

ECONOMIC UPDATE

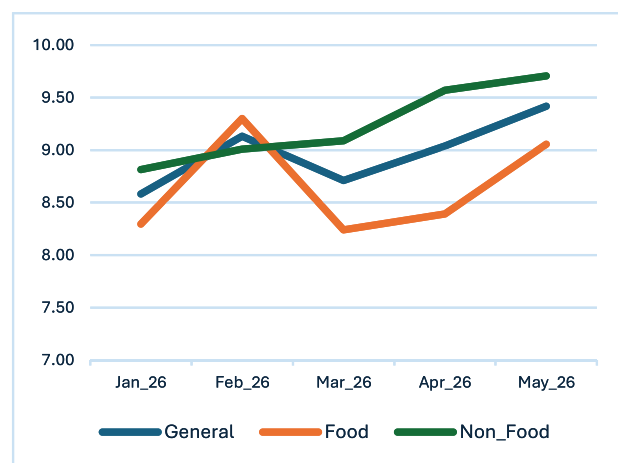
Highlights

- *Headline inflation rose to 9.42% in May 2026 from 9.04% in April, driven by broad-based food and non-food price pressures.*
- *A 1.21 percentage point wage-inflation gap is leading to significant real income erosion for workers.*
- *Banking sector liquidity strengthened as deposits grew nearly 12% year-on-year, while private sector credit growth stayed subdued at 4.75%.*
- *NBR collected only 73% of its revised May target, leaving a BDT 12,266 crore shortfall across all three major revenue sources.*
- *Cumulative ADP implementation declined to 48.23%, with total development expenditure falling 9.2% year-on-year.*
- *Strong remittance inflows and RMG growth strengthened external sector resilience through May'26.*
- *Rising domestic inflation pushed the Real Effective Exchange Rate up to 101.74, signaling growing pressure on export competitiveness despite stable nominal rates.*

Inflation Persistence Driven by Structural Supply and Import-Cost Pressures

The headline inflation increased further in May 2026, reaching 9.42 percent compared to 9.04 percent in April 2026 (Figure 1). The rise was driven by both food and non-food inflation. Food inflation accelerated from 8.39 percent in April to 9.06 percent in May, while non-food inflation rose from 9.57 percent to 9.71 percent over the same period.

Figure 1: Inflation dynamics till May 2026



Source: Bangladesh Bureau of Statistics

Editor and Key Contributor: Dr. Monzur Hossain, Member, General Economics Division (GED), Bangladesh Planning Commission

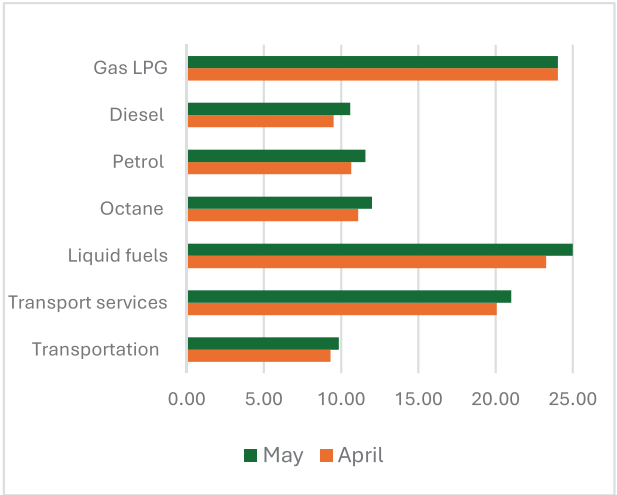
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Persistent inflation suggests that supply-side constraints continue to affect domestic price stability, while the contribution of demand-side factors requires focus as well. The divergence between these components reveals that the economy is experiencing simultaneous supply-side food pressures, import-cost-driven energy inflation, and broadening price transmission into non-food services.

Fuel and transport inflation intensified significantly in May 2026, with transportation costs rising to 9.86 percent from 9.31 percent in April (Figure 2). More concerning is the acceleration in transport services, which jumped from 20.07 percent to 21.02 percent, and liquid fuel inflation surging from 23.28 percent to 25.00 percent. Individual fuel products also experienced sharp increases: petrol rose from 10.66 percent to 11.57 percent, diesel from 9.52 percent to 10.58 percent, and octane from 11.11 percent to 12.00 percent. Notably, liquified petroleum gas (LPG) remained steady at 24.04 percent.

Figure 2: Fuel and transport inflation: May’26 vs April’26

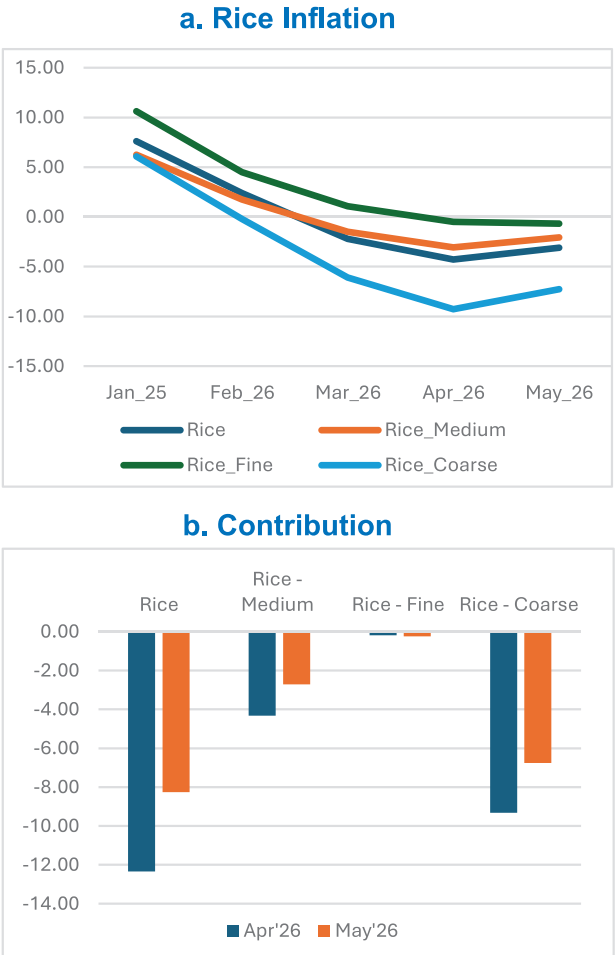


Source: Bangladesh Bureau of Statistics

In May 2026, rice inflation remained in negative territory, although the pace of decline moderated slightly.

Overall rice inflation increased to -3.10 percent from -4.28 in April, while medium rice inflation rose marginally to -2.07 percent from -3.07 percent in April. Fine rice inflation declined marginally from -0.48 percent to -0.68 percent (Figure 3a). Coarse rice continued to experience substantial negative inflation (-7.26 percent), though the rate of decline was less severe than in April.

Figure 3: Rice inflation trends and impact on food inflation



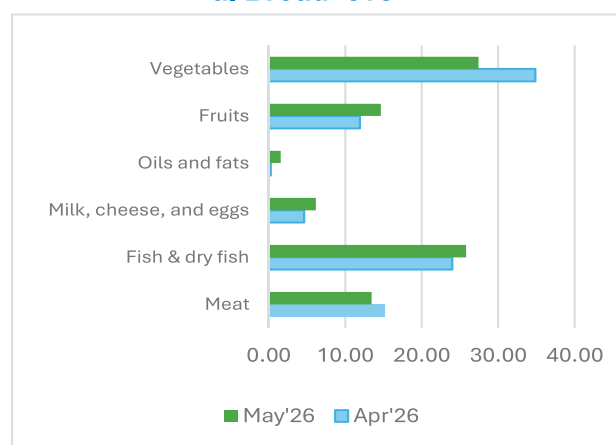
Source: Bangladesh Bureau of Statistics

The recent Boro harvest likely contributed to improved domestic supply. From a food inflation measurement perspective, rice's contribution increased substantially from -12.34 percentage points in April to -8.27 points in May (Figure 3b),

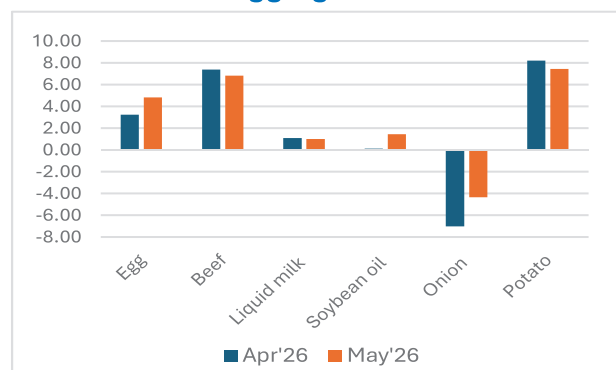
indicating that rice inflation is becoming less intense but remains highly in negative inflation. However, the sustainability of rice inflation depends on harvest outcomes and global price behavior, making it a potentially temporary source of relief rather than a structural solution to food inflation.

Vegetables emerged as the primary driver of food inflation in May 2026, with a contribution of 27.44 percentage points, though this represented an improvement from 34.87 points in April (Figure 4a). Fish and dry fish maintained elevated contributions at 25.80 points (up from 23.99 points in April), while meat contributed 13.44 points (down from 15.22 points). Fruits contributed 14.65 points in May versus 11.92 points in April, and milk/cheese/eggs contributed 6.14 points versus 4.65 points. Oils and fats showed minimal contribution at 1.59 points in May, up from 0.29 points from the previous month.

Figure 4: Contribution to food inflation
a. Broad level



b. Disaggregated level



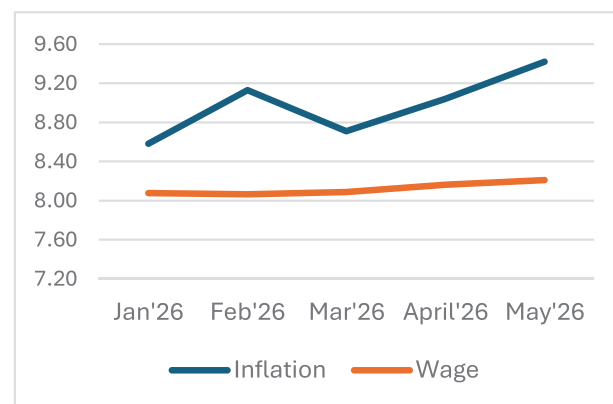
Source: Bangladesh Bureau of Statistics

Among disaggregated components, showed in Figure 4b, onion inflation showed a slight increase, contributing -4.33 points in May (from -7.02 points in April), while potato inflation contributed 7.45 points (down from 8.22 points in April). Beef inflation contributed 6.83 points versus 7.38 points, and liquid milk remained stable at modest levels (1.01 points in May). Soybean oil inflation increased sharply to 1.44 points from 0.13 points. Given these inflation patterns, policy attention may be directed toward vegetable production enhancement through improved cold storage infrastructure and supply chain logistics to mitigate seasonal price volatility. A targeted food subsidy programme for protein products (eggs, milk) could be considered in vulnerable communities given sustained inflation.

Wage-Inflation Gap Drives Real Income Erosion

Wage growth recorded 8.21 percent in May 2026, a marginal increase from 8.16 percent in April, reflecting the modest pace of wage adjustment in the economy (Figure 5). Despite a 0.05 percentage point month-on-month uptick, wage growth continues to trail headline inflation, which surged to 9.42 percent in May, a gap of 1.21 percentage points.

Figure 5: Inflation and Wage growth trends (January 2026 – May 2026)



Source: Bangladesh Bank

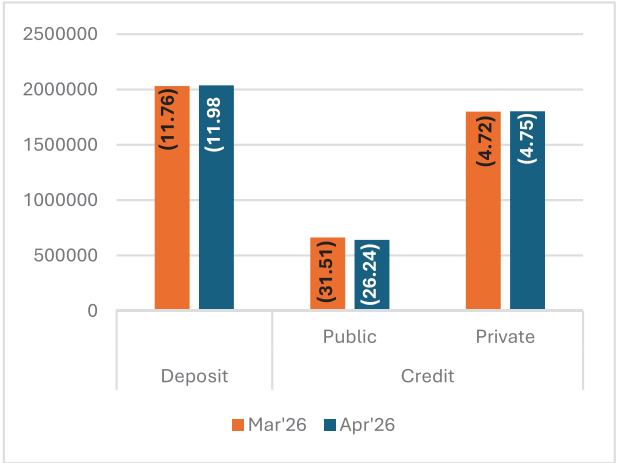
Since January 2026, wage growth has risen only modestly from 8.08 percent, gaining just 0.13 percentage points over five months. This near-flat trajectory stands in stark contrast to inflation, which has been considerably more volatile and trended upward over the same period.

The sustained lag of wages behind prices points to an ongoing compression of real incomes, with workers' purchasing power continuing to erode.

Strong Deposits, Weak Private Credit: Banking Liquidity Surplus Amid Subdued Investment Demand

In April 2026, the banking sector exhibited stronger liquidity conditions, supported by continued growth in deposits. Total deposits increased to Tk. 2.04 trillion, while year-on-year growth rose slightly from 11.76 percent in March to 11.98 percent in April (Figure 6). The sustained double-digit growth reflects healthy deposit mobilization and continued public confidence in the banking system.

Figure 6: Banking sector’s Deposit and credit (Crore Taka) (April’26 vs March’26)



Source: Bangladesh Bank

On the credit side, public sector credit declined from Tk. 663.1 billion to Tk. 642.0 billion, causing annual growth to moderate from 31.51 percent to 26.24 percent. This suggests a reduced reliance on bank financing by the government compared to previous months.

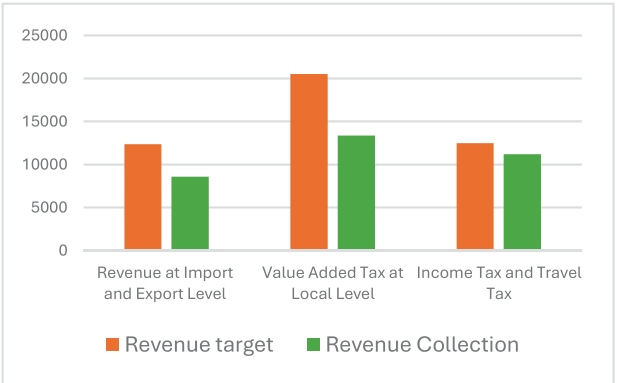
Meanwhile, private sector credit increased marginally to Tk. 1.80 trillion, with year-on-year growth edging up from 4.72 percent to 4.75 percent. However, private credit growth remained subdued, indicating weak investment demand and cautious borrowing amid relatively tight financial conditions.

The situation points to improving banking sector liquidity due to strong deposit growth, while credit expansion remained modest, particularly in the private sector. The moderation in public sector borrowing could help ease crowding-out pressures and support future private sector credit growth.

NBR Revenue Collection Remained Below the Revised Target in May 2026

For May 2026, the revised revenue target was set at BDT 45,374 crore, against which actual revenue collection amounted to BDT 33,108 crore, resulting in a shortfall of BDT 12,266 crore (Figure 7). None of the three major revenue sources achieved their revised targets. Collections from import and export duties fell short by BDT 3,804 crore, VAT collections were below target by BDT 7,149 crore, and income tax and travel tax collections recorded a deficit of BDT 1,312 crore. Overall, the National Board of Revenue (NBR) achieved 73 percent of its revised monthly target, leaving a 27 percent gap.

Figure 7: Revenue target and revenue collection of May'26 (in crore taka)



Source: National Board of Revenue (NBR)

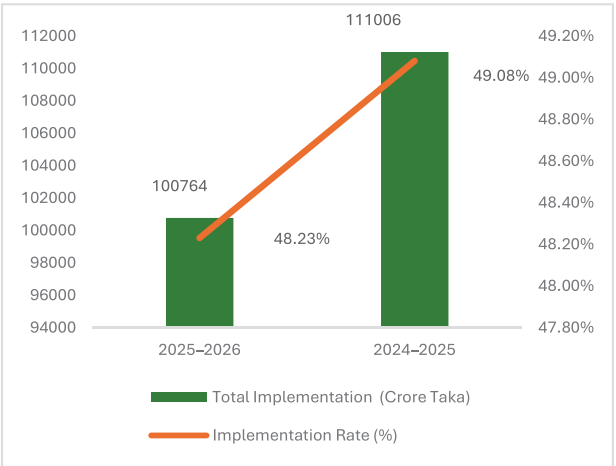
Compared with April 2026, total revenue collection declined by BDT 5,952 crore, representing a 15.23 percent month-on-month decrease from BDT 39,060 crore to BDT 33,108 crore. However, compared with May 2025, revenue collection increased by BDT 923 crore, registering a modest 2.86 percent year-on-year growth.

Overall, revenue performance remained below the revised target, reflecting continued challenges in revenue mobilization. Sustained efforts to strengthen tax administration, improve compliance, and enhance collection efficiency will be important to support the achievement of the annual revenue objectives.

ADP Implementation Remains Below the Previous Year's Level

The cumulative ADP implementation during the July–May period declined in FY2025–26 compared to the corresponding period of FY2024–25. Total expenditure decreased from Tk. 111,006 crore in FY2024–25 to Tk. 100,764 crore in FY2025–26, representing a reduction of approximately 9.2% (Figure 8). Similarly, the implementation rate fell marginally from 49.08% to 48.23%.

Figure 8: ADP implementation between FY2025-26 and FY2024-25 (Crore Taka) and Rate (%)

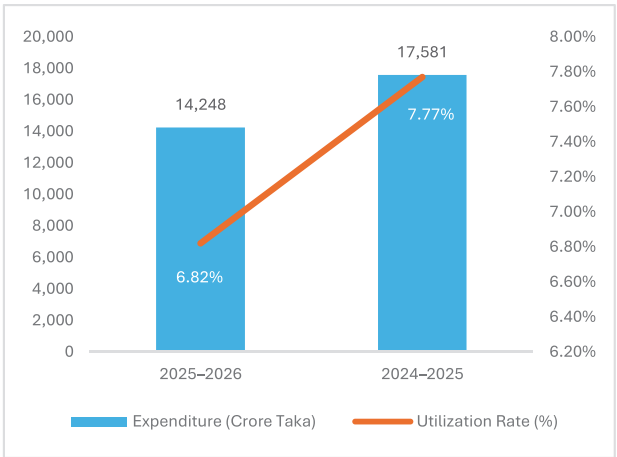


Source: Implementation Monitoring and Evaluation Division (IMED)

The lower expenditure and implementation rate suggest that project execution progressed at a slower pace during FY2025–26, indicating the need for accelerated implementation efforts during the remaining months of the fiscal year to achieve planned development targets.

ADP implementation during month May was considerably lower in FY2025–26 than in the same month of the previous fiscal year. Development expenditure amounted to Tk. 14,248 crore in May FY2025–26 compared with Tk. 17,581 crore in May FY2024–25, reflecting a decline of nearly 19%. Correspondingly, the monthly utilization rate decreased from 7.77% to 6.82% (Figure 9).

Figure 9: ADP performance in May between FY2025-26 and FY2024-25

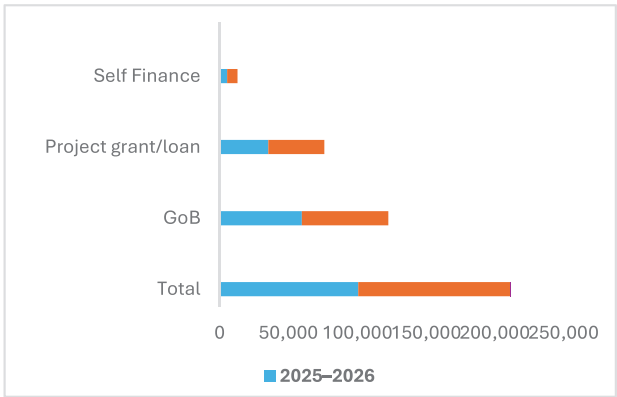


Source: Implementation Monitoring and Evaluation Division (IMED)

This weaker monthly performance indicates slower project spending during a critical period of the fiscal year and may place additional pressure on implementing agencies to accelerate expenditures in the final month to meet annual ADP targets.

Figure 10 compares ADP implementation by financing source during July–May for FY2025–26 and FY2024–25. Overall implementation declined across all major financing modes. GoB-financed projects recorded expenditures of Tk. 59,789 crore in FY2025–26. Project aid (grant/loan)-financed projects declined from Tk. 40,602 crore to Tk. 35,510 crore, indicating slower utilization of external resources. Self- financed projects experienced the largest decline, with expenditure falling from Tk. 7,535 crore to Tk. 5,465 crore.

Figure 10: ADP performance comparison between July-May for FY2025-26 and FY2024-25 based on different financing modes (In Crore Taka)



Source: Implementation Monitoring and Evaluation Division (IMED)

Overall, while the implementation efficiency of GoB-funded projects remained relatively stable, weaker performance in externally financed and self-financed projects contributed to the overall slowdown in ADP implementation during FY2025–26.

External Sector Outlook: Strengthening Fundamentals Amid Persistent Global Risks

Bangladesh’s external sector demonstrated notable resilience during March–May 2026, supported by strong remittance inflows, robust export growth, and broadly stable foreign exchange reserves. Remittance receipts remained significantly higher than the corresponding period of the previous fiscal year, providing a steady source of foreign exchange and helping to cushion external payment pressures. Export earnings also strengthened considerably, driven primarily by the sustained expansion of RMG exports alongside improved performance in non-RMG sectors.

Although foreign exchange reserves moderated slightly in May after recovering in April, both gross and BPM6 reserves remained at relatively comfortable levels, indicating that external liquidity conditions continued to be manageable. The combined strength of remittances and exports helped offset pressures arising from import payments and contributed to maintaining confidence in the external sector.

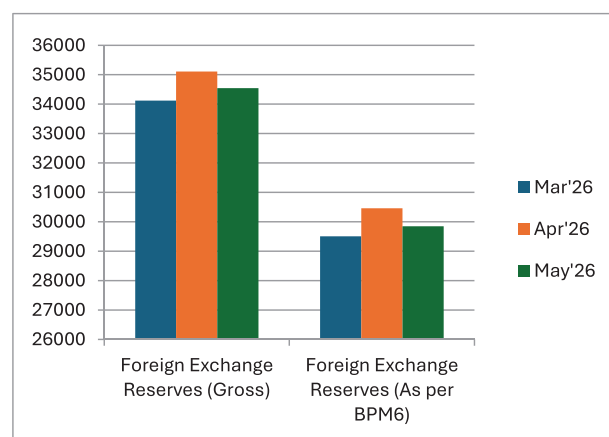
Looking ahead, the external sector outlook remains cautiously optimistic but subject to external uncertainties. The rebound in overall imports and the continued strength of capital machinery imports suggest improving domestic economic activity and investment prospects, although they may also increase demand for foreign exchange. At the same time, geopolitical tensions in the Middle East, volatility in global energy prices, and uncertainty surrounding global trade and growth continue to pose downside risks to external stability. Higher energy costs could increase the import bill and exert pressure on reserves and the exchange rate, while weaker global demand could affect export performance. Nevertheless, the current combination of strong remittance growth, expanding export earnings, stable reserve levels, and rising investment-related imports suggests that Bangladesh's external sector remains well-positioned to absorb moderate external shocks and support overall macroeconomic stability in the near term.

Foreign Exchange Reserves: Moderation After April Recovery

Foreign exchange reserves experienced a moderate decline in May 2026 following a notable improvement in April, suggesting the persistence of external payment pressures despite generally stable external sector conditions.

Gross reserves increased from USD 34.12 billion in March to USD 35.11 billion in April, before declining to USD 34.55 billion in May (Figure 11). A similar trend is observed in reserves measured under the BPM6 framework, which rose from USD 29.50 billion in March to USD 30.45 billion in April, before falling to USD 29.84 billion in May. The recovery in April indicated a strengthening of external liquidity conditions, likely supported by foreign exchange inflows from remittances, exports, or external financing. However, the subsequent moderation in May suggests that import payments and other external obligations continued to exert pressure on reserve accumulation.

Figure 11: Trends in Gross and BPM6 Foreign Exchange Reserves (March–May)



Source: Bangladesh Bank

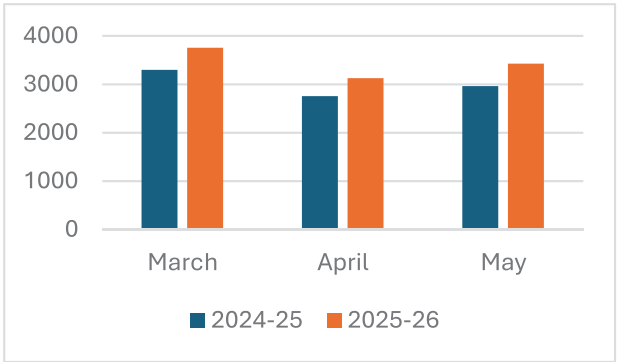
From a policy perspective, the reserve position remains broadly stable and substantially higher than the levels observed during periods of acute external stress. Nevertheless, the decline in May highlights the need for continued vigilance in reserve management, particularly in an environment characterized by geopolitical uncertainty, volatile energy prices, and evolving global financial conditions. Rising energy costs associated with tensions in the Middle East

could increase import-related foreign exchange demand in the coming months, potentially limiting further reserve accumulation. While current reserve levels provide an important buffer against external shocks, sustaining reserve adequacy will depend on continued growth in remittances and exports, prudent import management, and stable external financing flows.

Remittance Inflows: Sustained Growth Strengthens External Resilience

Remittance inflows continued to exhibit strong performance in FY2025–26, providing significant support to Bangladesh’s external sector and foreign exchange position. Remittance receipts increased from USD 3,295.63 million in March’25 to USD 3,752.21 million in March’26, representing robust year-on-year growth (Figure 12). Similarly, inflows rose from USD 2,752.33 million to USD 3,127.30 million in April, and from USD 2,963.02 million to USD 3,425.03 million in May, indicating that remittance growth remained broad-based and sustained across the period. The strong March inflow was likely influenced by seasonal factors associated with Eid-related transfers, while the continued growth in April and May suggests that the improvement was not solely seasonal but also reflects stronger use of formal remittance channels and resilient overseas income flows.

Figure 12: Remittance receipt (in million USD)



Source: Bangladesh Bank

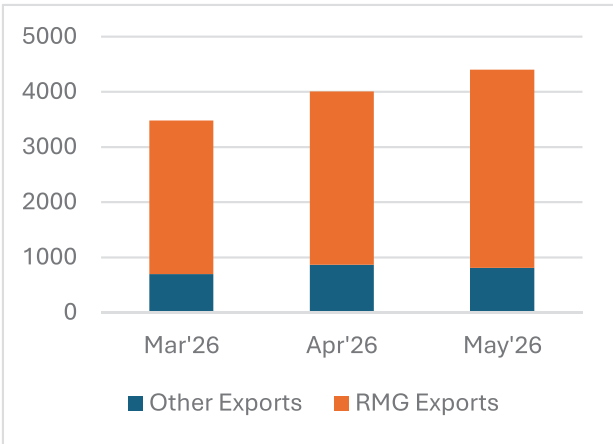
The sustained increase in remittances has played a crucial role in supporting the balance of payments, strengthening foreign exchange reserves, and mitigating external financing pressures arising from import payments. At a time when global economic conditions remain uncertain and energy market volatility persists due to geopolitical tensions in the Middle East, strong remittance inflows have acted as an important buffer against external shocks. Looking ahead, the outlook for remittances remains positive, supported by continued overseas employment and policy efforts to encourage transfers through formal channels. However, given Bangladesh’s significant dependence on labor markets in the Gulf region, prolonged geopolitical instability could pose risks to migrant employment and future remittance growth. Nevertheless, current trends suggest that remittances will continue to be a key source of external sector resilience in the near term.

Export Performance and RMG Contribution: Broad-Based Growth Strengthens External Earnings

Export performance strengthened considerably during March–May 2026, driven by robust growth in both RMG and non-RMG exports, reflecting improved external demand and stronger shipment performance. Other exports increased from USD 698.45 million in March to USD 869.03 million in April, before moderating slightly to USD 808.64 million in May (Figure 13). Despite the decline in May, non-RMG exports remained well above their March level, indicating a gradual diversification of export earnings beyond the garments sector. This improvement suggests that sectors outside RMG benefited from recovering trade activity and improving market conditions in key export destinations.

The RMG sector, which remains the backbone of Bangladesh’s export economy, recorded a consistent upward trajectory during the period. RMG exports increased from USD 2,782.27 million in March to USD 3,140.90 million in April, and further to USD 3,594.14 million in May, representing a substantial increase of nearly 29 percent over the three-month period. The strong performance highlights the sector’s resilience despite persistent global uncertainties, including geopolitical tensions, supply chain disruptions, and volatility in energy markets.

Figure 13: Exports and contribution of RMG (in million USD)



Source: Export Promotion Bureau

The rising contribution of RMG exports has provided critical support to foreign exchange earnings, helping offset external payment pressures and strengthen the balance of payments position. Looking ahead, export prospects remain broadly favorable, supported by strong RMG demand and improving non-RMG performance. However, downside risks remain from slower global growth, protectionist trade measures, and higher production and logistics costs arising from continued geopolitical instability.

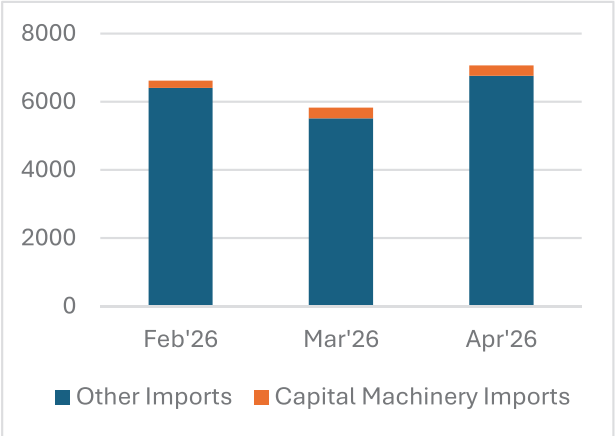
Overall, the recent export trends indicate strengthening external sector fundamentals and improved capacity to withstand moderate external shocks.

Import Trends and Capital Machinery Imports: Rebound in Imports Accompanied by Strong Investment-Related Demand

Import payments exhibited considerable volatility during February–April 2026, reflecting changing domestic demand conditions and external financing dynamics. Other imports declined significantly from USD 6,407.7 million in February to USD 5,509.4 million in March, before rebounding sharply to USD 6,764.9 million in April (Figure 14).

The decline in March may partly reflect temporary moderation in import demand and payment settlements, while the strong recovery in April suggests renewed demand for intermediate goods, raw materials, and consumer products following the Eid period. The increase also indicates a revival in economic activity and production-related import requirements, although it may contribute to higher foreign exchange outflows and pressure on the trade balance.

Figure 14: Imports and contribution of capital machinery (in million USD)



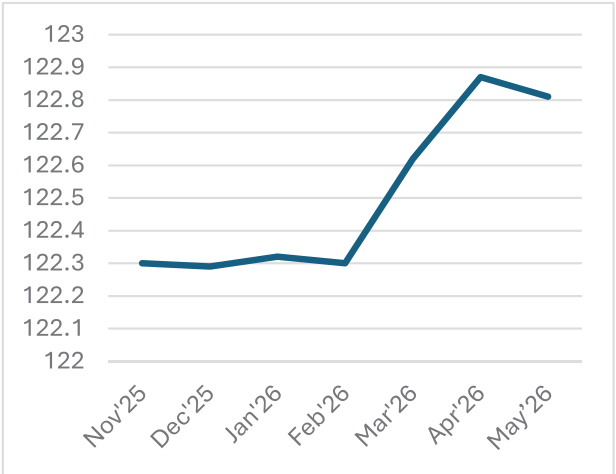
Source: Bangladesh Bank

Capital machinery imports remained relatively strong throughout the period, increasing substantially from USD 215.9 million in February to USD 316.8 million in March, before easing slightly to USD 301.2 million in April. Despite the modest decline in April, capital machinery imports remained well above their February level, suggesting continued investment in productive capacity and industrial expansion. As capital machinery imports are often viewed as a leading indicator of future economic activity, the sustained strength in these imports points to improving business confidence and investment intentions. However, the simultaneous rise in overall imports and capital goods imports may also increase demand for foreign exchange in the short term. Looking ahead, maintaining a balance between supporting investment-led growth and preserving external sector stability will remain important, particularly in an environment characterized by elevated energy prices, geopolitical uncertainty, and global trade volatility.

Taka's Longer-Term Depreciation Continues Despite Marginal Monthly Appreciation

The Bangladesh Taka continued its gradual depreciation trend against the US Dollar in May 2026. The bilateral exchange rate stood at 122.81 BDT/USD in May, marginally lower than 122.87 BDT/USD in April, representing 0.05 percent appreciation of the Taka (Figure 15). However, this monthly appreciation masks a broader 5-month depreciation trajectory, the Taka has depreciated by 0.40 percent from January 2026 levels.

Figure 15: Bilateral exchange rate (BDT/USD) till May'26



Source: Bangladesh Bank

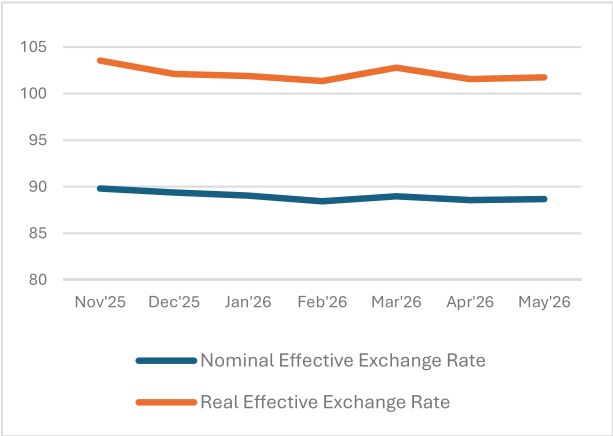
The depreciation trend reflects structural balance-of-payments dynamics, including import pressure for capital goods and energy products, as well as global USD strength. The April-to-May appreciation reversal may indicate temporary relief from import demand or modest inflows from remittances or short-term capital. Bangladesh Bank should monitor real exchange rate developments closely; depreciation should be tracked against inflation differentials with trading partners to assess competitiveness.

Effective Exchange Rate Stability Masks Competitiveness Challenges

The effective exchange rate indicators suggest that Bangladesh's external competitiveness remained under pressure in April and May 2026, despite relative stability in the nominal exchange rate. The Nominal Effective Exchange Rate (NEER) increased marginally from 88.56 in April to 88.67 in May (Figure 16), indicating a slight appreciation of the Taka against the basket of trading partner currencies.

Meanwhile, the Real Effective Exchange Rate (REER) edged up from 101.57 to 101.74, reflecting a modest real appreciation driven primarily by higher domestic inflation relative to that of major trading partners.

Figure 16: Effective exchange rate till May'26



Source: Bangladesh Bank

The slight increase in both NEER and REER during May'26 points to a stable exchange rate environment but also highlights continuing competitiveness challenges for export-oriented industries.

A higher REER raises the relative price of Bangladeshi goods in foreign markets, potentially reducing export competitiveness, particularly for sectors such as ready-made garments that operate under tight international pricing and rely heavily on imported intermediate inputs.

Overall, the April–May trend indicates that while exchange rate volatility remained contained, maintaining external competitiveness will depend increasingly on bringing domestic inflation under control rather than relying solely on nominal exchange rate adjustments. Lower inflation would help moderate the REER and strengthen Bangladesh's export competitiveness over the medium term.

Recent Activities, Workshops/ Seminars Organized by the General Economics Division (GED)

Consultation Meeting Held on Draft Five Year Strategic Framework for Reform and Development (July 2026–June 2031)

GED organized a consultation meeting on 24 June 2026 at the NEC Conference Room, Bangladesh Planning Commission, to review inputs and feedback from various ministries and divisions on the draft Five Year Strategic Framework for Reform and Development (July 2026–June 2031).



The meeting was chaired by Dr. Manzur Hossain, Member (Secretary), GED, with Md. Junaid Abdur Rahim Saki, MP, Hon'ble State Minister for Planning, attending as chief guest. The chief guest described the Framework as a critical strategic guide and emphasized well-organized ministry-level planning, close sector-wise monitoring of implementation, cost-effective and rational project design, and quarterly review of overall progress. Ministries and divisions provided sector-specific feedback covering land-use reform, water resources, the financial sector, geological survey inclusion, and public transport development, among other areas.

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