Inflation Dynamics in Bangladesh
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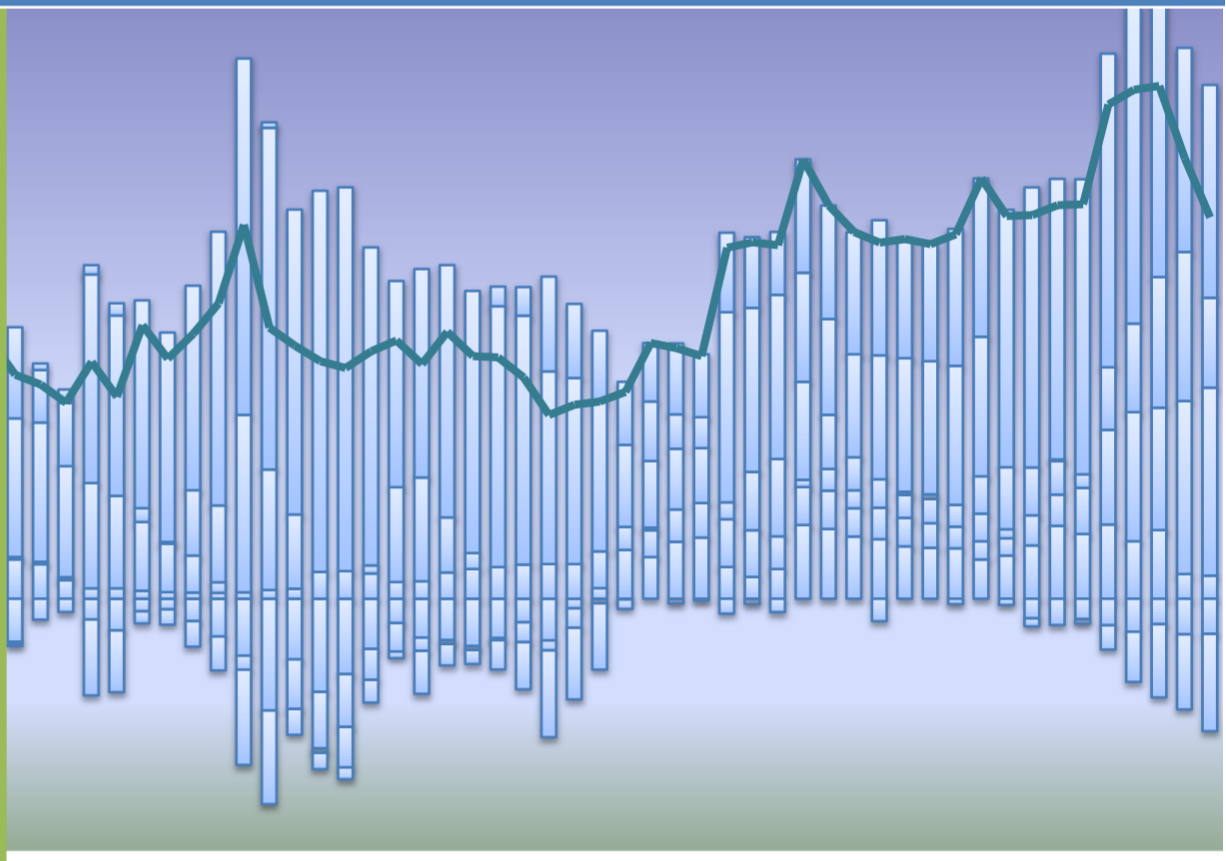

Economic Modeling and Forecasting Wing
Research Department
Bangladesh Bank

Inflation Dynamics in Bangladesh

July–September 2025 (Q1:FY26)

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1 Introduction

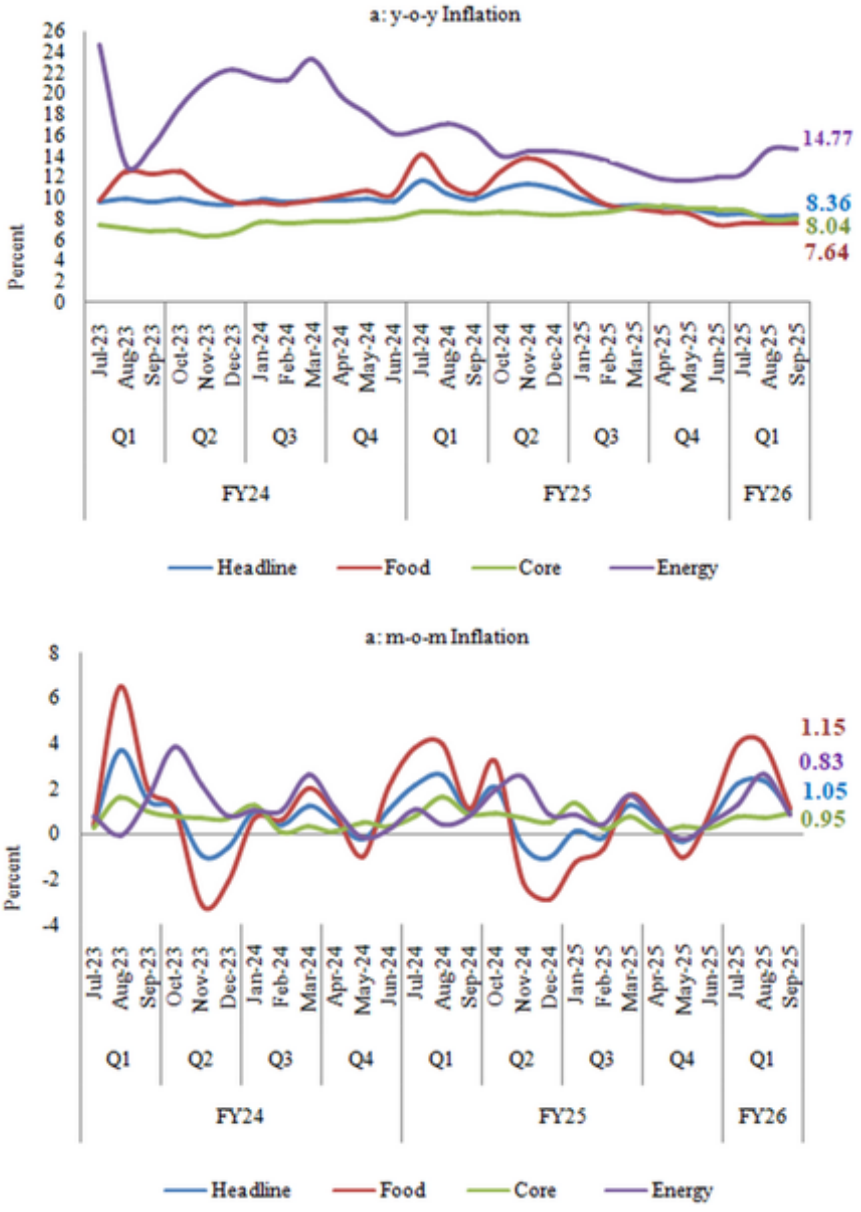
Bangladesh Bank, as a forward-looking central bank, is dedicated to maintaining price stability and a robust financial system by promoting inclusive and broad-based economic growth, job creation, and poverty reduction. A sound comprehension of the fundamental elements that influence price level movements is necessary for the formulation of effective monetary policy. This report examines the main forces influencing Bangladesh's Consumer Price Index (CPI) inflation and wage trends[2] *which offers a thorough analysis of the variables influencing the inflation dynamics of the nation.*

As per Asian Development Bank in its Asian Development Outlook (September 2025), Bangladesh's inflation is expected to ease from 10% in FY25 to 8% in FY26 amid tighter monetary policy. The assumption of favorable weather conditions, easing global oil prices, the implementation of stricter policy measures will contribute to further decline (Asian Development Bank, 2025). However, the International Monetary Fund (IMF) in its October 2025 World Economic Outlook (WEO) noted that worldwide headline inflation is predicted to fall in 2026 to 3.7% than 4.2% in 2025 (International Monetary Fund, 2025). Global headline inflation continues to decline, reflecting easing food and energy prices, though inflationary pressures remain uneven across countries. The said report projected Bangladesh's consumer price inflation at 8.5% in December 2025 and 8.4% in December 2026, reflecting gradual easing from double-digit levels as global and domestic price pressures subside.

[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 September 2025 from BBS. Numbers are rounded to one decimal. Q1:FY26 represents July-September, 2025.

In Q1:FY26, Bangladesh's year-on-year (y-o-y) CPI headline inflation eased further from the previous quarter, averaging around 8.4%. Although Bangladesh witnessed historically high inflation rates in the first two quarters of FY25, the moderation in inflation began in Q3:FY25 and persisted through Q1:FY26 (Figure 1a). Food inflation, which remained in double digits during the first half of FY25, fell to single digits in the last half of FY25 and declined further to 7.6% by the end of Q1:FY26. On the other hand, in FY25 non-food inflation remained broadly stable at an elevated level, averaging around 9.5%, and started to decline slightly in Q1:FY26, averaging 9.1%.

FIGURE 1: CPI Inflation



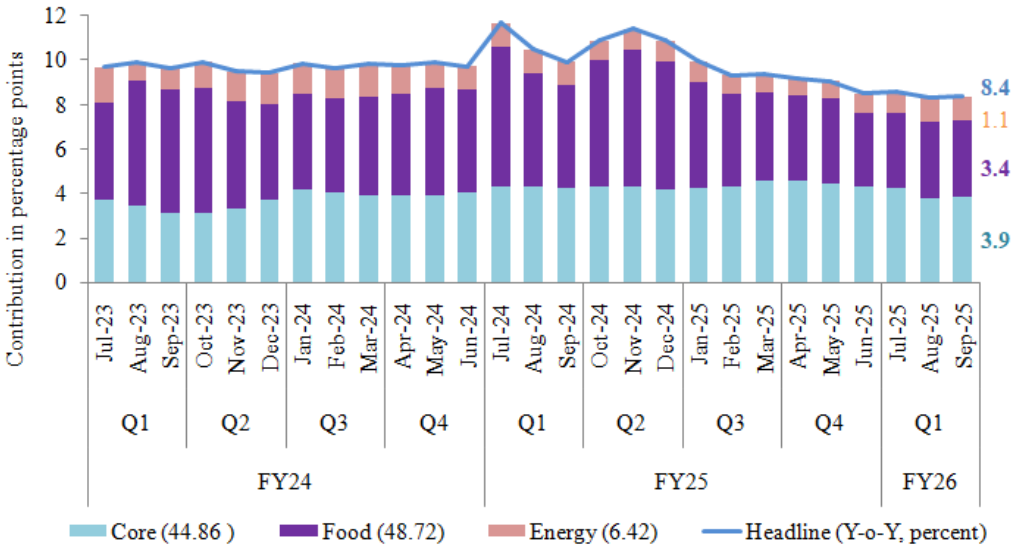
Source: Bangladesh Bureau of Statistics (BBS)

Month-on-month (m-o-m) headline inflation declined moderately in September 2025, while food inflation decreased sharply from the previous month. The m-o-m headline inflation remained positive, amounting to 1.0% in September 2025 from 2.4% in August 2025. M-o-m food inflation decreased to 1.2% in September 2025 from 4.0% in August 2025 (Figure 1b). M-o-m non-food inflation remained stable during this period.

2 Decomposition of Headline Inflation

The contribution of core items to headline inflation dominated as usual throughout Q1:FY26 (Figure 2). During this period, the average contribution of food inflation to headline inflation declined slightly, while the contribution from energy inflation increased. Specifically, the average contribution of core items to headline inflation accounted for 47.2 percent in Q1:FY26, slightly decreased from 49.7 percent in the previous quarter. In contrast, the average contribution of food prices to headline inflation in Q1:FY26 fell to 40.6 percent from 41.3 percent in the preceding quarter. Meanwhile, energy items accounted for 12.2 percent of the headline inflation during this quarter from 8.9 percent in the preceding quarter. However, data shows that the recent uptick in energy inflation is mostly contributed by solid fuels such as cow dung, wood fires, jute sticks, etc.

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

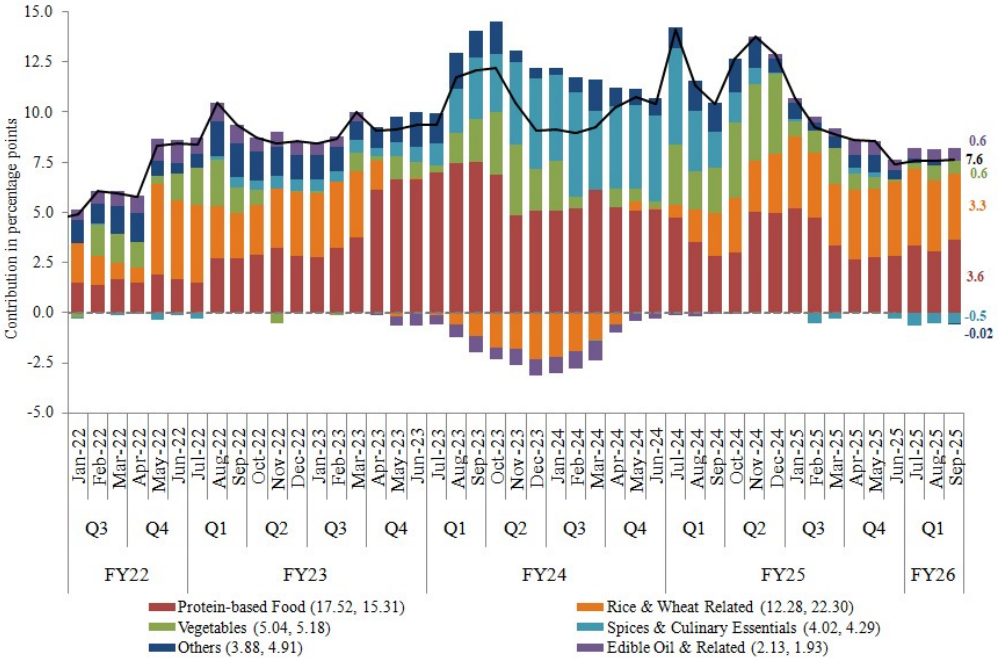


Notes & sources: Numbers in parenthesis represent weights started from April 2023. BBS and EMFW estimates.

2.1 Decomposition of Food Inflation

In Q1:FY26, cereals continued to be the dominant driver of food inflation in Bangladesh. On average, cereal products contributed 47.08% to overall food inflation during Q1:FY26, 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 fueled a notably role, accounting an average of 43.98% 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.

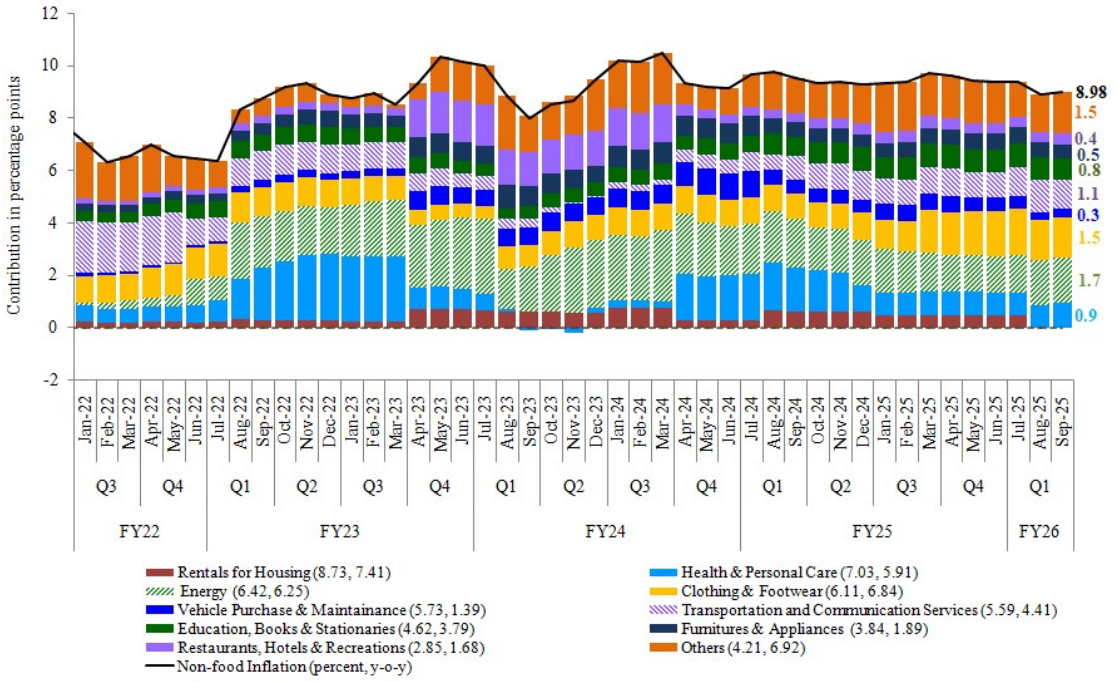
In contrast, the contribution of vegetables to food inflation surged slightly in Q1:FY26. The average contribution of vegetables was up to 7.16% in Q1:FY26, compared to 5.50% in the previous quarter, indicating a considerable hike in vegetable prices. In the meantime, edible oil's contribution to the overall composition of food inflation dropped slightly and remained low. The average price level of Spices and culinary essentials has fallen 7.57% over the previous period.

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

2.2 Decomposition of Non-food Inflation

Non-food inflation remained persistently high at around 9.5% throughout FY25. During Q1:FY26, the primary contributors to non-food inflation were clothing and footwear, which accounted for 17.71%, and energy (including solid fuel), which contributed 17.89% (Figure 4). The contribution of clothing & footwear slightly decreased in Q1:FY26 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.

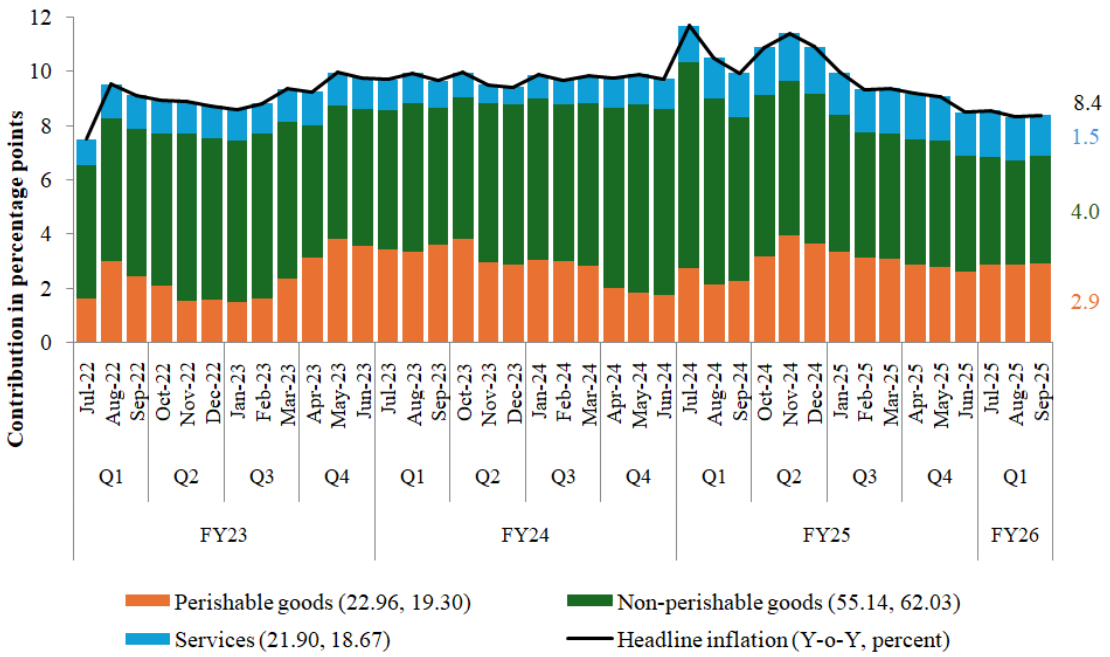
Energy remained a major component of non-food inflation, its contribution surged in Q1:FY26 relative to previous quarters. Meanwhile, contributions from other components of non-food inflation, such as transport, health, education, and miscellaneous goods and services, remained broadly stable.

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 in Q1:FY26 compared to the previous quarter, whereas the contribution from non-perishable goods declined over the same period (Figure 5). In Q1:FY26, contribution of perishable goods increased to 34.1% in Q1:FY26 from 30.8% in Q4:FY25. The average contribution of non-perishable goods decreased to 46.7% from 50.8% in the previous quarter, indicating some moderation in price pressures for these items. Meanwhile, the contribution of services to headline inflation increased marginally, rising to 19.2% in Q1:FY26 from 18.4% in the preceding quarter.

FIGURE 5: Contribution of Goods and Services



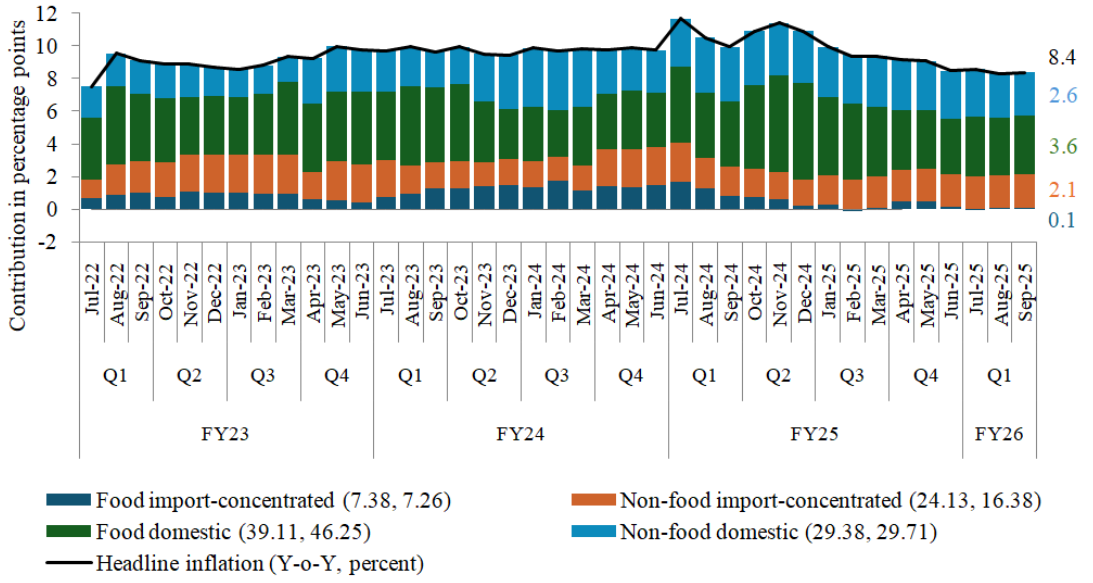
Notes & sources: Figures in parenthesis represent weights in current and previous baskets, respectively; current weights started from April 2023. BBS and EMFW estimates

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

3.2 Import-concentrated Items

In Q1:FY26, the average contributions of import-concentrated[5] food items to headline inflation decreased, but the contribution of non-food items fueled slightly from the previous quarter. Meanwhile, the contribution of domestic food items to inflation increased, though the non-food items to inflation declined minimally.

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.

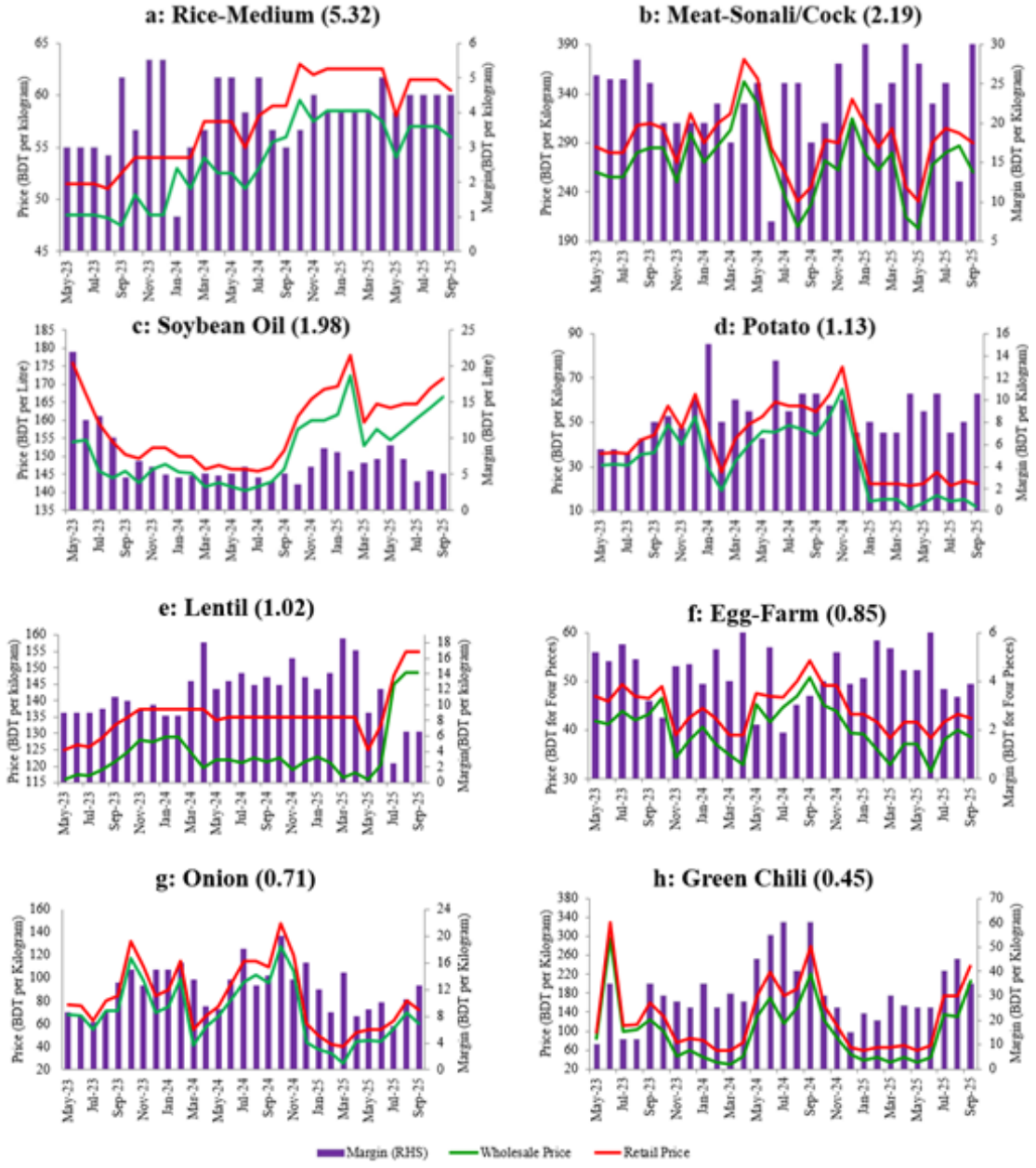
During Q1:FY26, the average contribution of import-concentrated items to inflation decreased to 24.4% from 26.1% in Q4:FY25. Meanwhile, the contribution of domestic items to inflation in Q1:FY26 increased to 75.6% from 73.9% in Q4:FY25.

[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 Q1:FY26, the retail and wholesale prices of most of the selected commodities increased, except the retail price of potatoes. Notable price hikes were observed in Green Chili, Lentil, Onion, and *Sonali* than that of the previous quarter.

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).

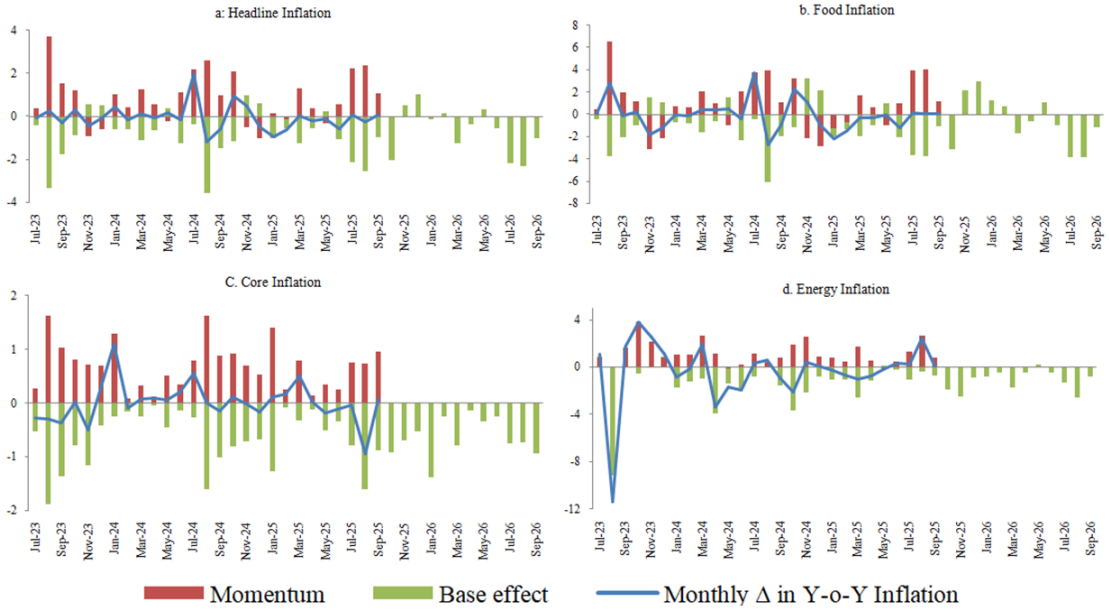
In July and August of 2025, *Sonali* chicken experienced a significant price hike. However, September saw a sharp decline in both wholesale and retail prices. In addition, the Green Chili also experienced a substantial increase throughout the quarter following earlier declines.

At the end of the quarter, the Meat-Sonali, Potato, Egg-farm, and Onion showed increased margins[6], except for Lentil and Rice-medium, which show relatively stable.

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

In Q1:FY26, 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

In July 2025, except core, momentum effects outweighed the base effects, contributing to an increase in inflation. In August 2025, core inflation continued to benefit from negative momentum, supporting the easing of inflation. By the end

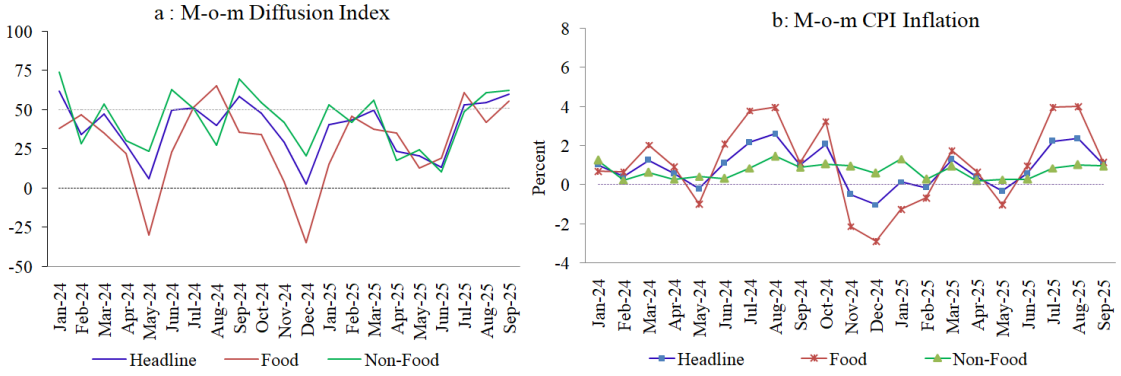
[6] Margins are the difference between retail and wholesale prices.

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

of the Q1:FY26, food, core, and energy inflation remained dominated by favorable momentum effects, which outweighed the negative base effect. The headline, food, core, and energy inflation increased slightly during this time. 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 increased on average in Q1:FY26 compared to Q4:FY25, indicating that the majority of items within the overall CPI basket are experiencing price increases. In September 2025, out of the 382 commodities in the CPI basket 260 commodities recorded price increases, 31 registered price declines, and 91 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 non-food inflation (m-o-m) increased in July 2025 and remained in positive territory in July 2025(Figure 9). However, in August 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.

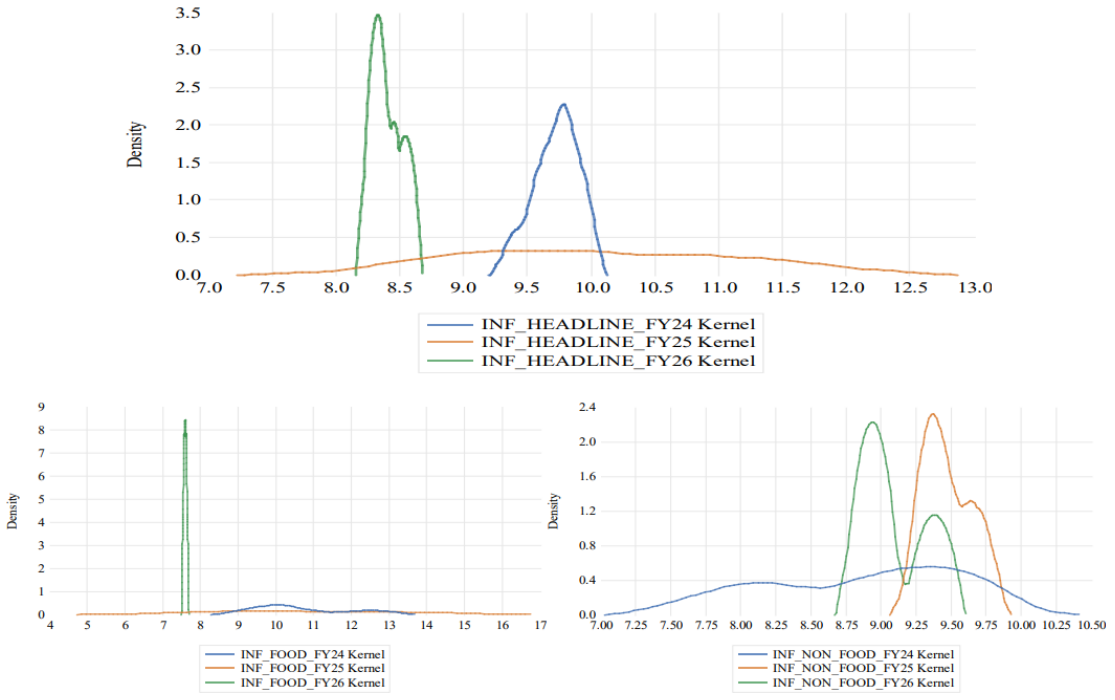
On the other hand, non-food inflation (m-o-m) remained stable throughout the quarter as prices of 217 out of 256 commodities in this category remained unchanged.

[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.

The Kernel Density Function (KDF[9]) of headline inflation (y-o-y) for FY 26 (up to September 2025) exhibits leftward and steeper compared to FY25 indicating a lower variability of inflation rates.

The distribution for headline inflation of FY25 appears notably flatter and exhibits a rightward shift, reflecting a broader range of inflation rates. It indicates that inflation in FY25 exhibited greater volatility and elevated inflation rates. In contrast, the distribution for FY26 (up to September 2025) indicates that inflation rates during this period were tightly clustered with low variability. The distribution for food inflation of FY25 appears notably steeper and exhibits a leftward shift, indicating less volatility and decrease in food inflation. Besides, the distribution for non-food inflation of FY26 appears moderately flatter and exhibits a leftward shift, indicating moderate volatility and decrease in non-food inflation.(Figure 10)

FIGURE 10: Kernel Density Estimates



Sources: BBS and EMFW estimates.

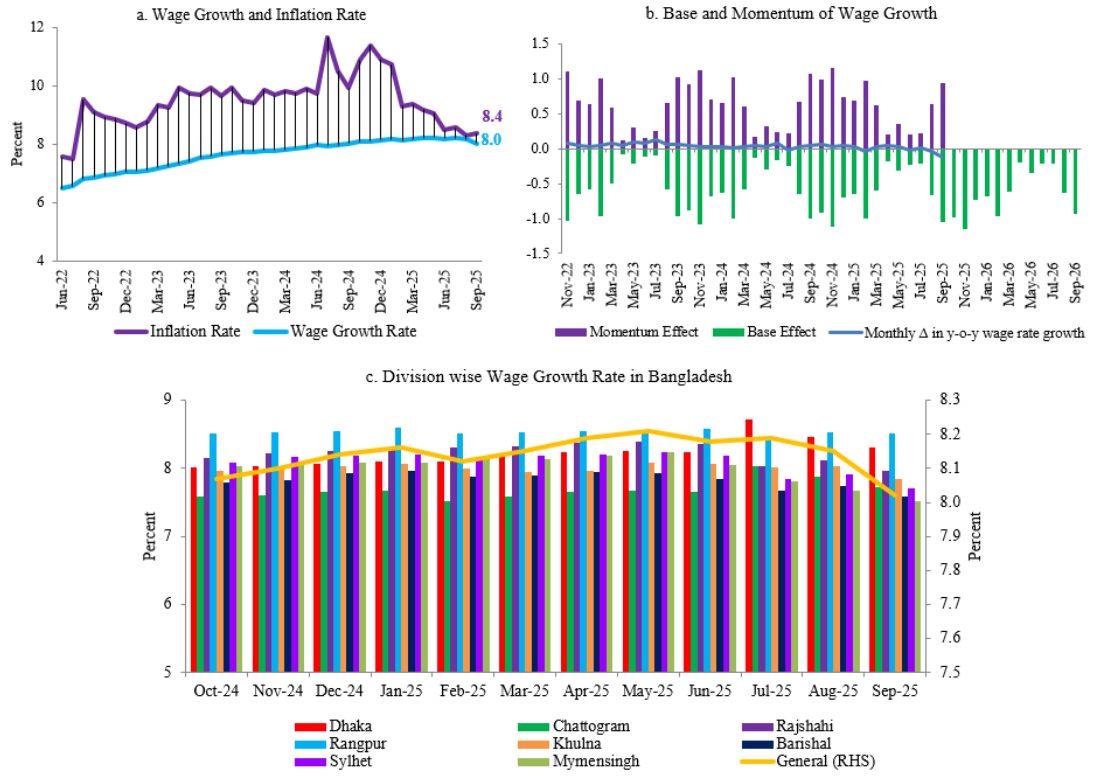
[9] A KDF shows the distribution of data, indicating where the data is concentrated (steep parts) and how far it spreads out (tail length). Steeper parts indicate higher density and mean value, and longer tails show spread or variation of the data. See Bangladesh Bank (2024b) for details.

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).

However, from February 2025 onward, this gap began to narrow as the inflation rate moderated and saw a notable reduction, particularly in June 2025. In Q1:FY26, the wage-price gap again slightly widened than that of the previous quarter. This slight widening was primarily driven by a decline in wage growth rate. The Headline inflation and wage growth both eased to an average of 8.4% and 8.0%, respectively, in Q1:FY26.

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 went to downward trajectory in Q1:FY26 after end of the last quarter (Q4:FY25). Wage growth rates decreased marginally across all divisions except Dhaka and Chattogram in Q1:FY26 compared to the previous quarter

(Figure 11.c). Among all divisions, Rangpur continued to record the highest wage growth.

7 Conclusion

In Q1:FY26, headline CPI inflation (y-o-y) continued to ease, averaging approximately at 8.4%, down from the elevated levels observed in the FY25. The moderation in inflation that commenced in Q3:FY25 continued to Q1:FY26. This moderate trend was mainly the results of a decline in food inflation, particularly from reduced contribution of spices and edible oil. However, cereals remained the top contributor to food inflation accounting for 47.08% of overall food inflation in Q1:FY26.

Energy items (including solid fuel) accounted for 9.9% to the headline inflation in this quarter, though it maintained around 8.0% in Q4:FY25. Although energy prices increased, the contribution of core inflation has decreased. Overall, non-food inflation was slightly lower than that of the previous two quarters. Meanwhile, in Q1:FY26, the wage-price gap saw a notable reduction than that of the second half of FY25. This narrowing was primarily driven by a decline in headline inflation (y-o-y), which eased to 8.4% in September 2025, while wage growth remained relatively stable at 8.0%. 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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