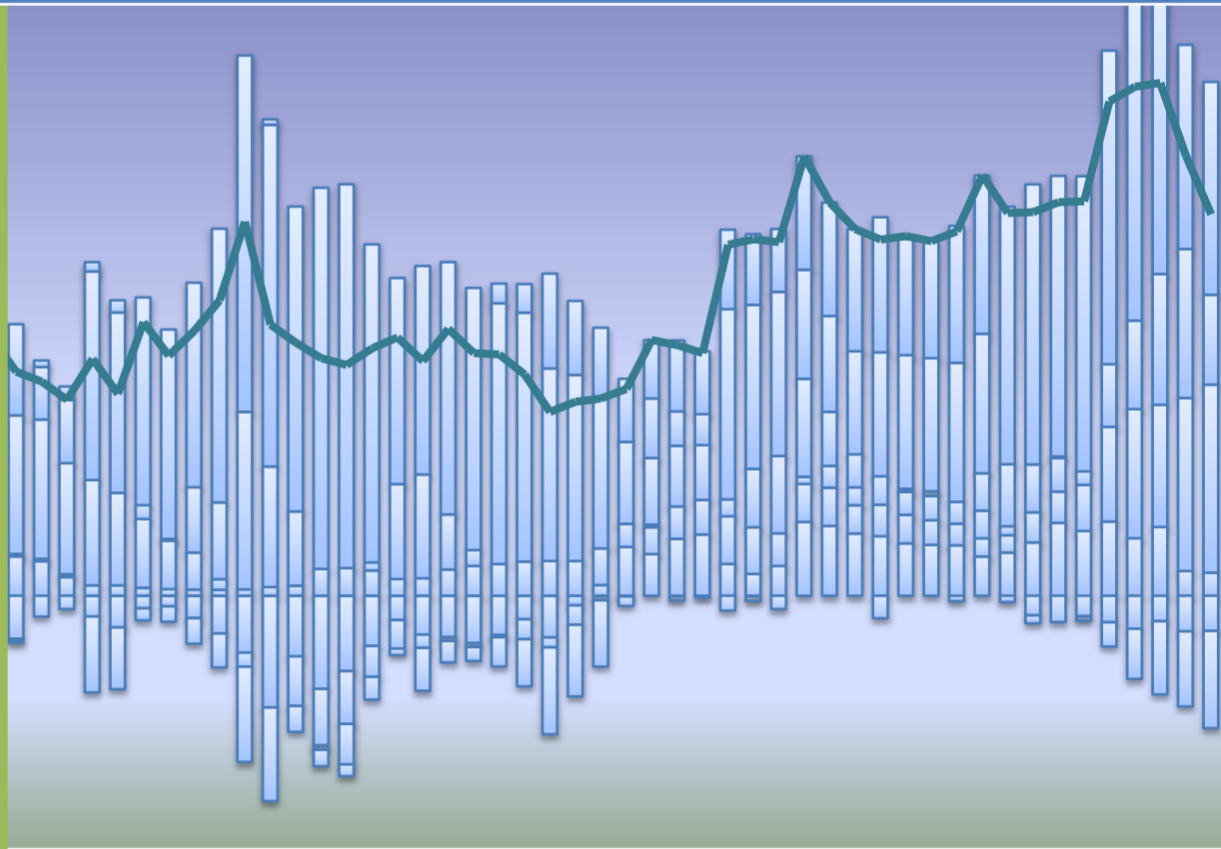




# Inflation Dynamics in Bangladesh October-December 2025

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Bangladesh Bank

# Inflation Dynamics in Bangladesh

October–December 2025 (Q2:FY26)

## Chief Editor

Dr. Md. Golzare Nabi, Executive Director (Research)

## Analysts and Contributors

Nurun Nahar Sultana, Director (Research)<sup>1</sup>

Alok Roy, Additional Director (Research)

Md. Masudur Rahman, Joint Director (Research)

Md Jahedul Islam, Deputy Director (Research)

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<sup>1</sup>Comments and suggestions are welcomed and may be sent to [nurun.sultana@bb.org.bd](mailto:nurun.sultana@bb.org.bd); [alok.roy@bb.org.bd](mailto:alok.roy@bb.org.bd)

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# Inflation Dynamics in Bangladesh

## Executive Summary

- Headline inflation (y-o-y) eased during Q2:FY26 (October-December 2025) compared to Q1:FY26 (July-September 2025), averaging around 8.3%.
- Food inflation slightly declined during Q2:FY26, primarily driven by a reduced contribution from vegetables to the previous quarter. However, protein-based foods remained the top contributor.
- In Q2:FY26, the core inflation slightly decreased to 8.2% from 8.3% in the previous quarter. The slight decreases in clothing & footwear, and healthcare & furniture items were observed.
- Energy inflation increased by 14.4% in Q2:FY26, which was 13.9% in the previous quarter. Solid fuels—such as firewood, agricultural by-products, cow dung, and jute sticks (combined weight: 3.59)—have been the main contributors to overall energy inflation. In this quarter, solid fuel inflation at 23.1%. By contrast, energy inflation excluding solid fuels edged down slightly in Q2:FY26.
- In Q2:FY26, the average contributions of both import-concentrated food items and non-food items to headline inflation increased from the previous quarter. Meanwhile, the contribution of domestic non-food items to inflation declined.
- At the end of Q2:FY26, the wage-price gap slightly widened than that of the previous quarter. This widening was primarily driven by a rise in headline inflation rather than any significant improvement in wage growth.

# 1 Introduction

*As the country's monetary authority, Bangladesh Bank is mandated to maintain price stability and financial system soundness, while supporting inclusive and sustainable economic growth, employment creation, and poverty reduction. The implementation of effective monetary policy depend critically on a robust assessment of the underlying drivers of inflation. Against this backdrop, this report examines the key determinants of Bangladesh's Consumer Price Index (CPI) inflation and wage trends<sup>2</sup> which offers a thorough analysis of the variables influencing the inflation dynamics of the nation.*

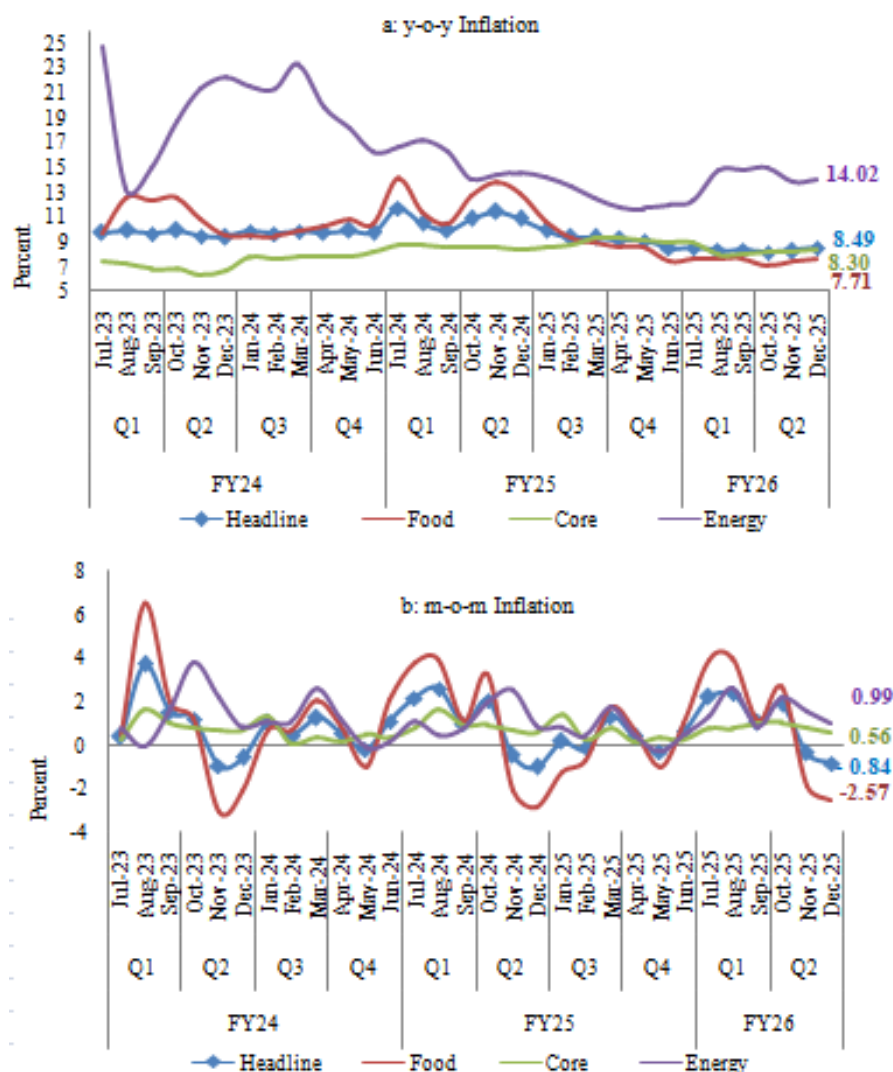
As per Asian Development Bank in its Asian Development Outlook (December 2025), Bangladesh's inflation is expected to ease from 10% in FY25 to 8% in FY26 amid tighter monetary policy. The assumption of favorable weather conditions, efforts to mitigate exchange rate volatility, easing global commodity 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.

**In Q2:FY26, Bangladesh's year-on-year (y-o-y) CPI headline inflation decreased from the previous quarter, averaging around 8.31%.** 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 Q2: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 average at 7.4% in Q2: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 Q2:FY26, averaging 9.1%.

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<sup>2</sup>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 December 2025 from BBS. Graph values are rounded to two decimal places and text values are rounded to one decimal place. Q2:FY26 represents October-December, 2025.

Figure 1: CPI Inflation



Source: Bangladesh Bureau of Statistics (BBS)

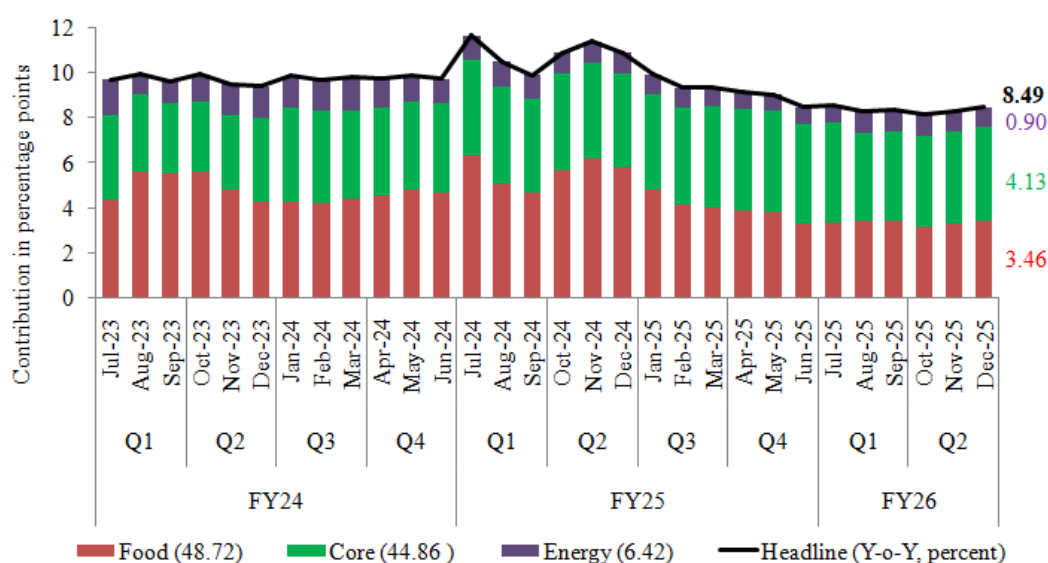
Month-on-month (m-o-m) headline inflation declined moderately in December 2025, while food inflation decreased sharply from the previous month. The m-o-m headline inflation remained negative, amounting to -0.8% in December 2025 from -0.4% in November 2025. M-o-m food inflation decreased to -2.6% in December 2025 from -1.9% in November 2025 (Figure 1b). M-o-m core inflation remained broadly stable during this period.

## 2 Decomposition of Headline Inflation

The contribution of core items to headline inflation dominated as usual throughout Q2:FY26 (Figure 2). During this period, the average contribution

of food inflation to headline inflation declined slightly, while the contribution from core and energy inflation showed slight uptick. Specifically, the average contribution of core items to headline inflation accounted for 49.1% in Q2:FY26, slightly increased from 48.8% in the previous quarter. In contrast, the average contribution of food prices to headline inflation in Q2:FY26 fell to 39.8% from 40.6% in the preceding quarter. Meanwhile, energy items accounted for 11.0% of headline inflation in this quarter, up from 10.6% in the preceding quarter. However, data show that the recent uptick in energy inflation is mostly attributable to solid fuels such as cow dung, wood fires, jute sticks, etc.

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



Notes: Numbers in parentheses represent weights in the CPI basket. Sources: BBS and EMFW estimates.

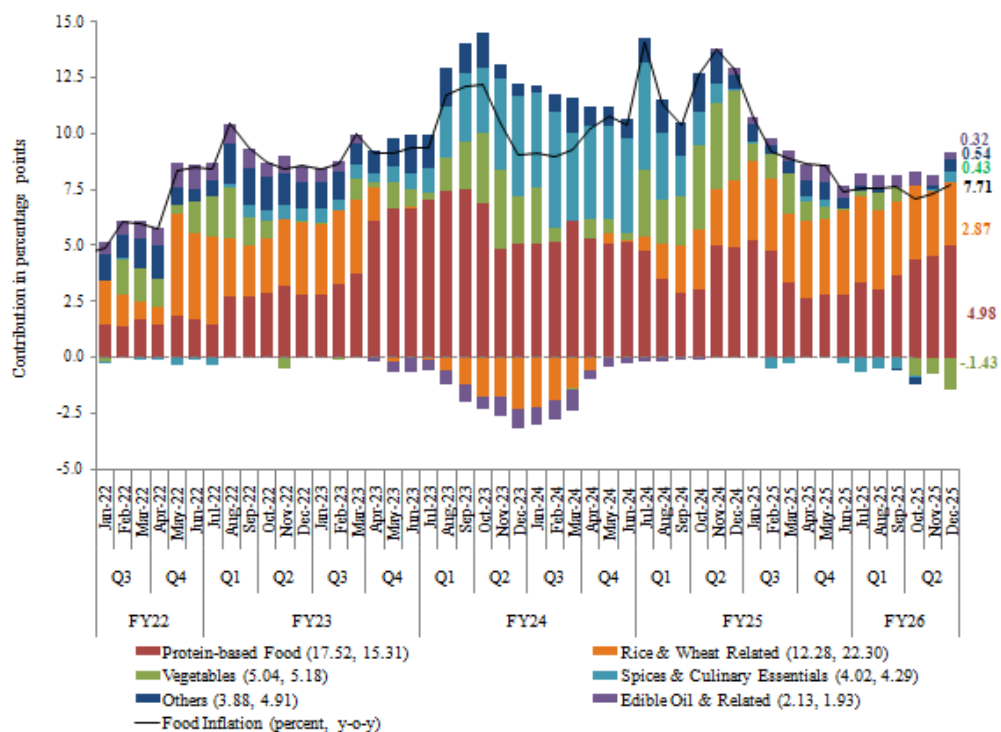
## 2.1 Decomposition of Food Inflation

In Q2:FY26, food inflation slightly declined due to a sharp fall in vegetable prices, while protein-based foods<sup>3</sup>, cereals, and spices remained the main drivers of overall food inflation. The average contribution of vegetables to food inflation was negative (-13.4%) in Q2:FY26, compared to 7.2% in the previous quarter, indicating a considerable reduction in vegetable prices. On average, protein-based products contributed 62.8% to overall food inflation during Q2:FY26, maintaining their position as the highest-contributing category (Figure 3). Cereal items also played a notable role, accounting for an average of

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

41.4% to food inflation in the same period. However, the average contribution of vegetables was negative (13.38%) in the said quarter.

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



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

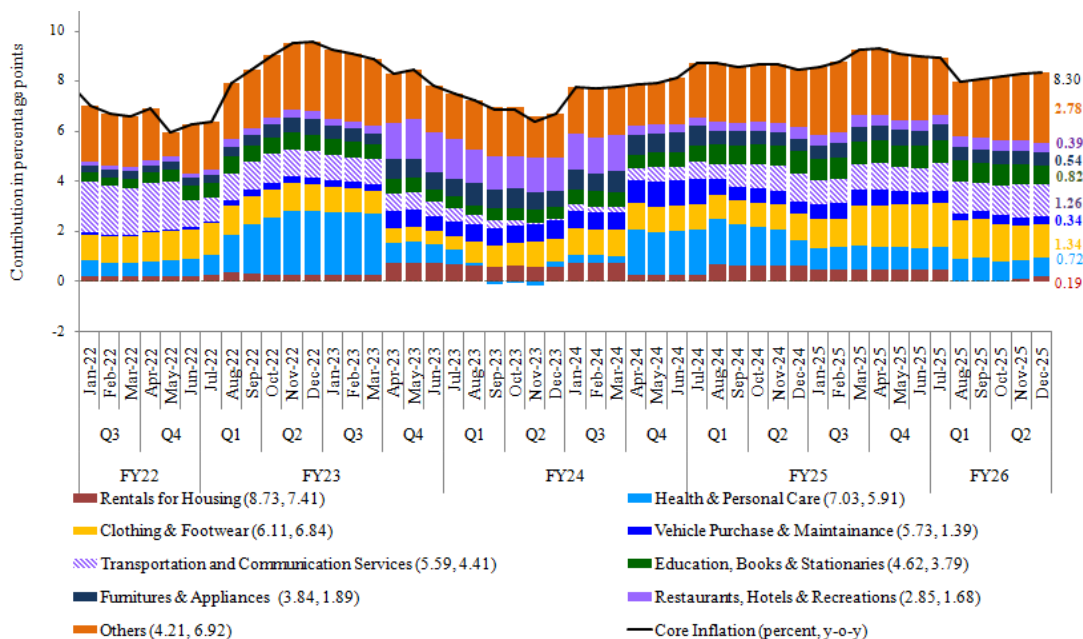
In the meantime, the contribution of edible oil to overall food inflation dropped slightly and remained low. The average price level of Spices and culinary essentials risen at 1.4% in the said quarter.

## 2.2 Decomposition of Core Inflation

In Q2:FY26 the core inflation slightly decreased to 8.2% from 8.3% in Q1:FY26. The slight decreases in clothing & footwear, and healthcare & furniture items were observed. During Q2:FY26, the contribution of clothing & footwear to core inflation accounted for 17.1%(Figure 4). Transport and communication (mainly internet) remained another major component of non-food inflation, its contribution surged at 15.1%.

However, contributions from other components of core inflation, such as education, recreation, and vehicle purchase & maintenance, remained broadly stable.

Figure 4: Decomposition of Core Inflation (Y-O-Y)

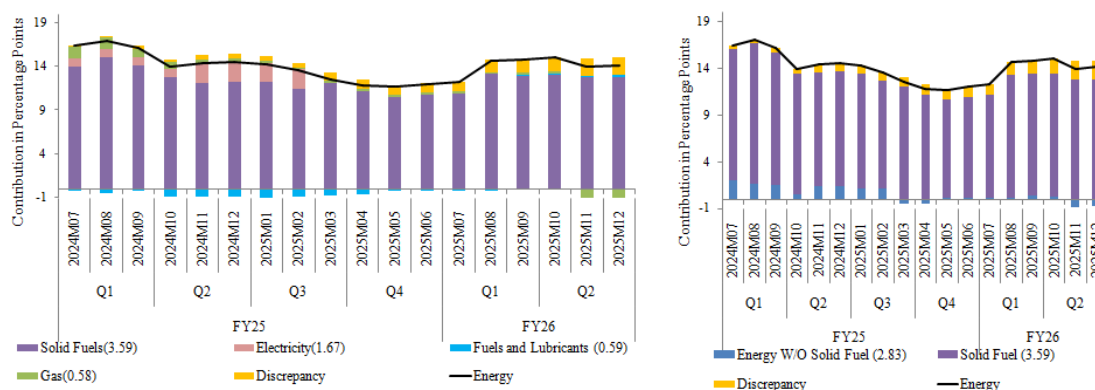


Notes: Figures in parentheses represent weights in current and previous baskets, respectively. As per revised data of BBS, decomposition has been updated accordingly from August 2024. Sources: BBS and EMFW estimates.

### 2.3 Decomposition of Energy Inflation

Energy inflation increased by 14.4% in Q2:FY26, which was 13.9% in Q1:FY26.

Figure 5: Decomposition of Energy Inflation (Y-O-Y)



Notes: Figures in parentheses represent weights in the basket. Sources: BBS and EMFW estimates.

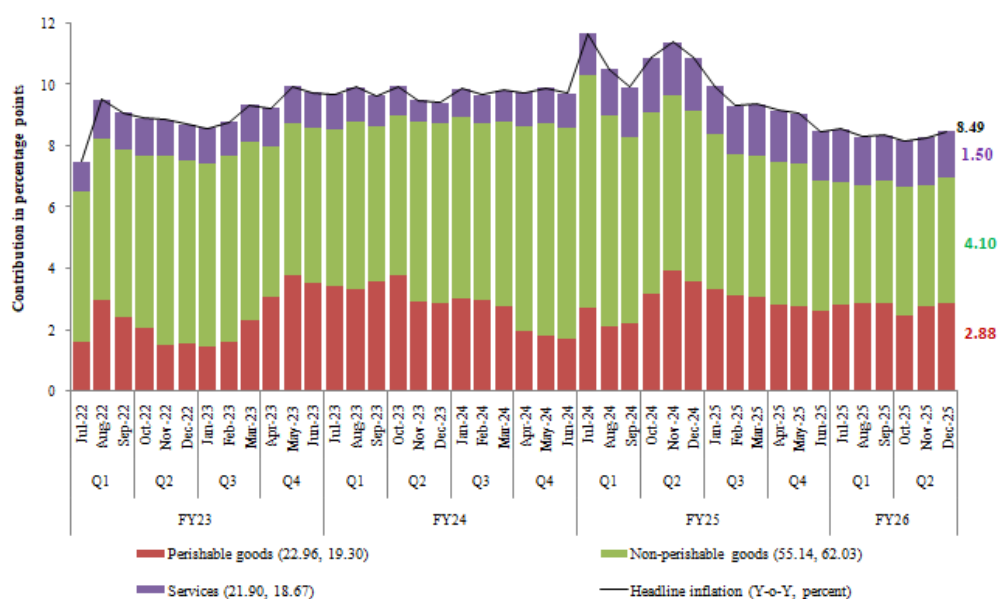
Solid fuels—such as firewood, agricultural by-products, cow dung, and jute sticks (combined weight: 3.59)—have been the main contributors to overall energy inflation. In this quarter, solid fuel inflation at 23.1%. **By contrast, energy inflation excluding solid fuels edged down slightly in Q2:FY26.**

### 3 Product-wise Drivers of Headline Inflation

#### 3.1 Goods (Perishable and Non-perishable) and Services

The contribution of perishable goods<sup>4</sup> to headline inflation decreased slightly in Q2:FY26 compared to the previous quarter, whereas the contribution from non-perishable goods increased over the same period (Figure 6).

Figure 6: Contribution of Goods and Services



Notes: Figures in parentheses represent weights in current (from April'23 onward) and previous baskets, respectively. Sources: BBS and EMFW estimates

In Q2:FY26, the average contribution of perishable goods decreased to 32.8% from 34.1% in Q1:FY26. The average contribution of non-perishable goods increased to 48.9% from 46.7% in the previous quarter, indicating a further slight increase in price pressures on these items. Meanwhile, the contribution of services to headline inflation decreased marginally to 18.3% in Q2:FY26 from 19.2% in the preceding quarter.

#### 3.2 Import-concentrated Items

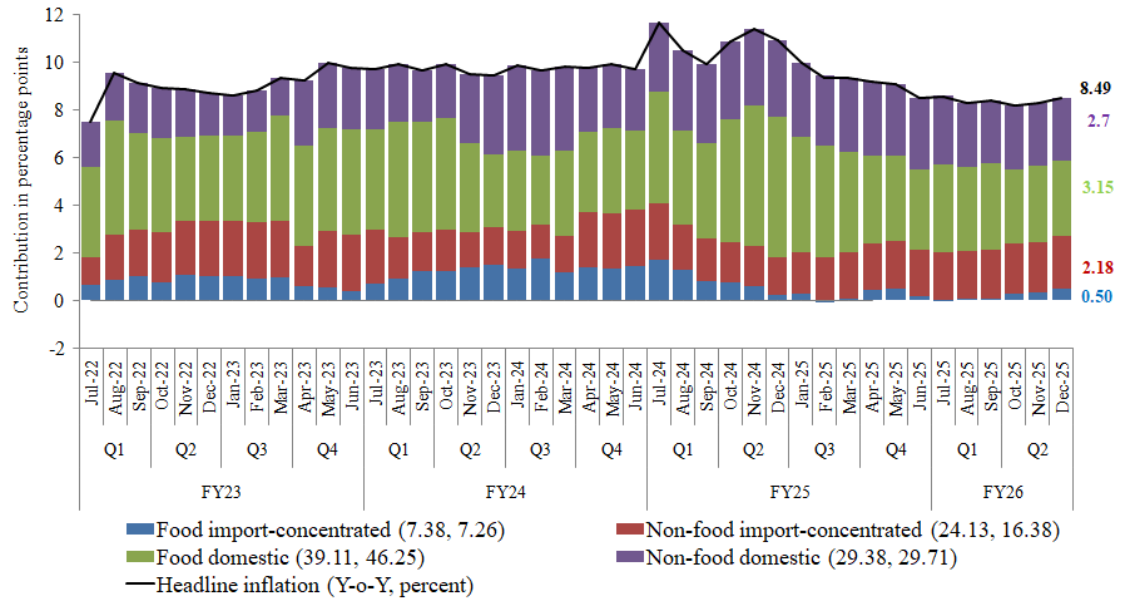
In Q2:FY26, the average contributions of both import-concentrated<sup>5</sup> food and non-food items to headline inflation increased from the pre-

<sup>4</sup>Perishable goods are those that begin to spoil without refrigeration or freezing within seven days.

<sup>5</sup>Items which are fully or partially imported are classified as import-concentrated items (Figure 7).

vious quarter. Meanwhile, the contribution of domestic food items to inflation decreased notably and the contribution of domestic non-food items to inflation also decreased slightly in the said quarter.

Figure 7: Contribution of Import-concentrated Items



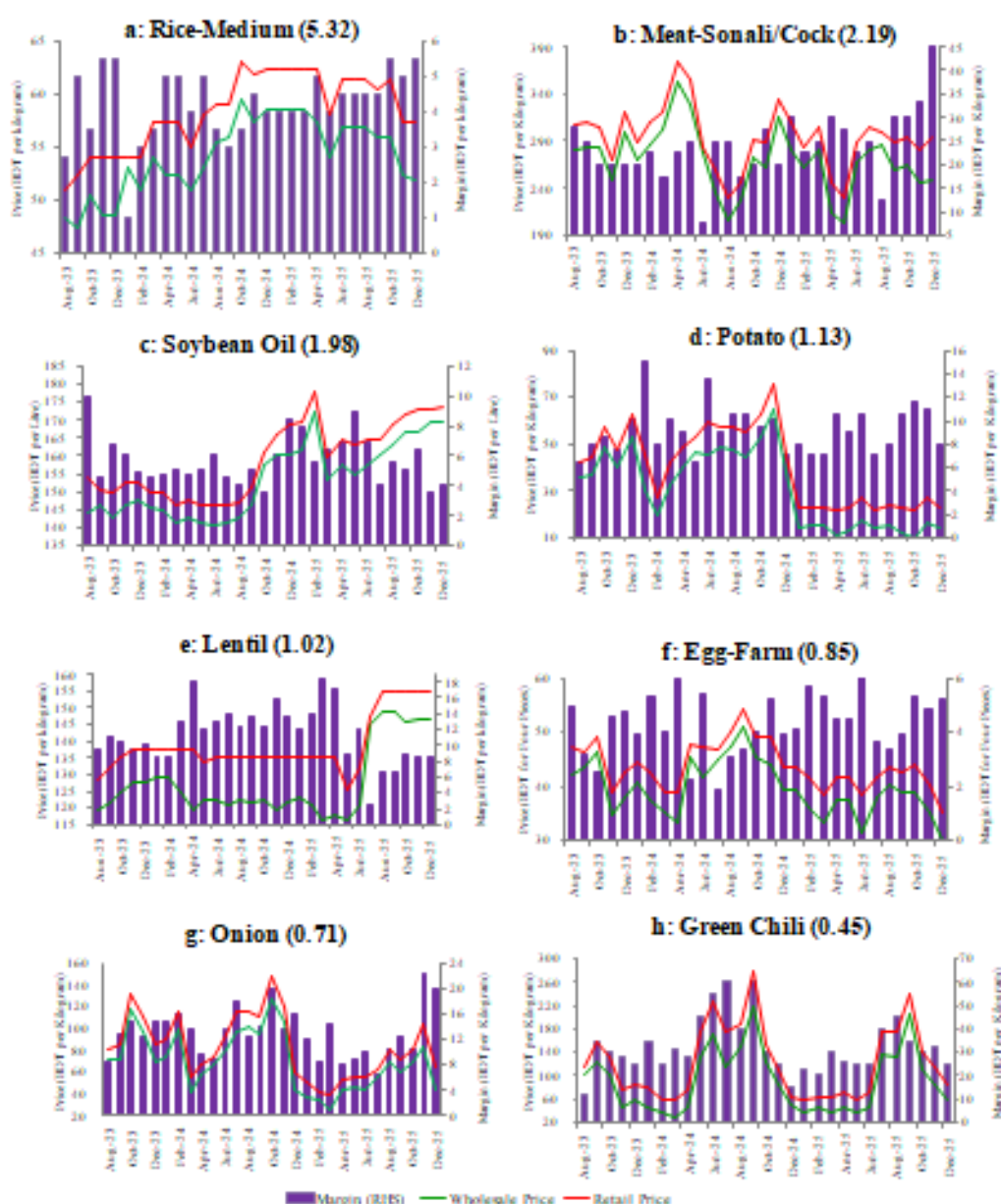
Notes: Figures in parenthesis represent weights in the current (from April'23 onward) and previous baskets, respectively. Sources: BBS and EMFW estimates.

During Q2:FY26, the average contribution of import-concentrated items to inflation increased to 30.0% from 24.0% in Q1:FY26. On the other hand, the contribution of domestic items to inflation in Q2:FY26 decreased to 70.0% from 76.0% in Q1:FY26.

## 4 Retail and Wholesale Prices of Selected Commodities

During Q2:FY26, the retail and wholesale prices of some selected commodities decreased, except for soybean and onion. Notable price hikes were observed in chicken and onions across both the retail and wholesale markets compared to the previous quarter.

Figure 8: Retail and Wholesale Prices of Selected Commodities



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

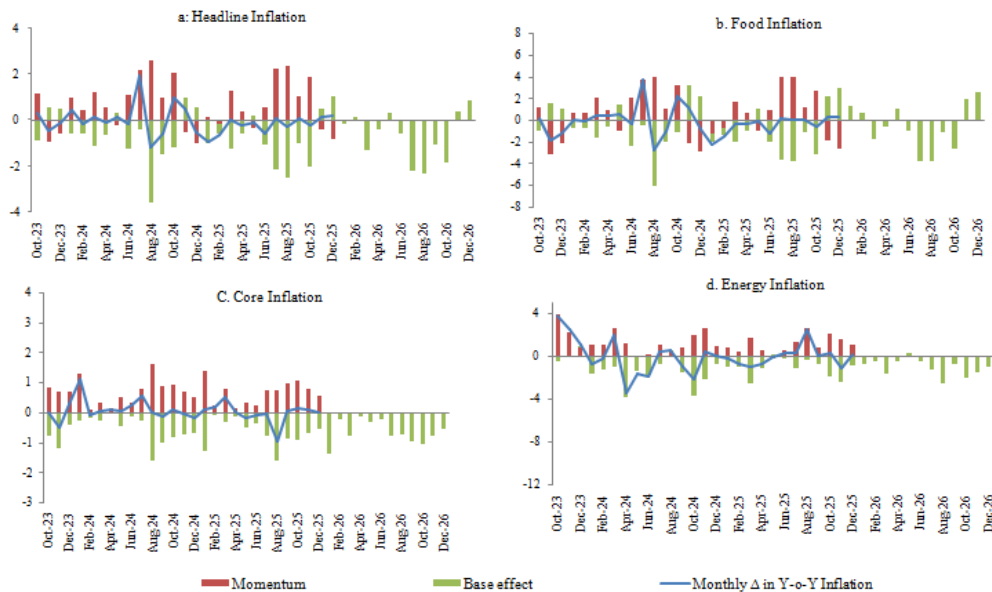
In December of 2025, *Sonali* chicken experienced a significant price hike, especially in retail prices. However, in November, wholesale and retail prices declined sharply. In addition, the onion experienced a substantial increase in both retail and wholesale markets throughout the quarter following earlier declines. However, Green Chili saw a notable decline in Q2:FY26 compared to the previous quarter across both wholesale and retail prices.

The meat-Sonali, rice, egg-farm, potato, lentil and onion showed increased margins<sup>6</sup>, except for Soybean and Green Chili, which show relatively decreasing margins in Q2:FY26.

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

During Q2:FY26, headline and food inflation suffered from unfavorable base<sup>7</sup> effects (Figure 9).

Figure 9: CPI Inflation–Base and Momentum Effects



Sources: *BBS* and *EMFW* estimates

However, positive base effects—arising from price declines in the corresponding months of the previous year—pushed up the Y-o-Y inflation measure. Despite

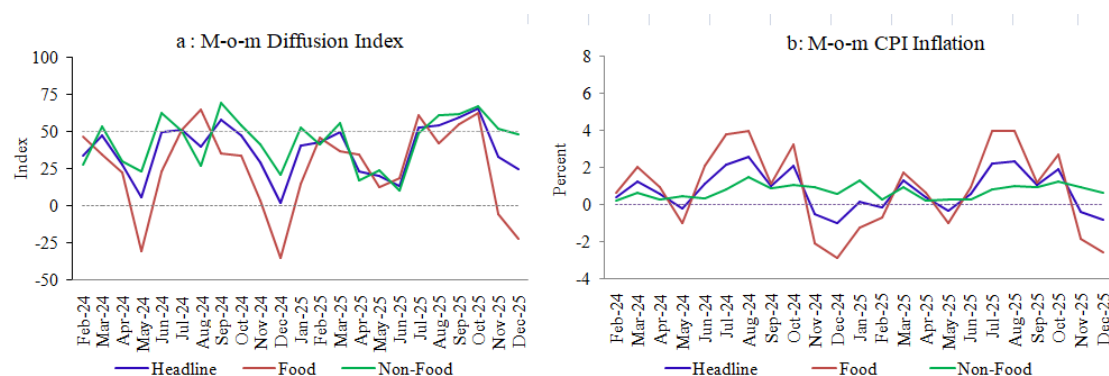
<sup>6</sup> Margins are the difference between retail and wholesale prices.

<sup>7</sup> See [Bangladesh Bank \(2024a\)](#), [European Central Bank \(2005\)](#), and [Bangladesh Bank \(September 2021\)](#) for details.

favorable base effects, both core and energy inflation experienced positive momentum in Q2:FY26. 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 (DI)<sup>8</sup> for inflation of all categories decreased for the last two months of Q2:FY26.** In fact, food DI was negative at the end of Q2:FY26 (Figure 10), indicating that most food items experienced a price decrease compared to the previous month. In December 2025, out of the 382 CPI items, 165 recorded price increases compared to the previous month, 69 price declines, and 148 remained unchanged. Headline and food inflation (m-o-m) decreased in December 2025 and remained in negative territory (Figure 10). However, non-food inflation (m-o-m) slightly lowered but remained at positive range as 128 non-food items out of 256 experienced price increases, while 124 remained stable, and 4 recorded price decreases.

Figure 10: Diffusion Indices



Notes: The higher the reading towards 100 above 50, the broader is the expansion of price increases across CPI items, and vice versa. Sources: BBS and EMFW estimates.

**The Kernel Density Function (KDF<sup>9</sup>) of headline inflation (y-o-y) for FY26 (up to December 2025) exhibits leftward and steeper compared to FY25 indicating a lower variability of inflation rates.**

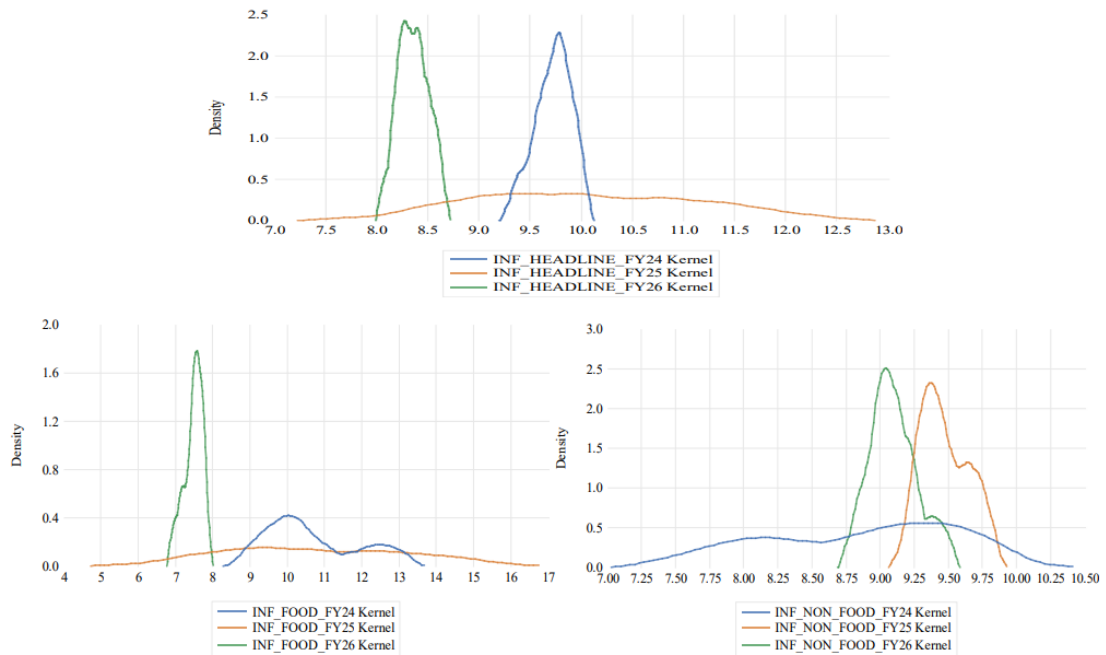
The distribution for headline inflation of FY25 appears notably flatter and exhibits a rightward shift, reflecting a broader range of inflation rates. It indicates that inflation in FY25 exhibited greater volatility and elevated inflation rates.

<sup>8</sup>The CPI diffusion index (m-o-m), a measure of dispersion of price changes, categories 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.

<sup>9</sup>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.

In contrast, the distribution for FY26 (up to December 2025) indicates that inflation rates during this period were tightly clustered with low variability. The distribution for food inflation of FY26 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 11).

Figure 11: Kernel Density Estimates



*Note: FY26 is upto December 2025. 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 12.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. At the end of Q2:FY26, the wage-price gap again slightly widened than that of the previous quarter. This slight widening was primarily driven by a rise in the inflation rate.

Despite some fluctuations due to momentum effects, wage growth remained sluggish throughout the quarter, as the negative base effect persisted (Figure 12.b).

Figure 12: Wage Dynamics



Sources: *BBS* and *EMFW* estimates

Overall wage growth went to downward trajectory in Q2:FY26 after end of the last quarter (Q1:FY26). Wage growth rates decreased marginally across all divisions except Rangpur, Barishal and Mymensingh in Q2:FY26 compared to the previous quarter (Figure 12.c). Among all divisions, Rangpur continued to record the highest wage growth.

## 7 Conclusion

In Q2:FY26, headline CPI inflation (y-o-y) continued to ease, averaging approximately at 8.3%, down from the elevated levels observed in the FY25. The moderation in inflation that commenced in Q3:FY25 continued to Q2:FY26. This moderate trend was mainly the result of a decline in food inflation, particularly from the reduced contribution of vegetables and edible oils. However, protein-based food remained the top contributor to food inflation, accounting for around three-fifths of total in Q2:FY26. In addition, the average contribution of cereal to food inflation was around forty percent of total inflation in the said quarter.

The contribution of energy items (including solid fuel) remained broadly similar during Q2:FY26 compared to the previous quarter, around 11.0%. This contribution of energy inflation is mostly attributable to solid fuels. Core inflation declined by a small margin in Q2:FY26, though it remained elevated by historical standards.

Meanwhile, despite the easing of inflation, wage dynamics remained challenging. At the end of Q2:FY26, the wage-price gap widened slightly compared to the previous quarter, driven by a rise in headline inflation (y-o-y) to 8.5% in December 2025, while wage growth remained stable at 8.1%. This led to a modest deterioration in household purchasing power, reflecting sluggish real wage growth. Given these developments, sustained policy vigilance is essential to anchor inflation expectations, contain elevated food and core prices, and safeguard household purchasing power, thereby supporting a stable macroeconomic environment conducive to long-term, inclusive growth.

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