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Star BUSINESS

Electric vehicle makers get VAT, duty waivers

MD ASADUZ ZAMAN

In a bid to accelerate the shift to cleaner transport and promote domestic manufacturing, the interim government plans to roll out a series of tax benefits focusing on electric vehicles, including electric bicycles (e-bikes), and lithium and graphene batteries.

The move signals a strategic push to reduce excessive reliance on fossil fuels, cut import dependency, and promote sustainable urban mobility through the growth of the domestic e-vehicle industry.

Finance Adviser Salehuddin Ahmed announced the measures while presenting the national budget for FY26 on June 2.

For example, all VAT on e-bikes has been cut to 5 percent until June 2030.

For manufacturers of lithium and graphene batteries, the entire VAT at the manufacturing stage has been waived until June 30, 2027.

Afterwards, from July 1, 2028 to June 30, 2030, all VAT will be limited to 5 percent.

Moreover, all import taxes on key raw materials have been limited to 1 percent, subject to conditions.

Currently, customs duties range from 26 percent to 42 percent for lithium batteries and 26 percent to 60 percent for e-bikes, depending on the components, according to the NBR.

VAT and duty benefits

- Partial VAT exemption for e-bikes until June 2030
- VAT waived for lithium & graphene battery production till June 2027
- Partial VAT exemption for battery makers in July 2028-June 2030
- Import duty cut to 1% on raw materials for batteries

These include a five-year value-added tax (VAT) exemption, alongside customs and other duty reductions of up to 60 percent, for key components, according to a separate notification issued by the National Board of Revenue (NBR).

"The government has significantly reduced duties, but it is not for encouraging any form of assembling. Our focus is on true manufacturing and that's a critical distinction," said Mokitul Hasan, second secretary (Customs Policy) at the NBR.

"To make these projects viable, we've separated the lithium battery policy from the e-bike policy. A company can use some batteries for its own bikes and sell the rest in the market. This flexibility ensures financial sustainability," he said.

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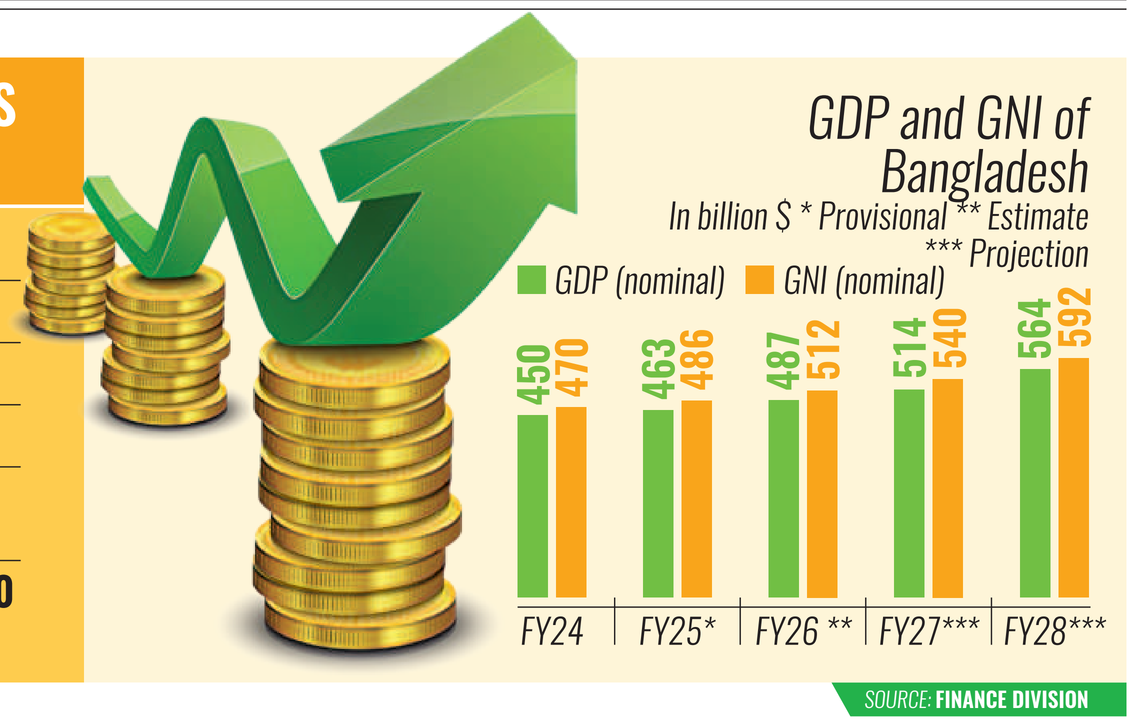
BY THE NUMBERS (Targets for FY26)

- Forex reserves: $34b
- Remittance growth: 8%
- Import growth: 8%
- Export growth: 10%
- Private sector credit growth: 11%
- Nominal GDP: Tk 6,244,600 crore



SOURCE: FINANCE DIVISION

Bangladesh to become half a trillion-dollar economy in FY27

Govt also estimates gross national income to cross $500b in FY26

REJAUL KARIM BYRON and AHSAN HABIB

The government expects the country's economy to cross the $500 billion mark in the fiscal year (FY) 2026-27, buoyed by stabilising policies and sectoral improvements.

These projections were made by the Finance Division in its Medium-term Macroeconomic Policy Statement, released on June 2 alongside the national budget proposal for FY26.

The statement includes forecasts for gross national income (GNI), foreign exchange reserves, exports, imports and inflation through to FY28.

These projections were made using forecasting models developed by the International Monetary Fund (IMF) and the World Bank, adjusted with historical data.

Gross domestic product (GDP) measures the total market value of all goods and services produced within a country in one year, according to Investopedia.

GNI, by contrast, includes income earned by residents and businesses both at home and abroad.

According to the Finance Division, the nominal GDP of Bangladesh will reach $514 billion in FY27, up from a provisional estimate of $463 billion in FY25. In FY26, it is projected to stand at $487 billion.

GNI is expected to overtake the GDP earlier, with the government forecasting it to hit $512 billion in FY26, up from $486 billion in FY25.

However, some economists have questioned the reliability of the data used to make these predictions.

"The Bangladesh Bureau of Statistics is still relying on previous figures. It should carry out fresh surveys to reveal the real state of the economy," said Professor Mustafizur Rahman, a distinguished fellow at the local think tank Centre for Policy Dialogue (CPD).

He said that based on previous figures and accounts, GDP might exceed the half-trillion mark in FY27 if the government meets its growth targets of 4 percent in FY26 and 5.5 percent in FY27.

As for GNI, the economist added, "It is always higher than GDP in Bangladesh because our nationals earn more abroad than foreign nationals earn here."

The upbeat outlook by the government comes at a time when several international development partners, including the World Bank, IMF and Asian Development Bank, have offered more cautious estimates.

Citing political uncertainty, weak investment and geo-political tensions, they expect real GDP to grow between 3 and 4 percent in FY25.

In its provisional estimate for FY25, state-owned statistical agency BBS also projected GDP growth at 3.97 percent

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Islamic banks' deposit share continues to shrink

STAR BUSINESS REPORT

The share of deposits at Islamic banks declined in the January-March quarter of 2025, continuing a recent downward trend.

The banks held just over Tk 376,163 crore in deposits during the three-month period, accounting for 19.56 percent of total deposits, down from 20.14 percent in the October-December quarter and 20.91 percent in July-September, according to Bangladesh Bank data.

Meanwhile, the total deposit liabilities of scheduled banks rose by 2.11 percent during the quarter to around Tk 1,923,504 crore at the end of March.

Of total deposits, state-owned commercial banks accounted for 23.70 percent, specialised banks 2.84 percent, foreign banks 4.55 percent, and private commercial banks, including Islamic banks, 68.90 percent.

Although deposits increased in the January-March period, the growth was slower than the 3.20 percent or Tk 58,372.22 crore rise recorded in the preceding quarter.

However, it was stronger than the 0.75 percent growth seen in the same quarter of 2024.

The increase in deposits was supported by growth in both urban and rural areas.

Urban deposits rose by 1.94 percent to about Tk 1,622,157 crore while rural deposits went up by 3.05 percent to Tk 301,347.43 crore.

Urban deposits made up 84.33 percent of the total at the end of March 2025, slightly down from 84.48 percent in the previous quarter and 84.62 percent a year earlier.

On a year-on-year basis, total deposits rose by Tk 161,201 crore or 9.15

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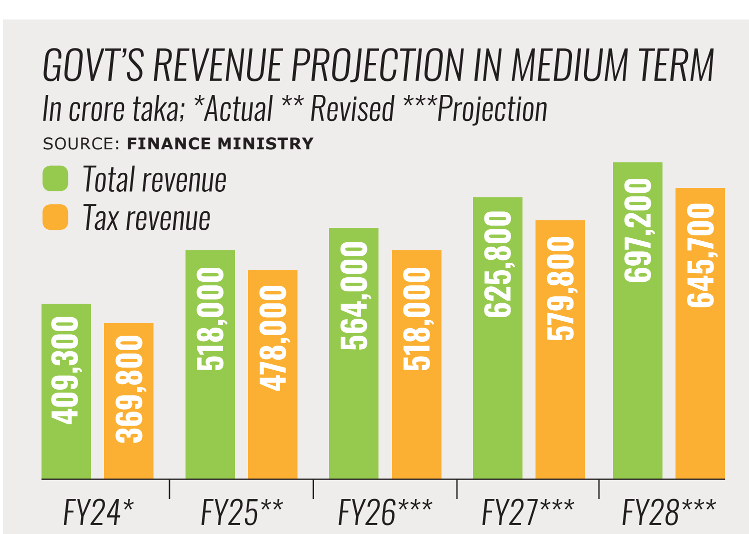

TAKEAWAYS

- Direct taxes made up 31.3% of total NBR revenue in FY24
- Indirect taxes contributed 68.7% of NBR revenue in FY24
- Tax growth continues to lag behind GDP growth
- Significant revenue remains untapped
- A large informal economy remains outside the tax net

Imbalanced tax structure worsens income inequality

Finance ministry says in report

STAR BUSINESS REPORT

An imbalanced tax structure exacerbates income inequality in Bangladesh, underscoring the need for reforms to increase direct tax contributions, according to a recent publication by the finance ministry.

The Medium-term Macroeconomic Policy Statement (MTMPS) for FY26 highlights the revenue authority's over-reliance on indirect taxes, namely value-added tax (VAT) and supplementary duty (SD).

In FY24, VAT and SD, which are paid by consumers, accounted for 3.86 percent of gross domestic product (GDP).

Income taxes contributed only 2.26 percent of GDP, said the MTMPS, suggesting a focus on increasing direct tax contributions and enhancing revenue generation.

In Bangladesh, income inequality, as reflected by the Gini coefficient—which measures the distribution of income and wealth within a population—rose to an all-time high of 0.499 in 2022, up from 0.482 in 2016.

The Gini coefficient measures inequality on a scale from zero to one, with zero reflecting perfect equality and one indicating perfect disparity.

The finance ministry report shows that indirect taxes account for over two-thirds of the total revenue collected by the National Board of Revenue (NBR), the main collector, as the government continues to rely on VAT, customs tariffs, and SD for tax income.

Mohammad Abu Eusuf, a professor of development studies and director at the Centre on Budget and Policy at the University of Dhaka, said the proportion of income tax should be increased while VAT and SD should be reduced to address inequality.

The MTMPS said the existence of a large informal economy is a major problem.

The Medium-term Macroeconomic Policy Statement highlights the revenue authority's over-reliance on indirect taxes, namely VAT and supplementary duty

"Despite consistent economic growth and a structural transition from agriculture to manufacturing and services over the past two decades, informality continues to represent a significant share of economic activity," the report said.

"The widespread informality in the Bangladeshi economy leads to significant tax losses, limiting the country's ability to maximise revenue collection.

"However, it also presents a valuable opportunity to expand the tax base. By integrating informal activities into the formal economy and improving compliance, Bangladesh can tap into substantial potential for increasing revenue and strengthening public finances."

The report said that a key step in reducing inequality is broadening the tax base by increasing the number of direct taxpayers.

"Expanding the tax net through improved compliance is a top priority. To improve tax compliance and raise the share of direct taxes, automating tax administration is crucial," the report said.

It also noted that while some progress has been made in automating VAT and income tax systems, these efforts must be accelerated to include all taxpayers.

"Full automation of the tax filing process, especially the online submission of returns, will streamline operations, reduce evasion, and eliminate administrative inefficiencies."

The report also highlighted the mismatch between GDP growth and tax collection, which is a major reason why Bangladesh lags behind similar economies in revenue collection.

The MTMPS noted that tax growth lagging behind GDP growth indicates significant revenue potential.

It used revenue buoyancy, an important indicator of a country's revenue performance, to measure how revenue responds to changes in GDP. A buoyancy coefficient

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Synthetic footwear exports soar as global demand shifts

JAGARAN CHAKMA

Bangladesh's non-leather footwear sector is emerging as a steering force in the country's export landscape, driven by global shifts in consumer preferences, strong manufacturing capacity, and competitive pricing.

While leather footwear still leads with $620.17 million in exports until May of fiscal year 2024-25, up 28.96 percent year-on-year, the non-leather segment is rapidly catching up.

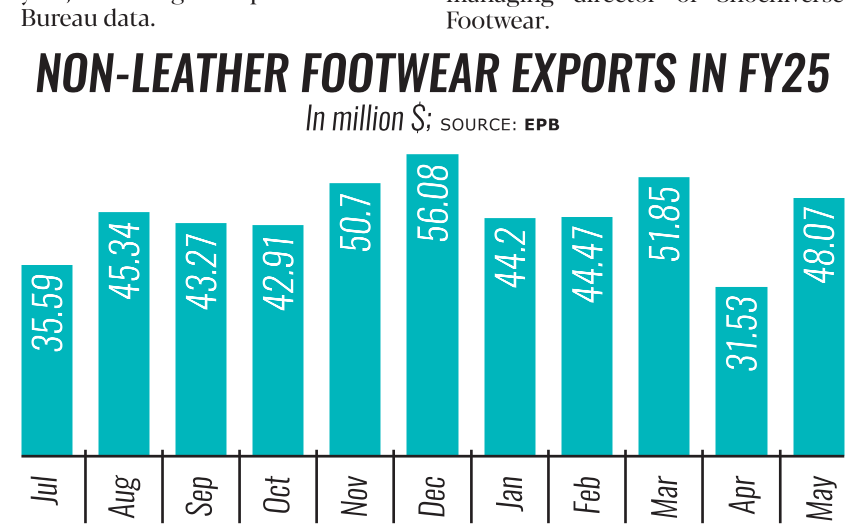
In the first 11 months of the current fiscal year, non-leather footwear exports fetched $494.28 million, marking a 30.25 percent growth compared to $379.48 million in the same period of the previous fiscal year, according to Export Promotion Bureau data.

factory compliance standards," he said.

As demand for fashionable, affordable, and sustainable footwear grows globally, particularly among younger consumers, the synthetic footwear segment is well-positioned to become a key contributor to Bangladesh's export diversification strategy.

In the decade preceding the end of FY24, non-leather footwear exports ballooned 120 percent, jumping from $189 million to $416 million.

"The young generation in the Western world is shifting from leather to synthetic shoes as they are more comfortable, fashionable, and cheaper," said Riad Mahmud, managing director of Shoeniverse Footwear.



In May alone, leather footwear fetched $74.82 million compared to $48.37 million a year earlier.

Industry insiders credit this growth to modern production capacity and fewer compliance burdens, making it easier for Bangladeshi manufacturers to meet global standards and attract international buyers.

"The non-leather segment benefits from fewer regulatory hurdles," noted one industry expert.

"Unlike the leather sector, which requires certification from the Leather Working Group (LWG) and faces challenges related to raw material quality and environmental compliance, synthetic footwear producers primarily need to meet

In contrast, leather shoes are worn for formal occasions and have limited design flexibility, causing a global demand decline of around 12 percent annually, he noted.

This shift has fuelled steady growth in synthetic shoe demand over the past five to six years.

Shoeniverse's Mymensingh-based factory, employing around 4,700 workers, supplies footwear to major global brands including Inditex, Aldi, Matalan, and RedTape.

Mahmud said global brands are increasingly placing orders in Bangladesh, drawn by its competitive labour costs and proven expertise in apparel manufacturing.

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