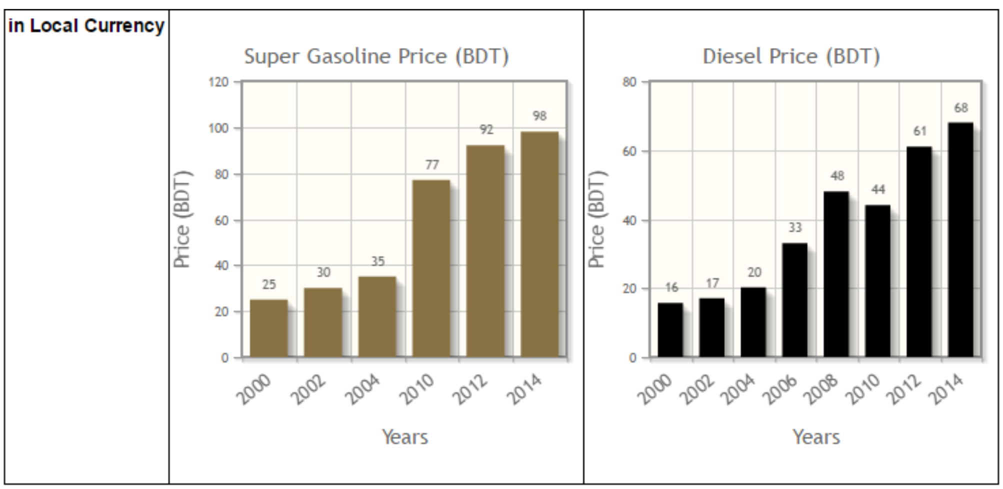
Reasons for Declining Oil Price:

1. Low Demand due to weak economic activity in oil consuming countries and a budding shift from oil to other fuels resulted in price fall.
2. Boom in unconventional oil production like fracking and horizontal drilling to extract oil from shale formations led to lower level of import and a decline in global price.
3. Steady Supply from fringe players like Iraq and Libya combined with the sharp reduction of America's oil imports swelled the supply and reduced oil price.
4. Big players like Saudi Arabia (the world's second largest crude oil producer), along with other OPEC countries who have $900 billion in foreign-exchange reserves is capable of absorbing the effects of the low oil prices in the short term. So keeping its production rate unchanged and holding to its existing high market-share seems to be a safer alternative to Saudi Arabia. Thus the global price is plummeting.
5. The most important of all, the complete collapse of Big Oil's production-maximizing business model.

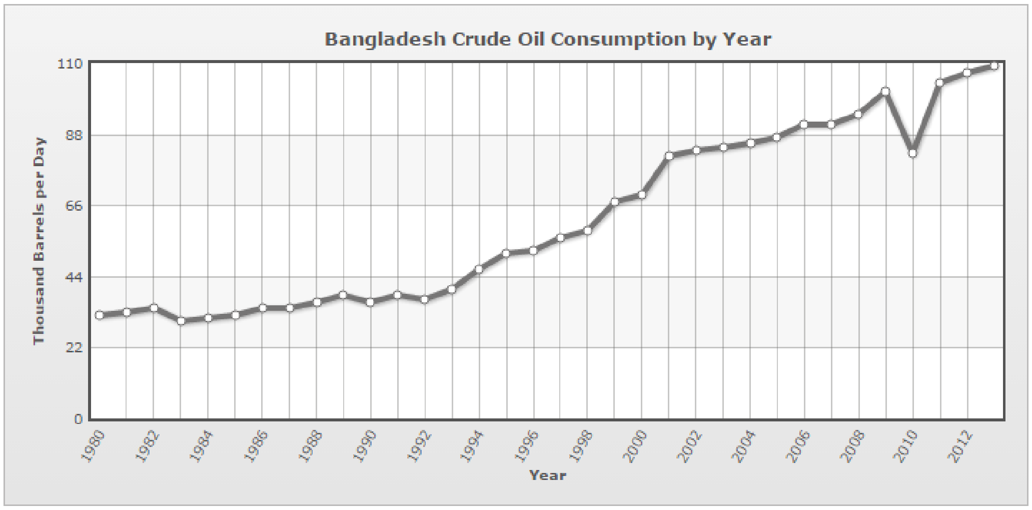
As an oil importing country Bangladesh government has full control over oil production, imports and domestic oil distribution. Prices are heavily regulated and controlled by the Government. The Bangladesh Petroleum Act 1974 vested all legal authority to the government in the area of petroleum. Though recent years have seen some form of deregulation that has allowed private sector involvement in the oil sector. The larger part of the imports, production and supply of petroleum products throughout the country is mainly controlled by Bangladesh Petroleum Corporation (BPC) with the involvement of publicly owned Eastern Refinery Limited (ERL) and public distribution companies in the supply chain.

Historically, domestic oil prices are set by the government in consultation with the BPC. As international oil price shocks happened, it became increasingly difficult for the government to pass on the cost increases to the consumers. This resulted in a growing gap between the average cost of oil products and the retail level price to the consumers. Commensurately, the subsidy bill of the government soared.

Though global price of oil reduced substantially after 2014, the oil price in Bangladesh set by BPC is significantly higher than the buying price of BPC. When confronted about it BPC replied that they are compensating for the 40Billion Dollar deficit in the past. According to anonymous whistleblowers the consumption rate of oil has increased due to industrialization and increasing number of transports in the recent years and from their Intel we gathered that BPC is already profiting from the sales of oil and has recovered the loss in the past already. This could be BPC's decision to keep reserve for future subsidy of oil if ever needed. The trend of oil prices shown below depicts the rising price of crude oil in Bangladesh and the rising consumption rate.

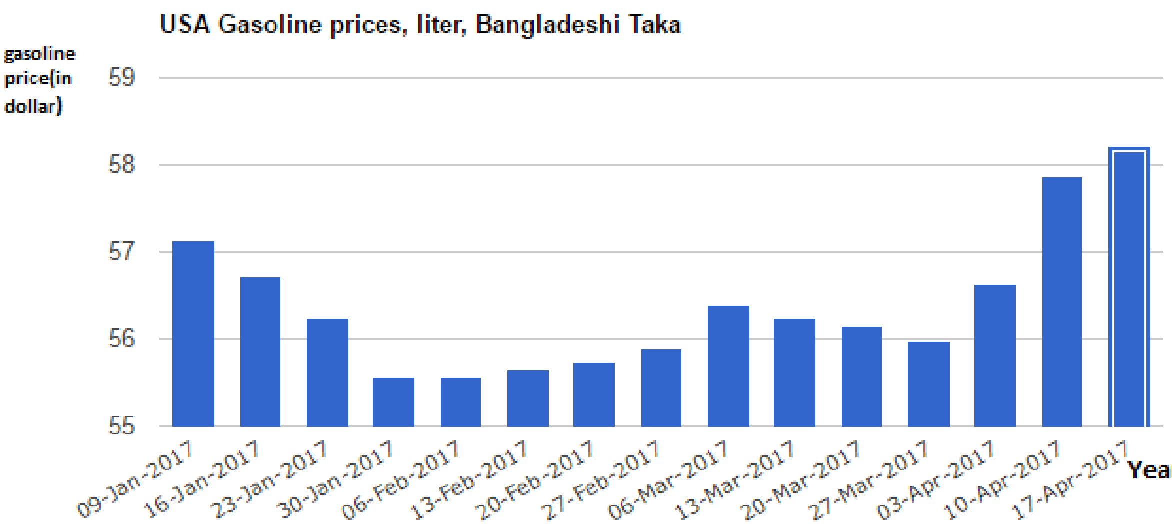


Growth Rate



Source: United States Energy Information Administration

According to source there was a subsidy of 33.44 taka per liter of diesel (~43% of total costs) and 8.2 taka per liter of gasoline (~10% of total costs) in the years Govt. gave official subsidy. But now BPC is selling the motor oil they bought at 59tk at 98tk & diesel they bought for 33tk at 68tk. So a huge level of profit is being generated each year since the fall of oil price.

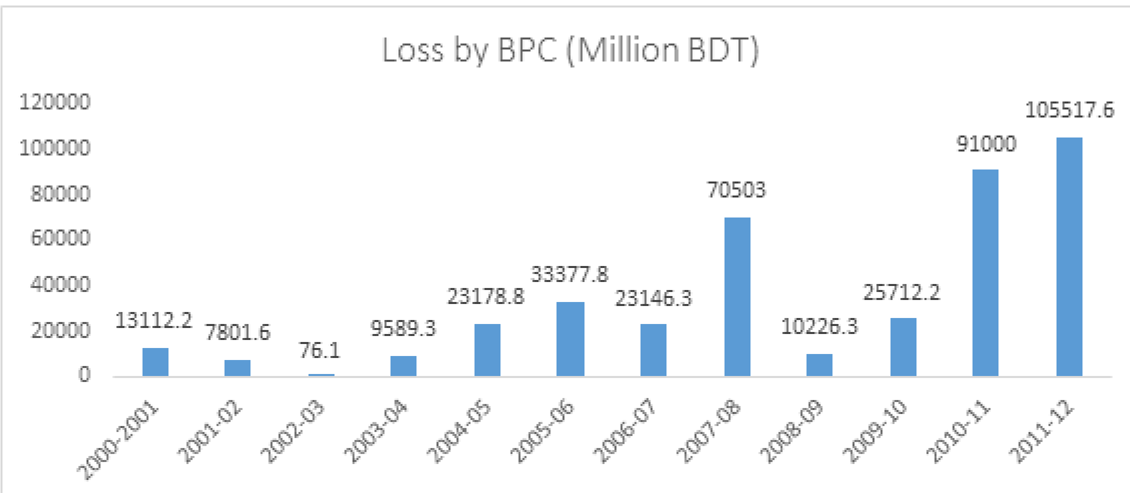


<u>Impact on global economies:</u>

Russia, a country that's a top oil exporter and maker, stood to lose about $2bn in incomes for each dollar decrease in the crude oil price, and Russian economy took the hit by shrinking by at least 0.7% in 2015 .Venezuela was left with a comparable issue. Saudi Arabia, then again, regardless of requiring crude oil prices to be around $85 in the more extended term to earn back the original investment withstand brought down costs temporarily. Diving oil costs assisted with lifting rising Asia's GDP development to 4.7% from 4.3% in 2014. This arbitration of price offer an interesting opportunity to capitalize on. Nations like India and Indonesia can now spend on much-required infrastructure and development ventures without increasing inflation. Additionally, China, which burned through $234.4 billion on oil import in 2013, encountered a significant lift to its melting away economy-a 30% fall in oil costs lifted its GDP by about 1% in 2014. Indeed, every dollar drop in oil costs assisted with diminishing the administration's weight of appropriation installments by $1 billion.

Possible Impact on Bangladesh Economy:

Facing Cash crisis of BPC: From 1999, Bangladesh Petroleum Corporation (BPC) has been incurring losses every financial year. It has current outstanding debts worth BDT 40 billion which had kept on increasing before the latest spate of oil price fall.



Source: BPC (2012)

However, this risk is progressively contracting since BPC is making a benefit against offer of all oil based goods because of the drop in global oil cost and no ensuing drop in homegrown cost. As oil costs keep on slipping in the global market, According to BPC Bangladesh could spare a faltering USD 1.5 to 2 billion or more this year, cash that is spent yearly to sponsor oil imports. In any case, our previously mentioned information says something else that over USD 3.5-5 Billion is being spared every year.

Low Storage Capacity: Bangladesh's yearly import of oil remains at around 5 million tons. In excess of 400,000 tons of oil show up in the port every month. Nonetheless, the capacity limit of the nation is just 913,000 tons for fulfilling need of just 1-2 months. So putting away oil for later utilize is unthinkable in current circumstance.

Investment openings: The reserve funds increased because of drop in oil cost fills in as an extraordinary open door for a newly developing nation like Bangladesh for putting resources into industries, for example, farming research, streets and new advancements. This could altogether profit the most unfortunate portions of the nation. Government may choose to decrease homegrown fuel costs lining up with worldwide market, which may yield the accompanying advantages for the economy. And yet the open door cost of keeping the oil cost higher than the worldwide market is negatively affecting the economy. As more exorbitant cost yields lower yield and thus income.

Transportation expenses and Inflation: Lowering homegrown oil cost can likewise have a constructive outcome on the Bangladesh economy in various manners. It would, for instance, lower fuel and transport costs. Likewise, retail power costs in the homegrown market would fall, at last assisting with diminishing expansion and hence lessen the average cost for basic items. The net impact would be an ascent in the general way of life. Contrasted with the higher expansion our economy is enduring at this point. Whenever used appropriately our nation might be able to increase twofold digit GDP.

Yet, as of this moment, Oil costs have not been decreased here regardless of fall in global market. BPC contends it needed to keep the costs same to make up past misfortunes. This could profit BPC as a corporation, yet affects the economy. As oil cost isn't being diminished for customers, by and large way of life is declining because of the decrease of purchasing power parity.

The oil pricing and endowment strategy has a few negative macroeconomic ramifications:

A. Fuel oil appropriations have prompted an exacerbating of the financial funds to be paid to bigger government consumptions on oil endowments and moves to BPC. A scope of antagonistic auxiliary macroeconomic impacts have come about because of the presence of an obliged spending circumstance. One such issue is the diminished capacity of the administration to meet prompt monetary needs to help higher development and human turn of events.

B. Energy sponsorships are additionally prone to have antagonistically influenced the parity of installments, since changes in costs of imports subject to the endowment influence exchange streams by means of cost and genuine swapping scale versatility. Most straightforwardly, oil appropriations lead to expanded homegrown interest for imported oil in this manner intensifying the exchange balance. Oil appropriations may likewise occupy utilization away from or toward different items, contingent upon their level of substitutability or complementarity. Furthermore, for oil bringing in nations like Bangladesh, where endowments are utilized to forestall retail costs from ascending as quickly as import costs of vitality, oil value climbs on the world market cause a prompt channel in the administration accounts and in worldwide unfamiliar trade holds, as occurred in 2008 during the worldwide food and oil value emergency (Ahmed, 2009 Ahmed and Jansen, 2010).

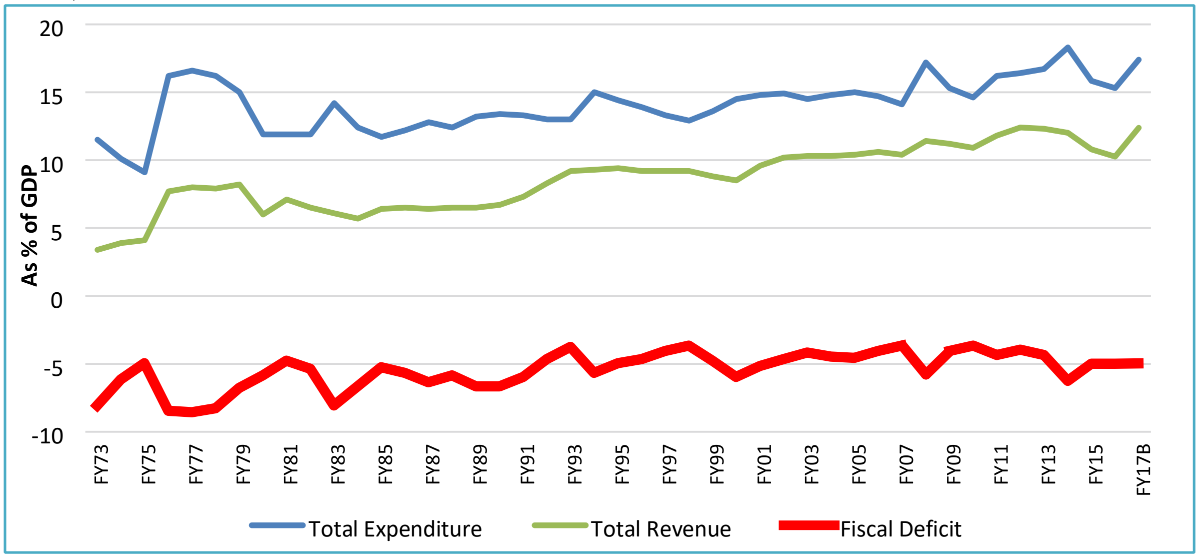
C. Oil appropriations may likewise unfavorably influence the long-run development capability of Bangladesh. They influence relative costs and speculation choices by the firm and may have noteworthy unfavorable consequences for the allotment of assets across parts and monetary specialists because of these value signals not reflecting by and large social expenses of oil use.

D. A huge distortive impact is that on interest in physical plant, which may will in general be more energy-intensive within the sight of vitality endowments than in their nonattendance. This absence of vitality effectiveness contemplations in the decision of innovation is especially unsafe for framework with long lifetimes, which will in general dig in high vitality utilization for an extensive stretch into what's to come.

E. Oil pricing policy combined with entry restrictions lowered the investment flow in the oil sector. The main oil enterprise, the BPC, has been suffering from severe financial constraint that has reduced its ability to invest in new facilities and upgrade its services. Bangladesh has only one oil refining facility, the Eastern Refinery Limited (ERL) that was established in 1967. Although the ERL went through some expansions and upgrading, it basically uses outdated technology that lowers its efficiency. Resource constraints in BPC and the entry restrictions on private sector have prevented new investments in refinery. Similarly, the retail outlets for sale of gasoline are outdated with low quality facilities, poor customer service and low safety standards

F. Oil pricing has also negatively affected the performance of the state owned banks. These banks have exhibited serious weakening in performance reflected in rising nonperforming loans (NPLs). For example in FY2015, the NPLs of public banks stood at To 282 billion (US$ 3.6 billion), which is 2% of GDP. A major contributor to this problem is the state owned enterprises including BPC. **Historical Expenditure and Revenue Trends (% of**

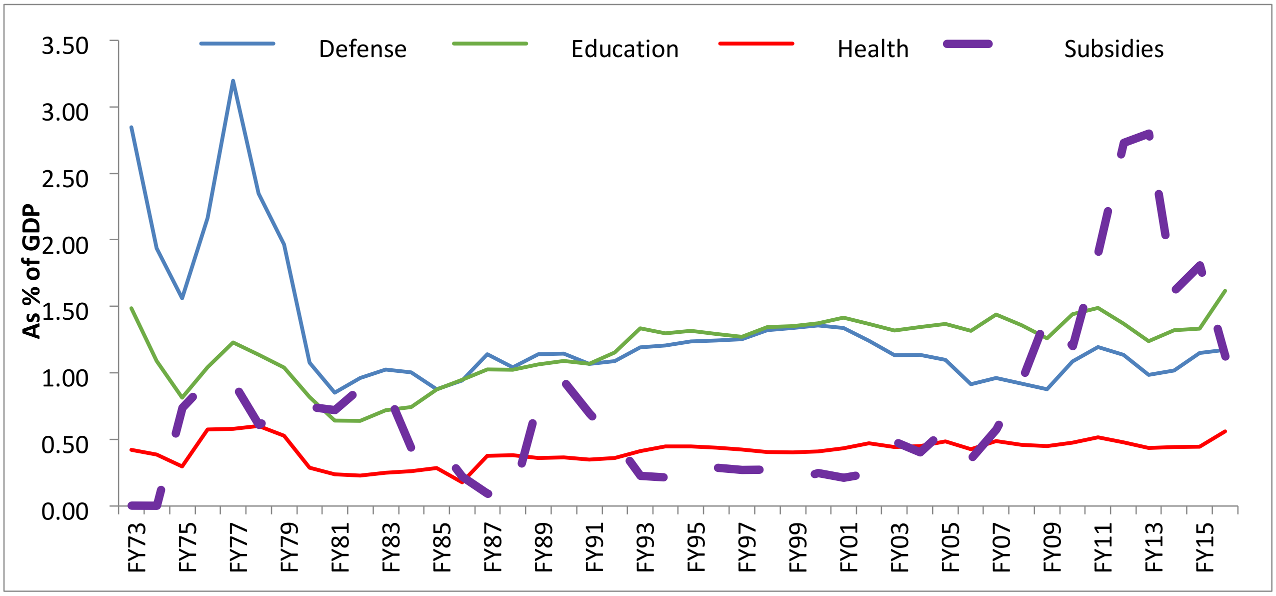
GDP)



Source: Ministry of Finance (Bangladesh)

There are also serious concerns about the quality of public expenditure. In addition to weak implementation of public investment programs, a major policy issue has been the adverse implications of the growing oil subsidies (until at least FY2012-13) for expenditure on other priority programs. Large fuel subsidies have made the country's fiscal position highly vulnerable to changes in global energy prices. More generally, one of the principal conduits of market intervention practiced by the Bangladesh government has been through the budgetary allocation of direct and indirect subsidies to key infrastructure and social sectors of the economy, such as electricity and fuel oil, agriculture, and food distribution.

The total subsidy bill (comprising of fuel oil, electricity, fertilizer and food) of the government has been on the rise since FY2006-07 .Much of the increase in the subsidy bill is explained by an increase in oil subsidies. The total subsidy bill peaked in FY2012-13 reaching 2.8% of GDP and accounting for 32.0% of the revenue expenditure, which exceeded the outlays on health and education combined. Of this 2.8% of GDP subsidies, oil subsidy was 1.1% of GDP, electricity subsidy was 0.4% of GDP and the remaining 1.3% of GDP was food and fertilizer subsidies. This is a huge increase in total subsidy in the span of six years from 0.9% of GDP and only 8.1% of the total revenue expenditure in FY2006-07. When subsidy bills increase to the levels like that of FY2012-13, it takes a huge bite off government funds which could be better utilized elsewhere. The dominating role of oil subsidies in total subsidies is further evident from the sharp decline in the total subsidy bill after FY2013-14 owing to the fall in oil subsidies caused by the decline in international oil prices



Source: Ministry of Finance (Bangladesh)

A breakdown of the revenue expenditure of Bangladesh's budget into major components clearly shows the shifts in government's relative priorities over time, and the emergence of subsidies as a major outlay of government. This increasing fiscal burden of subsidies has limited the government's ability to finance critical expenditures in health, education and social protection. Despite growing needs, the government spends a mere 1.8% of GDP on education, 0.7% on GDP on health and 1.5% of GDP on social protection. In addition to weak revenue performance, the fiscal cost of subsidies has been a major constraint to higher allocation for core development spending. Within the total subsidy bill, oil subsidy has been a dominant player until FY2012-13. For example, in FY2012-13 the subsidy on oil was some 60% higher than total spending on health.

Historically, domestic oil prices are set by the government in consultation with the BPC. As international oil price shocks happened, it became increasingly difficult for the government to pass on the cost increases to the consumers. This resulted in a growing gap between the average cost of oil products and the retail level price to the consumers. Commensurately, the subsidy bill of the government soared.

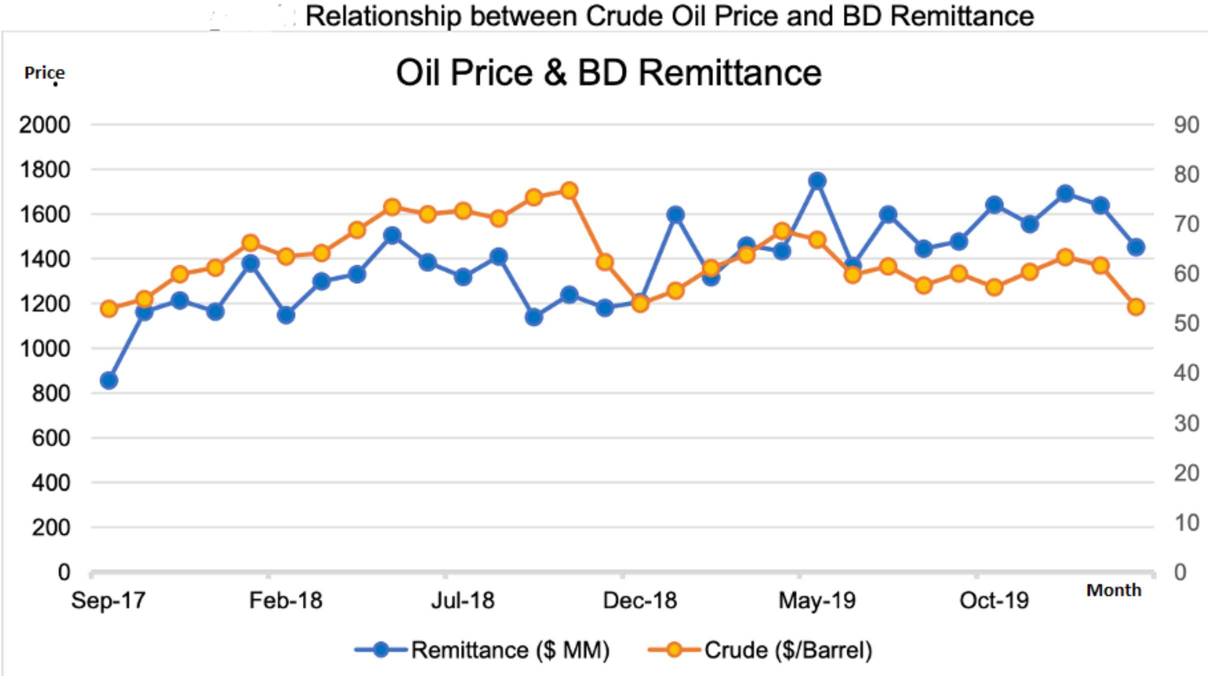
The main political consideration in price setting is the sensitivity of the concerned oil product in terms of the perceived impact on consumer budget. Diesel and kerosene, which are mostly used in transportation, irrigation and rural household lighting, are considered as highly sensitive products. The pricing policy therefore provides a subsidy for these products. Octane and petrol are used for motor cars that mostly belong to the rich. As such, these are not considered sensitive and are taxed. Furnace oil is mainly used for power generation by the private producers and in manufacturing sector. These are also considered sensitive and therefore subsidized. Historically, on average petrol and octane prices have exceeded the average cost of production while prices of diesel, kerosene and furnace oil were below the average cost. The scenario changed recently in light of the collapse of international oil prices since late 2014. The average selling prices of all petroleum products now exceed the average cost, but the tax is particularly significant for petrol and octane.

According to sources, there was a subsidy of 33.44 taka per liter of diesel (~43% of total costs) and 8.2 taka per liter of gasoline (~10% of total costs) in the years Govt. gave official subsidy. But now BPC is selling the motor oil they bought at 59tk at 98tk & diesel they bought for 33tk at 68tk. So a huge level of profit is being generated each year since the fall of oil price.

Recently, Bangladesh is forced to endure lockdowns to tackle the covid 19 pandemic. These lockdowns are having crippling effect on our economy.

Due to lockdowns, Oil prices have fallen precipitously, which is expected to aggravate demand for migrant workers. History shows that falling oil prices have a lagged effect on remittances into Bangladesh. At present, prices are falling because of reduced demand from sectors such as aviation and transportation sectors, as well as the Russia-Saudi Arabia price war.

Relationship between Crude Oil Price and BD Remittance



Source: Bangladesh Bank, IndexMundi

Impact of oil imports on the balance of payments

Total oil imports (crude plus products) have grown by an average rate of 3.0% per year. In value terms oil imports amounted to $ 3.5 billion (9.3 % of total imports) in FY2014-15, down from its peak of $ 4.8 billion (14.4 % of total imports) in FY2011-12 owing to the sharp decline in international oil prices. Despite the gain in the terms of trade from declining oil prices that has provided a huge boost to the Bangladesh economy, oil remains the single largest import and Bangladesh remains highly vulnerable to upswings in international oil prices.

Future demand for oil is expected to grow at a more rapid pace than in the past owing to three important structural changes affecting the Bangladesh oil market. First, Bangladesh's aspiration to grow at an unprecedented pace of 8% per year will be mainly fueled by manufacturing, which is much more energy intensive than agriculture. Second, growing urbanization will add to the energy intensity of the economy. And third, as gas reserves continue to dwindle the reliance on imported oil for primary fuel supply will grow. The development of other alternative primary fuel sources (coal, hydro-power, LNG, renewable energy) face major uncertainties and will likely take a long time to be satisfactorily resolved (Ahmed 2015). Consequently, the efficient management of the domestic oil market will be necessary to avoid an adverse effect of oil imports on the balance of payments and the budget.

Macroeconomic Perspective

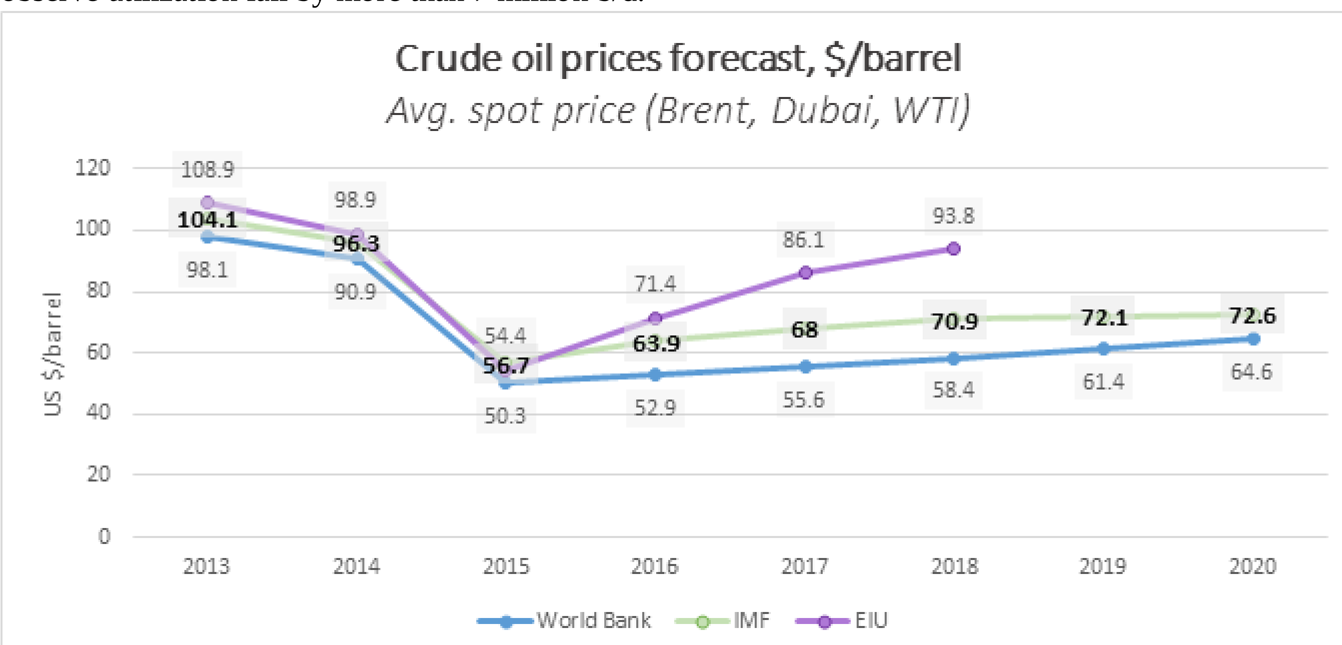
The effects of low oil prices in Bangladesh can also be explained using the macroeconomic factors. If the price of oil falls, then the price level is going to go down and also, inflation is going to go down. As a result, the money supply in the market is going to go up. Since the supply of money in the market will be high, the banks will lower their interest rates since they can easily get money from various sources due to the high circulation of money in the market and due to low inflation, the banks can know that the value of money that they will get back from loans will be equal to the value of money when they get the loans back. Hence, they can afford to have low interest rates while giving out loans. Now, if interest rates go down, people can take more loans from banks and invest that money in their existing businesses or in new businesses, which means that investment is going to rise. With the increase in investment, more products will come into the market and the overall output will increase. As we know, there is a positive relationship between output and growth, the increase in output would mean an overall economic growth for our country.

The low oil prices can also impact the unemployment rate in our country. As previously established, with a fall in interest rates, investment is going to rise. Now a rise in investment means that there will be new businesses popping up, or existing businesses will have the opportunity to expand and grow their operations and can create new factories to utilize their increased investment and can look to profit from it and can also significantly increase the output and growth of our country. From Okun's law, we know that if growth of a country increases, its unemployment is going to go down. Simply put, the new businesses or factories would need more new employees to operate. This is going to create new jobs for previously unemployed people and thus, the unemployment rate is going to go down.

Transportation cost and vehicle maintaining costs are going to be affected greatly with a fall in price of oil. Lastly every industry is dependent on transportation for the delivery if their raw materials or finished products. So, if the prices of oil is reduced, the overall cost of transportation is going to go down as well and the money saved from the transportation sector can be invested in the businesses to further promote growth.

Projected Future Trends of Oil Price:

In its yearly World Oil Outlook, OPEC has cut its conjectures for both the value development and worldwide demand for crude oil, anticipating a little decrease in genuine values over this decade accompanying with a consistent nominal cost of $110 per barrel among now and 2020. In the medium term, gauges at costs in the U.S. were raised and those of the "BRIC" nations (Brazil, Russia, India and China) were contracted. In the long haul, notwithstanding, worldwide oil request is relied upon to increment by around 21 million barrels for each day to 111.1 million b/d by 2040. Creating nations will develop by 28 million b/d, while the more full grown economies in the Organization for Economic Co-activity and Development will basically observe utilization fall by more than 7 million b/d.



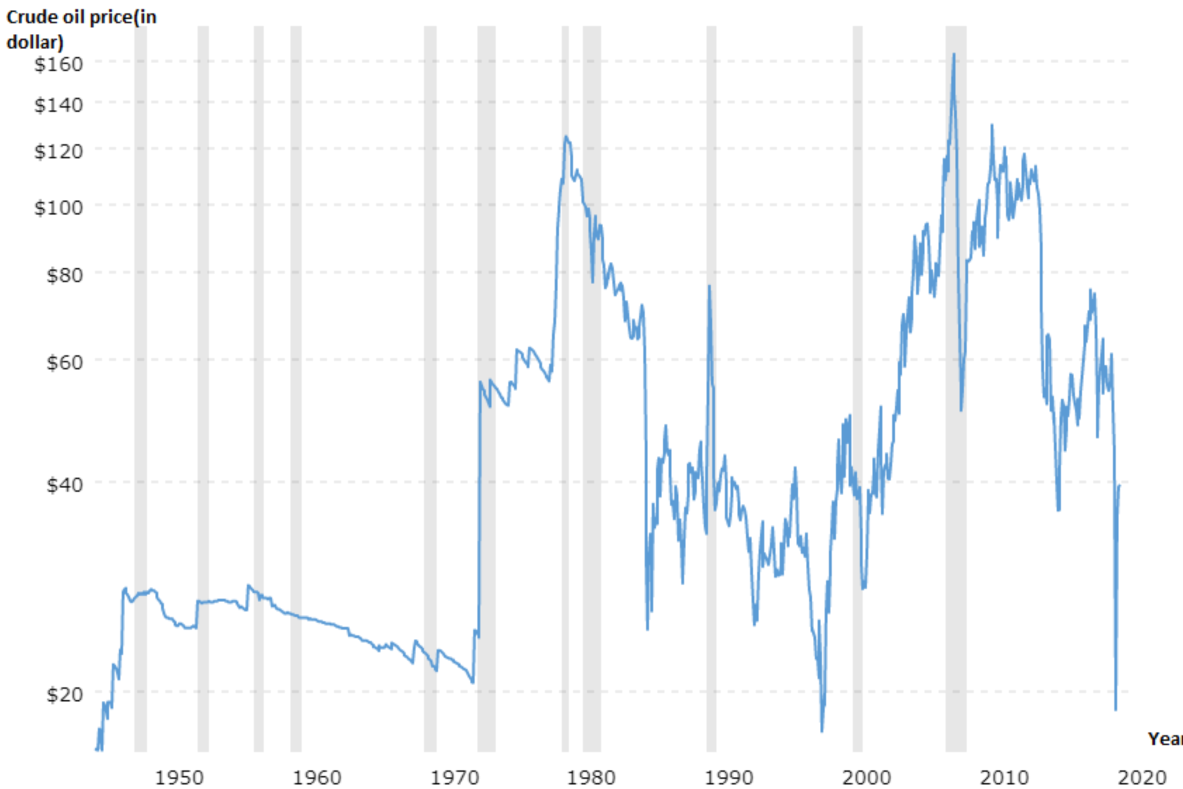
Latest Commodity Forecasts published by **The World Bank** predicts that in 2015, world crude oil price per barrel will fall to $50.3, while issued spot average price per barrel for crude oil is expected to fall to $56.7 by IMF.

Sources: World Bank Commodity Forecast Price data, January 2015 IMF Commodity Price Forecasts, January 2015 EIU Economic and Commodity Forecast, February 2015

The World Bank forecast is shown on the chart above along with those of IMF and EIU. The World Bank estimates are more conservative, with forecasted prices hovering under $65/barrel in the next five years. On the other hand, EIU shows a forecasted price growth to $93.8/barrel by 2018- almost equal to that of last year's. IMF estimates show significant rise in 2017, followed by steady growth in later years.

According to a January 2020 EIA report, the average price of Brent crude oil in 2019 was $64 per barrel compared to $71 per barrel in 2018. The average price of WTI crude oil was $57 per barrel in 2019 compared to $64 in 2018.

In recent years, sheer volatility due to lack of demand is leading to a drastic fall in global crude oil prices.



Interactive chart shows the price for West Texas Intermediate (NYMEX) Crude Oil over the last 70 years. The prices shown are in U.S. dollars. The current price of WTI crude oil as of July 09,2020 is **$39.62** per barrel.

Recommendations for Pricing and Subsidy Reforms of Oil Market Deregulation in Bangladesh

International examples of oil price reforms suggest that if Bangladesh wants to follow in their paths, then the government must take the following steps when making the reforms. They are as follows:

1. The reforms must come at a time which is effective and appropriate.
2. The plan must be comprehensive to say the least.
3. The pricing should be phased out to lessen the impact on cash flows for BPC.
4. To make sure that targeted mitigation methods are used to protect the poor.
5. Energy pricing must be depoliticized to avoid the recurrence of subsidies
6. A far reaching communication strategy must be in play.

Timing of reforms:

The Bangladeshi economy is growing, the macro economy is stable and inflation has come down until recently it spiked a staggering 6.89%. It shows in this overall positive macroeconomic environment, low international oil prices present a brilliant opportunity to reduce economically costly and environmentally damaging fuel subsidies but failing to reduce oil prices is resulting in inflation spike.

2. A Comprehensive Reform Plan:

When oil prices are low, subsidy removal has limited social and economic consequences. The international price and subsidy reforms will not increase oil prices immediately. The outlook for international oil prices is also positive, which will help maintain price stability in the near future.

But the window to oil subsidy reform is slim, and the long term pricing of international oil might be uncertain. Indeed, oil prices have already moved up significantly from the lowest point achieved by the end of 2014. So its high time action is taken.

Most of the successful oil subsidy reforms were well planned with a clear reform strategy and the establishment of long-term objectives, assessing the impact of reforms, and consulting with stakeholders. Reforms should incorporate both a sustainable approach to energy pricing and a plan to improve the efficiency of energy consumption and supply. The effect on stakeholders must be assessed properly.

Instead of looking at oil subsidy reform in isolation, a full package consisting of oil market deregulation that allows private sector participation in all aspects of the oil market, oil pricing deregulation and reform of oil public companies aimed at improving their performance and competitiveness may be the way to go. Proper pricing policy must also address the issue of oil taxation as an instrument for addressing the issue of resource mobilization. Many countries have used oil prices to gather the resources required to finance transport infrastructure and other development programs. If the 8% growth in GDP is to be attained then the resources gained from not giving further subsidies can be an accelerating factor.

3. Appropriately phased and sequenced price adjustments:

While there is no oil subsidy now, global costs may increment later on. Conversion scale changes can likewise trigger cost increments. In this way, it is significant for the administration to receive a staged way to deal with passing on any conceivable close term, cost increments. A staged way to deal with changes licenses the two families and endeavors time to modify, and allows the nation time to assemble believability by indicating that sponsorship reserve funds are being effectively utilized. As noted before, it likewise decreases the effect of appropriation change on expansion and makes space for governments to set up supporting social security nets.

4. Making Sure That Targeted Mitigation Methods Are Used To Protect The Poor:

Aptly positioned measures to contain the effect of oil price increments on the poor are of paramount importance for building support for appropriating subsidy reformations.

The focal points of these measures ought to be as per the following

(a) Limiting the quantity of products financed to those utilized principally by poor people

(b) Limiting the amounts sponsored, for the most part concerning the base important to cover fundamental needs as well as

(c) Limiting the quantity of recipients, by focusing on qualification for the appropriation.

A preferred position of such measures, especially the primary two, is that they co-exist with existing frameworks and team up. However they may include some extra venture, for instance, in setting up foundations to screen recipients for qualification. They can accordingly assume a valuable function as Band-Aid measures while longer-term arrangements are set up.

5. Proper Oil Pricing:

Successful and durable reforms require a proper mechanism for setting energy prices. Many countries have successfully implemented reforms only to see subsidies reappear when international oil prices increase. Establishing a proper oil pricing system is important to ensure the sustainability of reforms.

6. A Far-Reaching Communications Strategy:

An extensive communication campaign arranged by the Bangladesh government can help produce traction and support for expansive political and public endowment and ought to be attempted all through the reformation cycle. The engagement campaign ought to clarify the greatness of vitality appropriations and their suggestions for different pieces of the financial plan. The advantages of eliminating sponsorships, remembering for a post-charge premise, ought to be underscored, specifically the extension for utilizing part of the budgetary investment funds or extra incomes to back high-need spending on training, wellbeing, foundation, and social assurance.

Conclusion

The arbitration of reduced oil price will open up many exciting possibilities for Bangladesh if proper strategies are set up. In order to reap maximum benefit from falling oil prices, extensive study, research and sound implementation plan must be invested in.

This research paper may help the consumers and the policy makers to know the comparative analysis on oil price both in the world and Bangladesh and its present & potential impact over the nation's economy.

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