and the effect of slower economic growth, as it has already happened in FY09; and (ii) a lower non-tax base after adjusting for the one-time factors like a large transfer from the Bangladesh Telecom Regulatory Authority. Furthermore, domestic demand would also be less buoyant because of slower growth in remittance inflows.

Accordingly, revenue growth should not be more than 10-12 percent, even with some measures to increase revenue. The budget aims to realise a higher proportion of tax revenue from domestic based taxes (i.e. income tax and domestic VAT), and that is appropriate from both short-term macroeconomic perspective and longer-term fiscal strategy. Accordingly, the budget expects to increase the share of income tax by 3 percentage points to 27%. This shift in emphasis would need to be sustained over a very long time, since at 73% the share of indirect taxes in Bangladesh is high, pointing to a regressive structure of the tax system.

The budget, however, targets a 15% increase in NBR revenue. Although this may appear significantly lower than the growth rates set in the last five budgets, this target is ambitious under the prevailing macro-economic environment. In recent budgets, growth in NBR revenue was set between 17 and 19 percent and in almost every year (except FY08 due to special factors) growth in tax revenues fell well short of their targets by significant margins. Although the 15% growth rate set for the FY10 does not appear ambitious, it would be difficult to achieve due to falling import values in the first half of the fiscal year. Other factors like slower economic growth and the potential incentive for evading/hiding taxes to take advantage the 10% tax on undeclared/illegal income instead of paying taxes at much higher legal rates would also contribute to slower revenue growth.

Figure 4a. NBR Revenue Composition : 2008-09

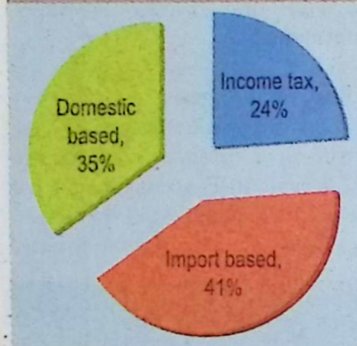


Figure 4b. NBR Revenue Composition : 2009-10

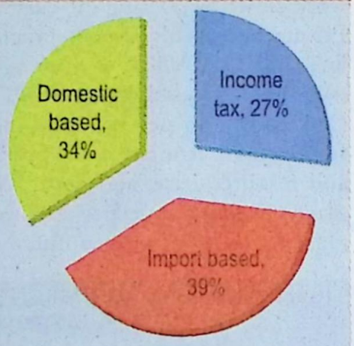


Figure 5. Growth in NBR Revenue

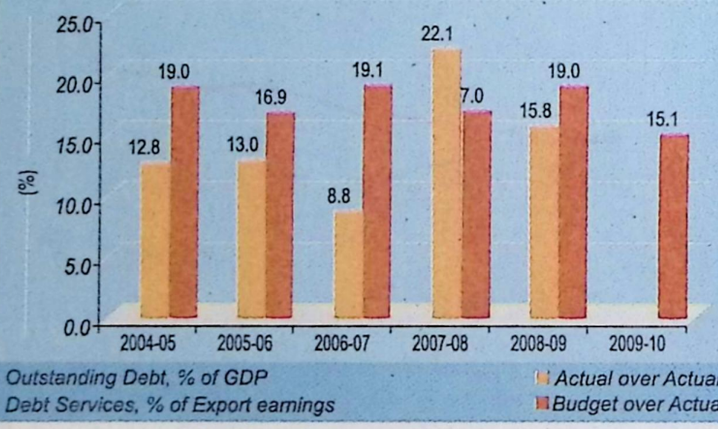
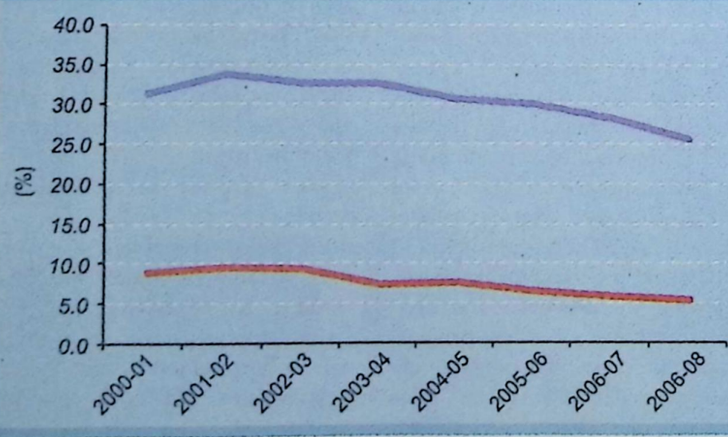


Figure 6. Government's External Debt



Crowding-out of the private sector

Because of the lack of depth in the financial system, the main problem that the authorities often face is not the level of fiscal deficit but the financing of the deficit in a non-inflationary manner. Debt sustainability is not a major issue in Bangladesh due to the declining trend in public debt with respect to GDP. However, because of the relatively narrow base of the finan-