Inflation Dynamics in Bangladesh
April-June 2025

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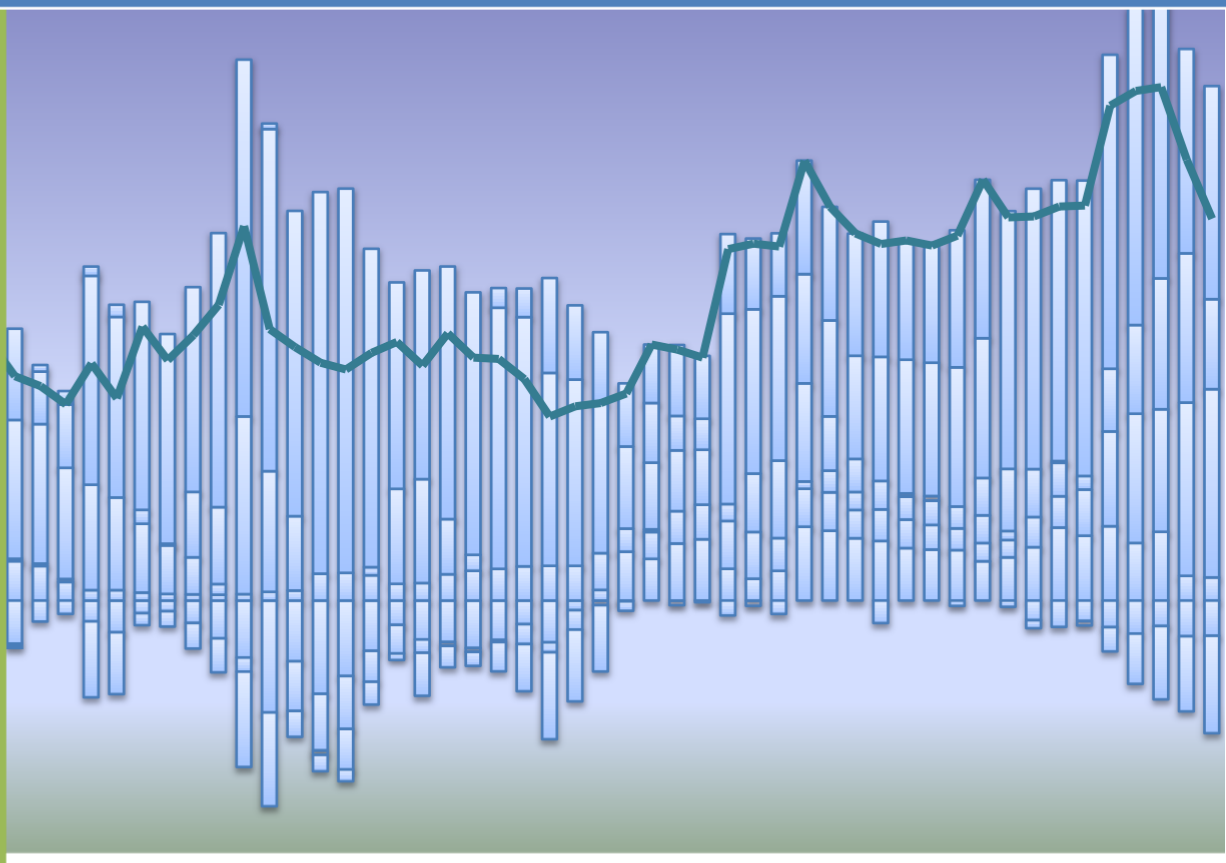

Economic Modeling and Forecasting Wing
Research Department
Bangladesh Bank

Inflation Dynamics in Bangladesh

April–June 2025 (Q4:FY25)

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1 Introduction

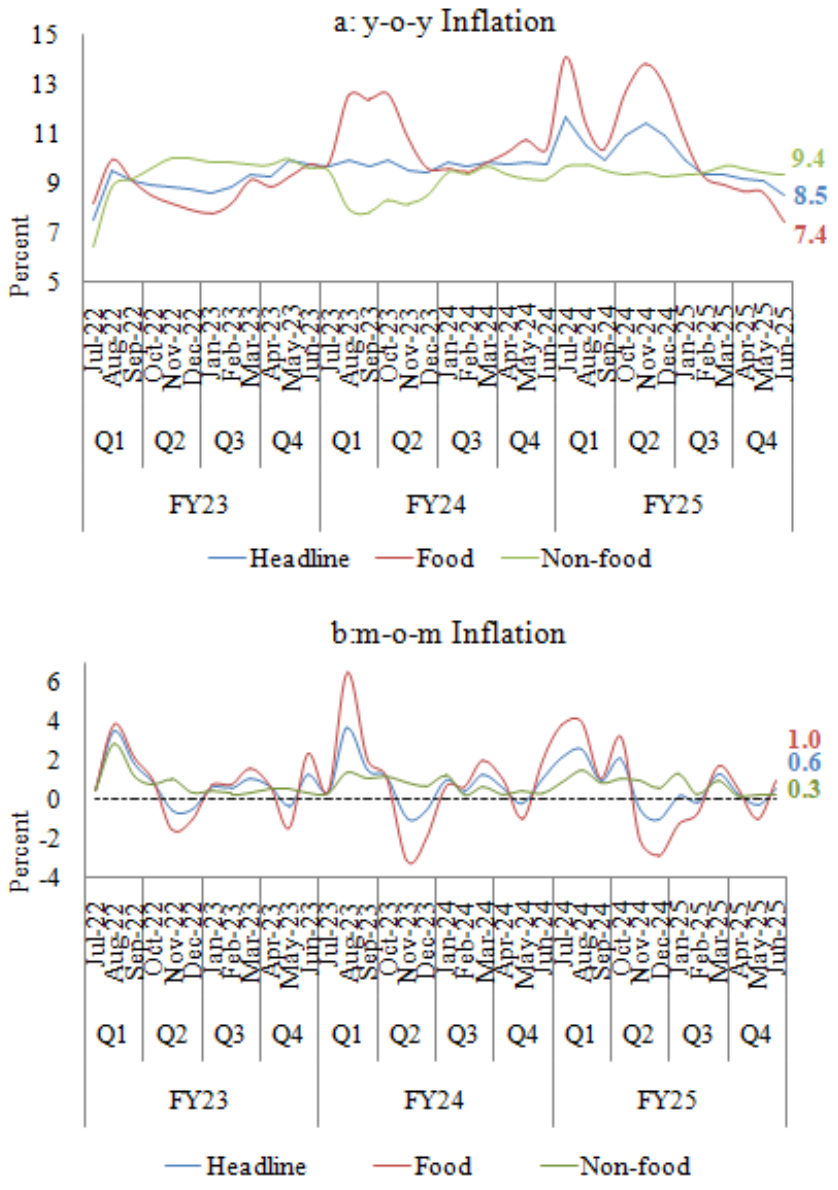
As a forward-looking central bank, Bangladesh Bank is committed to ensuring price stability and a resilient financial system by fostering broad-based and inclusive economic growth, employment generation, and poverty alleviation. The formulation of effective monetary policy requires a sound understanding of the underlying factors that influence price level movements. This report analyzes the key drivers of Consumer Price Index (CPI) inflation and wage trends[2] *in Bangladesh, providing a detailed examination of the factors shaping the country's inflation dynamics.*

Asian Development Bank in its Asian Development Outlook (April 2025), while predicting the inflation for FY25 around 10%, anticipated further decline in FY26 with the assumption of favorable weather conditions, easing global prices, and the implementation of stricter policy measures (Asian Development Bank, 2025). However, the International Monetary Fund (IMF) in its April 2025 World Economic Outlook (WEO) noted that worldwide headline inflation is predicted to fall more slowly in 2025 than the January 2025 WEO prediction (International Monetary Fund, 2025). Additionally, inflation in underdeveloped nations and emerging markets may be slightly lower than initially anticipated. The most recent WEO projects that average headline inflation in Bangladesh will reach approximately 10 percent in 2025, followed by a gradual decline to around 5 percent in the subsequent years.

[2] Currently, the Bangladesh Bureau of Statistics (BBS) compiles the Consumer Price Index (CPI) following the Classification of Individual Consumption by Purpose (COICOP) of the United Nations Department of Economic and Social Affairs, using 2021–22 as the base year, with weights derived from the Household Income and Expenditure Survey (HIES) 2016–17. Similarly, the Wage Rate Index (WRI) is based on the same period, with weights from the BBS Labour Force Survey (LFS) 2016–17. This report includes CPI data up to June 2025 from BBS. Numbers are rounded to one decimal. Q4:FY25 represents April-June, 2025.

In Q4:FY25, Bangladesh's year-on-year (y-o-y) CPI headline inflation eased further from the previous quarter, averaging around 8.9%. The first two quarters of FY25 recorded historically high inflation rates; however, the moderation in inflation that began in Q3:FY25 persisted through Q4:FY25 (Figure 1a). Food inflation, which remained in double digits during the first half of FY25, fell to single digits in Q3:FY25 and declined further to 7.4% by the end of Q4:FY25. On the other hand, non-food inflation remained broadly stable at an elevated level, averaging around 9.5% in both the third and fourth quarters.

FIGURE 1: CPI Inflation



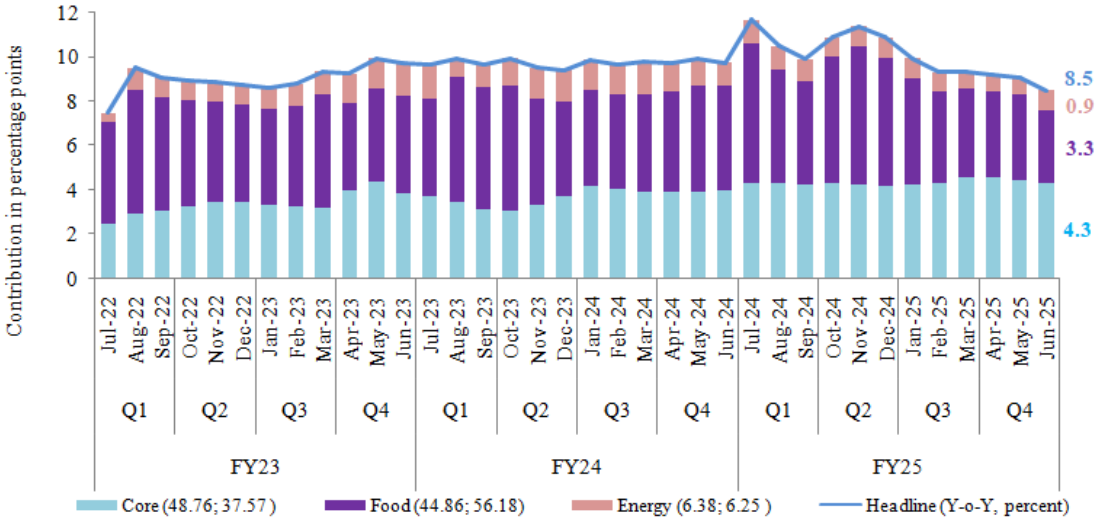
Source: Bangladesh Bureau of Statistics (BBS)

Month-on-month (m-o-m) headline inflation, including food inflation, increased in June 2025 from the previous month. M-o-m food inflation increased to 1.0% in June 2025 from -1.0% in May 2025 (Figure 1b). M-o-m non-food inflation stayed in the positive territory throughout Q4:FY25 and it was 0.3% in June 2025, similar to the previous month. The m-o-m headline inflation remained positive, amounting to 0.6% in June 2025 from -0.3% in May 2025.

2 Decomposition of Headline Inflation

Nearly Half of the headline inflation originated from the core items during Q4:FY25 (Figure 2). During this period, the average contribution of food inflation to headline inflation declined slightly, while the contribution from core inflation increased. Specifically, the average contribution of core items to headline inflation accounted for 49.7 percent in Q4:FY25, up from 45.7 percent in the previous quarter. In contrast, the average contribution of food prices to headline inflation in Q4:FY25 fell to 41.3 percent from 45.3 percent in the preceding quarter. Meanwhile, energy items (including solid fuels) accounted for around 9 percent of the headline inflation during both quarters.

FIGURE 2: Decomposition of Headline Inflation (Y-O-Y)

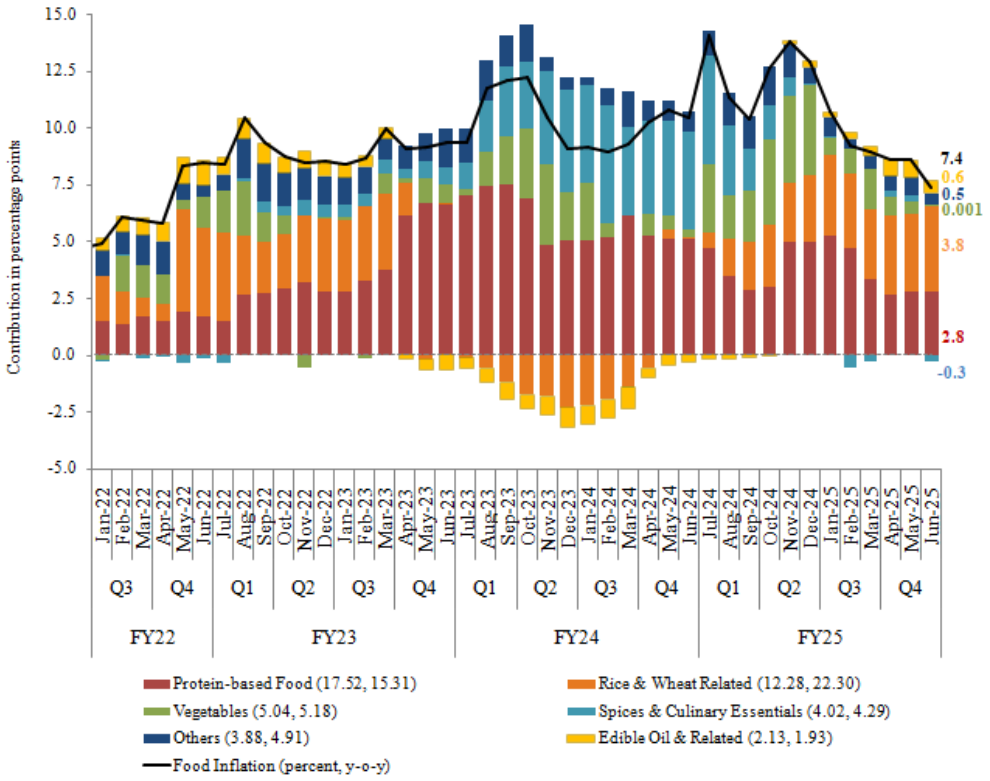


Notes & sources: Numbers in parenthesis represent weights in current and previous baskets, respectively; current weights started from April 2023. BBS and EMFW estimates.

2.1 Decomposition of Food Inflation

In Q4:FY25, cereals continued to be the dominant driver of food inflation in Bangladesh. On average, cereal products contributed 43.7% to overall food inflation during Q4:FY25, maintaining their position as the highest-contributing category (Figure 3). This marks the highest quarterly contribution of cereals observed in recent periods, underscoring their significant influence on food price dynamics. Protein-based food items[3] also played a substantial role, contributing an average of 33.9% to food inflation in the same period. Despite remaining a major component, their relative contribution declined slightly, reflecting a moderation in prices for certain protein items.

FIGURE 3: Decomposition of Food Inflation (Y-O-Y)



Notes & sources: Numbers in parenthesis represent weights in current (from April'23 onwards) and previous baskets, respectively. BBS and EMFW estimates.

In contrast, the contribution of vegetables to food inflation dropped sharply in Q4:FY25. The average contribution of vegetables fell to just 4.1% in Q4:FY25, significantly from 14.1% in the previous quarter, indicating a considerable easing in vegetable prices. Meanwhile, the contribution of edible oil saw a marginal

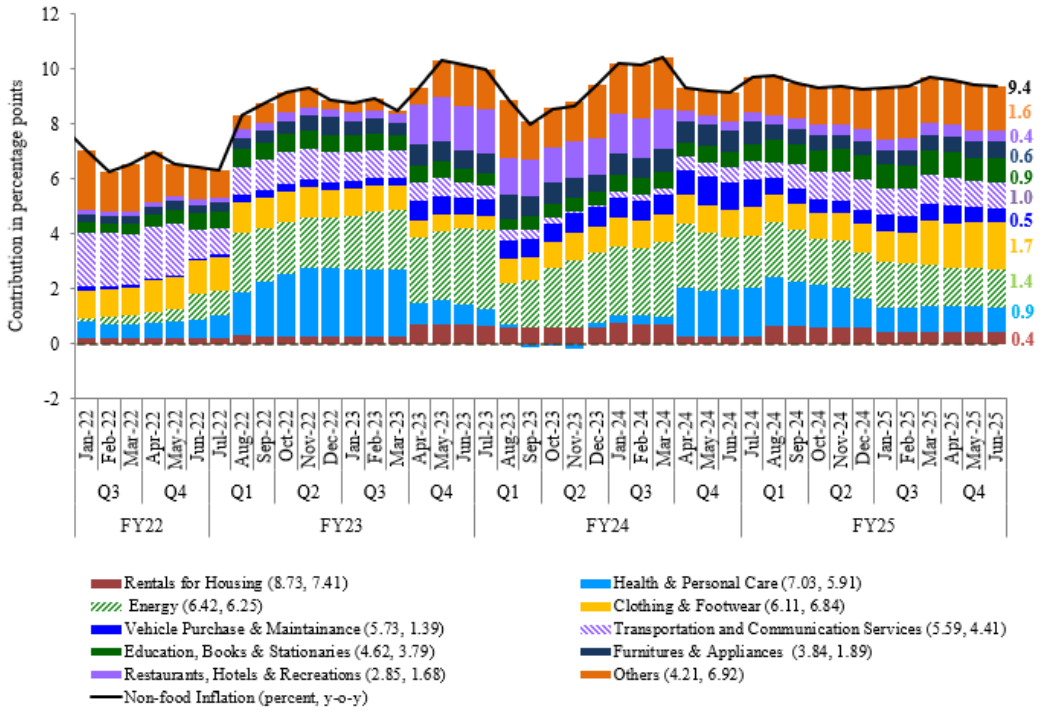
[3]Protein-based food items include milk, cheese, fish (fresh and dry), egg, meat (beef, mutton, duck, hen), pulses etc.

increase, although it remained relatively modest in the broader composition of food inflation. Spices and culinary essentials continued to make minimal contributions, remaining at the lower end of the contribution spectrum.

2.2 Decomposition of Non-food Inflation

Non-food inflation remained persistently high and stable at around 9.5% throughout FY25. During Q4:FY25, the primary contributors to non-food inflation were clothing and footwear, which accounted for 17.8%, and energy (including solid fuel), which contributed 14.6% (Figure 4). The contribution of clothing & footwear increased in Q4:FY25 compared to the previous quarter.

FIGURE 4: Decomposition of Nonfood Inflation (Y-O-Y)



Notes & sources: Figures in parentheses represent weights in current and previous baskets, respectively. As per revised data of BBS, decomposition has been updated accordingly from August 2024. BBS and EMFW estimates.

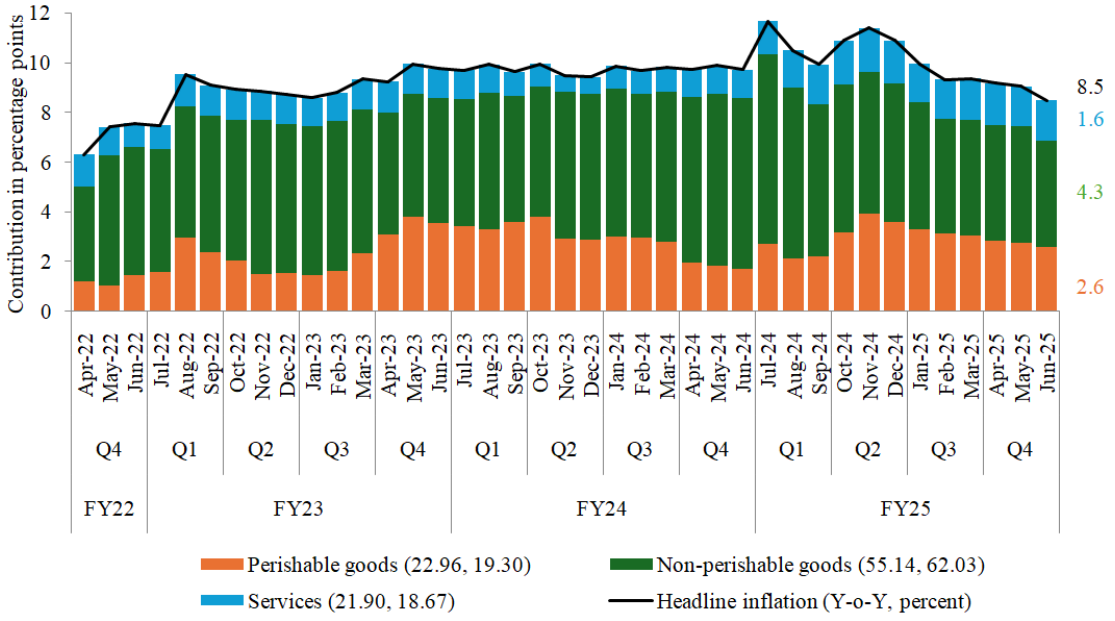
Although energy remained a major component of non-food inflation, its contribution declined slightly in Q4:FY25 relative to previous quarters. Meanwhile, contributions from other components of non-food inflation, such as transport, health, education, and miscellaneous goods and services, remained broadly stable.

3 Product-wise Drivers of Headline Inflation

3.1 Goods (Perishable and Non-perishable) and Services

The contribution of perishable goods[4] to headline inflation increased during the second half of FY25 compared to the first half, whereas the contribution from non-perishable goods declined over the same period (Figure 5). In Q4:FY25, however, the average contribution of non-perishable goods remained broadly stable, standing at 50.8%, slightly up from 50.0% in the previous quarter. The contribution of perishable goods decreased to 30.8% in Q4 from 33.2% in Q3, indicating some moderation in price pressures for these items. Meanwhile, the contribution of services to headline inflation increased marginally, rising to 18.4% in Q4:FY25 from 16.8% in the preceding quarter.

FIGURE 5: Contribution of Goods and Services



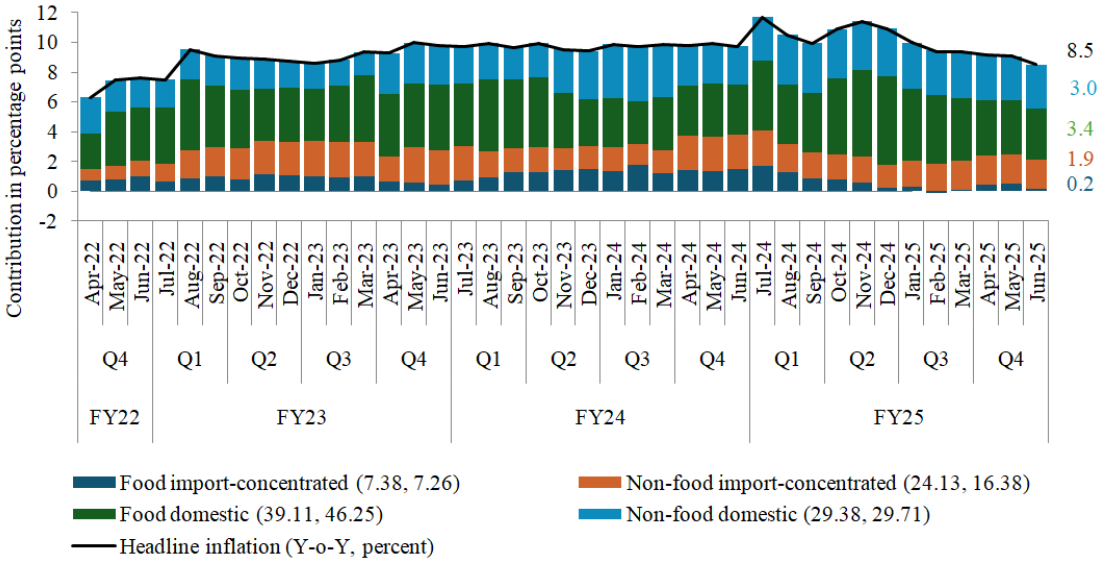
Notes & sources: Figures in parenthesis represent weights in current and previous baskets, respectively; current weights started from April 2023. BBS and EMFW estimates

[4] Perishable goods are those that begin to spoil without refrigeration or freezing within seven days.

3.2 Import-concentrated Items

In Q4:FY25, the average contributions of both import-concentrated[5] food and non-food items to headline inflation increased slightly from the previous quarter. Meanwhile, the contribution of domestic food items to inflation declined.

FIGURE 6: Contribution of Import-concentrated Items



Notes & sources: Figures in parenthesis represent weights in the current and previous baskets, respectively; current weights started from April 2023. BBS and EMFW estimates.

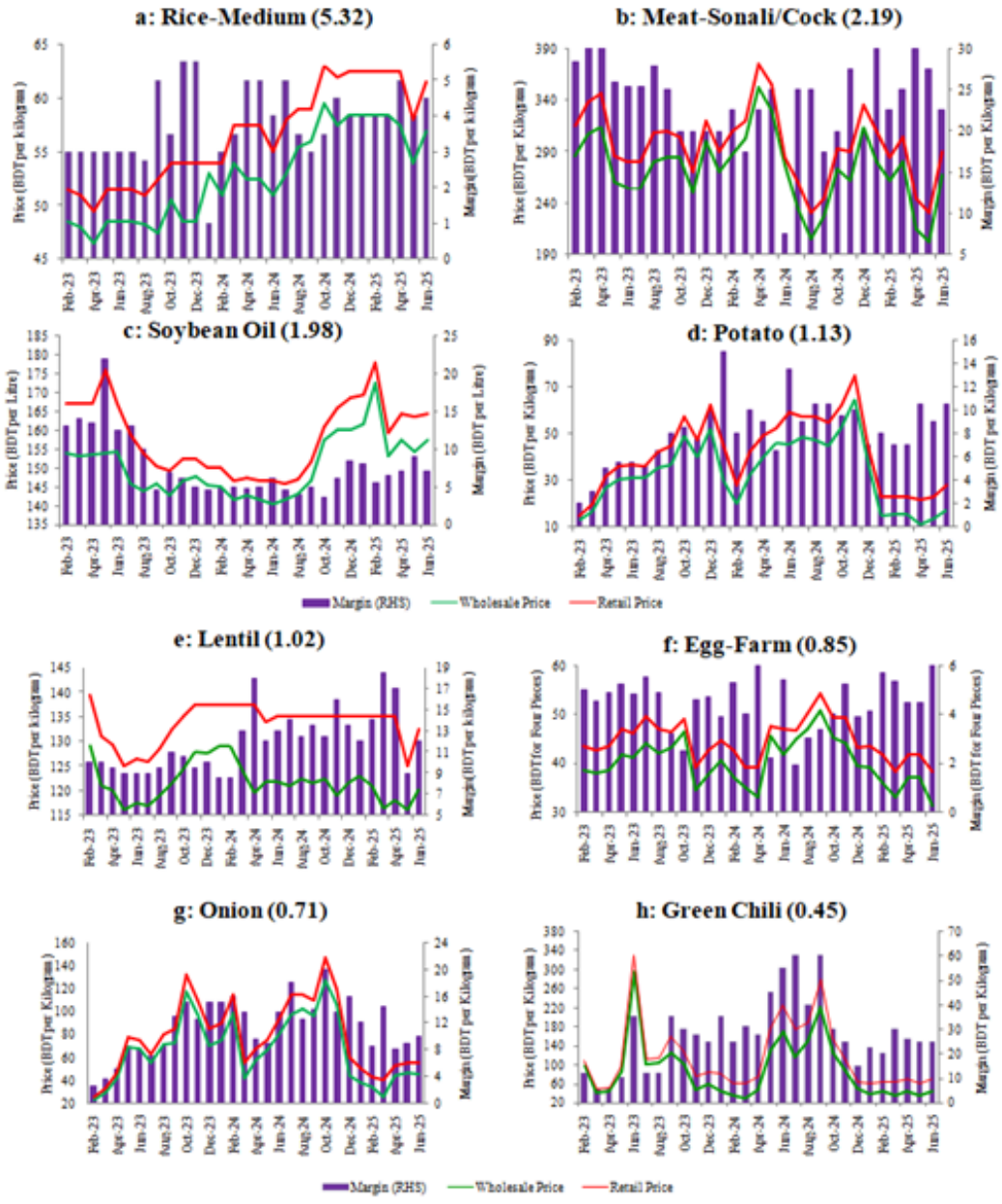
During Q4:FY25, the average contribution of import-concentrated items to inflation increased to 26.1% from 20.1% in Q3:FY25. Meanwhile, the contribution of domestic items to inflation in Q4:FY25 decreased to 73.9% from 79.9% in Q3:FY25.

[5] Items which are fully or partially imported are classified as import-concentrated items (Figure 6).

4 Retail and Wholesale Prices of Selected Commodities

During Q4:FY25, the retail and wholesale prices of medium rice, *Sonali* chicken, soybean oil, and lentils declined mid-quarter before rising again toward the end.

FIGURE 7: Retail and Wholesale Prices of Selected Commodities



Notes & sources: Month end price. Margin = Retail Price–Wholesale Price. Figures in parentheses denote the corresponding weight in the current CPI basket. Department of Agricultural Marketing (DAM).

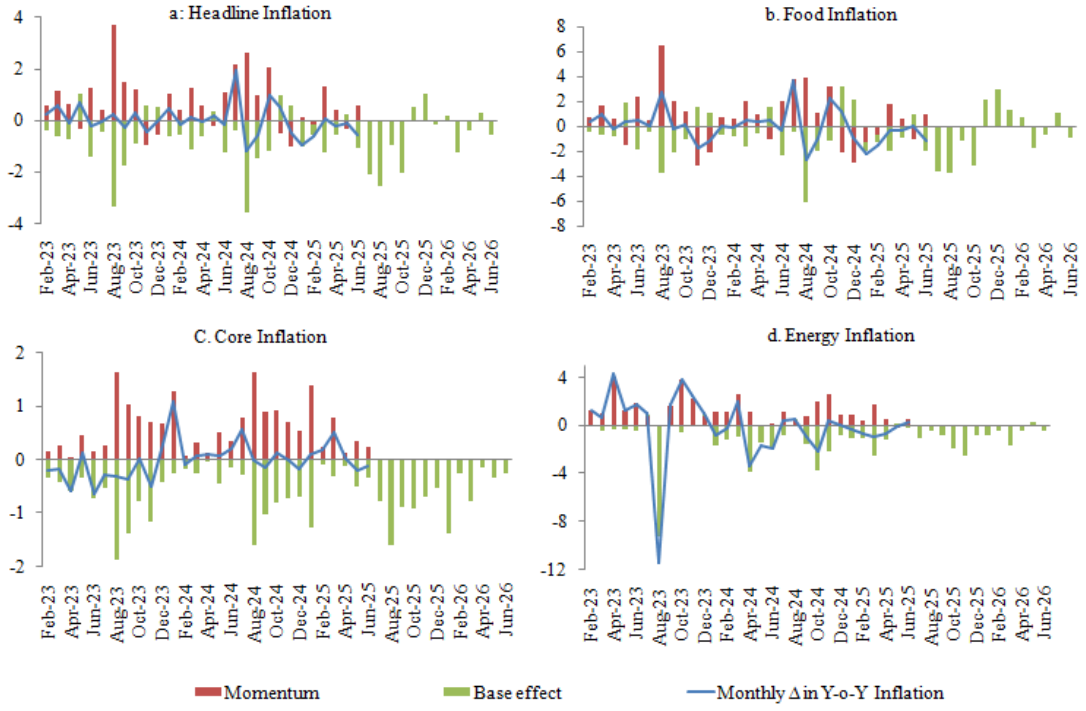
Notably, *Sonali* chicken experienced a significant price hike in June 2025, after having recorded lower prices in the preceding two months of the quarter. In contrast, the prices of potatoes, green chili, and onions remained largely stable throughout the quarter following earlier declines. Meanwhile, the prices of farm eggs declined in Q4:FY25.

At the end of the quarter, most of the selected commodities showed increased margins[6], except for Soybean oil and *Sonali* Chicken.

5 Base and Momentum Effects, Diffusion Index and Kernel Density Estimates of Inflation

In Q4:FY25, inflation across all major categories was largely driven by favorable base[7] effects.

FIGURE 8: CPI Inflation–Base and Momentum Effects



Sources: BBS and EMFW estimates

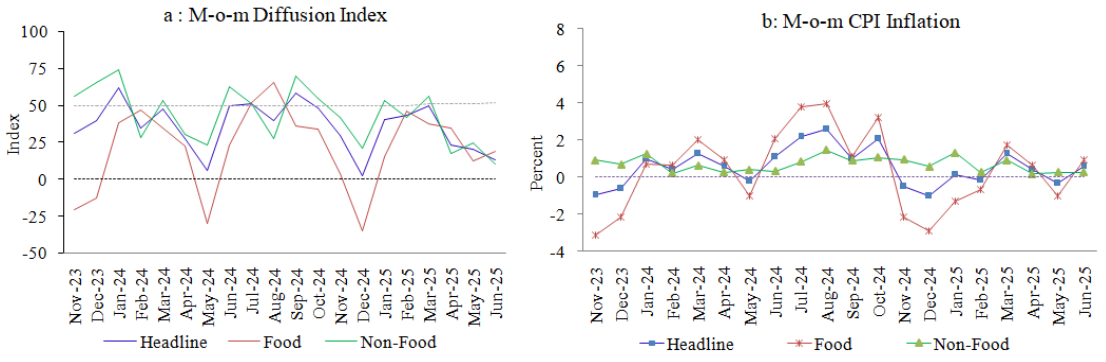
[6] Margins are the difference between retail and wholesale prices.

[7] See Bangladesh Bank (2024a), European Central Bank (2005), and Bangladesh Bank (September 2021) for details.

In April 2025, these base effects outweighed the momentum effects, contributing to a moderation in inflation. In May 2025, headline and food inflation continued to benefit from negative momentum effects that further supported the easing trajectory. By the end of the quarter in June 2025, headline, food, and core inflation remained dominated by favorable base effects, which outweighed the positive momentum. Both headline and food inflation eased further during this time. Meanwhile, energy inflation was influenced by favorable base effects in April 2025 but edged up in June 2025 due to slightly stronger momentum effects. Looking ahead, all four categories of inflation are expected to continue benefiting from favorable base effects over the next twelve months, with a few exceptions.

Diffusion index[8] for headline inflation decreased on average in Q4:FY25 compared to Q3:FY25, indicating that a fewer number of items within the overall CPI basket is experiencing price increases. In June 2025, out of the 382 commodities in the CPI basket 62 commodities recorded price increases, 11 registered price declines, and 309 remained unchanged compared to the previous month.

FIGURE 9: Diffusion Indices



Notes & sources: The higher the reading towards & above 50, the broader is the expansion of price increases across CPI items, and vice versa. BBS and EMFW estimates.

Headline and food inflation (m-o-m) began to decline in April 2025 and remained in negative territory in May 2025(Figure 9). However, in June 2025, headline inflation (m-o-m) edged up slightly despite a decline in the m-o-m diffusion index. This suggests that items with price increases carried a greater weight in the index.

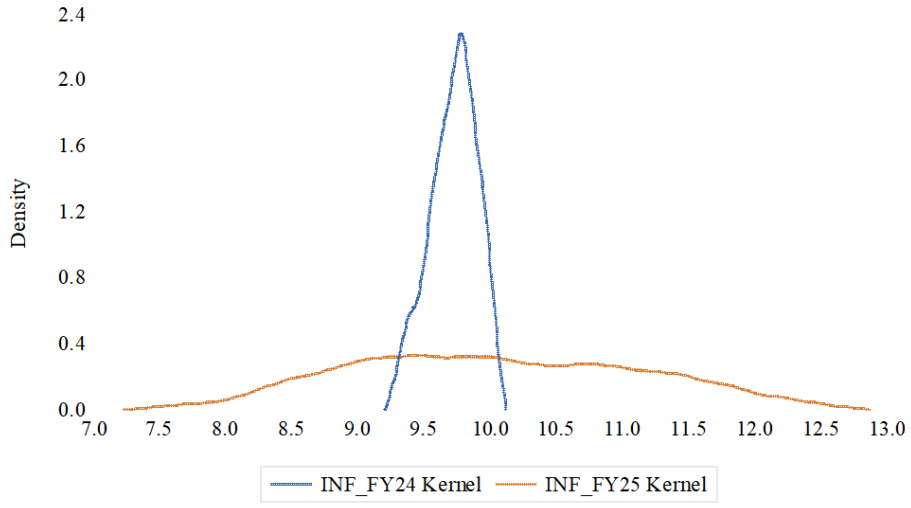
[8]The CPI diffusion index (m-o-m), a measure of dispersion of price changes, categorises items in the CPI basket according to whether their prices have risen, remained stagnant, or fallen over the previous month. See Reserve Bank of India (April 2024) and Bangladesh Bank (July 2024) for details.

On the other hand, non-food inflation (m-o-m) remained stable throughout the quarter as prices of 217 out of 256 commodities in this category remained unchanged.

The Kernel Density Function (KDF[9]) of headline inflation (y-o-y) for FY25 exhibits rightward and flat compared to FY24 indicating a broader variability of inflation rates.

The distribution for FY24 is sharply peaked around 9.8 percent, indicating that inflation rates during this period were tightly clustered with low variability. In contrast, the distribution for FY25 appears notably flatter and exhibits a rightward shift, reflecting a broader range of inflation rates with values ranging from approximately 8.5% to 12.5%. It indicates that inflation in FY25 exhibited greater volatility and elevated inflation rates compared to FY24.(Figure 10)

FIGURE 10: Kernel Density Estimates



Sources: BBS and EMFW estimates.

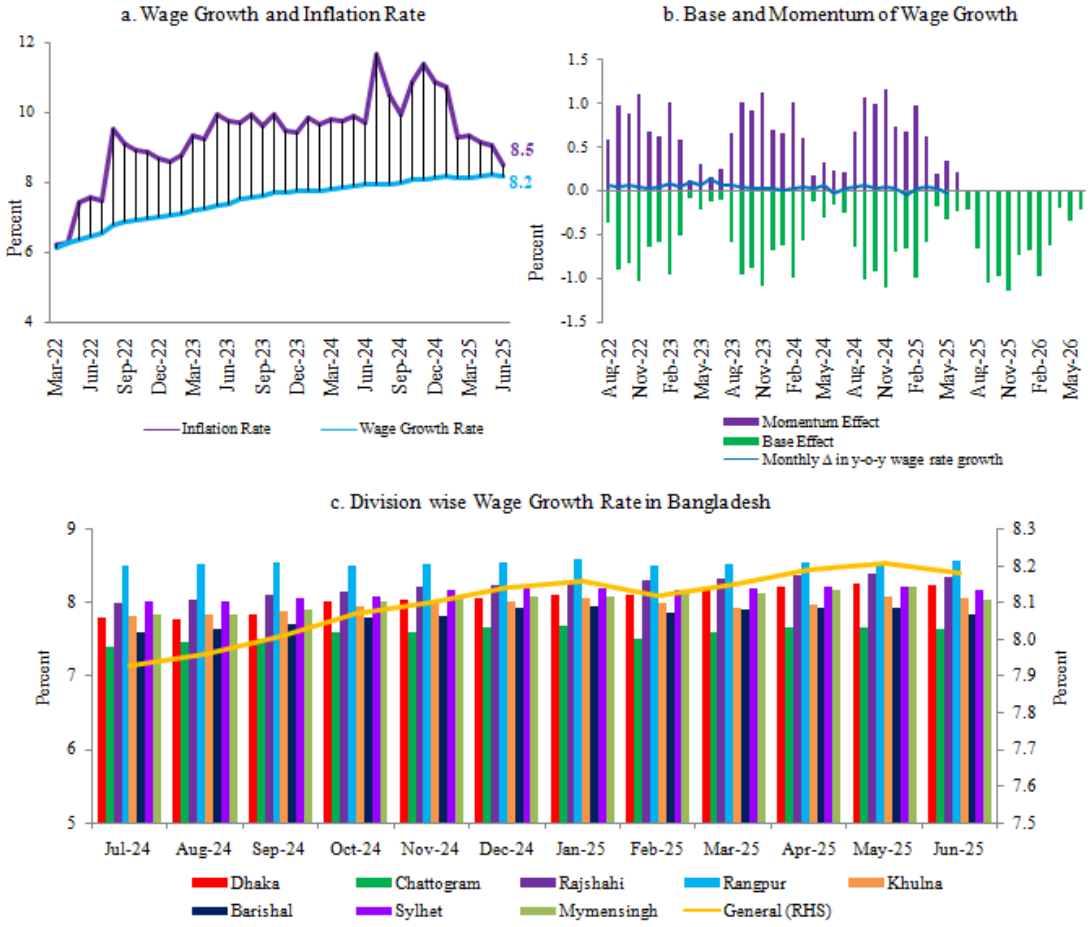
6 Wage Dynamics

Since April 2022, inflation has consistently exceeded wage growth, reducing consumers' purchasing power and causing a decline in real income (Figure 11.a).

[9] A KDF shows the distribution of data, indicating where the data is concentrated (steep parts) and how far it spreads out (tail length). Steeper parts indicate higher density and mean value, and longer tails show spread or variation of the data. See Bangladesh Bank (2024b) for details.

However, from February 2025 onward, this gap began to narrow as the inflation rate moderated. In Q4:FY25, the wage-price gap saw a notable reduction, particularly in June 2025. This narrowing was primarily driven by a decline in headline inflation (y-o-y). Headline inflation eased to an average of 8.9% in Q4 FY25, while wage growth remained relatively stable at an average of 8.2%. Household purchasing power is now showing signs of improvement.

FIGURE 11: Wage Dynamics



Sources: BBS and EMFW estimates

Despite some fluctuations due to momentum effects, wage growth remained sluggish throughout the quarter, as the negative base effect persisted (Figure 11.b). Overall wage growth maintained a modest upward trajectory in Q4:FY25, though it edged down slightly by the end of the quarter. Wage growth rates increased marginally across all divisions in Q4:FY25 compared to the previous quarter (Figure 11.c). Among all divisions, Rangpur continued to record the highest wage growth. In conclusion, while household purchasing power has begun to recover,

this improvement is largely attributed to easing inflation rather than an acceleration in wage growth.

7 Conclusion

In Q4:FY25, Bangladesh's headline CPI inflation (y-o-y) continued to ease, averaging approximately at 8.9%, down from the elevated levels observed in the first half of the fiscal year. The moderation in inflation that began in Q3:FY25 persisted through Q4:FY25. This moderation was primarily driven by a decline in food inflation, particularly from reduced contribution of vegetables and spices. However, cereals remained the top contributor to food inflation accounting for 43.7% of overall food inflation in Q4:FY25.

Energy items (including solid fuel) contributed around 9% to the headline inflation in both Q3 and Q4. Although energy prices showed signs of stabilization, the contribution of core inflation increased slightly. Overall, non-food inflation remained largely unchanged over the two quarters. Meanwhile, in Q4:FY25, the wage-price gap saw a notable reduction, particularly in June 2025. This narrowing was primarily driven by a decline in headline inflation (y-o-y), which eased to 8.5% in June 2025, while wage growth remained relatively stable at 8.2%. Household purchasing power is now showing signs of improvement. However, wage growth remains sluggish. In this context, sustained policy vigilance is essential to further anchor inflation and maintain a stable macroeconomic environment conducive to long-term, inclusive growth.

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