ECONOMIC
UPDATE & OUTLOOK
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Government of the People's Republic of Bangladesh
General Economics Division (GED)
Bangladesh Planning Commission

ECONOMIC UPDATE

Highlights

- *Inflation has been decreasing gradually, mainly due to a decrease in food prices. Rice and fish, remained the most significant contributor to inflation in May.*
- *The external sector strengthened with a significant increase in remittances and stable exchange rates, though export growth showed a slight dip in April*
- *The FY26 budget, totaling Tk 7.97 trillion, is a cautious and conservative proposal focused on stabilization and resilience. The budget accounts for 12.7% of GDP, showing a 0.88% decrease from the original budget for the outgoing fiscal year, but a 6.18% increase compared to the revised budget.*

"*It will be a budget for restoring discipline in the financial sector. Our objective is to avoid falling into a debt trap, where a significant portion of the budget is consumed by loan repayments, whether for operating costs or interest payments. To break this vicious cycle, revenue must be increased, but expenditure must also remain limited. We aim to keep the budget deficit below 4 percent of total GDP. Though the budget size would be relatively small, it is designed to restore economic stability, control inflation, strengthen social safety net programs, and reintroduce discipline and sustainability in budget management."—Professor Wahiduddin Mahmud, Hon'ble Planning Adviser (at the press briefing after the National Economic Council Meeting on 18 May 2025)*

Inflation has been falling steadily

Inflation has been falling steadily over the last six months. In May 2025, point-to-point headline inflation fell to 9.05 percent, the lowest in recent times. Since the onset of the Russia-Ukraine war, Bangladesh has witnessed a rapid rise in inflation, particularly after the government's fuel price hike in August 2022, which resulted in a 42.5 percent increase in diesel prices, and over 50 percent increases in octane and petrol. Particularly, food inflation has been the cause of concern as it remained over double-digit since mid-2023 until January 2025. As articulated in the previous monthly economic update, the government has taken inflation seriously and resorted to both supply and demand side interventions, favored by a stable foreign exchange market.

Since February, the inflation has been downsized by the gradual decline in food inflation, although the contribution of food to overall inflation marginally increased (42.6%) from the previous month (42.2%). Apart from food, housing (12.5%), clothing and footwear (10.4%), and transportation (6.9%) contributed extensively to general inflation out of 12 broad categories.

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In terms of broad category of food, rice (40%) remained the biggest contributor, followed by fish (28%), fruits (11.93%), oils (8.7%). It was expected that the yield of Boro paddy in the last month would impact the price of rice in the market, but it may likely take more time to lower rice prices. At the disaggregated level, individual item-wise contribution shows medium rice again reached the top spot (20.46%), slightly higher than the previous month. Coarse rice, hilsa, brinjal, soybean oil, mango, pangas, fine rice, water gourd, and pumpkin all impacted food inflation to a large or moderate extent. On the other hand, the reduction in potato (-13.3%) and hen (-3.87%) prices contributed positively to lowering food inflation.

Bangladesh External Sector Update: Signs of Recovery Amid Underlying Pressures

Between July 2024 and mid-June 2025, Bangladesh's external sector showed mixed signals of resilience and stress. Foreign exchange reserves experienced fluctuations but showed recovery, with gross reserves peaking at $27.43 billion in April 2025 before dipping slightly, while BPM6 reserves remained under pressure, reflecting limited usable reserves. Export earnings displayed strong resilience, recovering sharply in December 2024 and May 2025 after seasonal dips, suggesting robust external demand and sectoral adaptability. Meanwhile, the exchange rate of the Taka depreciated gradually over the period, peaking in early June 2025 before stabilizing, indicating persistent forex demand and managed intervention by the authorities. Overall, while external indicators reflect underlying vulnerabilities, recent trends point to cautious stabilization and recovery efforts.

A seasonal low was observed in April 2025, when exports dropped sharply to $3.02 billion, likely due to reduced working days around Ramadan and Eid. Notably, the economy rebounded strongly in May 2025, recording the highest monthly export figure of the entire period at $4.74 billion, reflecting strong global demand and a robust response. Overall, despite mid-period volatility, the export sector demonstrated impressive adaptability and strength, positioning itself for sustained growth amid external and seasonal challenges.

Exchange Rate Trends Show Gradual Taka Depreciation with Signs of Stabilization by Mid-June 2025

Between July 2023 and May 2025, the data reveals a notable depreciation of the Bangladeshi Taka (BDT) against the U.S. Dollar (USD), as evidenced by the increase in the bilateral exchange rate from 108.96 in July 2023 to 122 in May 2025. Concurrently, the Nominal Effective Exchange Rate (NEER) shows a declining trend, falling from 76.54 to 68.23, indicating a loss in the BDT's external value relative to a basket of trading partner currencies. In contrast, the Real Effective Exchange Rate (REER) exhibits more volatility but remains relatively stable within the 98–105 range, suggesting that inflation differentials may have partially offset the nominal depreciation, thereby helping to maintain some competitiveness. A sharp jump in the bilateral exchange rate and REER occurred in April 2024, signaling possible external shocks or policy adjustments. However, from that point forward, despite the exchange rate remaining elevated at 122, both NEER and REER gradually declined, reflecting sustained nominal depreciation and perhaps waning real competitiveness. This combination suggests ongoing pressure on the currency, possibly due to structural imbalances or persistent inflation.

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

In May 2025, bank deposits and private sector credit growth in Bangladesh showed a mixed trend. While deposit growth experienced a resurgence due to factors such as customer trust and remittances, private sector credit growth slowed down. Government borrowing from banks, however, surged significantly due to sluggish revenue collection. In March 2025, the aggregate deposit growth in the banking system reached 8.51 percent, the highest in nine months, driven by a resurgence of customer trust and record remittance inflows. Despite the March peak, overall bank deposit growth has been sluggish, partly due to high inflation eroding purchasing power and affecting savings capacity.

Highlights of Budget FY 2025-2026

A cautious budget focusing on stabilization and resilience

The FY26 budget, totaling Tk 7.90 trillion, was placed in the Cabinet on June 2, 2025, and passed on June 22, 2025. The budget undertook a cautious and conservative approach, focusing on stabilization and resilience. The budget accounts for 12.7% of GDP, showing a 0.88% decrease from the original budget for the outgoing fiscal year, but a 6.18% increase compared to the revised budget. The proposed revenue collection target is set at Tk 564,000 crore, which is 8.88% higher than the revised target for the current fiscal year.
On the expenditure side, the Annual Development Programme (ADP) underwent a massive 13 percent cut from the current original budget, reflecting the government's priority on quality over quantity. It is indeed a transition of government from expansive and quantity-driven public spending to a more selective and quality-focused, impactful investment. On the financing front, the fiscal deficit is targeted to be 3.62 percent of GDP, signaling the government's intention to stabilize public debt and achieve debt sustainability.

However, the execution of the budget to the maximum extent depends on several assumptions. The first and foremost is the successful collection of revenue to 9 percent of GDP, which involves several reform measures. Secondly, it is uncertain whether the current macroeconomic stability can be maintained over the next year, as this is subject to risks and uncertainties. Finally, reforms in the banking sector, capital markets, and other areas are crucial to build investors' trust.

Highlights of ADP

The Annual Development Programme (ADP) for the fiscal year 2025-26 (FY26) in Bangladesh is set at Tk 2,30,000 crore (or Tk 2.3 trillion). This includes Tk 1,44,000 crore from the government's own funds and Tk 86,000 crore from external sources, such as loans and grants. Additionally, there's an allocation of Tk 8,599.71 crore from autonomous bodies' own funds, bringing the total ADP to Tk 2,38,599.71 crore.

The government has allocated 70 percent of the ADP budget to five sectors: transport and communication (Tk 58,973 crore), power and energy (Tk 32,392 crore), education (Tk 28,557 crore), housing and community (Tk 22,776 crore), and health (Tk 18,148 crore). Among the government's ministries and divisions, the top 10 ministries got 74 percent of the total ADP allocation in the upcoming fiscal year. The local government division got the highest allocation (Tk 36,098 crore), followed by the road transport and highways (Tk 32,329 crore), power division (Tk 20,283 crore), secondary and higher education division (Tk 13,625 crore), science and technology ministry (12,154 crore) and health service division (Tk 11,617 crore).

Fiscal Discipline, allocative efficiency, and better implementation are reflected in this year's ADP.

Social Protection Programs have been expanded

The government aims to raise the number of extremely poor beneficiaries for employment from 389,000 to 400,000, with a proposed increase in the daily wage to Tk. 500 from Tk. 400. Food-related programs will expand the number of beneficiaries from 5 million to 5.5 million, and each beneficiary household will receive 30 kg of rice for six months instead of five. Monthly allowances for persons with disabilities have risen from Tk. 550 to Tk. 650, and the widowed allowance is proposed to increase from Tk. 850 to Tk. 900. Such enhancements in social safety net programs will help poor people mitigate the effects of inflation. Given the narrow fiscal space, the enhancement marks a positive intent of the government to help the poor and distressed people.

Overall, the allocation for social safety net programs stood at around 2% of GDP, including expenditures on pensions for government employees. It would be better to separate pension allocations (49% of total social protection spending) from social safety net programs to align them with global standards.

Digital Budget Planning System Introduced

For the first time, the planning ministry has used a digital budget planning system to categorize spending based on economic codes, allowing for more transparent tracking of fund utilization. Under the digital budget planning method, allocations will be tracked and implemented through the iBAS++ system, ensuring code-based expenditure.

Tax-free income limit to go up from FY27

Individual taxpayers will see their tax-free income limit increase to Tk 375,000 starting from FY 2026-27. However, the rates in the corresponding slabs will be higher. For the assessment year 2025-26, the tax-exempt threshold remains at Tk 350,000 of annual income.

Source tax on supply of essential commodities halved

In an effort to ease the burden on marginal farmers and suppliers, the interim government has proposed reducing the source tax on income from the supply of essential commodities—including paddy, rice, wheat, potato, jute, and tea leaf—to 0.5 percent from the next fiscal year. Previously, the source tax on these items was 1 percent.

Advanced tax on industrial raw materials has been reduced

The government has cut the advanced income tax (AIT), a kind of value-added tax, to 2 percent on the import of raw materials by manufacturers. However, commercial importers will face AIT of 2.5 percent to 7.5 percent.

Duty-free import of cereals, life-saving drugs to continue

The government will continue to allow duty-free imports of essential foods, agricultural inputs, and life-saving drugs for the next fiscal year. Imports of fertilizer, seed, and cotton will also get a zero-duty benefit next year.

Duty exemption to give relief to pharma industry, chronic patients

In a bid to support the pharmaceutical sector and improve access to critical healthcare, the government has proposed duty waivers on 23 raw materials used in cancer drug production, 36 items for managing chronic illnesses like diabetes, and 20 types of medical equipment. The initiative aims to reduce production costs for drug manufacturers and lower treatment expenses for patients suffering from cancer, kidney ailments, and vascular diseases. Currently, over 200 pharmaceutical products are exempt from existing duties.

Tax on land transfer to be reduced

The government has proposed a reduction in the tax on land transfers starting from FY 2025-26, aiming to encourage property registrations at actual sale prices and to curb the accumulation of undeclared income. Under the new proposal, the land transfer tax will be reduced by one to two percentage points, depending on the property's location. From FY 2025-26, the maximum tax rate will be 6 percent, while the minimum rate will be set at 1 percent.

Income up to Tk 500,000 from agriculture is tax-exempt

To promote farming and meet the growing demand for food for an increasing population, the government has maintained a tax-free status on annual agricultural income up to Tk 500,000. This benefit will be available starting from FY 2025-26.

Tax benefits to stock brokerage firms and merchant banks

The government has proposed widening the gap in corporate tax paid by listed and non-listed firms from 5 percentage points to 7.5 percentage points in order to attract companies with good performance records to go public.

Apart from this, the budget proposed lowering the source advance tax on turnover in stock brokerage to 0.03 percent from the existing 0.05 percent. The government decided to reduce the tax on trading to meet the demands of stock brokerages.

There is good news for merchant banks too. The budget proposed reducing the corporate tax rate on merchant banks to 27.5 percent from the existing 37.5 percent.

Tk 100cr startup fund proposed to back new entrepreneurs

The government proposed a Tk 100 crore startup fund in the national budget for the FY2025–26 to support emerging entrepreneurs.

Bank borrowing target trimmed by 24%

The government has slashed its bank borrowing target by 24.36 percent in FY2025–26, setting it at Tk 104,000 crore. For the current FY 2024–25, the bank borrowing target was initially set at Tk 137,500 crore. The total deficit for FY 2025–26 is projected at Tk 221,000 crore. Of this, Tk 96,000 crore is expected to be obtained from foreign sources, while the remaining Tk 125,000 crore will be sourced domestically. Of the internal financing, Tk 104,000 crore is to be raised from banks and Tk 21,000 crore from non-bank sources.

Preparation for LDC graduation

In the budget for FY26, the government has proposed reducing import duties on certain goods and amending trade rules to enhance competitiveness in preparation for the country's impending graduation from the list of least developed countries (LDCs). The government plans to reorganize the current six-tier customs duty system by introducing a new 3-tier and adding a 40 percent supplementary duty slab to the existing twelve-tier structure.

As part of broader trade reforms and in preparation for tariff negotiations with the US, import duties on 110 products are proposed to be eliminated, while duties on 65 products are to be reduced.

Additionally, supplementary duties on nine products will be fully withdrawn, and those on 442 others will be reduced. These measures aim to alleviate the tax burden and minimize anti-export bias. To support local manufacturing of agricultural machinery, tariffs on parts used to produce combined harvesters will be lowered.

Recognizing the need to rationalize the tariff regime post-graduation, the budget proposes the elimination of all existing tariff values.

Minimum values on 84 products will be withdrawn, while the minimum value for 23 products will be revised upward to bring them in line with realistic benchmarks, marking progress toward abolishing minimum value practices in the post-LDC era.

To streamline business operations, new systems, namely the "Central Bonded Warehouse" and "Free Zone Bonded Warehouse", have been introduced to simplify bond management, cutting delays in raw material imports for export-oriented industries.

Women’s unpaid work to get recognized

In a historic move, Bangladesh's national budget has, for the first time, pledged institutional recognition for women's unpaid and unacknowledged caregiving and household work. The government plans to include the economic value of this unpaid labor in the country's GDP calculations, marking a significant policy shift.

ECONOMIC OUTLOOK IS MARKED BY STABILITY AND OPTIMISM

In terms of projected growth and inflation for FY26, the government sets a more realistic target of 5.5 percent for the fiscal year 2025-26. This is quite exceptional, as the growth target in previous years consistently exceeded the IMF's estimate, which is now more conservative than the IMF’s forecast of 6.5 percent. The same is true for inflation, which is targeted at 6.5 percent, well below the IMF’s projection of 5.2 percent for the fiscal year 2025-26. Overall, the budget for FY25-26 reflects three key aspects: macroeconomic stability, public expenditure efficiency, and a balance between revenue mobilization and expenditure absorption. A more effective implementation of the budget is thus crucial for achieving macroeconomic stability and inclusive development, which hinges on improved revenue mobilization through targeted reforms.

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

Annex:
Tables and Figures

Figure 1: Inflation in the last 12 Months

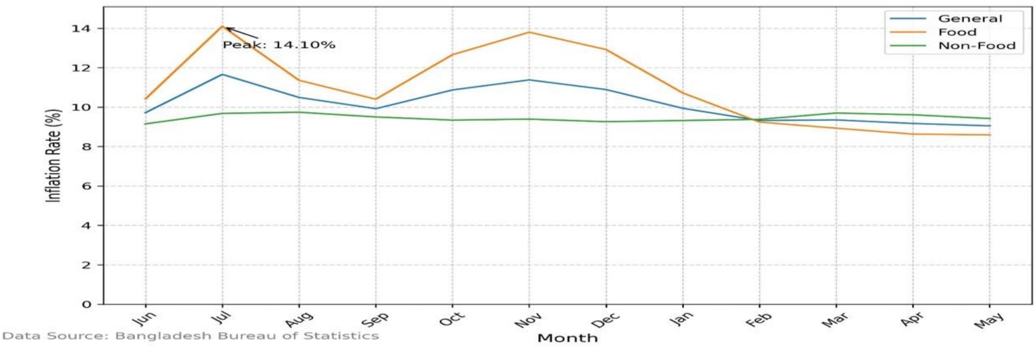


Figure 2: Contribution to point-to-point inflation by item in May 2025

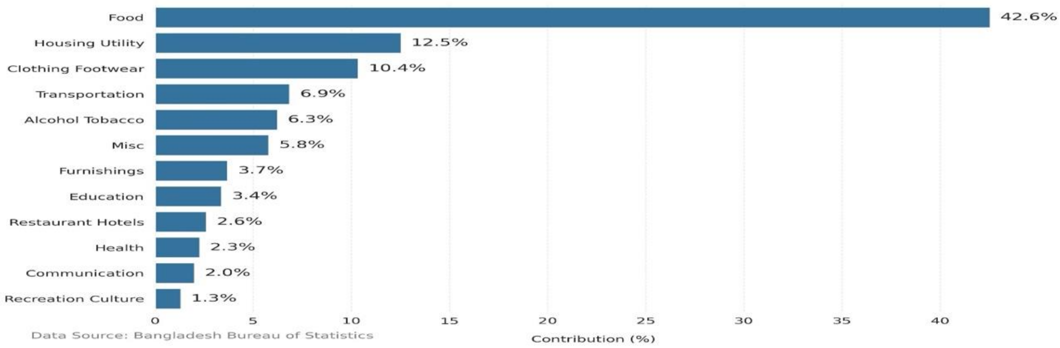


Figure 3: Contribution of food items (broad) to food inflation in May 2025

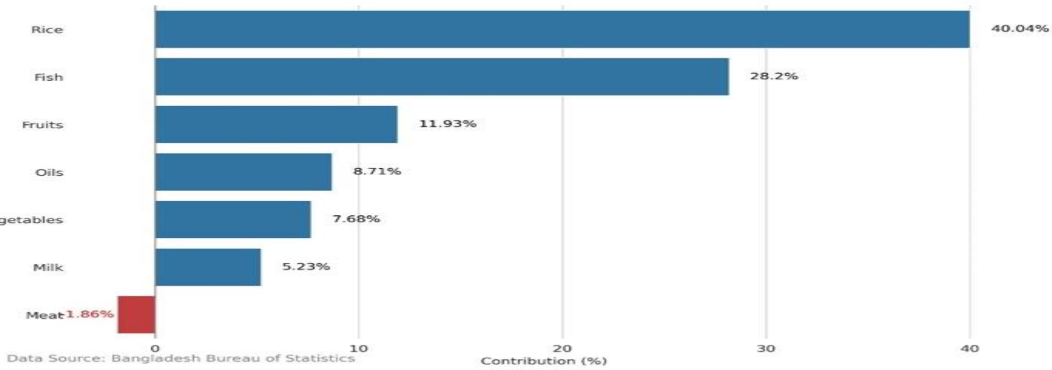


Figure 4: Contribution of food items (disaggregated) to food inflation in May 2025

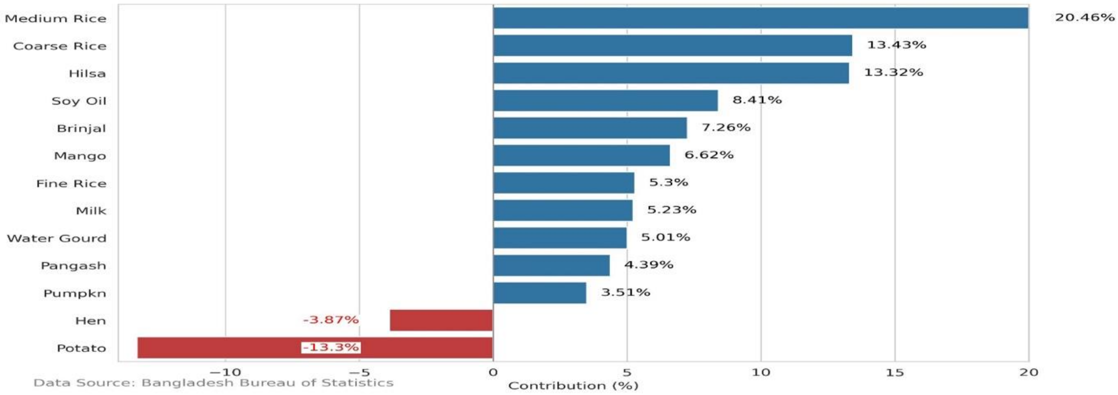


Figure 5: Expenditure of the budget FY2025-26

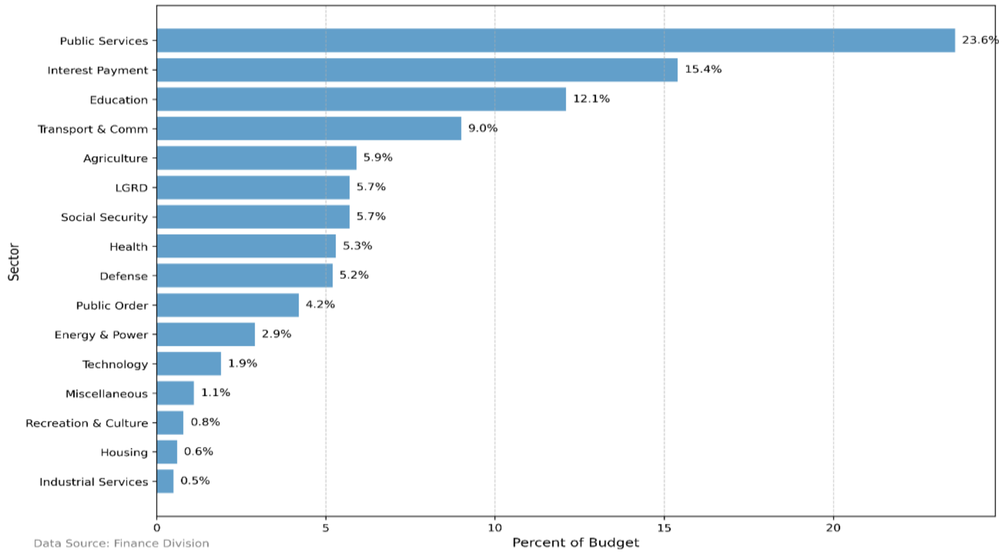


Figure 6: Source of financing of the budget FY2025-26

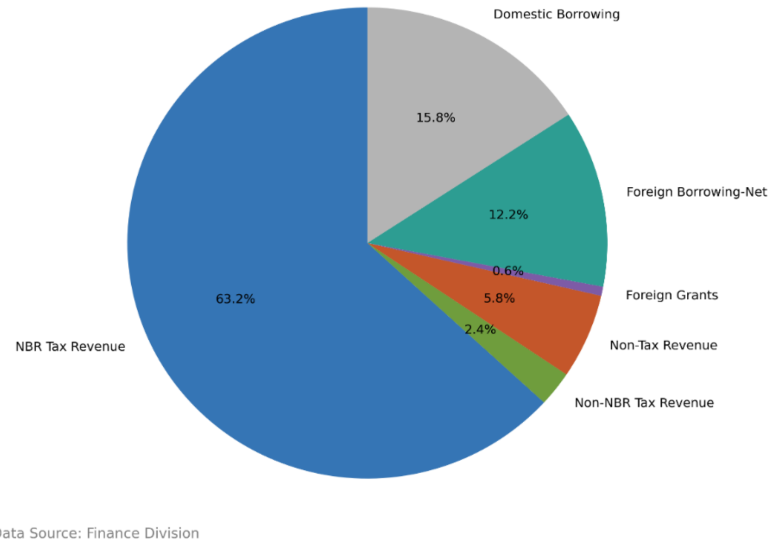
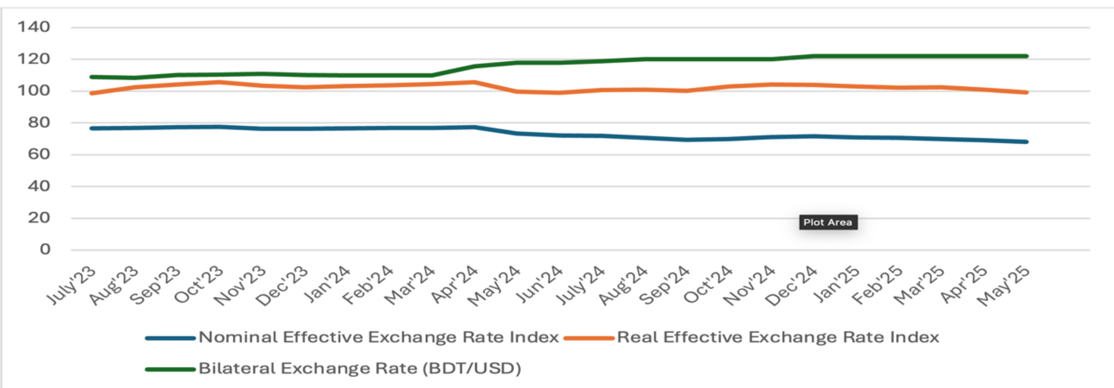


Figure 7: Monthly Movement of NEER, REER, and Bilateral REER (BDT/USD) Index



Source: Bangladesh Bank