VAT on plastics may double, eco-friendly products may get waiver

BUDGET FOR FY26

MD ASADUZ ZAMAN

In a bid to discourage the use of plastic, the interim government may double the value-added tax (VAT) on some synthetic household products such as tableware and kitchenware to 15 percent.

Meanwhile, a 15 percent VAT on eco-friendly alternatives, such as plates and cutlery made of baked clay and plant-based materials like areca nut sheaths and those with biodegradable components, may be entirely waived, said sources.

The waiver is "to support green entrepreneurship as well as small and medium enterprises," said a finance ministry official, preferring anonymity.

Besides, the government plans to assign specific Harmonized System (HS) codes for raw materials used in the production of eco-friendly items—such as areca leaves, sal leaves, siali leaves, and palash leaves—to simplify their import process.

The HS codes are a globally recognised system of standardised names and numbers used to classify traded products.

"We are considering imposing only a 5 percent customs duty on these raw materials," said another official.

"The absence of dedicated HS codes currently results in them being classified alongside plastic items, attracting duties as high as 25 percent to 45 percent," added the official.

Finance Adviser Salehuddin Ahmed is likely to announce the proposals while placing the upcoming national budget for the fiscal year 2025-26.

"The global environment is being polluted through the use of plastic products. The level of pollution in Bangladesh is even more terrible," said the official.

Therefore, it is necessary to encourage the production of environmentally friendly alternative products to reduce dependence on single-use plastic products that pollute the environment, he said.

However, industry insiders fear that the move could hurt both manufacturers and consumers, given the widespread use and affordability of plastic goods in Bangladesh.

"This decision will significantly hurt the industry," said Shamim Ahmed, president of the Bangladesh Plastic Goods Manufacturers and Exporters Association.

"Plastic products are widely used by ordinary people. VAT hikes will raise prices, reduce sales, and affect livelihoods—especially those of small traders and street vendors," he said.

Annual domestic sales of plastic products amount to an estimated Tk 40,000 crore, with around 6,000 enterprises, which mostly run small and medium-sized operations, employing about 15 lakh people, according to Ahmed.

If the government mentions tableware and kitchenware, that means it will cover most of the plastic items, he said, urging the government to reconsider.

Despite these concerns, officials of the National Board of Revenue (NBR) argue that the time for tax benefits for the plastic sector has passed.

"These industries are now mature. Locally made plastic products are in almost every household. We must shift incentives toward more sustainable alternatives," an official familiar with the matter told The Daily Star.

In addition, the VAT on refrigerators and air conditioners (ACs) may be doubled to 15 percent in the upcoming budget.

Currently, the VAT at the local production stage of the two appliances is 7.5 percent, according to finance ministry sources.

Sources said up to fiscal year 2023-24, the VAT was 5 percent.

It was raised to 7.5 percent for the ongoing fiscal year 2024-25.

PHOTO: HABIBUR RAHMAN

Workers make disposable plates, bowls, and other household items from areca palm sheaths using machine presses. The photo was taken at the Dumuria Village Super Market in Khulna earlier this year.

Floating taka a bold move with high stakes

MASUD KHAN

Bangladesh has taken a long-awaited and consequential step by officially floating the taka. This marks the end of a tightly managed exchange rate regime that, for years, concealed deeper imbalances in the economy. While partly driven by necessity, dwindling foreign reserves and IMF-mandated reforms, it also presents a rare opportunity to reset the country's macroeconomic fundamentals.

The immediate backdrop includes persistently high inflation and weakening domestic demand. These pressures have dampened imports, offering temporary relief to the foreign exchange market. Simultaneously, high interest rates have curbed borrowing and discouraged capital flight, creating a relatively stable moment for the Bangladesh Bank to act.

To avoid excessive volatility, the central bank has not left the market entirely to its own devices. It has introduced a stabilisation fund to manage sharp fluctuations and is closely monitoring interbank trading. These measures are intended to anchor expectations and prevent speculative pressure during the transition.

There is reason for cautious optimism. A weaker taka could improve the competitiveness of Bangladeshi exports, particularly in the RMG sector, which accounts for over 80 percent of export earnings. Provided input costs remain stable, exporters could regain lost market share.

Remittance flows may also benefit. With the exchange rate now more aligned with market realities, overseas workers might favour formal banking channels over the informal hundi system. Over time, this could strengthen foreign currency reserves and improve liquidity in the banking sector.

The external environment also offers some respite. Global prices for key imports such as oil, LNG, wheat, corn, and scrap metal remain relatively low, helping to contain import bills. Domestically, subdued consumer demand continues to reduce pressure on forex reserves.

Interestingly, the current stagnation in private sector investment has temporarily eased the forex strain. With many businesses holding off on capital expenditure due to macroeconomic uncertainty, demand for foreign currency has dropped.

Moreover, aligning with IMF recommendations signals a willingness to pursue difficult but necessary reforms. This may enhance Bangladesh's credibility with other development partners and international investors.

However, the path ahead is fraught with challenges. Trade tensions with the United States, especially over labour rights and governance, could impact access to key export markets. At the same time, Bangladesh's growing tilt towards the West may strain relations with China.

Deeper structural issues remain unresolved. Foreign direct investment continues to lag, hindered by regulatory unpredictability, bureaucratic delays, and governance concerns. Without meaningful reforms, a floating exchange rate alone will not attract sustained investment.

External threats are also emerging. In the US, President Donald Trump has proposed a 5 percent tax on outward remittances. If enacted, this could deter formal money transfers and push more remitters towards informal channels. The upcoming graduation from LDC status in 2026 adds further complexity. As preferential trade access is phased out, export diversification will become more urgent.

Meanwhile, a rebound in global demand could drive up prices for oil, gas, and industrial metals, increasing import costs and pressuring the balance of payments. Simultaneously, remittance inflows could soften if host economies contract or tighten their labour markets.

To ensure a smooth transition and long-term resilience, Bangladesh must anchor inflation expectations through a credible and transparent monetary policy. Besides, we need to improve the investment climate.

We should also modernise trade policy to support export diversification and strengthen financial governance.

Floating the taka is not a silver bullet, but it is a step in the right direction. It signals a maturing economy prepared to face global realities. The challenge now is maintaining consistent reforms, credible policies, and transparent governance. Managed wisely, this could mark the beginning of a more resilient, competitive, and globally integrated Bangladeshi economy.

The writer is the chairman of Unilever Consumer Care Limited.

Desco to issue 23.81 lakh preference shares

STAR BUSINESS REPORT

Dhaka Electric Supply Company Ltd (Desco) has received regulatory approval to issue over 23.81 lakh irredeemable non-cumulative preference shares in favour of the government.

The Bangladesh Securities and Exchange Commission (BSEC), through a letter, gave its consent for the issuance of the preference shares at a face value of Tk 10 each, according to a filing on the website of the Dhaka Stock Exchange (DSE) yesterday.

The total value of the issuance stands at Tk 2.38 crore.

The shares will be issued in favour of the government, represented by the secretary of the Power Division under the Ministry of Power, Energy and Mineral Resources, against the government's equity stake in the power distributor. Irredeemable non-cumulative preference shares are a category of preferred stock that do not carry a fixed redemption date and do not accumulate unpaid dividends.

As of April 30, government ownership in Desco stood at 67.66 percent, while institutional investors held 23.66 percent, foreign investors 0.04 percent, and general public shareholders 8.64 percent, according to DSE data.

Trump delays EU tariffs until July 9

AFP, *Morristown*

US President Donald Trump said on Sunday that he would pause his threatened 50-percent tariffs on the European Union until July 9, after a "very nice call" with European Commision president Ursula von der Leyen.

Trump had threatened on Friday to impose the steep duties from June 1, voicing frustration that negotiations to avert a 20-percent "reciprocal" tariff were "going nowhere".

But he agreed on Sunday to delay the tariffs until July 9 after von der Leyen said the European Union needed more time to negotiate.

Von der Leyen "just called me... and she asked for an extension on the June 1st date and she said she wants to get down to serious negotiation", Trump told reporters before boarding Air Force One in Morristown, New Jersey.

"And I agreed to do that," he added. Von der Leyen had earlier said on X that she held a "good call" with Trump but that "to reach a good deal, we would need the time until July 9".

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"Europe is ready to advance talks swiftly and decisively," said the head of the European Commission, which conducts trade policy for the 27-nation EU.

European stock markets -- which had tumbled on Friday after Trump threatened the 50-percent tariff -- rallied on Monday as investors welcomed the delay.

The Paris CAC 40 index rose 1.1 percent in morning deals while the Frankfurt DAX was up 1.6 percent. London and Wall Street were closed for holidays. Jochen Stanzl, analyst at trading platform CMC Markets, said the delay was a familiar "Trump Pattern".

"The stock market seems to dance to Trump's tune -- first a threat, then a pullback, quickly followed by a rebound as speculative investors anticipate a concession from the US president," Stanzl said.

Trump's trade policies have raised concerns that they could spark a recession and fuel inflation, while his stop-start tariff announcements have sent stock markets on a roller-coaster ride.

Brussels and Washington have been negotiating in a bid to avert an all-out transatlantic trade war and had agreed to suspend tariff action on both sides until July.

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Vietnamese airline to buy 20 Airbus A330s

AFP, *Hanoi*

Vietnamese airline Vietjet Air said Monday it will buy 20 widebody Airbus A330-900 planes, doubling its order from the aviation giant in a deal worth an estimated $8 billion.

The budget carrier's chairwoman Nguyen Thi Phuong Thao signed the deal with Airbus as French President Emmanuel Macron looked on as he made an official visit to Hanoi. The carrier said the order was part of its plans to expand its operations in Asia as well as introducing future long-haul services to Europe.

The announcement comes on top of the 20 A330-900s ordered by VietJet in February last year.

The airline said the A330s would enable it to "increase flights on high-capacity routes across the Asia-Pacific region, as well as to introduce future long haul services to Europe". The list price of the aircraft was around seven billion euros ($8 billion), an Airbus source told AFP.

"Vietjet remains dedicated to delivering greater connectivity and sustainable air travel for millions of passengers in Vietnam and around the world," Thao said in the Vietjet statement.

The Vietjet fleet currently numbers 115 aircraft, all Airbus, including seven A330-300s operating to destinations in Australia, India and Kazakhstan.

The carrier has another 96 single-aisle A320s on order from Airbus.

The Vietjet deal is one of a raft of agreements expected to be signed between Vietnamese and French companies as Macron makes his official visit to the communist country, which was once ruled by France.

Global central banks talk harsh new economic realities in Tokyo

REUTERS, *Tokyo*

It's Japan's version of the Fed's Jackson Hole symposium, without the trail hikes or views, and this year's gathering of global central bankers in Tokyo will focus on two uncomfortable realities: flagging economic growth and sticky inflation.

The Bank of Japan and its affiliated think tank host a two-day annual conference that kicks off on Tuesday and includes prominent US, European and Asian academics and central bankers.

While most of the speeches are academic in nature and closed to media, this year's theme looks at "New challenges for monetary policy", specifically how central banks should deal with persistent inflation, downside economic risks, volatile markets and US tariffs.

Those conflicting headwinds, much of it a result of US President Donald Trump's policies, are creating speedbumps for many central banks, regardless of whether they are raising and cutting interest rates.

The BOJ, for example, remains on track to continue raising interest rates and steadily taper its bond purchases, a stark contrast to its rate cutting peers, but recent global developments have raised questions about the pace of such moves.

"While the BOJ may be forced to stand pat for a while, it doesn't need to ditch rate hikes altogether," said former BOJ official Nobuyasu Atago. "It just needs to communicate in a way that when the environment looks right, it can resume rate hikes."

Officials from the Federal Reserve, including New York Fed President John Williams, European Central Bank, Bank of Canada and Reserve Bank of Australia are among participants of the conference, which takes place at the BOJ's headquarters in central Tokyo.

People walk near the Bank of Japan (BOJ) headquarters in central Tokyo. The BOJ remains on track to continue raising interest rates and steadily taper its bond purchases, a stark contrast to its rate-cutting peers.

PHOTO: AFP/FILE

At last year's meeting, participants took stock of their experience battling economic downturns by discussing lessons learned from using various unconventional monetary easing tools.

They also discussed whether Japan - an outlier that kept interest rates ultra-low even as other major central banks hiked aggressively - could emerge from decades of deflation and low inflation with budding signs of sustained wage hikes.

While concerns this year centre on tariff-induced economic downturns, the conference's session topics indicate policymakers still sensitive to risks of being caught with persistent, too-high inflation.

One session features "reserve demand, interest rate control, and quantitative tightening." Another will debate a paper published by the International Monetary Fund (IMF) in December titled "Monetary Policy and Inflation Scares."

That paper explains how large supply shocks, such as one caused by the COVID pandemic, can lead to persistent inflation, warning of the dangers central banks face assuming that they can look through cost-push price pressures.

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