Inflation Dynamics in Bangladesh
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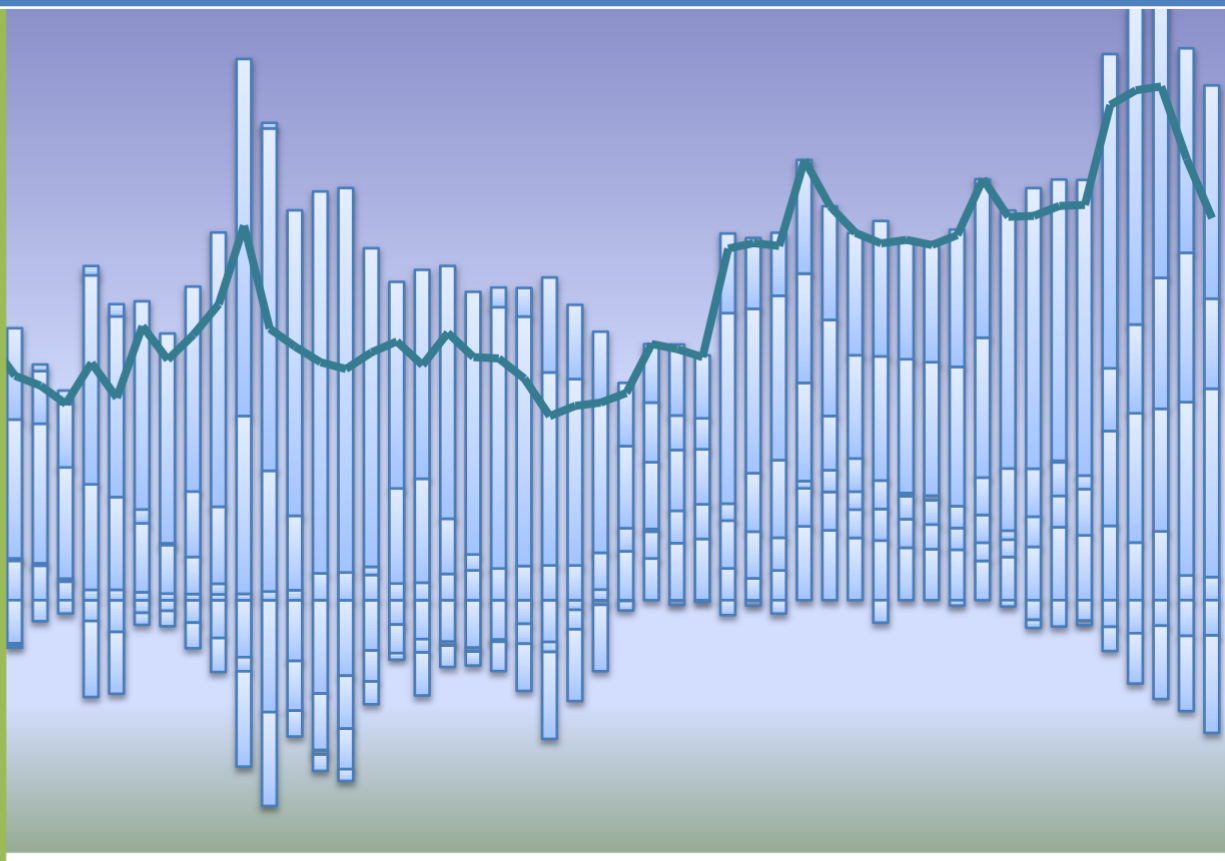

Economic Modeling and Forecasting Wing
Research Department
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Inflation Dynamics in Bangladesh

January–March 2025 (Q3:FY25)

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1 Introduction

As a forward-looking central bank, the Bangladesh Bank aims to maintain price stability and financial system robustness, supporting broad-based inclusive economic growth, employment generation, and poverty eradication in Bangladesh. To formulate effective monetary policy, it is essential to have a comprehensive understanding of the factors that influence fluctuations in price levels. 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.*

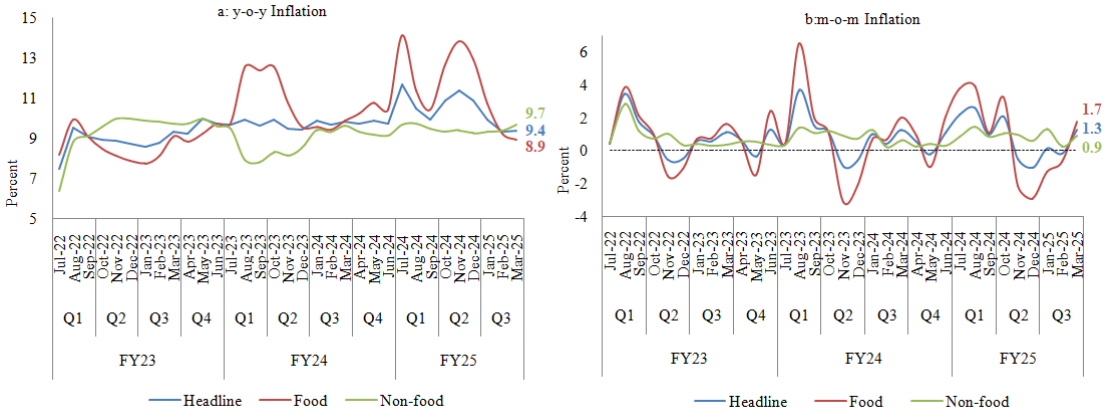
In Q3:FY25, Bangladesh's year-on-year (y-o-y) CPI headline inflation eased slightly from the previous quarter, averaging around 9.5%. The first two quarters of FY25 experienced record-high inflation. Although inflation has eased slightly in the last quarter, it is still hovering around double digits (Figure 1a). Food inflation remained elevated during the first two quarters of FY25, peaking in both periods. However, it declined sharply in the third quarter, falling to single digits and averaging at 9.6% in Q3:FY25. On the other hand, non-food inflation experienced a modest increase, averaging at 9.5% in Q3:FY25, compared to 9.3% in Q2:FY25.

Month-on-month (m-o-m) headline inflation, including its components i.e., food and non-food inflation increased at the end of March 2025. M-o-m food inflation stayed negative from November 2024 to February 2025 before reaching 1.7% in March 2025(Figure 1b).M-o-m non- food inflation stayed in

[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 March 2025 from BBS. Numbers are rounded to one decimal. Q3:FY25 represents January-March, 2025.

the positive territory throughout Q3:FY25 and rose to 0.9% in March 2025. As a result, the m-o-m headline inflation remained positive, amounting to 1.3% in March 2025.

FIGURE 1: CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS)

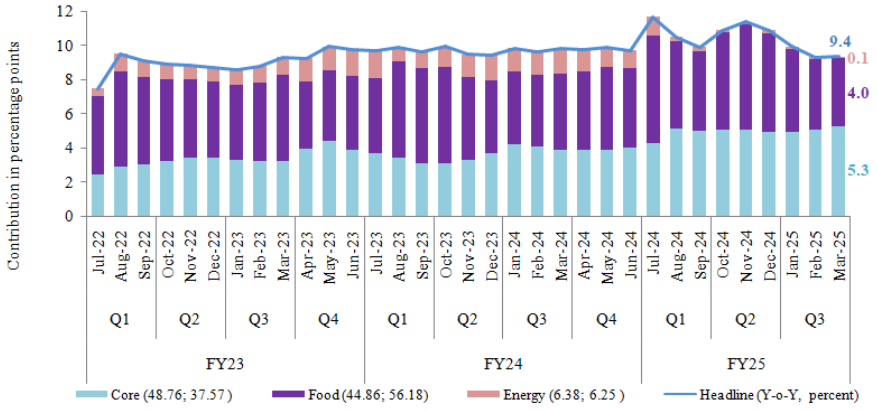
The Asian Development Outlook (ADO) of April 2025 projected that average headline inflation in Bangladesh is expected to remain around 10 percent in FY25 despite easing in the later months, before moderating further in FY26 amid favorable weather, moderating global oil prices, and tighter policy stances (Asian Development Bank, 2025). On the other hand, the International Monetary Fund (IMF) in its April 2025 World Economic Outlook (WEO) highlighted that in 2025 global headline inflation is expected to decline at a slower pace than anticipated in the January 2025 WEO (International Monetary Fund, 2025). Inflation in emerging markets and developing countries, might also be a little lower than the earlier prediction. According to the latest WEO, average headline inflation in Bangladesh is expected to be around 10 percent in 2025 and gradually decrease to around 5 percent after that.

2 Decomposition of Headline Inflation

More than half of the headline inflation stemmed from core items during Q3:FY25. During this period, the average contribution of food inflation declined, while the contribution of energy inflation remained broadly unchanged. Specifically, the average contribution of core items to headline inflation covered 54 percent in Q3:FY25, up from 45 percent in the previous quarter. In contrast, the average contribution of food prices to headline inflation decreased to 45 percent

from 53 percent in the preceding quarter. Meanwhile, energy items accounted for around 1 percent of headline inflation during both the quarters Figure 2).

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



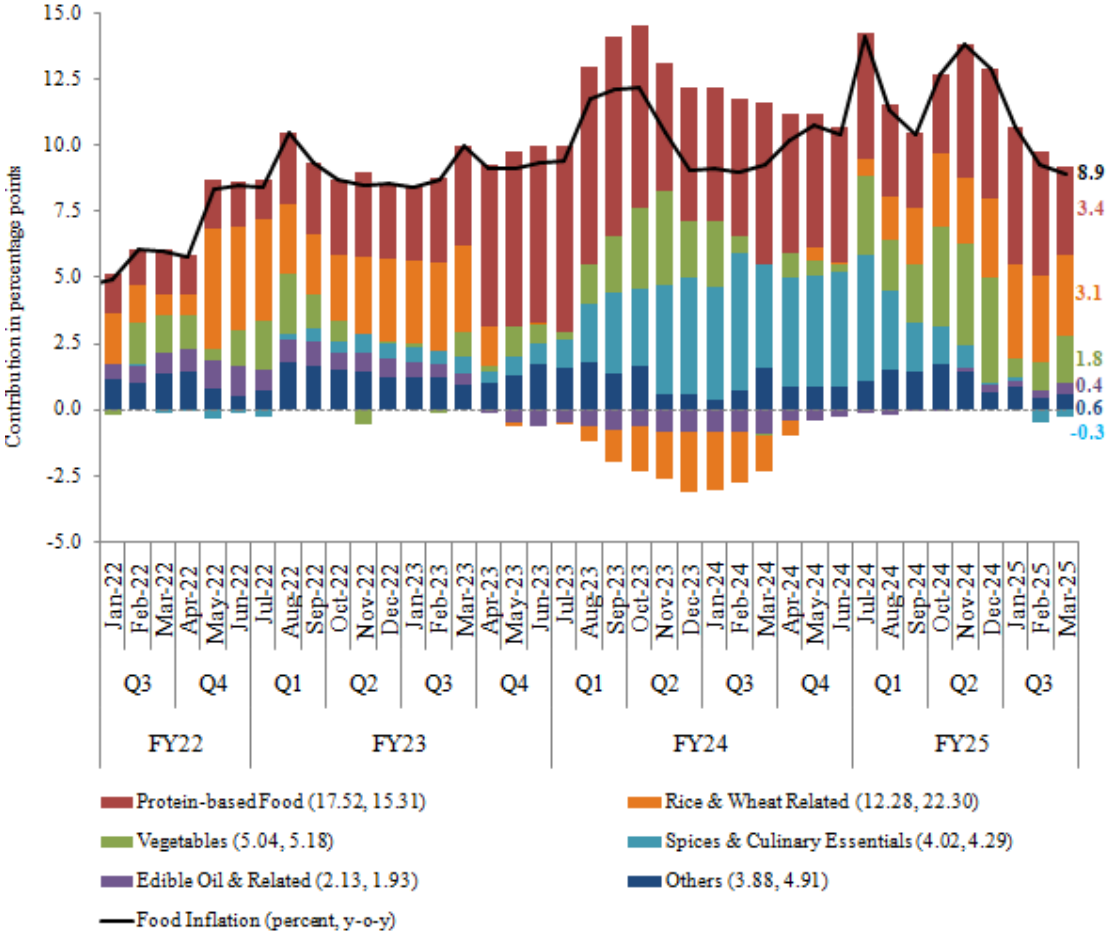
Notes & sources: Numbers in parenthesis represent weights in current and previous baskets, respectively; current weights started from April 2023. BBS and EMFW estimates.

2.1 Decomposition of Food Inflation

Protein-based food items[3](38%), cereals (34%), and vegetables (19.8%) were the primary contributors of food inflation in March 2025. The decrease in food inflation during Q3:FY25 compared to the previous quarter was mainly driven by the decreased contribution of vegetables and spices. Cereals, which had emerged as a significant contributor to food inflation in Q1:FY25, remained a dominant driver in Q3:FY25 as well. While the contribution of protein-based items declined in March 2025 relative to March 2024, their average share in Q3:FY25 remained elevated compared to the previous quarter— accounting for nearly half of the total contribution to food inflation. Edible oil, which was consistently exerting deflationary pressures during FY24, began to show a slight inflationary influence on overall food inflation from the end of Q2:FY25 and throughout Q3:FY25 (Figure 3).

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

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



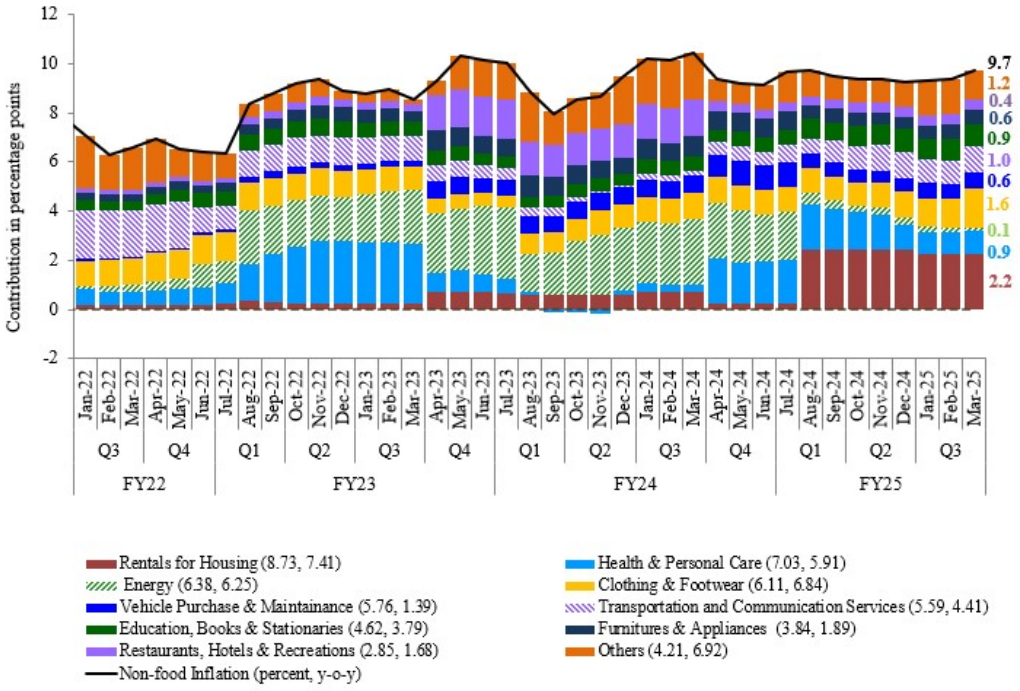
Notes & sources: Numbers in parenthesis represent weights in current (from April'23 onwards) and previous baskets, respectively. BBS and EMFW estimates.

2.2 Decomposition of Non-food Inflation

Housing rentals remained the primary contributor of non-food inflation, accompanied by a modest uptick in clothing and footwear, while other categories remained largely stable in March 2025. Energy prices, which had been a key driver of non-food inflation since mid-2022, began to ease starting in Q1:FY25. As of March 2025, energy's contribution to non-food inflation declined markedly to 1%, down from 26% in March 2024 (Figure 4).

Conversely, the contribution of clothing and footwear to non-food inflation showed a modest increase, reaching 17% in March 2025. Rental costs for housing began exerting a significant influence starting in August 2024, and this trend persisted in subsequent months. Meanwhile, the remaining categories have exhibited relative stability throughout Q2 and Q3 of FY25.

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



Notes & sources: Figures in parenthesis represent weights in current and previous baskets, respectively. BBS and EMFW estimates.

3 Product-wise Drivers of Headline Inflation

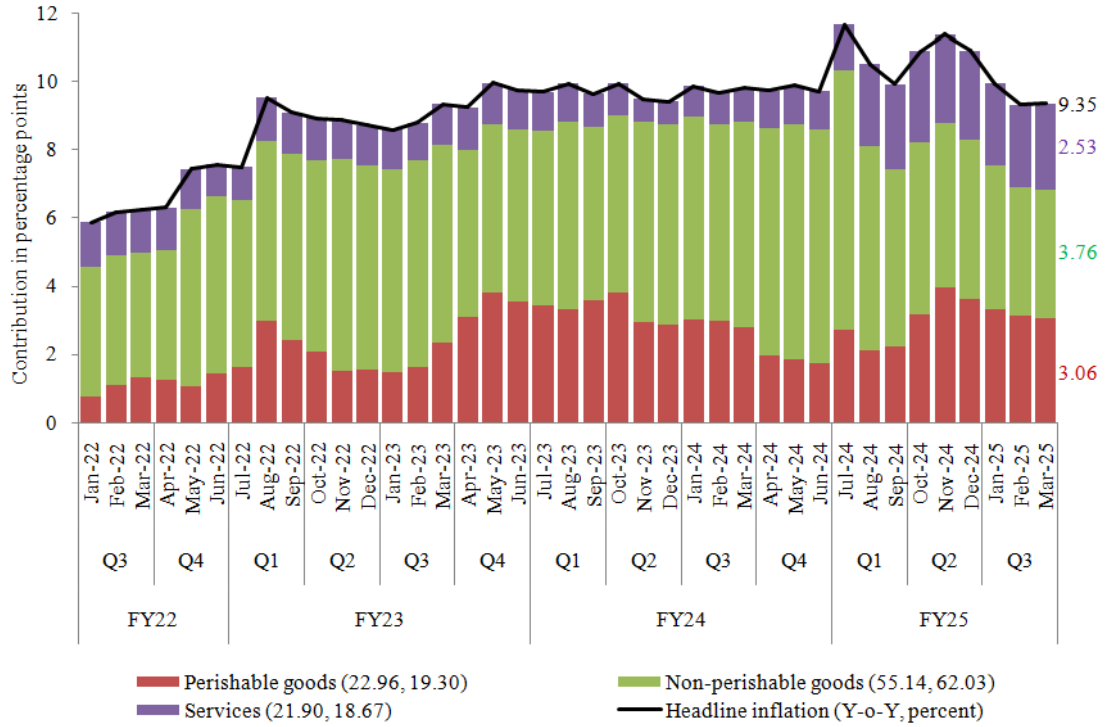
3.1 Goods (Perishable and Non-perishable) and Services

The contribution of perishable goods[4] to the headline inflation remained stable, the contribution of non-perishable goods decreased slightly, while the contribution of services increased slightly in March 2025, compared to December 2024 (Figure 5).

In March 2025, the contribution of perishable goods to headline inflation remained at 33%, unchanged from December 2024. Meanwhile, the contribution of non-perishable goods declined to 40% from 43% and the contribution of services increased slightly to 27% from 24% over the same period.

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

FIGURE 5: Contribution of Goods and Services



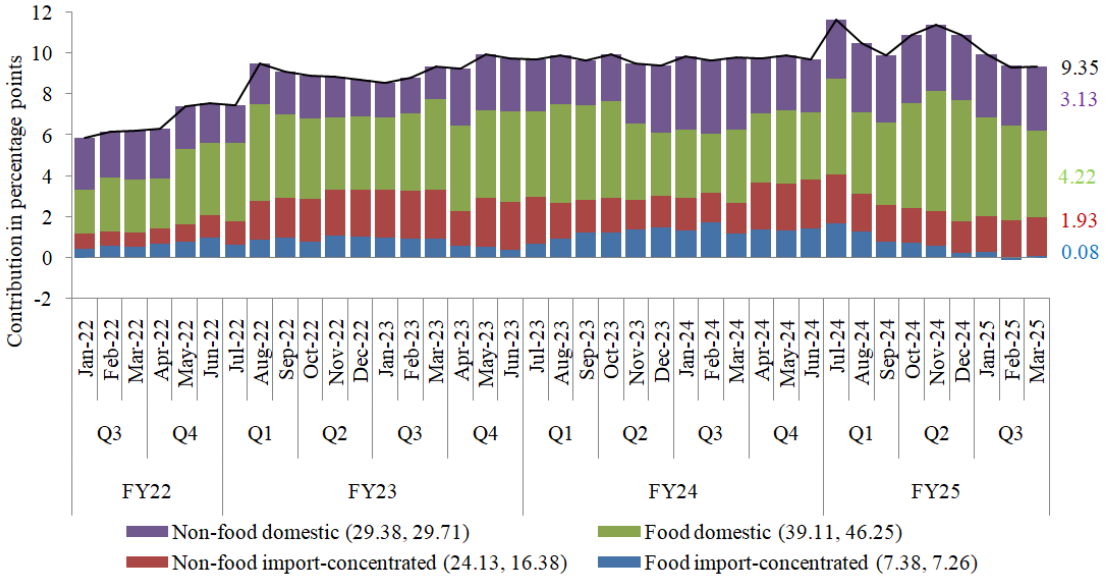
Notes & sources: Figures in parenthesis represent weights in current and previous baskets, respectively; current weights started from April 2023. BBS and EMFW estimates

3.2 Import-concentrated Items

Decreasing trend of the contribution of import-concentrated[5] food items to headline inflation continued in Q3:FY25, while the contribution of import-concentrated non-food items increased. In March 2025, the contribution of import-concentrated items to inflation increased to 21% from 16% in December 2024. Meanwhile, the contribution of domestic items to inflation decreased to 78% from 84% in December 2024.

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

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.

4 Retail and Wholesale Prices of Selected Commodities

In Q3:FY25, the prices of most of the selected commodities either declined or remained stable, except for *Sonali* chicken. Notable price reductions were observed in potato, onion, and green chili during Q2:FY25. In Q3:FY25, the prices of these commodities remained stable following the earlier declines. In contrast, both the price and margin[6] of *Sonali* chicken declined in February but picked up again in March 2025, resuming their earlier upward trend. Additionally, lentil, onion, and green chili recorded widened margins towards the end of the quarter.

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

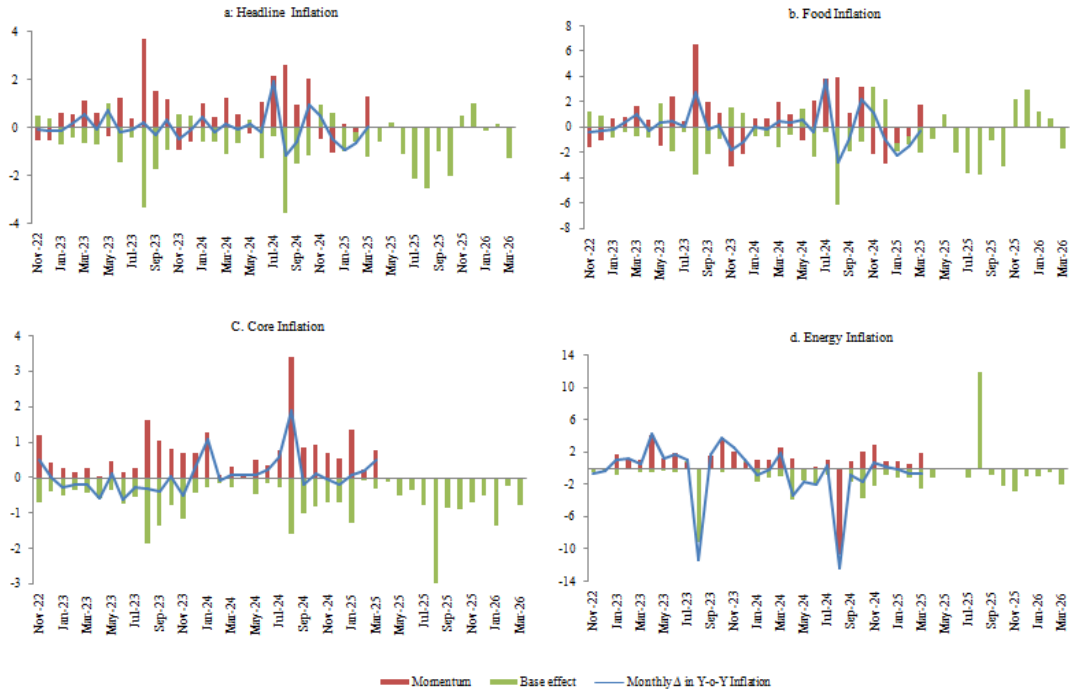
FIGURE 7: Retail and Wholesale Prices of Selected Commodities

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).

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

At the beginning of Q3:FY25, headline inflation was dominated by favorable base[7] effects. However, in March 2025, headline inflation edged up due to positive momentum effects across all categories.

FIGURE 8: CPI Inflation–Base and Momentum Effects



Sources: BBS and EMFW estimates

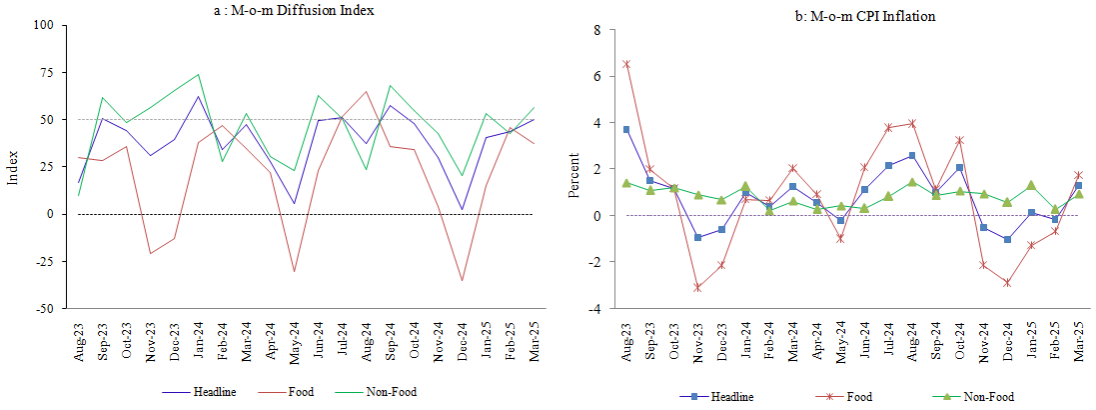
Core inflation, in particular, increased substantially because of sustained upward momentum effects throughout the quarter. Food inflation, on the other hand, recorded negative momentum effects during January and February 2025 before rising in March. Meanwhile, energy inflation saw a slight decline, driven by a favorable base effect. 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.

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

Diffusion index[8] for headline inflation increased in Q3:FY25 compared to Q2:FY25, indicating that a larger number of items within the overall CPI basket experienced price increases. In March 2025, 209 commodities recorded price increases, 17 registered price declines, and 156 remained unchanged compared to previous month out of the 382 commodities in the CPI basket.

Food inflation (m-o-m) remained in negative territory during the first two months of the quarter(Figure 9). However, in March 2025, m-o-m food inflation increased, despite a decline in the m-o-m food diffusion index. This suggests that items with price increases carried a greater weight in the index. Meanwhile, compared to the previous month, the non-food diffusion index increased sharply in March 2025, as 153 out of 256 commodities in this category registered price increases.

FIGURE 9: Diffusion Indices



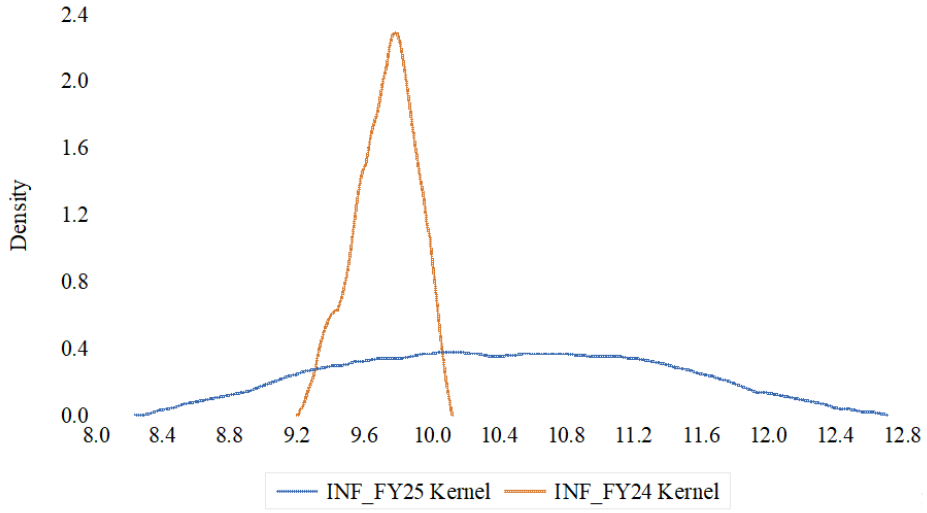
Notes & sources: The higher the reading towards & above 50, the broader is the expansion of price increases across CPI items, and vice versa. BBS and EMFW estimates.

The Kernel Density Function (KDF[9]) for y-o-y headline inflation in FY25 exhibits rightward and flat compared to FY24, indicating a broader variablity of inflation rate around a higher average level. In FY24, inflation rates were clustered around 9.8% with a sharp peak. In contrast, in FY25 the distribution appears more spread out, with values ranging from approximately 8.5% to 12.5%, indicating higher variability and elevated inflation rates throughout the fiscal year.(Figure 10).

[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.

[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.

FIGURE 10: Kernel Density Estimates



Sources: BBS and EMFW estimates.

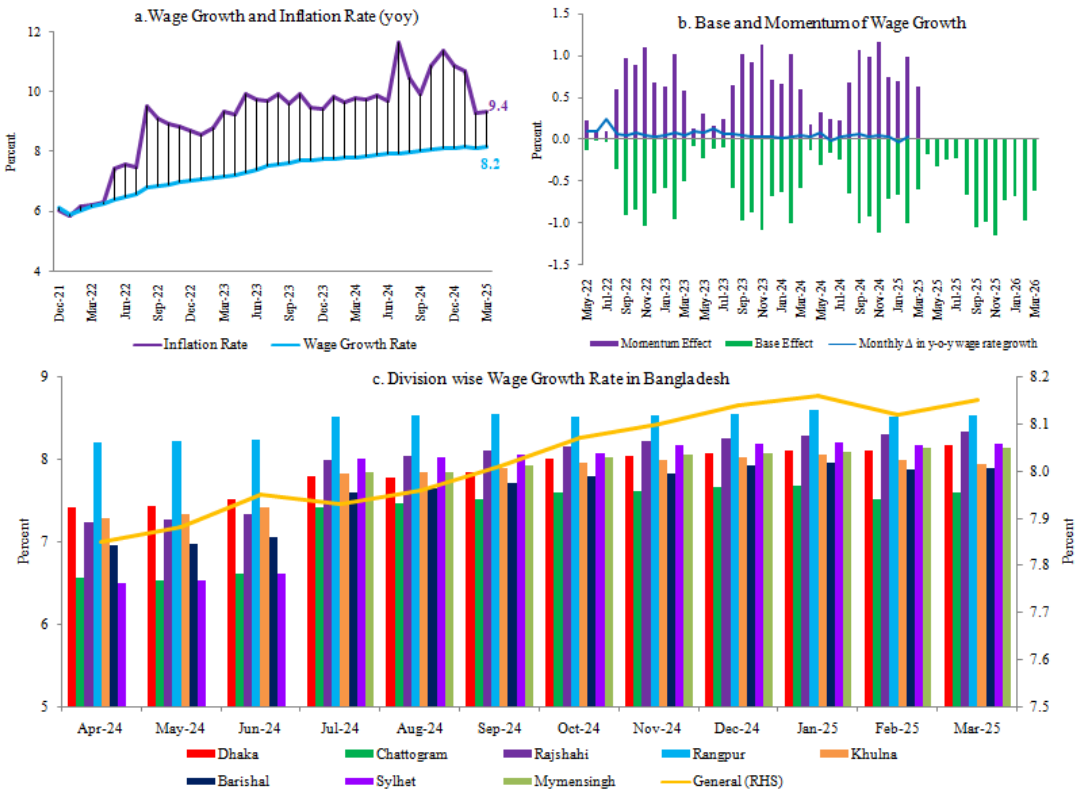
6 Wage Dynamics

Since April 2022, inflation has consistently exceeded wage growth, reducing consumers' purchasing power and causing a decline in real income (Figure 11.a). In Q3:FY25, this gap narrowed a little as headline inflation eased to an average of around 9.5 percent. As a result, a slight improvement in purchasing power was recorded. Wage growth remained sluggish despite some fluctuations in the momentum effect as the negative base effect persisted throughout the quarter (Figure 11.b).

However, overall wage growth followed a slightly upward trajectory. Among all the divisions, Rangpur recorded the highest wage growth. In Q3:FY25, wage growth rates marginally increased in Dhaka, Rajshahi, Rangpur, and Sylhet divisions, while remaining mostly unchanged in other regions (Figure 11.c).

Despite these improvements, wage growth remained insufficient to keep pace with inflation, thereby limiting real income and sustaining pressure on household purchasing power.

FIGURE 11: Wage Dynamics



Sources: BBS and EMFW estimates

7 Conclusion

Inflationary pressures in Bangladesh reached a twelve-year high in the early FY25, driven mainly by rising food prices and persistent core inflation. During Q3:FY, headline inflation moderated slightly to an average of 9.5 percent, providing some indications of relief. This moderation was primarily driven by a decline in food inflation, particularly from reduced contribution of vegetables and spices. However, cereals and protein items continued to be the major contributors to food inflation.

Despite some stabilization in energy prices, core inflation remained elevated, with rising housing rental costs playing an increasingly important role in sustaining non-food inflation. Meanwhile, slow wage growth continued to limit real incomes and household purchasing power. Although inflation has shown signs of easing, the underlying risks persist, particularly from core and food inflation. Therefore, sustained policy vigilance is crucial to anchor inflation expectations, protect purchasing power, and ensure a stable macroeconomic environment for long-term inclusive growth.

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