



ECONOMIC UPDATE

Highlights

- *Inflation has decreased slightly in April than March, mainly due to a decrease in food prices. Similar to March, food prices, particularly rice and fish prices, remained the largest contributor to inflation in April*
- *To mitigate the impact of food supply shocks amid escalating food costs, it is prudent to sustain a sufficient strategic buffer stock of food/rice. Considering the financial strain of subsidies of the government's constrained fiscal capacity, targeted safety net programs, school feeding initiatives, food-for-work schemes, open market sales, and guaranteed employment programs for the poorer households may be strengthened in the upcoming budget*
- *The external sector strengthened with a significant increase in remittances and stable exchange rates, though export growth showed a slight dip in April*
- *Deposit and private sector credit grew more in April, indicating a gradual recovery path of economic activities and investments*
- *A significant surge of public sector borrowing from commercial banks in recent months, mainly due to sluggish revenue collection and a halt in direct central bank lending, might have crowded out private sector credit to some extent. Efforts to increase revenues and reduce the reliance on bank borrowing by the government are crucial for fiscal sustainability and boosting investment*

Food Inflation keeps falling, while non-food inflation remains rigid

Food inflation, as well as overall inflation, has continued to fall since November 2024. Food inflation came down to 8.63 percent in April 2025 from 8.93 percent in March 2025. Similarly, general inflation came down to 9.17 percent in April from 9.35 percent in March. This outcome is a result of both supply-side and demand-side measures taken by the government. On the demand side, the central bank adopted a tight monetary policy since the second half of FY25, which aimed at containing inflation and stabilizing the foreign exchange market. Apart from this, fiscal policy measures such as reducing tariffs on necessary food items, such as rice and edible oils, also contributed to this fall in inflation. The supply side effect has been facilitated by the availability of seasonal vegetables and crops due to the non-occurrence of floods and other climatic events. Such efforts are essential for achieving the target of inflation within 7-8 percent by the end of June 2025, as expected by the Bangladesh Bank.

Similar to March, food continues to be the predominant factor in inflation, accounting for 42.2 percent. Its contribution has slightly

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decreased in April, and so has inflation. As part of non-food inflation, the contribution of housing and utilities (13 percent), clothing and footwear (9.8 percent), and transportation (7 percent) remained the major contributors in April.

In terms of specific categories of food, the contribution of rice increased from 34 percent in March to 40 percent in April, indicating the shortage of rice supply in the market. The vegetable item contributed less (11.45 percent) in April than in the previous month (14.20 percent). At the disaggregated level, medium rice price contributed the most among all types of rice categories (19.4 percent) in April. Brinjal, which topped (17.12 percent) in the last month, falls to third position (11 percent) as expected. Soybean oil remains a sizeable contributor (8.2 percent) to food inflation this month. The fall in potato prices helps come down overall food inflation with a share of -13.6 percent. As far as rural and urban comparison is considered, a noticeable difference is observed in food contribution between rural areas (44.7 percent) and urban areas (36.5 percent) in inflation.

In Bangladesh, inflationary pressures in the economy are typically instigated by supply-side issues stemming from interruptions in domestic production and supply, such as floods or natural disasters, alongside escalating global prices of food, fuels, and other critical commodities. This underscores the significance of judicious supply chain management as a crucial method to combat inflation.

In circumstances of persistent inflation, it is essential to implement direct steps to alleviate inflationary pressures rather than relying solely on demand management policies to maintain low inflation levels. To mitigate the impact of food supply shocks amid escalating food costs, it is prudent to sustain a sufficient strategic buffer stock of food, which may be distributed as necessary through various food transfer programs aimed at impoverished and food-insecure households.

Considering the financial strain of subsidies within the government's constrained fiscal capacity, targeted safety net programs, school feeding initiatives, food-for-work schemes, open market sales, and guaranteed employment programs for impoverished and disadvantaged households, particularly during lean seasons, are effective short-term measures to augment food entitlements and stabilize prices. In addition, measures need to be undertaken to create short-term employment opportunities and facilitate access to transfer incomes in rural regions. It is crucial to provide food to the poor at subsidized prices, particularly in urban areas where they lack surplus food at home.

External sector pressures had eased, but underscored the need for sustained efforts to maintain stability and growth in the coming months

In April 2025, Bangladesh's external sector showed a mixed performance. While remittance inflows experienced a significant surge, exports saw a drop. These developments impacted the current account balance and the overall macroeconomic environment.

Exports in April were the lowest in the fiscal year, both in terms of value and growth, reaching \$3.01 billion with a year-on-year growth of only 0.86 percent. This decline was attributed to a slowdown in apparel exports due to Eid al-Fitr holidays and uncertainties with respect to the Trump administration's reciprocal tariff policy.

Remittances increased by 35 percent in April compared to the previous year, indicating a robust growth in this sector. This strong remittance growth helped to offset the decline in exports and contributed to a more stable current account balance. The current account deficit is projected to shrink from 1.4 percent of GDP in FY2024 to 0.9 percent of GDP in FY2025. This is attributed to the narrowing trade deficit and the rising remittances.

The external sector performance in April 2025 was a mixed bag, with strong remittance inflows counteracting the decline in exports.

Revenue collection falls short of the target, but the separation of NBR into two divisions holds promise for a better revenue environment

The National Board of Revenue (NBR) recently introduced the Medium- and Long-Term Revenue Strategy (MLTRS) for the period of FY2025- 26 to FY2034- 35 with a target of achieving a tax-to-GDP ratio of 10.5 percent by FY2034-35. Before implementing the strategy, a review of how and why past reform measures have not succeeded may be necessary. Comparison with low-income countries reveals that Bangladesh's revenue as a percentage of GDP seems considerably lower than its peers. Revenue collection by NBR in this fiscal year up to March FY2025 shows no sign of improvement from last fiscal year, registering just a 2.76 percent increase. The government's willingness to spend on development programs is largely constrained by lower revenue collection. The recent increase in expenditure may be partly explained by increased public debt.

In order to expedite revenue collection efforts, the interim government led by Professor Dr Muhammad Yunus has made a major structural reform by dissolving the National Board of Revenue (NBR), to be replaced by two distinct entities under the Ministry of Finance: the Revenue Policy Division and the Revenue Management Division. This reform was suggested by the Taskforces created by the Planning Ministry and the Finance Ministry.

The Ordinance was issued on May 12, 2025. This reform aimed at improving the revenue situation of the country by improving informed policy making that lacked in the erstwhile NBR, which was also criticized for conflicts of interest and inefficiencies.

Gradual improvements in investments and economic recovery are reflected in the steady growth of bank deposits and private credit

In March 2025, the aggregate deposit growth in the banking system was 8.51 percent, which was the highest in nine months. This growth was attributed to a resurgence of customer trust and a record inflow of remittances, according to data from the central bank, Bangladesh Bank.

In March 2025, Bangladesh's private sector credit growth rose to 7.57 percent, up from 6.82% in February. This increase followed a period of declining private sector credit growth, including reaching a 21-year low in February.

A notable shift occurred in public sector borrowing. Government borrowing from commercial banks surged significantly, rising to 985.79 billion by mid-April — a 60 percent increase year-on-year. This surge was due to sluggish revenue collection and the suspension of direct central bank financing. As a result, the increased reliance on commercial bank borrowing might have crowded out private sector credit access.

Exchange rates remained stable compared to previous periods

In April 2025, Bangladesh's exchange rate saw relatively stable movement compared to previous periods, with the Taka showing a little depreciation against the US dollar. Between April 9 and May 8, 2025, the exchange rate fluctuated within a narrow range, hovering between 121.7 and 122.0.

The highest rate in this period was observed on April 10 at 121.99, while the lowest was on April 20 at 121.48, with a standard deviation estimated at 0.13, indicating lower volatility. Although there were minor daily variations, the rate showed relative stability without sharp spikes or drops.

Towards the end of the period, the exchange rate slightly declined, closing at 121.70 on May 8, down from 121.96 on May 7. Overall, this suggests a period of modest volatility in the exchange market, likely to reflect a balanced interplay of economic forces without any major disruptions.

The Taka was competitive with the dollar in foreign trade, indicating a degree of stability. The REER (Real Effective Exchange Rate) showed a depreciating trend, and the REER-based nominal exchange rate was at par with the nominal rate in April and followed the same trend in May. Bangladesh Bank has been implementing measures like the crawling peg system to avoid excessive volatility from speculative behavior of unscrupulous agents since last year. With positive buildup of international reserves, positive growth of exports and remittances, and judicious use of foreign reserves helped stabilize the exchange rates. This stability and equilibrium level of exchange rate signals for gradual movement toward a market-based exchange rate system. However, a cautious and prudent exchange rate management policy must be in place.

Steady Growth in Foreign Exchange Reserves Signals Strengthened External Position

A general upward trend in reserves has been observed in the last few months. Gross reserves increased from \$25.8 billion in July 2024 to \$27.4 billion in April 2025, while BPM6 (Balance of Payments Manual 6) reserves rose from \$20.4 billion to \$22.0 billion during the same period.

The government, by this time, repaid outstanding bills of LNG, electricity, and oil imports in a substantial amount, indicating a healthy reserve position. There were some monthly fluctuations, most notably a decline in November 2024, followed by a significant recovery in December, suggesting temporary shifts in external inflows or valuation effects. The difference between the gross and BPM6 reserves, typically ranging between \$5 to \$6 billion, represents non-reserve assets included in the gross figure but excluded under BPM6 standards. Overall, the rising trend in reserves means improved foreign currency inflows, better trade performance, and increased financial stability.

ECONOMIC OUTLOOK IS MARKED BY CAUTIOUS OPTIMISM

The economic outlook for Bangladesh in May and June 2025 is marked by cautious optimism, with a gradual restoration of macroeconomic stability through various reform measures. Economic recovery is expected to be bolstered by a favorable external sector with positive exports and remittances growth, a stable exchange rate, declining inflationary pressures, and a positive deposit and credit growth in the banking sector. While global growth is expected to remain steady, domestic challenges, including political uncertainty and inflation, are expected to weigh on the economy in the short term. Prudent measures to mitigate the adverse impact of inflation on households and build confidence among investors in the upcoming budget would be key to a strong recovery in the coming fiscal year.

Highlights of Reform Initiatives

Empowering BBS for Data Publication

A significant policy framework has been approved by the government to ensure the integrity and authenticity of Bangladesh's official statistics. On May 7, 2025, the Statistics and Informatics Division (SID) under the Ministry of Planning granted the Bangladesh Bureau of Statistics (BBS) exclusive authority to publish all data and reports. BBS now doesn't require permission from the Planning Minister or other government authority to publish official statistics, which was required previously. This compulsion previously would trigger the possibility of political interference in various socio-economic statistics. The policy aims to improve data integrity and ensure transparency in governance. The BBS is also working on strengthening its capacity for data analysis and developing a Statistical Business Register to facilitate future surveys.

A Taskforce is formed to strengthen BBS

An eight-member Taskforce headed by former Adviser to the Caretaker Government, and the Chairman, Power and Participation Research Center (PPRC), Dr. Hossain Zillur Rahman, has been formed to assess various aspects and constraints of BBS and provide recommendations that can be implemented in a short-to-medium term period. The task force has been given a three-month period to finalize its report.

A high-powered expert committee is formed to facilitate STS for LDC graduation

A high-powered committee has been formed under the leadership of Hon'ble Special Assistant to the Chief Adviser (holding the rank of State Minister) of the Ministry of

Finance, Professor Anisuzzaman Chowdhury, to facilitate the implementation of the "Smooth Transition Strategies (STS)" for LDC graduation. The Committee, including the Member, GED, has been working to implement STS and other relevant issues in regard to LDC graduation, which is scheduled to take place on November 24, 2026.

Highlights of some important projects approved by the ECNEC

The Bangladesh Government has undertaken an umbrella project named "B-STRONG" (Bangladesh Sustainable Recovery, Emergency Preparedness and Response) to support and rehabilitate the people of six districts that were affected by flash floods in August-September 2024. The districts are Noakhali, Feni, Lakshmipur, Cumilla, Brahmanbaria, and Chattogram. The project aims to focus on bolstering Bangladesh's flood recovery efforts and enhancing its resilience to future disasters. The interventions include support for constructing and rehabilitating critical infrastructure, strengthening the agricultural sector, and enhancing livelihoods in areas affected by the August 2024 floods.

It has four components: Agriculture support (managed by DAE), road infrastructure maintenance and development, (managed by the local government Engineering Department, LGED), dam management and water development, (managed by the Bangladesh Water Development Board, BWDB), and disaster risk management, managed by the Department of Disaster Management, DDM). The projects were approved by the Economic Council of the National Executive Committee (ECNEC) in April and May 2025. The total cost of the projects is estimated at Tk. 3013.8 crore, of which Tk. 2728.31 crore will be financed by the World Bank.

Under this initiative, rural and flood protection infrastructure in the affected districts will be built and reconstructed. It aims to protect and improve the livelihood of 1.6 million people in these areas. Taking a comprehensive approach, the project will also promote climate-resilient agriculture and provide livelihood support to vulnerable communities. At least 6500 farm households will be provided support to enhance agricultural productivity, and assistance is to be given to flood-impacted communities for enhancing their earning opportunities by providing financial support, market-relevant skill development training, and offering temporary employment opportunities. Over 3,80,000 people will benefit from this program.

Reconstruction of multipurpose climate resilient shelters, enhancing the capacity of existing shelters, reconstruction of damaged rural roads, box culvert and bridge,

re-excavation of the canal, and establishment of a lightning protection system will be executed under the component implemented by LGED.

Bangladesh Water Development Board will undertake river bank protection activity, rehabilitation of regulator, reshaping of dam, and re-excavation of canal under their respective part of the B-strong project. Creating employment of 31,89,960 working days for 8,861 families, purchasing 370 rescue boats, and providing basic training on disaster management to 1,295 members of the district disaster management committee are to be accomplished by the Department of Disaster Management under this project.

Acknowledgments: The data used in this report were provided by the Bangladesh Bureau of Statistics (BBS) and the Bangladesh Bank.

Annex: Tables and Figures

Figure 1: Inflation in the last 12 Months

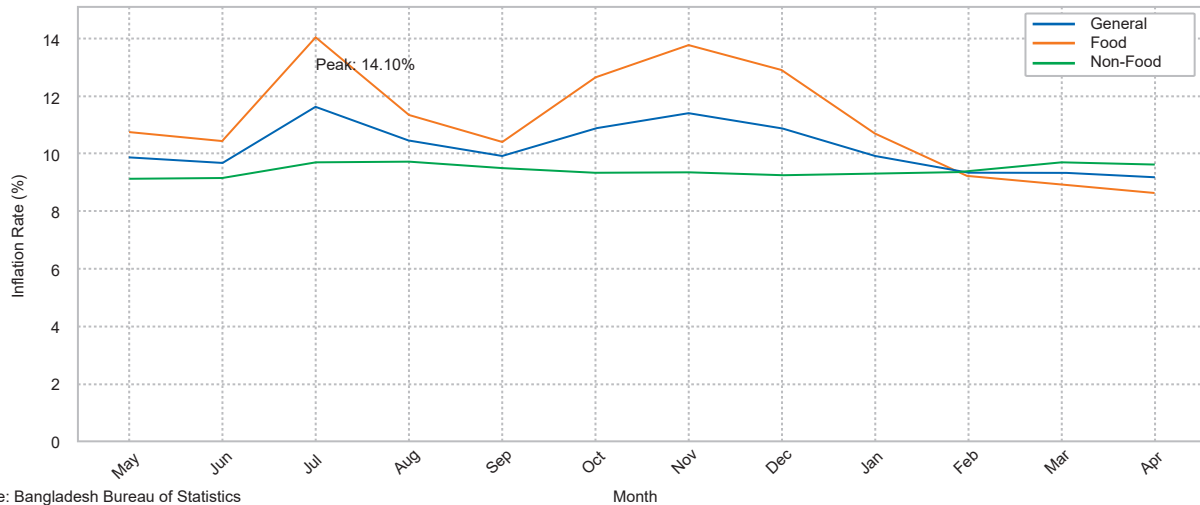


Figure 2: Contribution to point-to-point Inflation by Item in April 2025

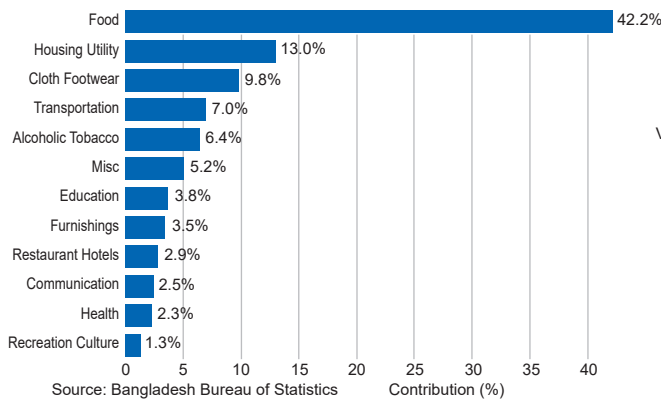


Figure 3: Contribution of food items (broad) to food inflation in April 2025

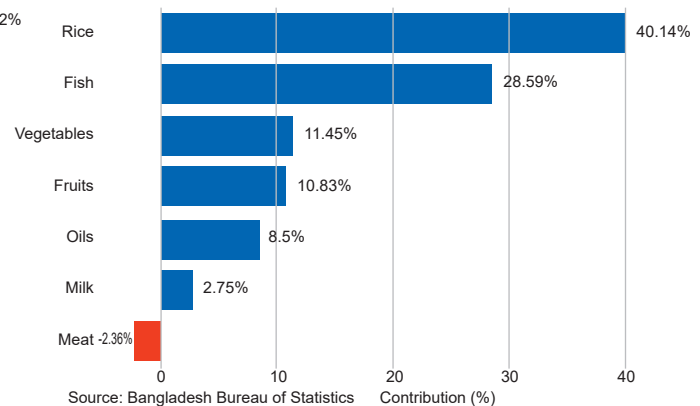


Figure 4: Contribution of food items (disaggregated) to food inflation in April 2025

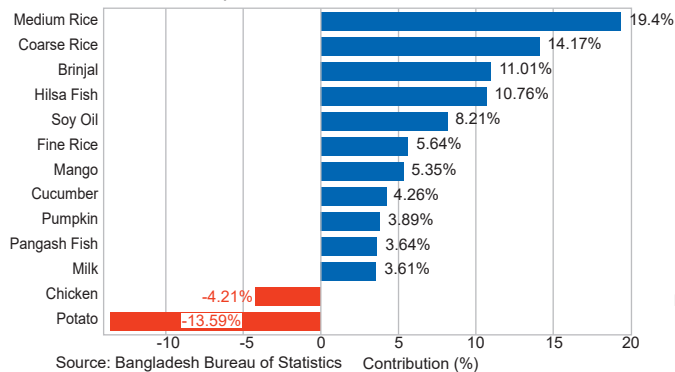


Figure 5: Contribution to point-to-point Inflation by Item in April 2025 urban vs. rural

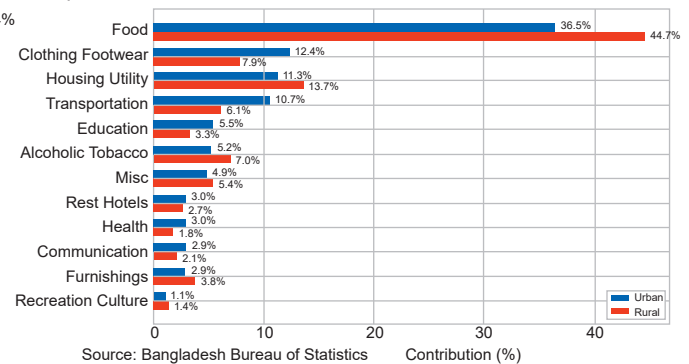


Figure 6: Historical trends of revenue, expenditure and government borrowing (overall balance) in Bangladesh

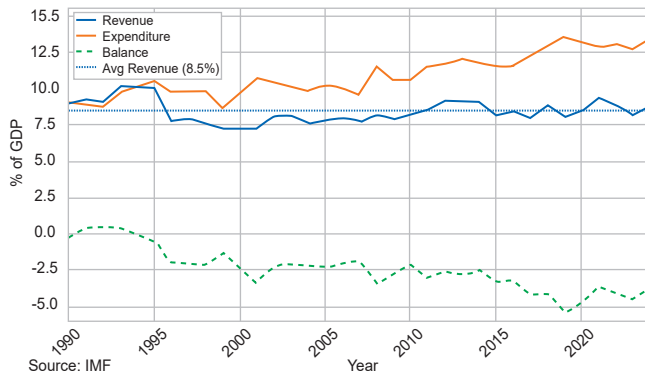


Figure 7: Comparison of revenue (% of GDP) of Bangladesh with low-income countries and emerging markets from 1990 to 2023

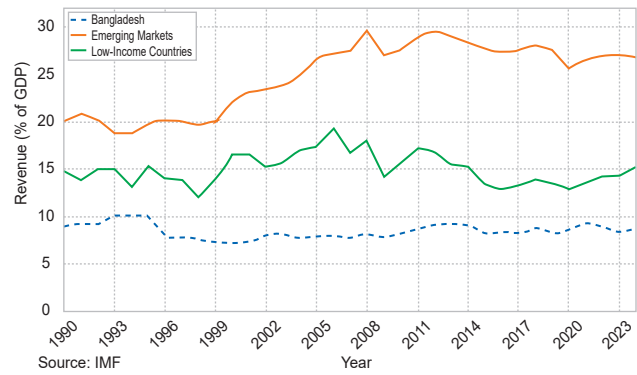


Figure 8: NBR's tax collection (taka in crore) in the last twelve months

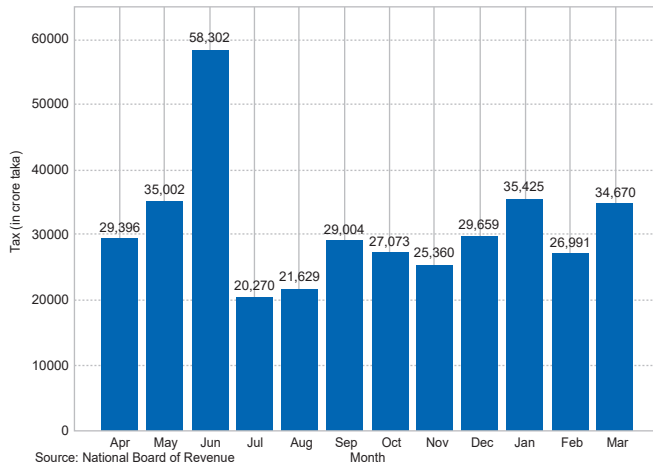


Figure 9: Monthly Foreign Exchange Reserves (in million USD)

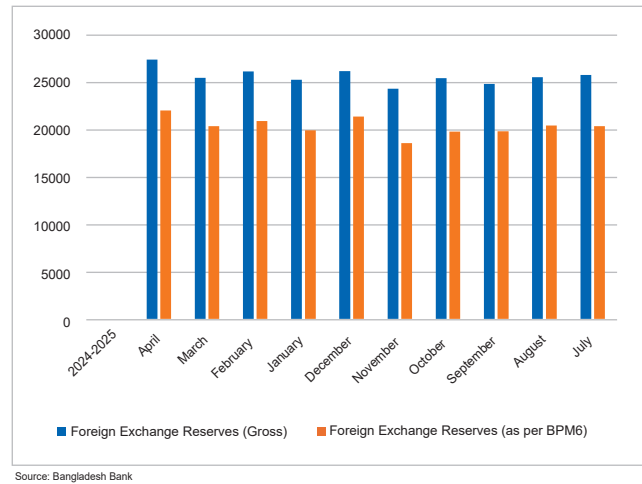


Figure 10: Monthly and Daily Movement of NEER & REER Index (Base: FY 16=100)

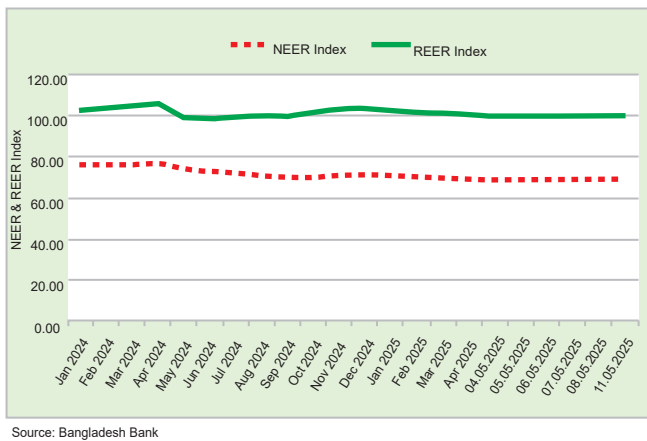


Figure 11: Monthly and Daily Movement of Bilateral and REER based Exchange Rate

