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Inflation and the Cost-of-Living Crisis in Bangladesh: Dynamics, Household Impact and Policy Responses

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Abstract: *In recent years, Bangladesh has been going through an unprecedented and chronic inflation and cost-of-living crisis. This trend of high inflation, which started in the middle of 2022 and continues until 2023, 2024 and 2025, continues to put severe pressure on the country's macroeconomic stability, investment environment and the quality of life of the common people. According to Bangladesh Bureau of Statistics (BBS) data, average inflation reached 9.73 percent in FY 2023-24 and rose to 11.66 percent in July 2024 (food inflation 14.10 percent), touching an all-time high. Subsequently, following the adoption of a tighter monetary policy by Bangladesh Bank and other policy measures, average general inflation moderated to 8.68 percent in FY2025–26, based on the twelve-month average through June 2026. However, inflation continued to exert considerable pressure on household purchasing power, particularly among low- and middle-income groups.*

This study uses secondary macroeconomic time-series data (BBS, Bangladesh Bank, Ministry of Finance, World Bank, IMF) and mixed research methods to analyze the multidimensional causes of inflation in Bangladesh, its socioeconomic consequences for low- and middle-income households, alongside an evaluation of the implemented policy responses. The findings show that not only the disruption of global supply chains or the increase in import costs, but also internal market syndicates, a nearly 40 percent devaluation of the Taka against the US dollar, a foreign exchange reserve crisis, high-powered currency creation (money printing) to finance fiscal deficits, prolonged interest rate caps, and inefficient supply management structured the crisis. As a result, marginal, working-class and lower-middle-class families are forced to adopt negative coping strategies such as reducing nutritious food intake, breaking savings, incurring high interest rates, and cutting health and education expenditures, which is creating a 'new poor' class in the country and hampering long-term human resource development. The study concludes by offering concrete policy recommendations, including better coordination between monetary and fiscal policies to curb inflation, enforcing market competition laws, building strategic buffer stocks, and expanding targeted social safety nets.

Keywords: *Inflation, Cost of Living Crisis, Food Security, Household Vulnerability, Monetary Policy, Real Wage, Supply Chain, Bangladesh.*

Research Novelty and contribution: "The existing literature on inflation in Bangladesh has primarily examined the relationship between inflation and macroeconomic variables, such as money supply, exchange

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rates, food prices and energy consumption" (Bangladesh Bank, 2025; World Bank, 2025). Other studies have investigated household poverty, food security, and consumption patterns separately (Centre for Policy Dialogue [CPD], 2025). However, there is a need for an integrated analysis to link recent macroeconomic and structural developments with their implications for household welfare and living costs.

The present study contributes to this field by examining the interactions between inflationary pressures, "exchange rate movements, monetary and fiscal policies, domestic supply-side constraints and household-level coping mechanisms in Bangladesh" (World Bank, 2025). It also considers the impact of persistent inflation and slow nominal wage growth on the purchasing power of low- and middle-income households (Bangladesh Bank, 2025; CPD, 2025).

The study makes three contributions. First, it creates an integrated analytical framework combining monetary and structural explanations of inflation with Amartya Sen's entitlement approach to examine the relationship between macroeconomic instability and household vulnerability (Sen, 1981). Second, "it combines macroeconomic indicators and available household-level evidence to explain how persistent inflation affects food consumption, savings, borrowing, and essential non-food expenditures" (CPD, 2025). Third, "it identifies policy priorities involving fiscal-financial coordination, market competition, supply-chain efficiency, and targeted social protection" (World Bank, 2025).

By linking macroeconomic developments to household welfare, this study aims to provide a comprehensive understanding of the cost-of-living crisis in Bangladesh and provide evidence for policy-makers, offering informed recommendations

1. Introduction: In the last two decades, "Bangladesh has become recognized as one of the fastest growing economies in South Asia. The country has been facing a deep macroeconomic instability since 2022 after achieving a consistent GDP growth of more than 6 to 7 percent, increasing export earnings, remittance flows, poverty alleviation and human resource development" (World Bank, 2024; International Monetary Fund [IMF], 2026). "In the midst of the post-Covid-19 pandemic economic recovery, the rise in global fuel, fertilizer and food prices caused by the Russia-Ukraine war that began in February 2022 hit Bangladesh's import-dependent economy hard" (World Bank, 2024; Centre for Policy Dialogue [CPD], 2023). However, "even though the global supply chain has largely normalized by mid-2024 and inflation has come down to bearable levels in most developed and developing countries, inflation in Bangladesh remains chronic and structural" (World Bank, 2024).

The impact of inflation on the economy of Bangladesh is not only a macroeconomic indicator; It is directly related to the daily livelihood, nutrition security, social stability and poverty line of more than 170 million people (World Bank, 2024; IMF, 2026). "Analyzing the Consumer Price Index (CPI) of the Bangladesh Bureau of Statistics (BBS), it can be seen that the general price inflation started hovering above 9 percent since the country's record high fuel price hike (from 42 to 51 percent) in August 2022" (CPD, 2023; Bangladesh Bank, 2024). In July 2024, headline inflation reached 11.66 percent, while food inflation surged to 14.10 percent, marking the highest level in more than a decade (Bangladesh Bureau of Statistics [BBS], 2024; Bangladesh Bank, 2024). Subsequent political uncertainty, severe flooding in the eastern part of the country, and temporary disruptions in domestic supply chains further intensified inflationary pressures (World Bank, 2024; IMF, 2026). In 2025 and 2026, "the interim government and the Bangladesh Bank adopted a strict contractionary monetary policy, including raising the policy rate to 10 percent, and the foreign exchange reserves and exchange rates returned to some stability, but the prices of daily necessities in the market did not fully return to the purchasing power of the common people" (Bangladesh Bank, 2026; IMF, 2026).

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The most alarming and socio-economic *"The most alarming and socially devastating aspect of this crisis is that* the National Wage Rate Index is consistently lower than the rate of inflation. For more than four consecutive years, the real wages in Bangladesh have been in negative real wage growth (BBS, 2024; World Bank, 2024). "This means that even if the income of ordinary workers and fixed income people increases slightly, it is possible to buy less goods and services with that income (World Bank, 2024). The real purchasing power of agricultural workers, construction workers, transport workers, workers in the ready-made garment sector and urban fixed income lower-middle class households has declined drastically" (World Bank, 2024; IMF, 2026).

The middle class and lower class families of the country are going through a silent struggle to meet the cost of living. Households are eroding long-held savings, depriving themselves of protein-rich foods (fish, meat, eggs, milk) and relying on sugary foods, and cutting back on basic investments such as children's education and health care (World Bank, 2024; CPD, 2025). According to economists, "such negative coping strategies (Negative Coping Strategies) destroy the talent and performance of future generations of a country and create a 'Vicious Cycle of Poverty'" (Sen, 1981; World Bank, 2024). In this context, an in-depth analysis of the actual dynamics of current inflation in Bangladesh, the underlying macroeconomic and structural weaknesses, risks at the household level and the effectiveness of the policy measures taken, Data-based academic analysis is very important. The present research paper is written with the aim of fulfilling that responsibility.

2**. Literature Review:** Inflation and the cost-of-living crisis are a much-discussed and theoretically rich topic in the economic literature. In explaining the source and nature of inflation, there are two main theoretical schools among economists: Monetarist Theory and Structuralist Theory.

2.1 Theoretical Perspectives on Inflation: Inflation is a sustained increase in the general price level of goods and services, which reduces the purchasing power of money over time. Economic theories explain inflation from different perspectives, including monetary expansion, demand pressures, supply-side constraints, and structural rigidities. The monetarist perspective emphasizes the role of excessive monetary growth in generating persistent inflation, particularly when the expansion of money supply exceeds the growth of real output (Friedman, 1963). From a Keynesian perspective, inflationary pressures may emerge when aggregate demand exceeds the productive capacity of an economy, while supply-side disruptions can further intensify price increases. **(Keynes, 1936)**.

Structuralist approaches are particularly relevant to developing economies, where production bottlenecks, import dependence, infrastructure limitations, and institutional weaknesses may contribute to persistent inflation. "These perspectives suggest that inflation cannot always be explained by monetary factors alone; rather, its causes may involve interactions between monetary, fiscal, external, and structural conditions. In the context of Bangladesh, these theoretical explanations provide a useful basis for examining the combined effects of exchange rate depreciation, import costs, money supply, domestic production constraints, and market inefficiencies". **(Prebisch, 1950; Taylor, 1983)**.

2.2 Empirical Literature on the Determinants of Inflation in Bangladesh: Several empirical studies have examined the monetary, external, and structural determinants of inflation in Bangladesh. Younus (2014), in a Bangladesh Bank working paper titled *Some Facts and Determinants of CPI Inflation in Bangladesh: Evidence from Post-Floating Exchange Rate Regime*, investigated the behavior and determinants of consumer price inflation following the adoption of a floating exchange rate regime. The study provides an important empirical foundation for understanding the relationship between domestic macroeconomic conditions and inflation in Bangladesh.

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Akhtaruzzaman, Biswas, and Sutradhar (2014) examined the major determinants of food inflation in Bangladesh using monthly data from January 2001 to December 2013. Their empirical analysis considered broad money supply, agricultural wage rates, food stocks, and Indian food prices. The findings indicated that broad money supply and agricultural wage rates had statistically significant effects on food prices, highlighting the importance of monetary and domestic cost-related factors in explaining food inflation.

Hossain (2015) investigated inflation volatility, economic growth, and monetary policy in Bangladesh. The study examined the historical behavior of inflation and the implications of monetary policy arrangements for price stability. It emphasized the importance of a credible, rule-based monetary policy framework and greater exchange rate flexibility in reducing inflation persistence and volatility.

More recently, Ullah and Islam (2023) analyzed the internal and external determinants of inflation in Bangladesh using monthly data from July 2012 to April 2023 and an autoregressive distributed lag (ARDL) model. Their findings suggested that global food prices and domestic money supply had significant positive effects on inflation. The study demonstrated that both international commodity-price movements and domestic monetary conditions are important in explaining inflationary trends in Bangladesh.

Mahmud (2024) employed a vector error correction model (VECM) to investigate the determinants of inflation in Bangladesh using data covering FY2014 to FY2024. The study identified broad money supply, energy prices, and exchange rate depreciation as significant determinants of inflation in both the short and long run. These findings underline the importance of monetary management, energy pricing, and exchange rate stability in addressing persistent inflationary pressures.

Taken together, these studies indicate that inflation in Bangladesh is influenced by multiple interconnected factors. Monetary expansion, international food and energy prices, exchange rate depreciation, and domestic production costs all contribute to inflationary dynamics. However, the relative importance of these factors may vary across periods and economic conditions.

2.3 Literature on Household Vulnerability and the Cost-of-Living Crisis: The relationship between inflation, household welfare, and poverty has received considerable attention in development economics. Sen's (1981) entitlement approach provides an important theoretical foundation for understanding how rising prices and declining real purchasing power can undermine household access to essential goods, particularly food. According to this approach, food insecurity and deprivation are not necessarily caused only by insufficient food availability; they may also result from a decline in people's ability to obtain food through income, employment, production, and exchange entitlements.

In the context of Bangladesh, Fielding, Raihan, Imai, Das, and Uddin (2024), in their research report *The COVID-19 Pandemic, Post-pandemic Challenges and Poverty Dynamics in Bangladesh: Evidence from a Longitudinal Household Survey*, examined changes in household poverty, income, expenditure, food security, and coping strategies. Based on the SANEM-GDI Household Survey 2023, the study found that 70.17 percent of surveyed households had changed their food habits in response to inflationary pressure during April–October 2023. Furthermore, 39.4 percent experienced a reduction in their ability to save, 34.55 percent reduced non-food expenditure, and 28.01 percent relied on borrowing. These findings provide important evidence of the adverse effects of inflation on household welfare and economic security.

The report also documented deterioration in food security among poor households. Between April and October/November 2023, moderate food insecurity among poor households increased from 25 percent to 30 percent, while severe food insecurity rose from 4 percent to 7 percent. These findings suggest that persistent inflation can affect household welfare not only by increasing living costs but also by reducing food consumption quality, savings, and the capacity to meet essential non-food expenses.

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The broader development literature also recognizes that inflation can disproportionately affect low-income households because they generally spend a larger proportion of their income on food, housing, transport, and other necessities. When nominal incomes do not increase at the same pace as prices, real purchasing power declines. Consequently, households may reduce essential consumption, postpone healthcare and education expenditure, use savings, or depend on borrowing to maintain their living standards.

2.4 Literature on Recent Global and Domestic Economic Crises (2022–2026): The post-pandemic period has been characterized by overlapping global and domestic economic shocks. The Russia–Ukraine war, disruptions in international supply chains, increased energy and food prices, and exchange rate volatility intensified inflationary pressures in many developing economies. In Bangladesh, these external shocks interacted with domestic macroeconomic and structural weaknesses, contributing to persistent cost-of-living pressures.

The World Bank (2025), in its *Bangladesh Development Update*, observed that inflation moderated during FY2025, supported by tight monetary policy, lower import duties on essential food items, and favorable agricultural harvests. Nevertheless, the report highlighted continuing challenges associated with weak revenue mobilization, fiscal pressures, and the need for structural reforms to sustain economic growth and job creation. These observations indicate that improvements in price stability require not only monetary restraint but also supportive fiscal and structural measures.

The International Monetary Fund (IMF, 2026), in its *2025 Article IV Consultation Report on Bangladesh*, identified elevated inflation, financial sector vulnerabilities, weak revenue mobilization, and macro-financial risks as important challenges facing the economy. The report emphasized the need for stronger banking sector governance, improvements in financial sector stability, consistent exchange rate reforms, and an appropriately tight monetary policy to support disinflation. It also highlighted the importance of fiscal and structural reforms for restoring macroeconomic stability.

The Asian Development Bank (ADB, 2025), in its *Asian Development Outlook, April 2025*, projected that Bangladesh's average inflation would increase from 9.7 percent in FY2024 to 10.2 percent in FY2025. The report associated inflationary pressure with limited competition in wholesale markets, inadequate market information, supply chain constraints, and depreciation of the taka. It also noted that persistently high inflation and prolonged monetary tightening could constrain household consumption and private investment, thereby weakening economic growth.

Overall, recent institutional assessments suggest that inflation in Bangladesh reflects the interaction of external price shocks, exchange rate depreciation, domestic supply-side constraints, financial sector weaknesses, and limitations in market competition**(CPD, 2025a, 2025b)**.

These factors underline the importance of coordinated monetary, fiscal, financial, and structural policy measures to achieve sustainable price stability.

3. Research Gap: The reviewed literature provides substantial insights into the monetary, external, and structural determinants of inflation in Bangladesh. Previous empirical studies have examined the effects of money supply, food and energy prices, agricultural wages, and exchange rate movements on inflation. Other research has documented the effects of economic shocks and rising prices on household poverty, food security, and consumption patterns.

However, several areas require further examination. First, much of the existing empirical literature focuses on specific determinants of inflation rather than examining the combined influence of monetary, exchange rate, fiscal, and supply-side factors over the recent period. Second, although household-level research has

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documented changes in food consumption, savings, borrowing, and non-food expenditure, the relationship between persistent inflation and the broader cost-of-living crisis requires further integrated analysis. Third, there is a need to connect macroeconomic developments with their distributional consequences, particularly for low-income households and economically vulnerable groups.

Against this background, the present study examines the dynamics of inflation in Bangladesh, its major macroeconomic and structural drivers, and its implications for household welfare and living standards. Using secondary data from national and international institutions, the study combines macroeconomic trend analysis with a review of household-level evidence to assess policy responses and identify measures for achieving price stability and protecting vulnerable households.

4. Research Objectives:: The main objective of this study is to analyze in depth the multidimensional nature of the recent inflation and cost of living crisis in Bangladesh and its socio-economic impact. The specific objectives are mentioned below:

1. Analysis of dynamics and trends: To identify the structural trends and dynamics of headline inflation, food inflation and non-food inflation in Bangladesh from FY 2021-22 to 2025-2026.

2. Identifying key drivers: Analyzing global supply shocks as well as domestic economic factors—such as currency devaluation, foreign exchange reserve crisis, the role of monetary and fiscal policy, and the impact of market syndicates.

3. Assessment of real wages and purchasing power: To determine the degree of decline in real income and purchasing power of the working people by analyzing the gap between the National Wage Rate Index (WRI) and the rate of inflation.

4**. Household Level Vulnerability and Adaptation Assessment:** To assess negative coping strategies such as food security, nutritional intake, savings breakdown and indebtedness of the country's low- and middle-class households as a result of rising cost of living.

5. Policy Assessment and Recommendations: To verify the effectiveness of the steps taken by Bangladesh Bank and the government to overcome the crisis and provide long-term policy and structural recommendations.

5. Methodology: This study combines quantitative macroeconomic trend analysis with qualitative document analysis, adopting a secondary-data-based descriptive and analytical research approach. A combination of reliable secondary data and qualitative document analysis is employed to ensure the credibility and academic rigor of the research.

5.1 Data Sources: The statistical data used in the study has been collected from authoritative reports published by the following national and international organizations:

Bangladesh Bureau of Statistics (BBS): Monthly Consumer Price Index (CPI), Food and Non-Food Inflation Data, Wage Rate Index (WRI) and Household Income and Expenditure Survey (HIES 2022).

Bangladesh Bank: Monetary Policy Statement (MPS), foreign exchange reserves, exchange rate, reserve money and domestic private and public debt flow statistics.

Ministry of Finance: Bangladesh Economic Survey and National Budget Documents.

International organizations and research institutes: World Bank (World Bank), International Monetary Fund (IMF), Asian Development Bank (ADB), and domestic research institutes such as—CPD, BIDS and SANEM's household survey reports.

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5.2 Timeframe and Analytical Framework: The study mainly analyzes time-series data for the period from FY2020-21 to FY2025-26 (latest available data), to provide a comparative picture of post-pandemic recovery and post-pandemic crisis. The quantitative data collected is analyzed through trend analysis, comparative tables and real wage gap formulas:

RWG = WGR -GIR

RWG = Real Wage Gap

WGR = Wage Growth Rate

GIR = General Inflation Rate

Besides, Qualitative Content Analysis method has been applied to evaluate the effectiveness of monetary policy and market management.

6. Conceptual Framework: Inflation and the resulting cost of living crisis in Bangladesh can be explained through an interrelated theoretical framework, which is organized into three main levels: (1) Macro & Structural Shocks, (2) Transmission Channels,and (3) Household Vulnerability and Coping Mechanisms.

Figure-1(Flowchart)

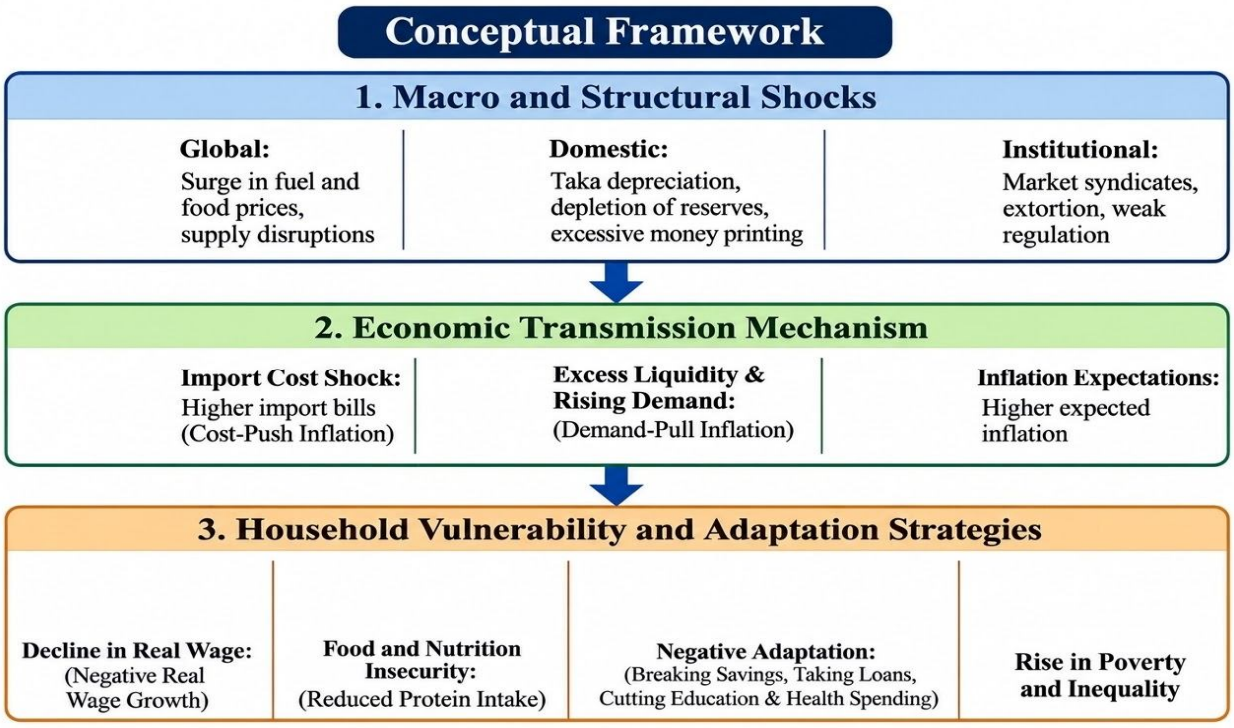


Figure 1: Conceptual Framework of Inflation and Its Impact on Household Well-being in Bangladesh: According to this framework, global and domestic shocks increase the price of goods in the market through both 'cost-push' and 'demand-pull' processes. When wages in the labor market do not rise in line with these price increases,Households' purchasing power is then squeezed and they are forced to choose immediate survival over long-term human resource development (education and health).

7. Findings / Results:

7.1 Recent Trends in Inflation in Bangladesh (2020–2026): Comparative Trends of Inflation and Wage Growth Rates in Bangladesh (FY2020–21 to FY2025–26)

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Table 1:

Inflation and Wage Dynamics in Bangladesh
(FY2020–21 to FY2025–26)

Period	General Inflation (%)	Food Inflation (%)	Non-Food Inflation (%)	National Wage Growth Rate (%)	Real Wage Gap (percentage points)
2020–21	5.56	5.73	5.29	6.12	+0.56
2021–22	6.15	6.05	6.31	6.06	–0.09
2022–23	9.02	8.71	9.39	7.04	–1.98
2023–24	9.73	10.66	8.86	7.74	–1.99
2024–25	10.03	10.70	9.47	8.10	–1.93
2025–26*	8.68	8.06	9.20	—	—

Note: *Real Wage Gap = Wage Growth Rate – General Inflation Rate. FY2025–26 inflation figures are 12-month averages through June 2026. Comparable annual wage-growth and real-wage-gap figures are not shown.*

Source: *Bangladesh Bureau of Statistics (BBS); Bangladesh Bank, Annual Report 2024–2025 and Major Economic Indicators: Monthly Update, June 2026.*

Table 1 presents the trends in general, food and non-food inflation alongside national wage growth in Bangladesh from FY2020–21 to FY2025–26. The data indicate that inflationary pressures intensified significantly from FY2022–23, while nominal wage growth remained below the general inflation rate. The real wage gap turned negative in FY2021–22 and widened considerably during subsequent fiscal years. In FY2024–25, average general inflation reached 10.03 percent, whereas nominal wage growth stood at 8.10 percent, resulting in a negative real wage gap of 1.93 percentage points. This indicates a continued erosion of workers' purchasing power. The FY2025–26 figures show some moderation in average inflation; however, the corresponding annual wage-growth comparison requires consistent annual data. Recent reports also corroborate that headline inflation showed signs of slight easing during this period **(BSS,2026).**

Overall, these trends highlight the disproportionate burden of persistent inflation on low-income and fixed-income households.

7.2 Decline in real wages and contraction in purchasing power: Data analysis indicates that nominal wage growth in Bangladesh has been consistently below the average inflation rate in recent fiscal years, resulting in reduced purchasing power of workers. According to Bangladesh Bureau of Statistics (BBS) data, the National Wage Rate Index (WRI) growth rate was 7.74 percent in the fiscal year 2023-24, while the average general inflation was 9.73 percent. Similarly, in FY2024-25, nominal wage growth stood at 8.10 percent, while average inflation reached 10.03 percent. These differences represent negative real wage gaps of 1.99 and 1.93 percentage points, respectively. This persistent disparity indicates that nominal income growth is not sufficient to compensate for rising living costs. The pressure is particularly significant for low-income workers, including agricultural workers, construction workers and informal-sector employees, whose limited financial resources make it difficult to adjust to sustained price increases. As a result, reduced purchasing power has increased the economic vulnerability of low-income and fixed-income households, effective wage protection, Highlighting the need for employment opportunities and sustainable structural reforms.

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7.3 Internal and Structural Drivers of Inflation: Although the prices of wheat, edible oil, sugar, and fuel started decreasing in the international market from mid-2023, common people in Bangladesh did not receive the benefits. Four main internal driving forces have been identified behind this:

1. Massive Depreciation of the Domestic Currency: The exchange rate stood at approximately BDT 85–86 per US dollar in early 2022, which surged to BDT 120–125 in FY 2024–25 (representing roughly a 40 percent depreciation). Consequently, the price of every imported food item and industrial raw material escalated drastically in local currency.

2. Delayed action on money supply and credit policy: Government borrowing and deficit financing may also contribute to inflationary pressures under certain circumstances. Central bank financing of the government deficit may create additional monetary pressure, depending on the scale and circumstances of such financing. However, the inflationary impact depends on how the funds are used, the prevailing economic conditions, and the extent to which additional liquidity translates into increased aggregate demand.

3. Energy and electricity price adjustment: Fuel oil, gas and electricity prices have been hiked in phases between 2022 and 2025 to reduce IMF loan conditions and subsidies, which have multiplied agricultural production, irrigation costs, industrial production and transport costs.

4. Market syndicates and supply chain inefficiencies: "*Market distortion and high profit margins by middlemen from the producer to consumer level, due to* artificial scarcity of commodities by corporate syndicates and extortion in the transport sector, commodity prices are 30 to 50 percent higher than the rational limit".

7.4 Household Coping Strategies: Chronic inflation and consecutive quarters of negative real wage growth have severely squeezed household purchasing power, forcing families to adopt painful coping mechanisms just to get by. Evidence from recent longitudinal household surveys, particularly by SANEM (Fielding et al., 2024), reveals that ordinary families in Bangladesh are heavily relying on negative adjustments to survive the ongoing cost-of-living crisis.

Figure 2 illustrates the distribution of these primary coping strategies adopted by households:

Change in dietary habits: The most widespread response, reported by 70.17% of households. Families have been compelled to alter their daily food consumption patterns, drastically cutting back on or completely omitting expensive, protein-rich items (such as fish, meat, eggs, and milk) and shifting toward carbohydrate-heavy, less nutritious diets—thereby escalating the long-term risk of malnutrition

Reduced saving capacity: Approximately 39.40% of households reported a severe reduction in their ability to save, which strips away their financial cushion against future emergencies.

Reduction in non-food expenditure: About 34.55% of households have curtailed critical non-food outlays, including necessary spending on healthcare and children's education, directly jeopardizing future human capital accumulation.

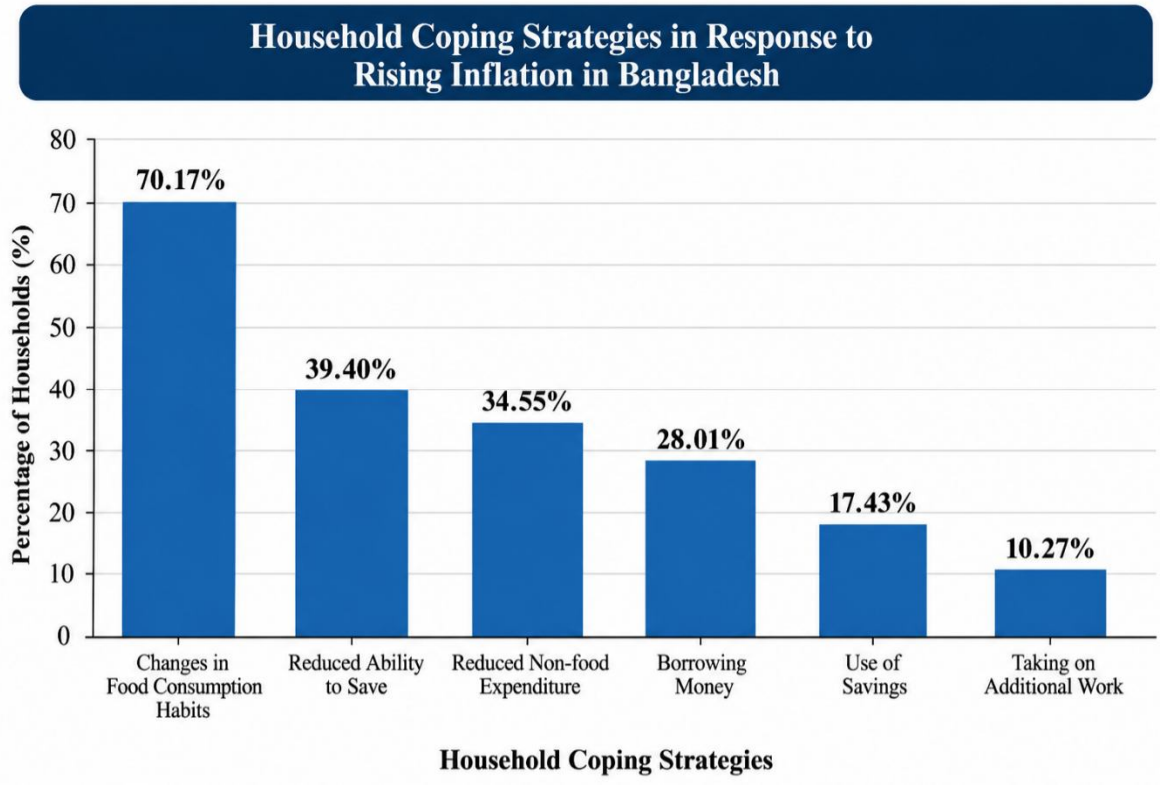
Borrowing money: To bridge daily income-expenditure gaps amid severe liquidity crunches, 28.01% of households are forced to borrow money from formal institutions or informal local lenders, pushing them deeper into chronic debt traps.

Utilization of savings: To maintain basic survival, 17.43% of households have had to draw down their accumulated long-term savings.

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Working overtime: To offset income deficits, 10.27% of households have turned to taking on extra work or sending additional family members into informal employment.

Figure 2(Bar chart)



Source: SANEM Household Survey, 2023.

As highlighted by these trends, households are under tremendous financial strain. Their ongoing struggles reflect desperate attempts to balance shrinking real incomes against persistently inflated market prices, risking both their immediate welfare and long-term economic security

8. Discussion / Analysis:

The findings of the study clearly indicate that the current inflation in Bangladesh is not just a short-term macroeconomic problem, but rather a manifestation of deep structural and institutional weaknesses. According to Monetarist Theory, Bangladesh Bank increased the Repo Rate to 10 percent step by step in 2024-25 and 2025-26 financial years and stopped lending money to the government by printing money. As a result, inflation has come down to 8.5-9 percent in 2026 from a peak of 11.66 percent in 2024. However, structural factors are the key behind it not falling below 6 percent as expected by economists.

Firstly, the nature of inflation in Bangladesh is mainly cost-push and supply-driven. Contractionary monetary policy can control demand by reducing the flow of money into the market, but it cannot break the extortion of the transport sector, the lack of cold storage, or the monopoly of the market by a few importers. Rather, higher interest rates are increasing the cost of production for small and medium enterprises (SMEs), which is indirectly increasing the cost of goods.

Secondly, Amartya Sen's 'entitlement approach' is very relevant here. Despite bumper rice yields in the country and no visible shortage of produce in the market, the common man is unable to afford nutritious food. Because the exchange value of their labor (Real Wage) has decreased. As a result, the 'New Poor'

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class is being created in the country and the long-standing achievement of poverty alleviation is at risk. Especially urban slum dwellers, garment workers and fixed income lower-middle class are under the most pressure.

Thirdly, the lack of coordination between monetary policy and fiscal policy prolonged the crisis. On one hand the central bank is reducing the flow of money in the market by increasing the interest rates, on the other hand the government is trying to increase the revenue by increasing the indirect taxes (VAT and duties), due to low revenue collection.Which is directly increasing the price of the product at the consumer level.

9. Policy Implications: It is imperative to take short, medium and long-term coordinated policy measures to control ongoing inflation, restore macroeconomic stability and protect the common man from the cost of living crisis in Bangladesh. The following are specific recommendations for policy makers to consider:

9.1 Effective coordination of monetary policy and fiscal policy

Targeted contractionary monetary policy: Bangladesh Bank should maintain a contractionary monetary policy until inflation comes down to a tolerable level (in the desired 5-6 percent range). However, at the same time, special refinancing funds should be kept operational so that the production of fertilizers and seeds in the agricultural sector and the production of small and medium industries (SME) is not disrupted.

Curtail unproductive expenditure and increase direct taxes: The government should drastically reduce unproductive and lavish public expenditure to meet the budget deficit. By temporarily reducing the indirect tax (VAT and duty) on daily necessities, the scope and rate of collection of direct tax (Income Tax and Wealth Tax) on the rich should be increased.

9.2 Structural reform of market management and supply chain

Strengthening of Competition Commission: Bangladesh Competition Commission needs to be strengthened legally and institutionally to prevent oligopoly and cartels in the market of daily necessities. Strict disciplinary action must be taken against those creating artificial crises.

Elimination of middlemen and extortion: Farmers' market networks and digital supply chains should be developed to reach the product directly from the producer stage to the consumer or wholesale market. All forms of illegal extortion and toll collection on highways should be strictly suppressed so that the cost of transport is reduced.

Increase in Strategic Buffer Stock: Market monitoring should be strengthened by increasing government emergency stocks of sensitive food commodities like rice, wheat, edible oil, sugar and pulses, so that quick market intervention is possible during any international or domestic shock.

9.3 Extension of social safety net and wage protection

Increasing the extent and quality of social protection: TCB and OMS programs not limited to rural areas but also 'family cards' for lower-middle-class and slum-dwelling families in urban areas. Its scope should be expanded. Digital transfer (bKash/Nagad/Bank Account) must be ensured to bring transparency in disbursement of cash assistance.

Automatic Wage Indexation: A legal framework for regular and realistic adjustment of the minimum wages of the public sector as well as the private sector (especially the garment industry and informal sector) and tea workers and day laborers in line with the cost of living and the rate of inflation should be created.

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Proposed Comprehensive Policy Framework to Combat Inflation and the Cost-of-Living Crisis.

Figure- 3 (Flowchart)

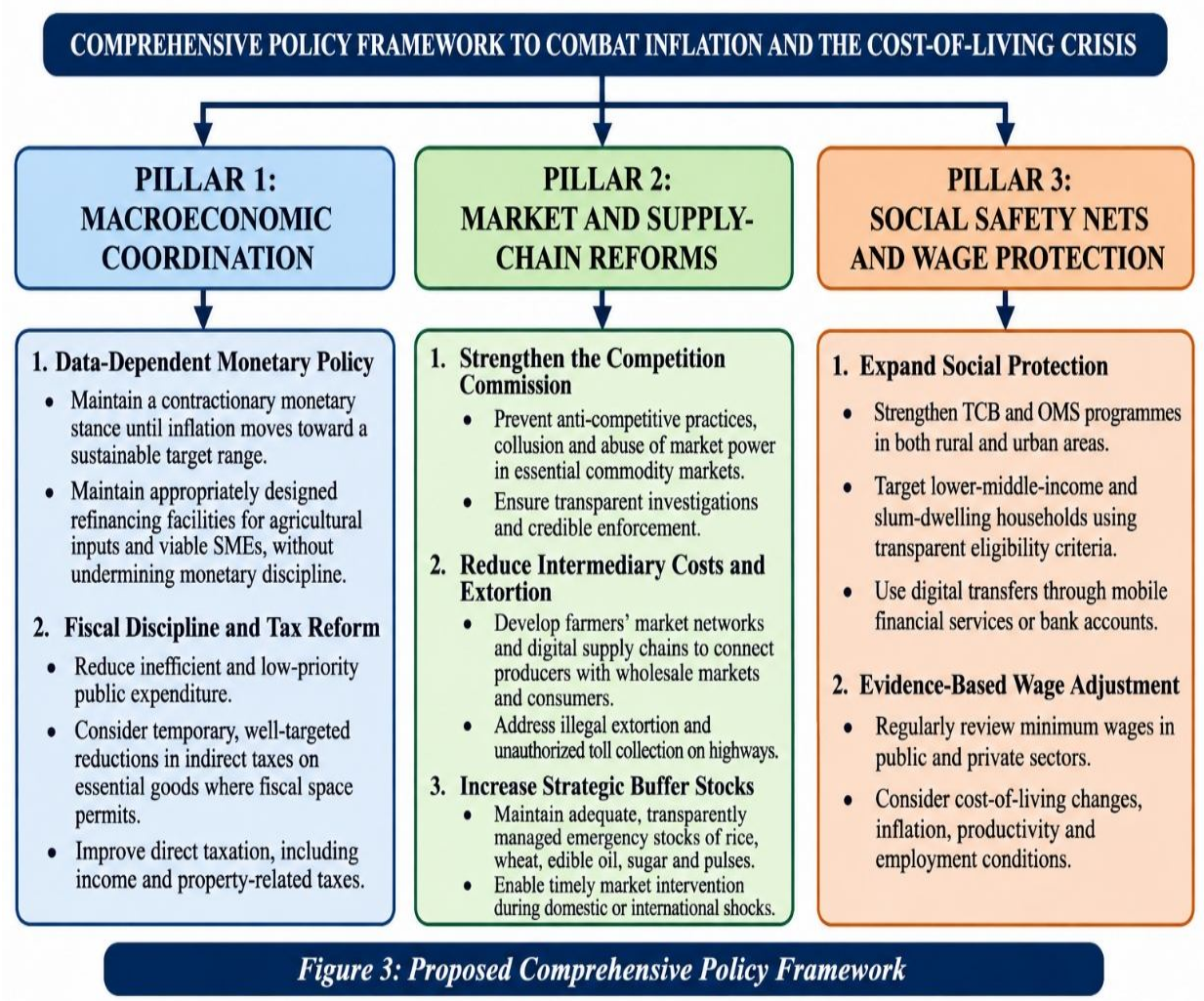


Figure 3: Proposed Comprehensive Policy Framework

Source: Author's compilation based on policy recommendations in Section 9.

10. Limitations: Like any academic research, this study has some inherent limitations, which will open up new avenues for future research:

1. Dependence on Secondary Data: This study is mainly based on secondary time-series data published by government and international organizations. It has not been possible to include its own primary field survey (Primary Field Survey) or case study.

2. Controversies in statistical methods: As a developing country, Bangladesh Bureau of Statistics (BBS)'s calculation of consumer price index (CPI) or imputed estimates of poverty has methodological limitations and sampling complexity that may lead to slight variations in aggregate analyses.

3. Absence of Regional Variation: The study analyzed national average inflation and its impact; As a result, urban versus rural areas or specific geographical areas of the country (such as the Haor region, the Char region or the Monga of North Bengal)prone areas) Subtle differences in cost of living are not separately detailed. Future researchers can conduct research in these areas using primary data.

11. Future Research Directions: In light of the findings and limitations of the present study, several

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important areas of inquiry remain open for future researchers. First, since this study is mainly based on secondary data at the aggregate level, future studies can analyze the long-term impact of the cost-of-living crisis using primary field survey and panel data on marginal households in different geographical regions of the country—especially urban slums, industrial areas, coastal and haor areas. Secondly, it is very important to conduct value chain analysis to determine the profit margin of corporate syndicates and middlemen at different levels of the supply chain in the price increase of daily necessities in the Bangladesh market. Thirdly, an empirical evaluation can be done using advanced econometric models (such as ARDL or SVAR models) to measure the long-term results of the contractionary monetary policy adopted by Bangladesh Bank and the market-based adjustment of exchange rates after 2024. Finally, a comparative study on the effectiveness of Bangladesh's inflation control strategies and social protection programs with other developing countries in South Asia (eg, Sri Lanka, Pakistan, and India) may provide new insights for policymakers.

12. Conclusion: Bangladesh's chronic inflation and cost-of-living crisis is not merely a macroeconomic challenge but a significant threat to household welfare, nutritional security and long-term human development. While global supply-chain disruptions initially intensified inflationary pressures, rising international commodity prices and post-pandemic economic uncertainty, domestic macroeconomic imbalances, exchange rate depreciation, structural weaknesses in fuel price adjustments and market management further contributed to the persistence of the crisis.

The results of this study show that persistent inflation has significantly weakened the purchasing power of low-income and fixed-income households. A comparison between inflation and nominal wage growth reveals a persistently negative real wage gap. In FY2023-24, average headline inflation reached 9.73 percent, compared to nominal wage growth of 7.74 percent, creating a negative gap of 1.99 percentage points. Similarly, in FY2024-25, inflation stood at 10.03 per cent, while wage growth was 8.10 per cent, resulting in a negative gap of 1.93 percentage points. These figures indicate that wage growth is not sufficient to compensate for the rising cost of living. Although average inflation has come down to 8.68 per cent in FY2025-26, continued pressure on essential commodity prices remains a concern for economically weaker households.

Household-level evidence also indicates that persistent inflation has forced many households to change their food consumption patterns, reduce non-food expenditures, limit savings, and rely on credit. Such coping strategies can undermine nutritional security, health care access, and educational opportunities, thereby posing long-term risks to human capital development. low-income and low-The growing vulnerability of middle-income households also highlights the importance of addressing the distributional consequences of inflation. The study therefore concludes that sustainable inflation control cannot be achieved through contractionary monetary policy alone. This requires effective coordination between monetary and fiscal policies, better exchange rate management, stronger market competition, efficient supply-chain management, increased domestic production and well-targeted social protection programs. In addition, adequate wage protection measures and improved access to essential goods and services are essential to protect households' purchasing power.

Ultimately, Bangladesh's ability to overcome the cost-of-living crisis will depend on timely, coordinated and evidence-based policy interventions. Achieving sustainable economic growth,A comprehensive approach that combines macroeconomic stabilization with structural reforms and social protection is essential to

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reduce household vulnerability and ensure more inclusive economic development.

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