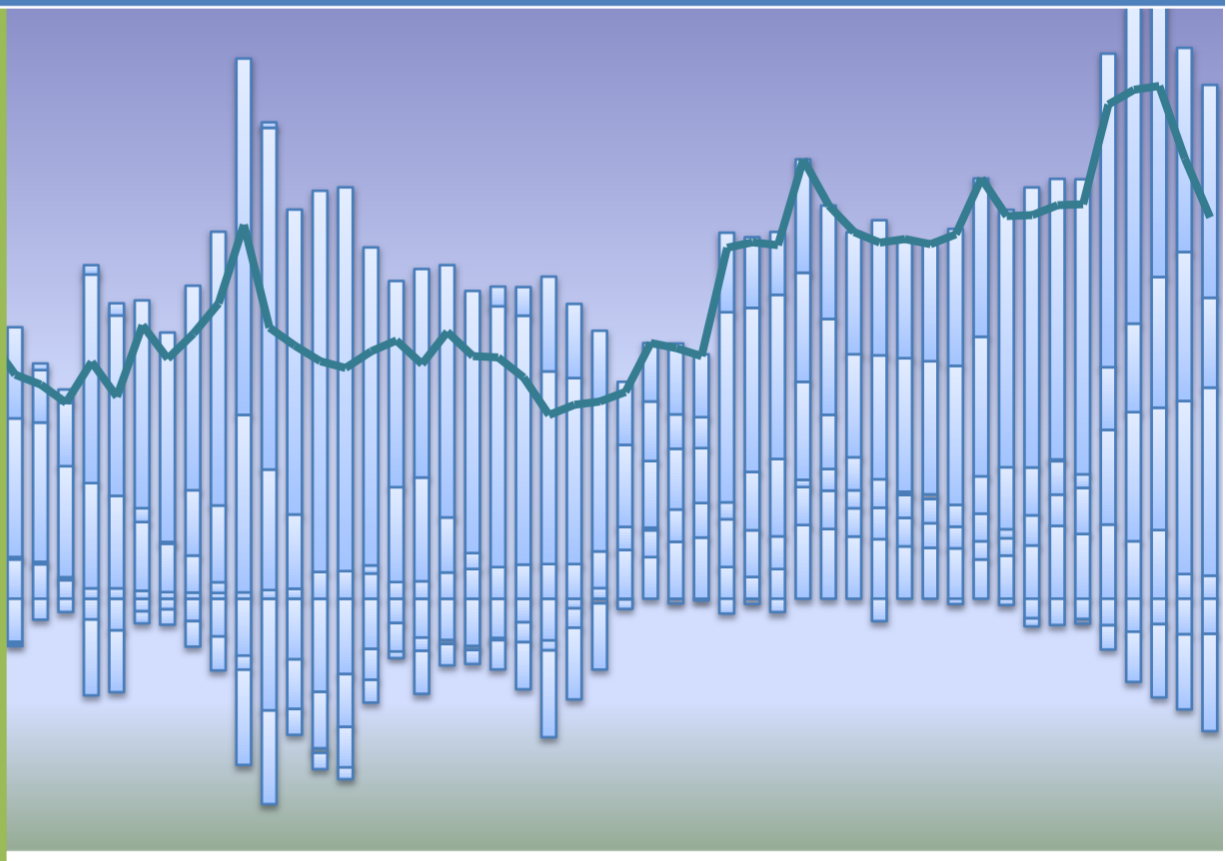
Inflation Dynamics in Bangladesh
July-September 2026

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Inflation Dynamics in Bangladesh

July–September 2026 (Q1:FY27)

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Inflation Dynamics in Bangladesh

Executive Summary

- Headline inflation (y-o-y) decreased during Q1:FY27 (July-September 2026) compared to Q4:FY26 (April-June 2026), averaging around 8.31%.

- Food inflation fell during Q1:FY27, primarily driven by a sharp fall in the contribution of vegetables and rice & wheat related items. However, the protein-based foods remained the top contributor of overall food inflation.

- In Q1:FY27, the core inflation decreased to 7.9% from 8.4% in the previous quarter mainly due to decreased contribution from 'Transportation & communication services' and 'Health & Personal Care' items.

- Energy inflation increased to 17.4% in Q1:FY27, which was 17.0% 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 Q1:FY27, the inflation rate (y-o-y) of solid fuels rose to 22.1% from 21.8% in the previous quarter.

- In Q1:FY27, the average contributions domestic food items to headline inflation decreased from the previous quarter. Meanwhile, the contribution of domestic non-food items along with import-concentrated food and non-food items increased as compared to the previous quarter.

- In Q1:FY27, the wage-price gap narrowed compared to the previous quarter. However, the gap began to widen marginally toward the end of the quarter. Slower wage growth was the primary factor behind this, while headline inflation showed no significant improvement.

1 Introduction

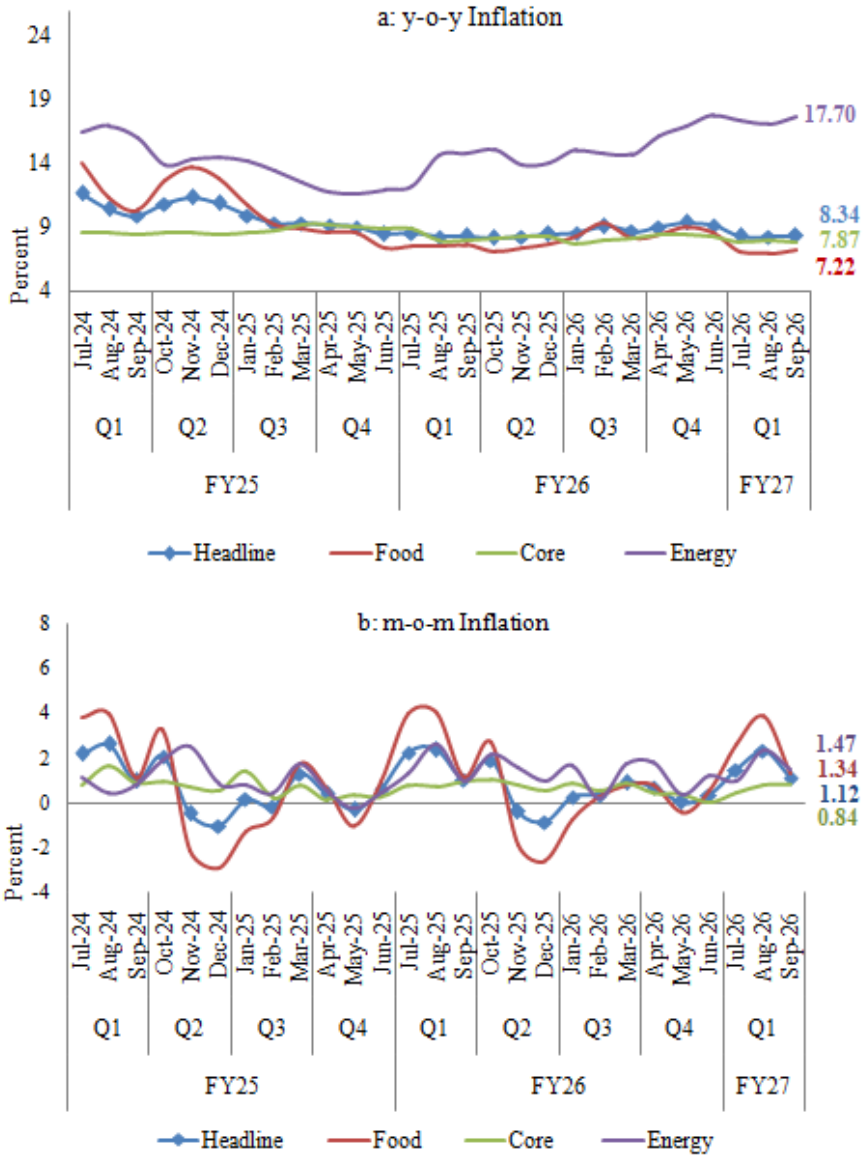
Bangladesh Bank places a strong emphasis on maintaining price stability to support sustainable economic growth and financial stability. The effectiveness of monetary policy depends on a clear understanding of the factors that drive consumer prices and wage dynamics. Bangladesh Bureau of Statistics (BBS) compiles a range of price indices that monitor price movements across the economy. This report analyzes the key determinants of Consumer Price Index (CPI) inflation and wage trends[2] *in Bangladesh, providing a comprehensive assessment of the underlying factors shaping the country's macroeconomic environment.*

As per the Asian Development Bank's Asian Development Outlook (September 2026), Bangladesh's headline inflation eased to 8.7% in FY26 due to lower food prices, but it is revised up to 9% for FY27 as nonfood and energy pressures persist (Asian Development Bank, 2026). However, the International Monetary Fund (IMF), in its World Economic Outlook (October 2026), projects global headline inflation is expected to rise from 4.1% in 2025 to 4.7% in 2026 before easing to 4.1% in 2027, with the increase for 2026 driven mainly by higher energy and food prices (International Monetary Fund). Bangladesh's average inflation would rise to 10.9% in the current fiscal year. This would reverse the improvement seen in FY26, when average inflation fell from double digits to 8.7% as per the latest WEO.

In Q1:FY27, Bangladesh's year-on-year (y-o-y) CPI headline inflation decreased from the previous quarter, averaging around 8.31%. In the previous quarter (Q4:FY26), headline inflation was around 9.21%. This fall in inflation was primarily driven by lower food and core inflation (y-o-y) in Q1:FY27. Food and core inflation averaged at 7.13% and 7.93% respectively in Q1:FY27. On the other hand, energy inflation (y-o-y) increased in Q1:FY27 averaging at 17.40% (Figure 1a).

[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 from BBS up to September 2026. Numerical values reported in the text and figures are rounded to either one or two decimal places. Q1:FY27 represents July-September, 2026.

Figure 1: CPI Inflation



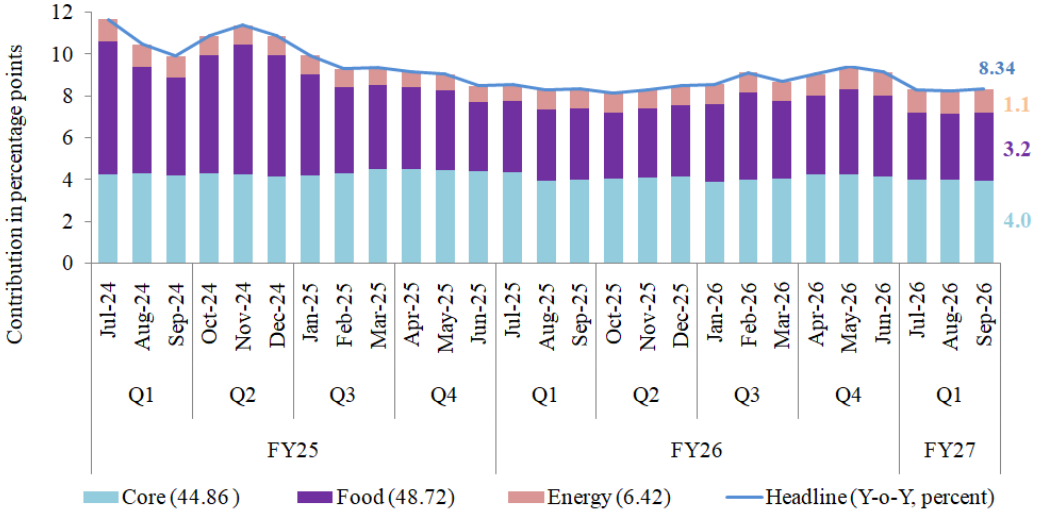
Source: Bangladesh Bureau of Statistics (BBS)

On a month-on-month (m-o-m) basis, inflation across all categories decreased by the end of Q1:FY27, except for m-o-m core inflation (Figure 1b). Throughout Q1:FY27, headline, food, core and energy inflation remained in a positive territory on a m-o-m basis.

2 Decomposition of Headline Inflation

The contribution of core items to headline inflation dominated as usual throughout Q1:FY27. During this period, the average contribution of core inflation to headline inflation increased reaching 48.04% from 45.86% in the previous quarter. Moreover, the average contribution of energy items to headline inflation accounted for 13.44% in Q1:FY27, up from 11.85% in Q4:FY26. However, the data indicate that energy inflation is mostly attributable to solid fuels such as cow dung, wood fires, and jute sticks. In contrast, the average contribution of food inflation to headline inflation in Q1:FY27 decreased to 38.51% from 42.30% in the preceding quarter (Figure 2).

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



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

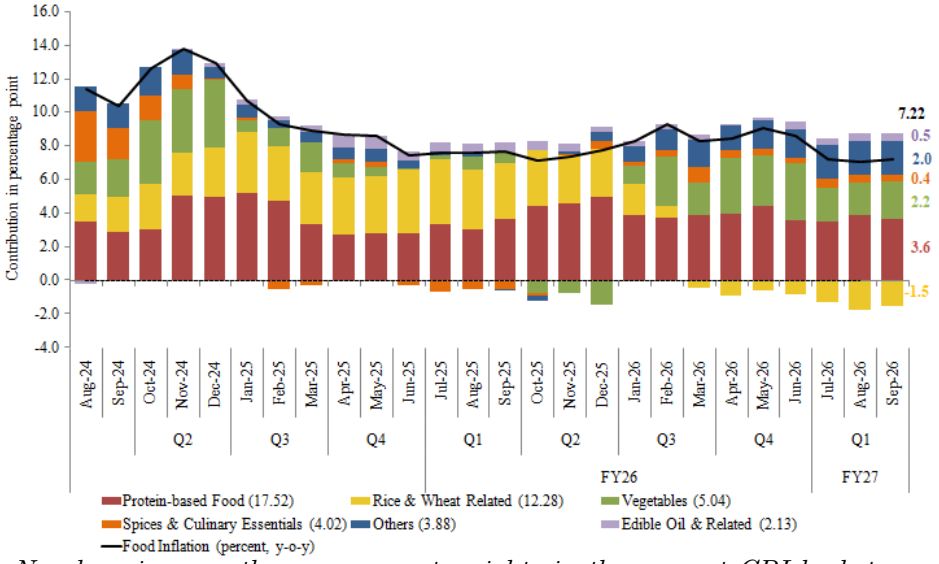
2.1 Decomposition of Food Inflation

In Q1:FY27, food inflation fell due to a sharp fall in the contribution of vegetables and rice & wheat related items. However, the protein-based foods[3] remained the main drivers of overall food inflation.

The average contribution of vegetables to food inflation was 29.2% in Q1:FY27 compared to 37.0% in Q4:FY26 in the previous quarter(Figure 3). On average, protein-based products accounted for 51.1% of overall food inflation during

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

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



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

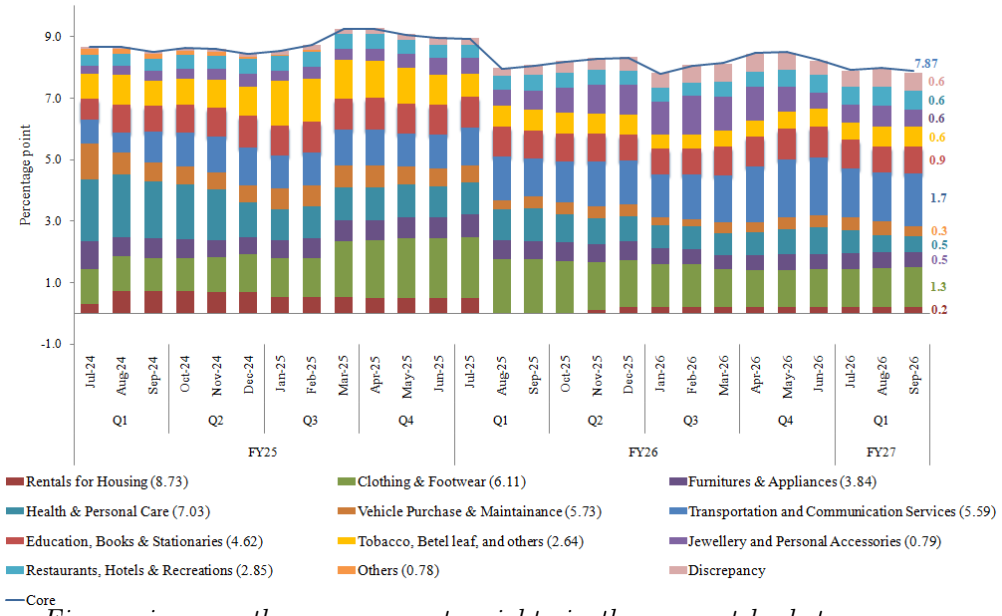
Q1:FY27, maintaining their position as the largest contributor. The contribution of rice & wheat related items to overall food inflation declined notably, by an average of (-)21.4% in Q1:FY27, down from (-)8.9% in the preceding quarter. On the other hand, the average contribution of edible oil and spices & culinary essentials increased to 6.5% and 6.3% respectively in the said quarter.

2.2 Decomposition of Core Inflation

In Q1:FY27, the core inflation decreased to 7.93% from 8.40% in Q4:FY26 mainly due to decreased contribution from 'Transportation and communication services' and 'Health and Personal Care' items.

Over the years, 'Transportation and communication services' remained one of the major components of core inflation. However, in Q1:FY27 its contribution overall core inflation decreased to 19.5% from 22.3% in the previous quarter. Moreover, the contribution of 'Health and personal care' declined to 8.62% in Q1:FY27 from 9.57% in Q4:FY26. On the other hand, moderate rises were observed across rest of the categories (Figure 4).

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



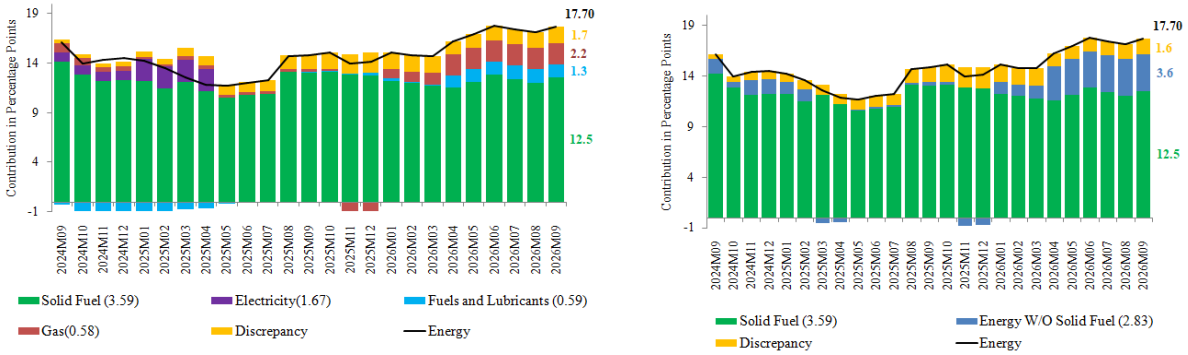
Notes: Figures in parentheses represent weights in the current basket.
Sources: BBS and EMFW estimates.

2.3 Decomposition of Energy Inflation

In Q1:FY27, energy inflation increased to 17.4% from 17.0% in Q4:FY26 driven primarily by Solid fuels and 'Fuels & lubricants'.

Solid fuels (such as firewood, agricultural by-products, cow dung, and jute sticks), with a total weight of 3.59, have consistently been a major contributor of energy inflation (Figure 5).

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



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

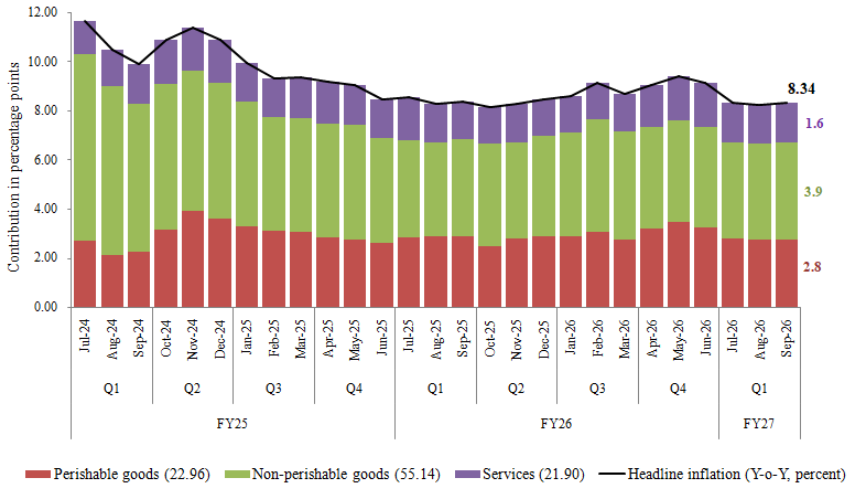
In Q1:FY27, the inflation rate (y-o-y) of solid fuels rose to 22.1% from 21.8% in the previous quarter. Moreover, the contribution of energy without solid fuels also increased reaching 18.2% in Q1:FY27 from 17.7% in Q4:FY26. Particularly, the inflation rate (y-o-y) of the 'Fuels & lubricants' category increased to 14.7% Q1:FY27 from 13.8% in the preceeding quarter.

3 Product-wise Drivers of Headline Inflation

3.1 Goods (Perishable and Non-perishable) and Services

The contributions of perishable goods[4] to headline inflation decreased in Q1:FY27 compared to the previous quarter, while the contribution of services and non-perishable goods increased over the same period.

Figure 6: Contribution of Goods and Services



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

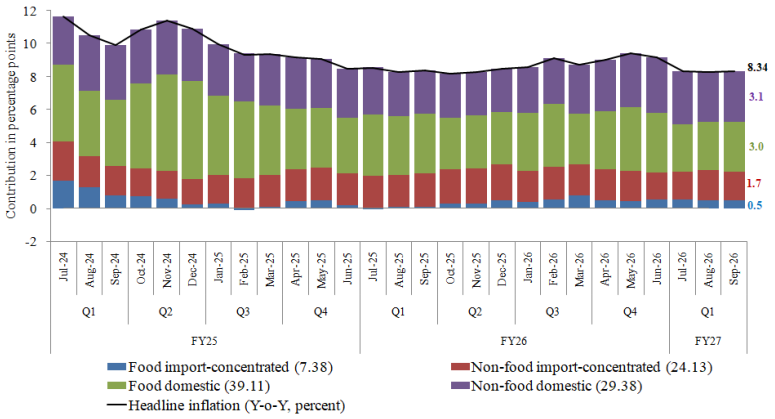
In Q1:FY27, the average contribution of perishable goods decreased to 33.3% from 35.9% in Q4:FY26 (Figure 6). On the other hand, the average contribution of services and non-perishable goods increased to 19.5% and 47.1% in Q1:FY27 from 19.2% and 44.9% in the in the preceding quarter.

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

3.2 Import-concentrated Items

In Q1:FY27, the average contributions domestic food items to headline inflation decreased from the previous quarter.

Figure 7: Contribution of Import-concentrated Items



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

Meanwhile, the contribution of domestic non-food items along with import concentrated[5] food and non-food items increased as compared to the previous quarter (Figure 7).

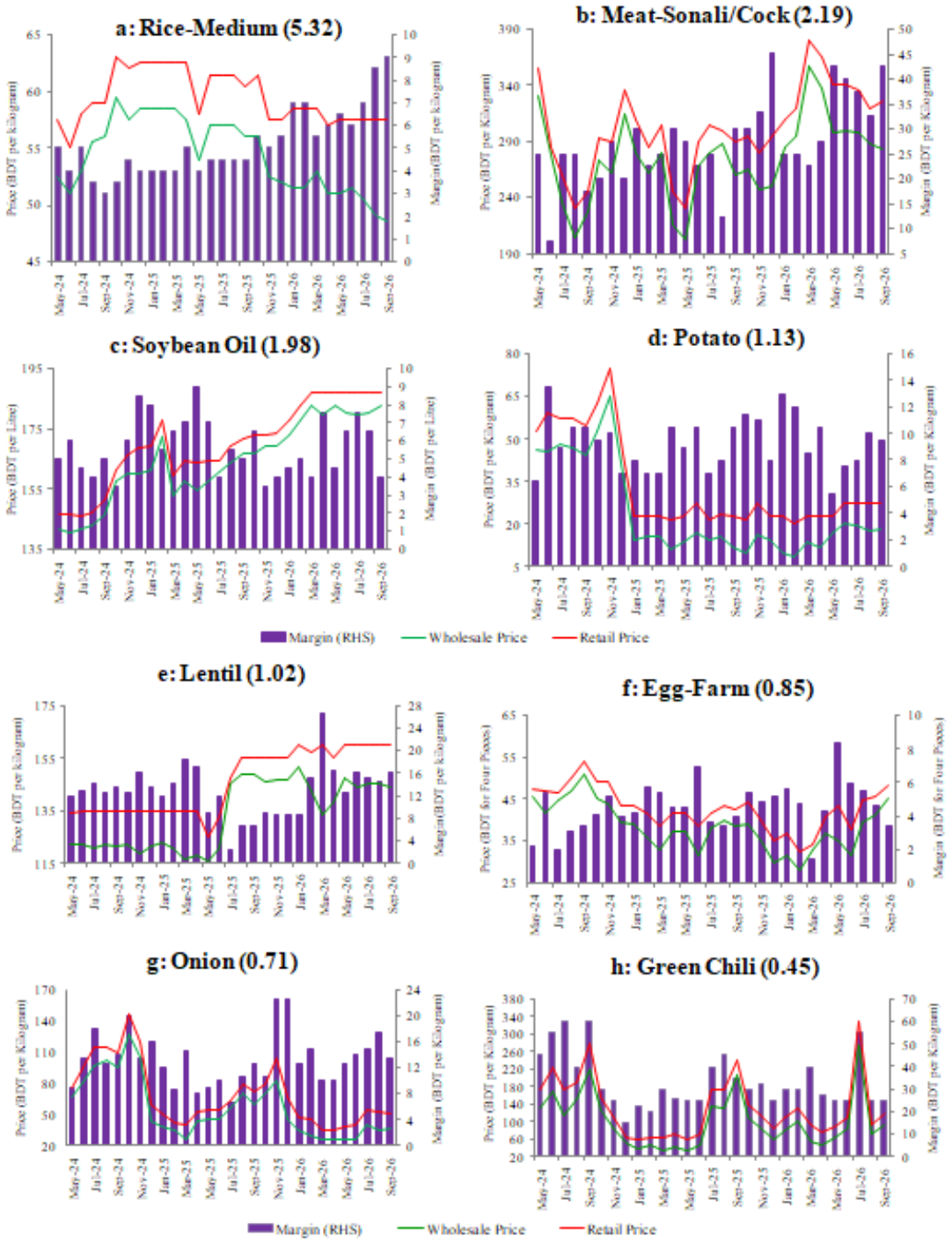
During Q1:FY27, the average contribution of import-concentrated items to inflation increased to 27.0% from 24.9% in Q4:FY26, while the contribution of domestic items to inflation decreased to 73.0% in Q1:FY27 from 75.1% in Q4:FY26.

4 Retail and Wholesale Prices of Selected Commodities

During Q1:FY27, the retail and wholesale prices of most of the selected essential commodities increased on average compared to the previous quarter, except for rice (medium), soybean oil, and *Sonali* chicken.

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

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).

Green chili and onion prices recorded a sharp increase in Q1:FY27, reversing the downward trend observed in the previous quarter. Green chili prices rose sharply in July 2026 before declining steeply in the subsequent month, resulting in a higher quarterly average price. However, farm egg and potato prices followed an upward trend in Q1:FY27 compared to the previous quarter.

On the other hand, in Q1:FY27, the wholesale and retail prices of rice, lentil, and soybean oil remained broadly stable from the previous quarter, while the prices of *Sonali* chicken dropped significantly in this quarter compared to Q4:FY26,

The prices and margins of green chili[6] experienced a sharp increase in July 2026. In Q1:FY27, the margins of *Sonali* Chicken, rice (medium), lentil, onion, and potato increased, while the margins of farm egg and soybean oil decreased compared to the previous quarter.

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

During Q1:FY27, momentum effects[7] remained positive across all inflation categories. However, favorable base effects contributed to a moderation in inflation throughout the quarter across all categories except energy inflation. (Figure 9).

Energy inflation remained elevated throughout the quarter, driven by strong positive momentum effects that reinforced upward energy price pressures. Looking ahead, all categories of inflation are expected to benefit from favorable base effects over the next twelve months, with a few exceptions.

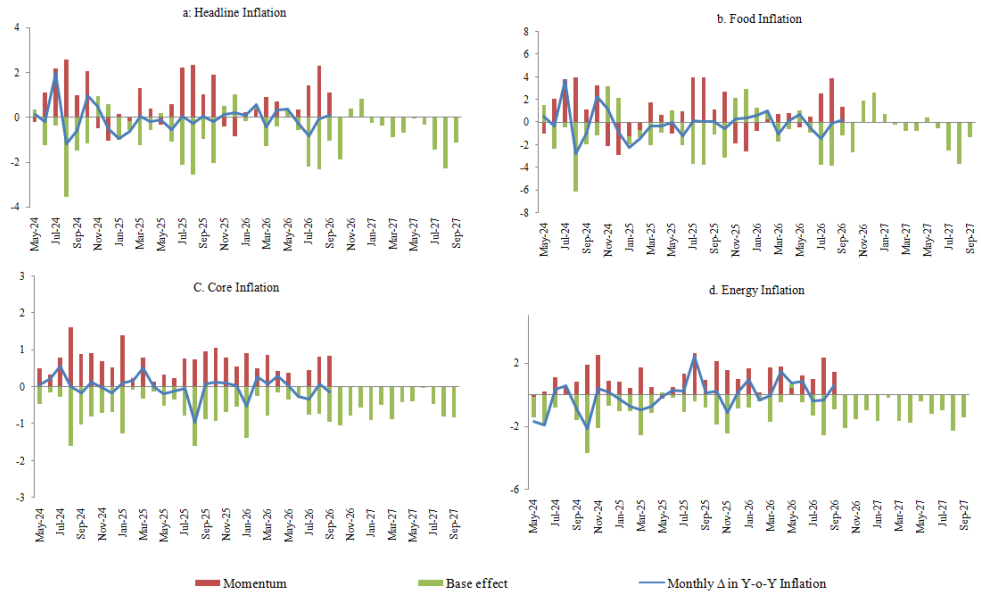
Diffusion index (DI)[8] for inflation of all categories (headline, food and non-food) decreased in Q1:FY27, indicating that a larger number of items within the overall CPI basket experienced price decreases compared to the previous quarter (Figure 10). In September 2026, out of the 382 CPI items, 203 recorded price increases, 25 price declines, and 154 remained

[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.

[8] 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.

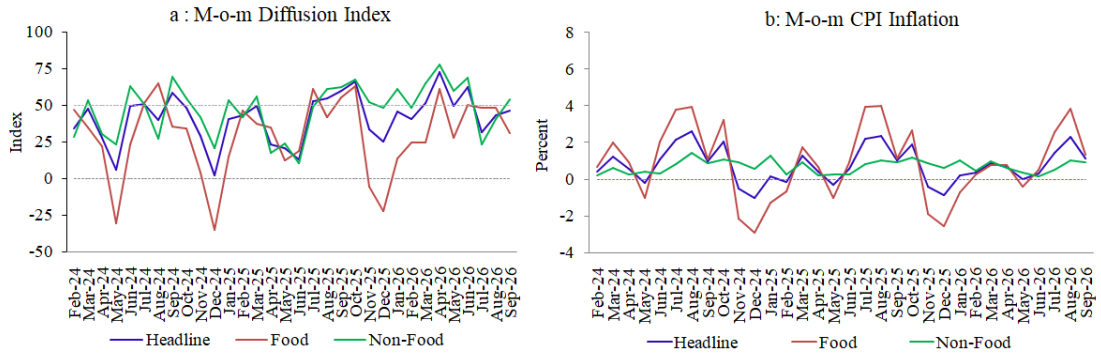
Figure 9: CPI Inflation–Base and Momentum Effects



Sources: BBS and EMFW estimates

unchanged compared with the previous month. Headline and food inflation (m-o-m) decreased significantly in September 2026, while non-food inflation (m-o-m) experienced a slight decline. The food diffusion index declined in September 2026, as 62 out of 126 commodities in the food category recorded price increases, fewer than the previous month.

Figure 10: Diffusion Indices



Notes: The higher the reading towards & 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[9]) of headline inflation (y-o-y) in FY27 (based on data for July–September 2026 only) shifted leftward and exhibited a sharper peak relative to FY25 and FY26, indicating a concentration of inflation observations within a narrower range and a moderation in inflation.

The kernel density function (KDF) of headline inflation (y-o-y) indicates that the FY26 distribution shifted leftward relative to FY25, reflecting a moderation in inflation during FY26. The FY26 distribution was also more concentrated around lower inflation rates, whereas the FY25 distribution was relatively flatter and more dispersed, indicating greater variation in headline inflation during the year (Figure 11). In contrast, the FY27 distribution exhibits a sharp peak around 8.3 to 8.4 percent. However, the FY27 kernel density distribution is based on only three monthly observations (July–September 2026), which may not adequately represent the underlying distribution of inflation.

The distribution of food inflation in FY26 shifted leftward compared with FY25, indicating lower food inflationary pressures. The FY26 distribution was also more concentrated than that of FY25, suggesting relatively lower variation in food inflation during the year. By comparison, FY25 exhibited a broader and flatter distribution, reflecting greater fluctuations in food inflation. The FY27 distribution displays a sharp peak around 7.1 percent, indicating that the three available monthly observations were closely clustered. Nevertheless, additional observations are required to determine whether this concentration persists over the remainder of FY27.

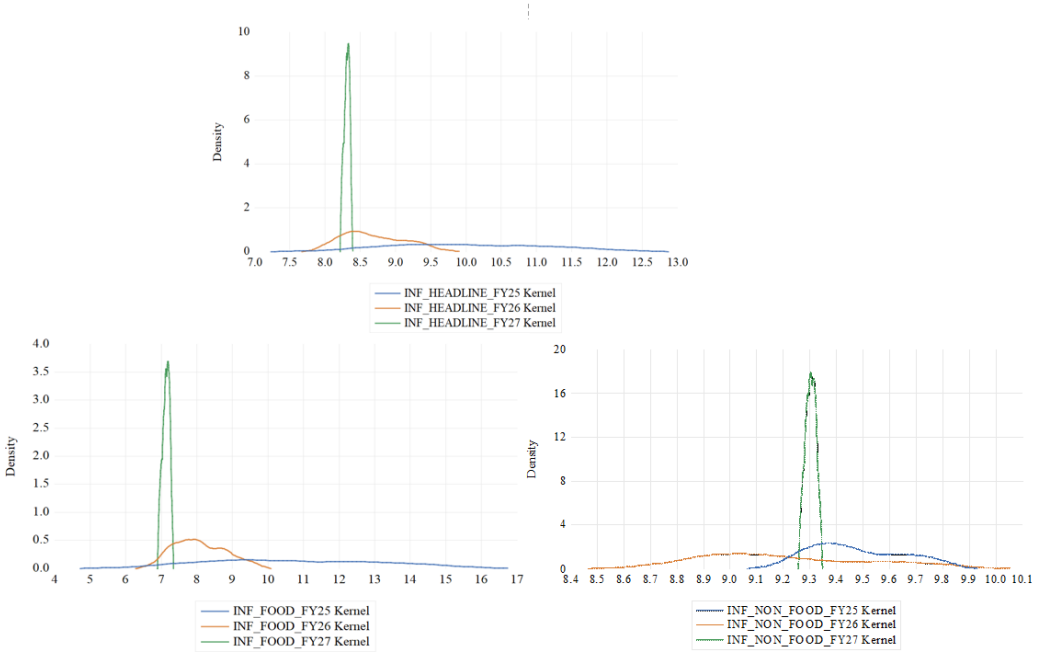
Similarly, the distribution of non-food inflation in FY26 shifted leftward relative to FY25, indicating a moderation in non-food inflationary pressures. While FY25 was concentrated around relatively higher inflation rates, FY26 exhibited a broader distribution centered at lower rates, suggesting that non-food inflation moderated but continued to fluctuate over the year. In FY27, the distribution is sharply concentrated around 9.3 percent, reflecting the limited variation in the three available monthly observations rather than establishing a sustained pattern of lower volatility.

Overall, the kernel density estimates indicate a moderation in headline, food, and non-food inflation in FY26 relative to FY25. Although the FY27 distributions

[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.

appear highly concentrated, the limited availability of monthly observations precludes a meaningful assessment of the underlying inflation distribution or volatility.

Figure 11: Kernel Density Estimates



Sources: BBS and EMFW estimates.

6 Wage Dynamics

In Q1:FY27, the wage-price gap narrowed compared to the previous quarter. However, the gap began to widen marginally toward the end of the quarter. This widening was primarily driven by a slower wage growth rate rather than any significant improvement in headline inflation (Figure 12.a).

Inflation has consistently outpaced wage growth over the past two years, eroding consumers' purchasing power and reducing real incomes. From February 2025, the wage–price gap began to narrow as inflation moderated significantly through October 2025, before started to widening again. However, the gap narrowed significantly as the headline inflation declined significantly to 8.3 in July 2026 percent from 9.2 percent in June 2026, providing some relief to the households and consumers. In September 2026, the wage growth rate slowed resulting in widening the wage-price gap again, thereby putting pressures on real incomes and household purchasing power persists.

Wage growth remained sluggish throughout the quarter, as the negative base effect persisted (Figure 12.b). Wage growth rates decreased marginally across all

Figure 12: Wage Dynamics



Sources: BBS and EMFW estimates

divisions in Q1:FY27 compared to the previous quarter (Figure 12.c). Among all divisions, Dhaka recorded the highest wage growth in Q1:FY27.

7 Conclusion

In Q1:FY27, headline CPI inflation (y-o-y) decreased, averaging approximately at 8.31%, from 9.21% observed in the last quarter. This fall in headline inflation was primarily driven by reduction in food and core inflation. Food inflation (y-o-y) declined to 7.13% in Q1:FY27 from 8.68% in the previous quarter due to a sharp fall in the contribution of vegetables and rice & wheat related items. However, protein-based items continues to be the largest contributor of food, accounting for nearly half of overall food inflation. Moreover, core inflation (y-o-y) also registered a decline reaching 7.93% in Q1:FY27 from the previous quarter.

On the other hand, energy inflation continued to remain at an elevated level in Q1:FY27. Solid fuels (such as firewood, agricultural by-products, cow dung, and jute sticks), with a total weight of 3.59, continues to be a major contributor of

energy inflation. Moreover, the upward adjustment of domestic fuel prices by the end of Q1:FY27, which has not yet been reflected in the CPI data published by BBS, remains a significant concern.

Meanwhile, in Q1:FY27, the wage–price gap widened slightly compared to the previous quarter, driven by a fall in wage growth. This led to a modest deterioration in household purchasing power.

In this context, continued policy vigilance remains essential to anchor inflation expectations, ease persistent inflationary pressures, and protect households' purchasing power, thereby maintaining macroeconomic stability and supporting sustainable, inclusive long-term economic growth.

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