



# **Overview: Fiscal Sector In Myanmar**

**Introductory Workshop to  
Financial Programming and Policies  
Yangon, Myanmar  
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**Jan Gottschalk**  
**TAOLAM**

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# Outline

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## I. Fiscal Sector Overview

## II. Fiscal Policy Considerations

## III. Myanmar's Budget in International Comparison

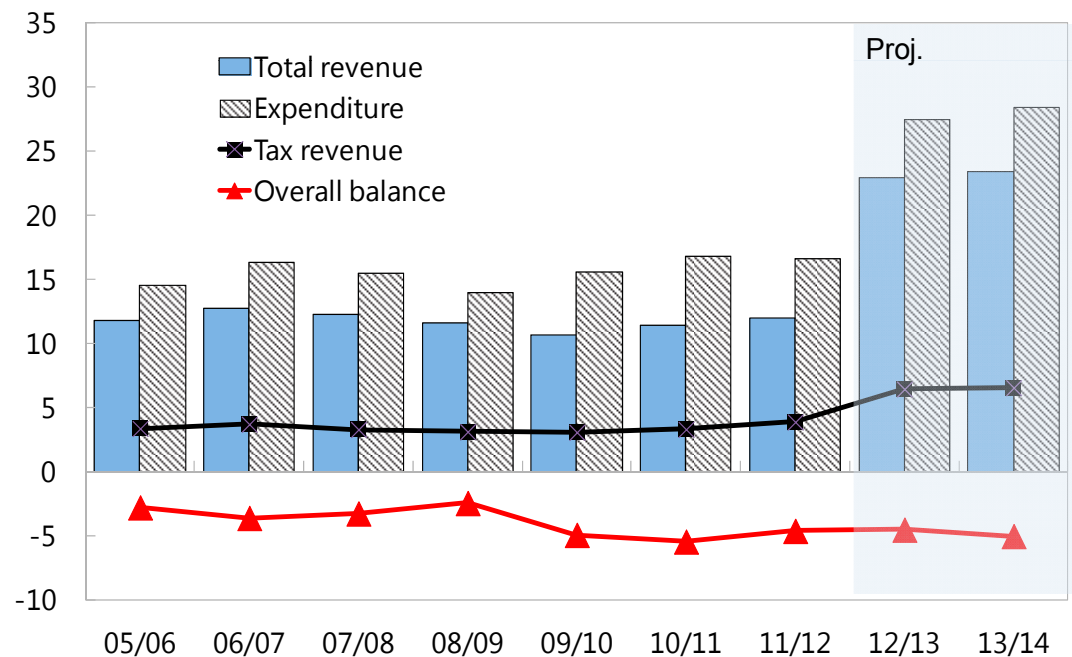
## IV. Debt Sustainability

# Fiscal Sector Overview

## What is the fiscal sector about? It is about the budget!

- Revenues and grants
  - Tax revenues
  - Non-tax revenues
  - Grants
- Expenditures
  - Current expenditure
  - Capital expenditure
  - Net lending
- Financing
  - Foreign (net)
  - Domestic
    - Bank (net)
    - Non-bank (net)

**Fiscal Revenue and Expenditure**  
(In percent of GDP)



# Fiscal Sector Overview

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## Revenue and grants

### *Revenues:*

- Tax revenues:
  - Turnover tax/VAT, excise taxes, income taxes, social security/pension taxes, foreign trade taxes, other tax revenues
- Non-tax revenues:
  - operating surpluses of public enterprises; administrative fees; property income; natural resource revenue

***Grants:*** Transfers from other governments or international institutions.

# Fiscal Sector Overview

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## Expenditures

### Current expenditures

- wages and salaries; goods and services; transfers; interests payments; other.

### Capital expenditures

- acquisition of fixed assets (government investment: land, buildings and physical capital equipment to be used for more than one year).

# Fiscal Sector Overview

## Financing

Total revenues and grants –  
Total expenditures =  
OVERALL BALANCE

If overall balance < 0 (deficit)  
→ need to finance the spending in excess of resources

### Domestic borrowing

- Central bank (monetization)
- Bank financing
- Non-bank financing

### Foreign borrowing

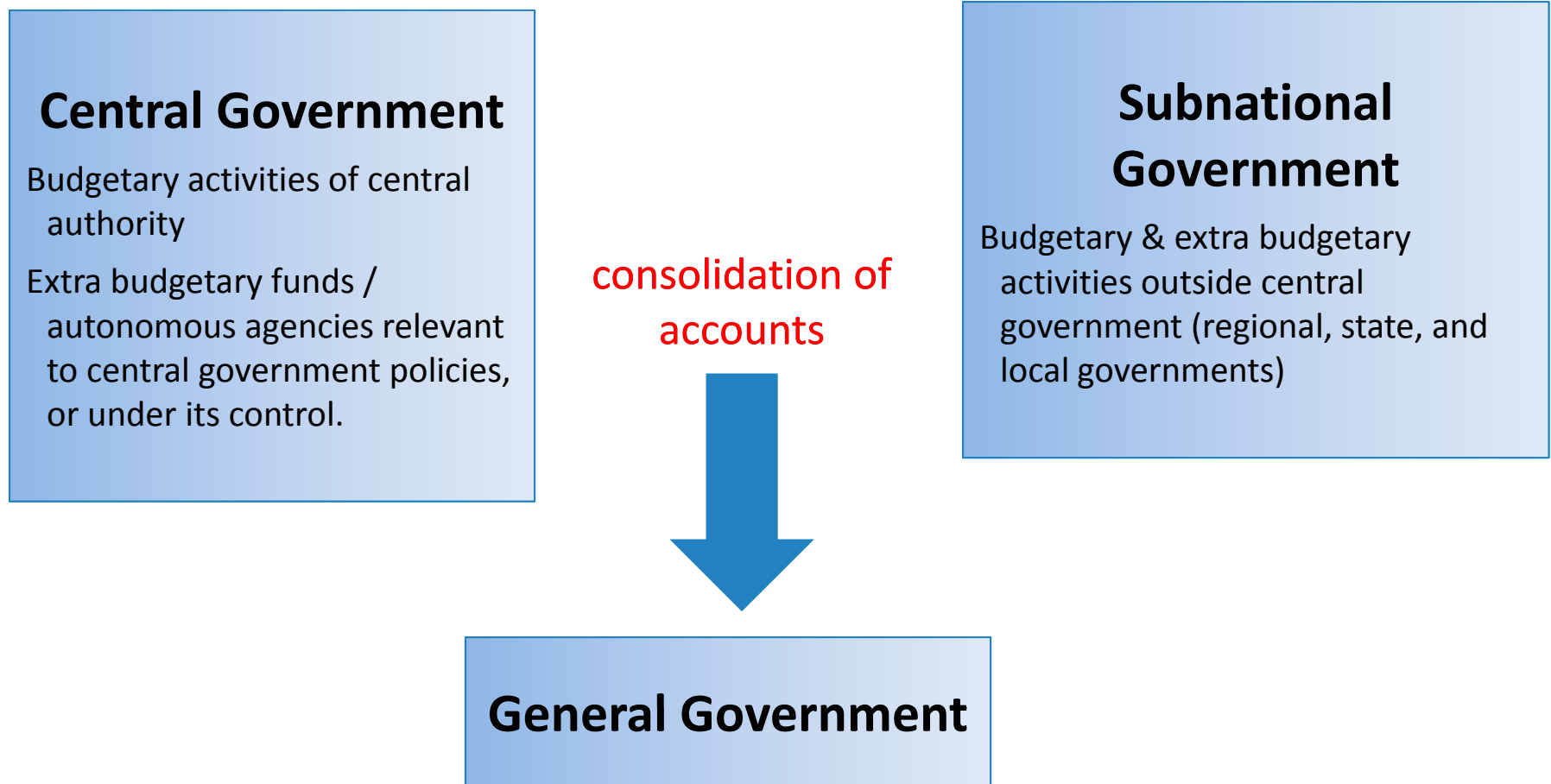
# Budget Presentation: A Bit Different ...

Kyat Billion

	2012/13	2013/14	2014/15
	PA	RE	BE
<b>I. TOTAL RESOURCES</b>	<b>11,820</b>	<b>16,755</b>	<b>19,291</b>
<b>BUDGETED RESOURCES</b>	<b>13,197</b>	<b>13,869</b>	<b>16,538</b>
<b>CURRENT RECEIPTS</b>	<b>11,926</b>	<b>12,588</b>	<b>14,761</b>
<b>CAPITAL RECEIPTS</b>	<b>567</b>	<b>300</b>	<b>287</b>
<b>FINANCIAL RECEIPTS</b>	<b>704</b>	<b>981</b>	<b>1,490</b>
Loans (foreign)	694	967	1,481
(o/w current)	-	-	20
(o/w capital)	694	967	1,461
Recovery of loans	-	12	7
Investments in Organisations	11	2	2
<b>DOMESTIC BORROWING *</b>	<b>(1,377)</b>	<b>2,886</b>	<b>2,753</b>
<b>II. TOTAL EXPENDITURE</b>	<b>11,820</b>	<b>16,755</b>	<b>19,291</b>
<b>CURRENT EXPENDITURE</b>	<b>7,225</b>	<b>11,038</b>	<b>13,149</b>
<b>CAPITAL EXPENDITURE</b>	<b>4,457</b>	<b>4,949</b>	<b>5,683</b>
<b>FINANCIAL EXPENDITURE</b>	<b>139</b>	<b>768</b>	<b>459</b>
Repayment of Loans	113	218	201
Domestic Repayment	2	17	11
Foreign Repayment	111	201	190
Disbursement of loans	21	125	80
Investment in Organisations	4	425	179

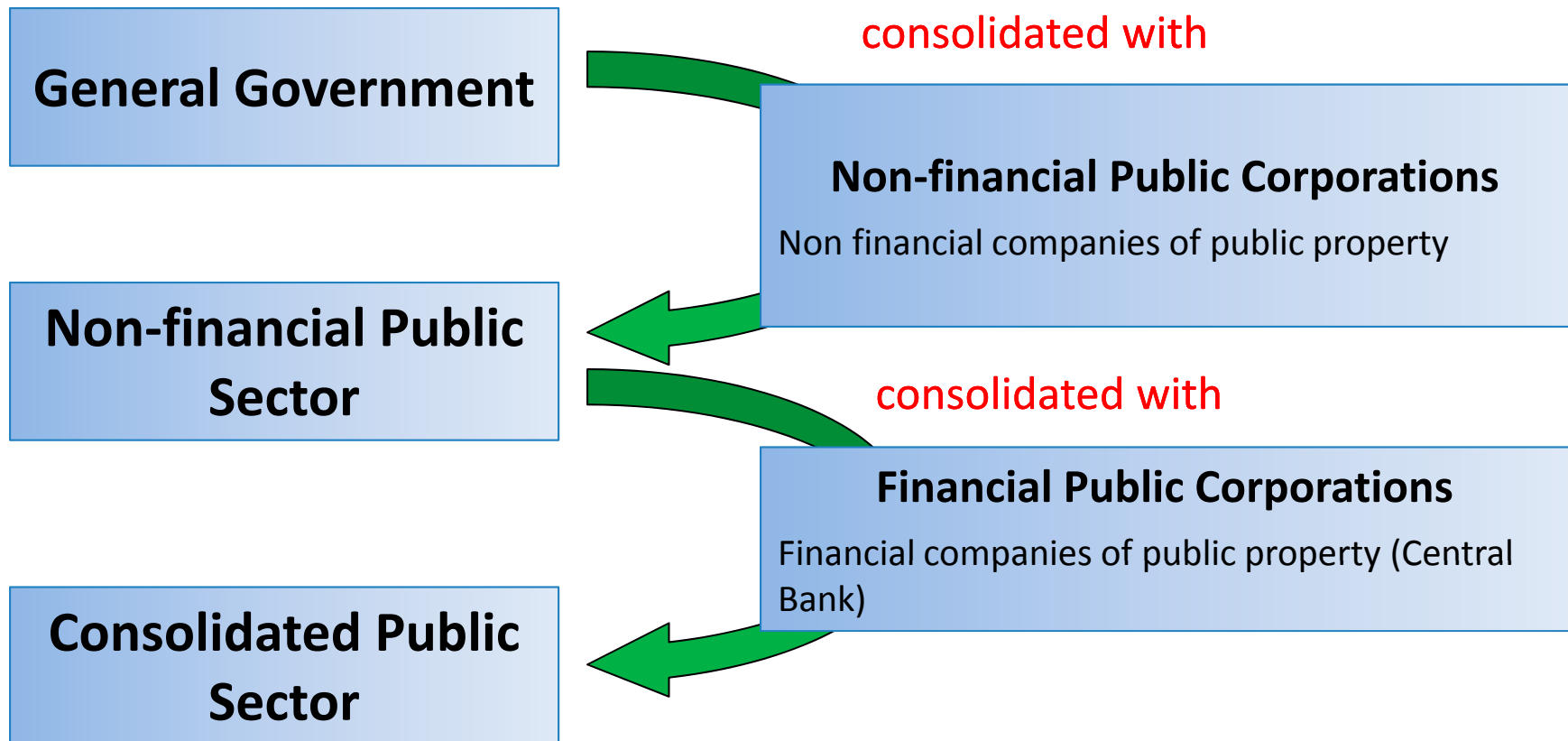
# Fiscal Sector Overview

## Coverage—General Government



# Fiscal Sector Overview

## Coverage—The Public Sector



# Outline

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**II. Fiscal Policy Considerations**

III. Myanmar's Budget in International Comparison

IV. Debt Sustainability

# Fiscal Policy Considerations

## Fiscal policy objectives

Fiscal policy serves to reach country's economic and social objectives

Typical macro-related objectives:

- Promote economic growth and high employment
- Macroeconomic stability



# Fiscal Policy Considerations

## Medium term orientation

Most fiscal policy objectives can be reached only over the medium term

- Role of planning in general
- Role of investment planning in particular; matters for both
  - ✓ Capital budget and
  - ✓ Recurrent budget



# Fiscal Policy Considerations

## Fiscal policy constraints

Fiscal spending is essential for meeting many objectives, but also subject to constraints:

- Spending constraints
- Revenue constraints
- Financing constraints



# Fiscal Policy Considerations

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## Spending constraints

Absorptive capacity constraints:

How much can be spend effectively?

Depends on

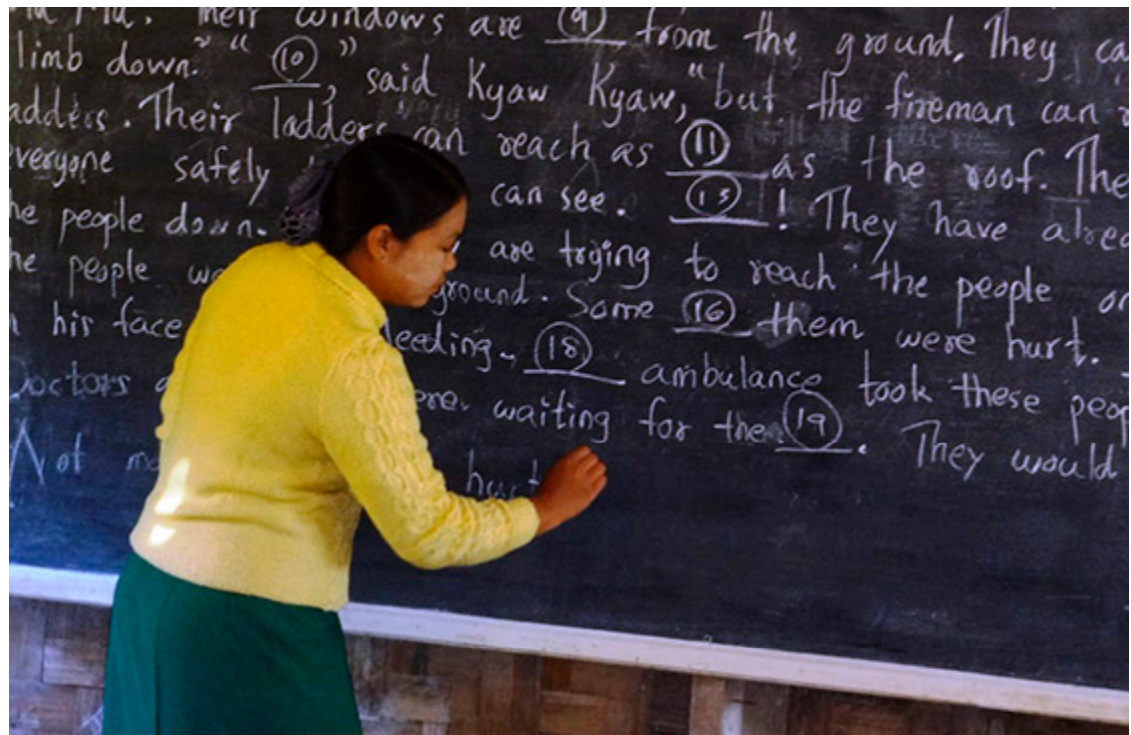
- Capacity of government agencies to plan and execute expenditures
- Capacity of economy to generate supply response

# Fiscal Policy Considerations

## Spending constraints—limited supply response

For example, scaling up education expenditures often requires hiring more teachers ...

... but training of teachers takes a long time!



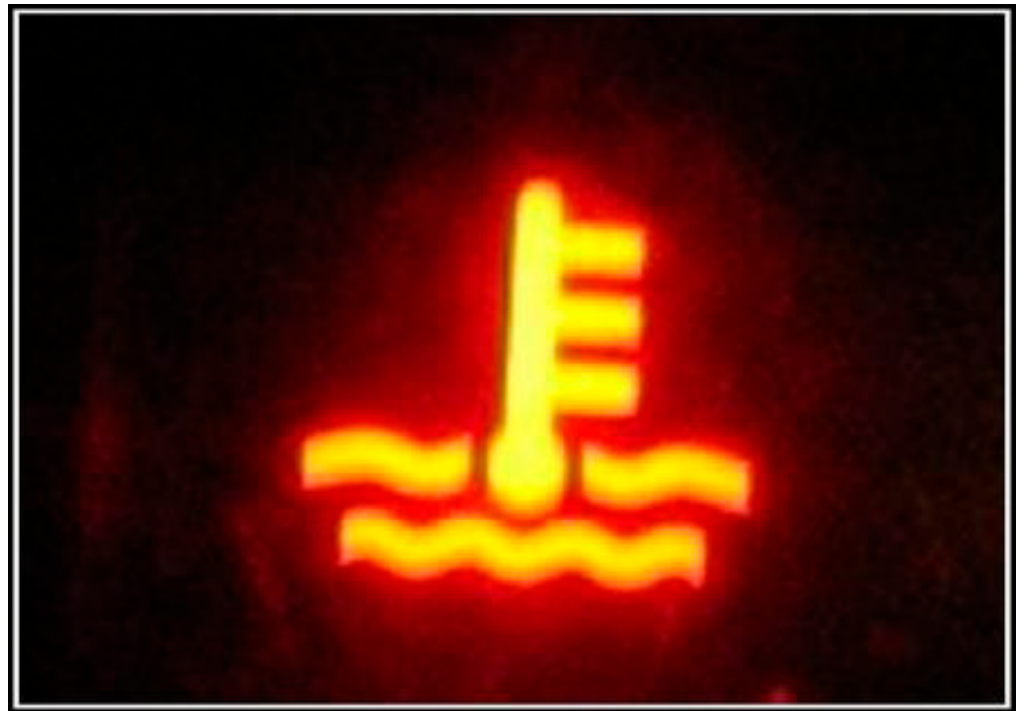
# Fiscal Policy Considerations

## Spending constraints—real sector impact

Fiscal spending can also be limited by macroeconomic constraints:

Does increase in fiscal spending lead to overheating of economy?

Example: large civil service wage increases can be inflationary



# Fiscal Policy Considerations

## Spending constraints—external sector impact

Fiscal spending can create risks for external sector:

- Increase in fiscal spending can raise imports ...
- ... but if there is a shortage of foreign exchange, exchange rate is undermined
- Increase in inflation due to fiscal spending reduces external competitiveness



# Fiscal Policy Considerations

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## Revenue constraints

In the long run, expenditures and revenues must be broadly matched

How much revenues can (or should) be raised?

- Incentive effects  
→ potential adverse impact on growth (real sector)
- How much redistribution?
- Tax administration constraints

# Fiscal Policy Considerations

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## Financing constraints

Government can borrow to finance expenditures, but ...

- How much?  
→ debt sustainability considerations
- Borrow domestically?  
→ impact on monetary sector
- Borrow externally?  
→ impact on external sector

# Fiscal Policy Considerations

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## Fiscal policy options for addressing these constraints

Choice of **overall balance** – one of the most central fiscal policy choices!

- Size of overall balance matters for debt sustainability  
→ large fiscal deficits cannot be sustained for long
- Change in overall balance impacts aggregate demand  
→ impact on real and external sectors
- Overall balance determines financing needs

# Fiscal Policy Considerations

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Tools for choosing overall balance:

- Medium-term fiscal framework (MTFF)
  - provides medium-term perspective
  - facilitates debt sustainability analysis
- Macroeconomic framework
  - allows analysis of fiscal impact on other sectors

# Fiscal Policy Considerations

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## Fiscal policy options

### **Expenditure policies**—selected examples:

- Composition of spending—for example, mix of current and capital expenditures
- Wage policies
  - adequate and competitive compensation, but ...
  - wage bill needs to be affordable
- Prioritization of expenditures

# Fiscal Policy Considerations

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## Fiscal policy options

**Revenue policies**—selected examples:

- Level and composition of income and consumption taxes  
→ matters for incentive and redistribution effects of tax system
- Tax administration  
→ Large taxpayer office (LTO)
- Nurturing culture of taxpayer compliance

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- IV. Debt Sustainability

# Myanmar's Budget in Comparison with Thailand

**Compare Myanmar and Thailand fiscal GDP ratios for 2012/13:**

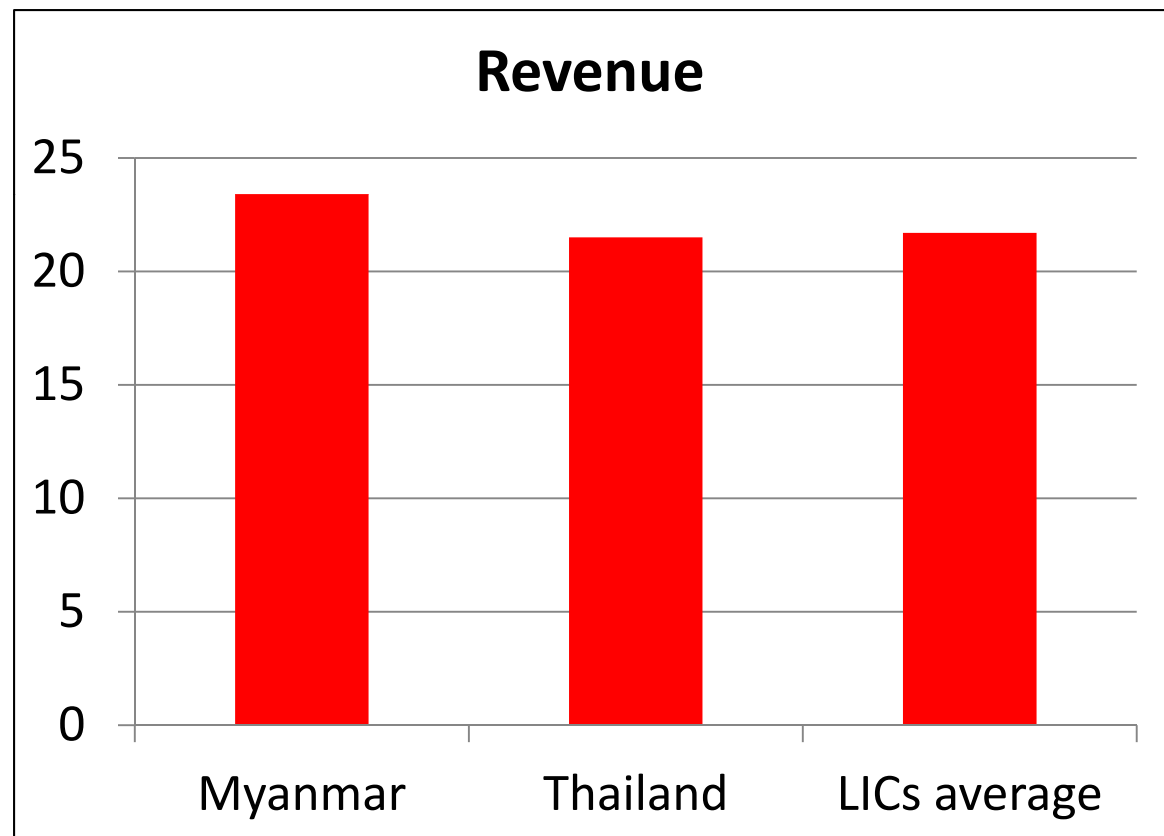
**Your  
task!**



# Myanmar's Budget in International Comparison

## Revenue-to-GDP ratios in 2012/13

At first glance, revenue collection in Myanmar is comparable to Thailand and other low-income countries (LICs)

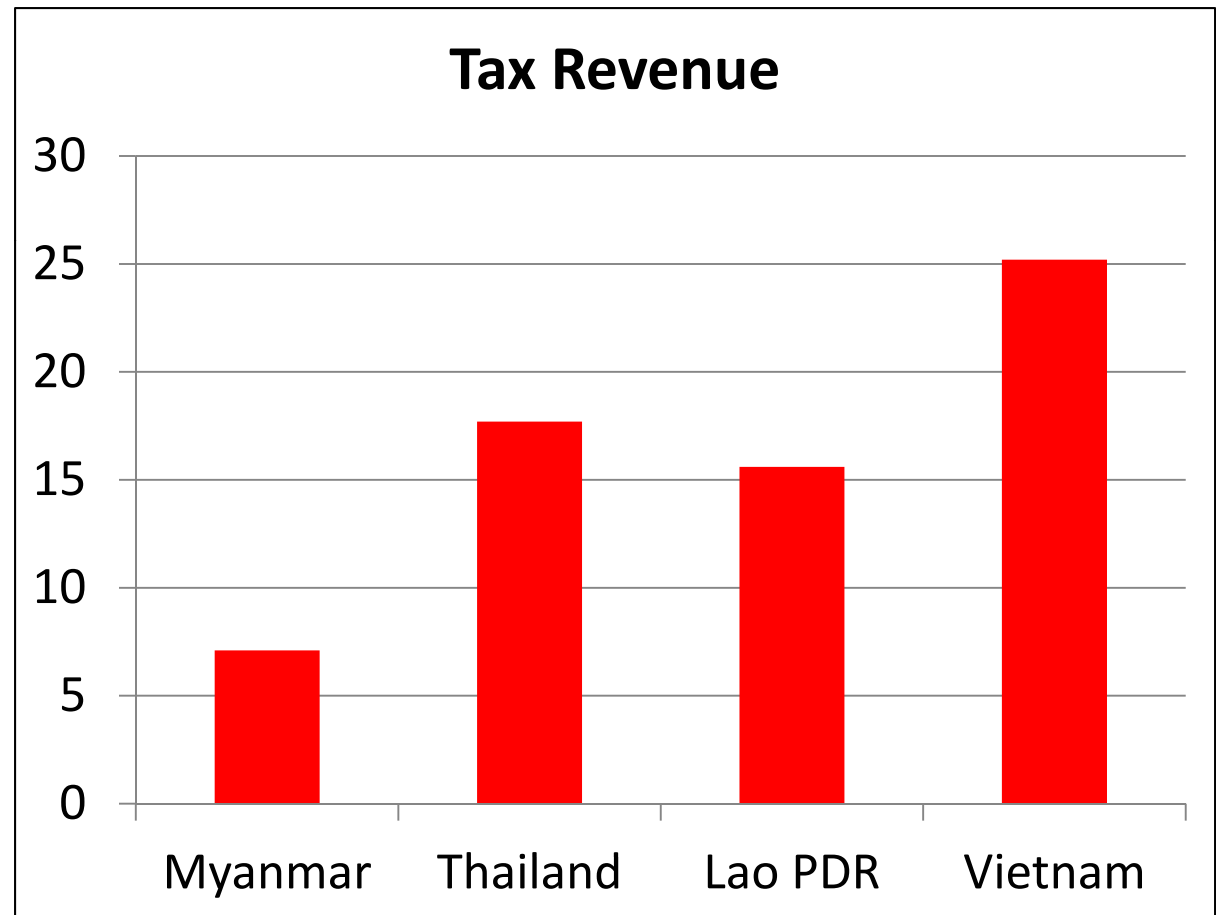


# Myanmar's Budget in International Comparison

## Tax Revenue-to-GDP ratios in 2012/13

But tax revenue collection, which excludes SEE receipts, is very low

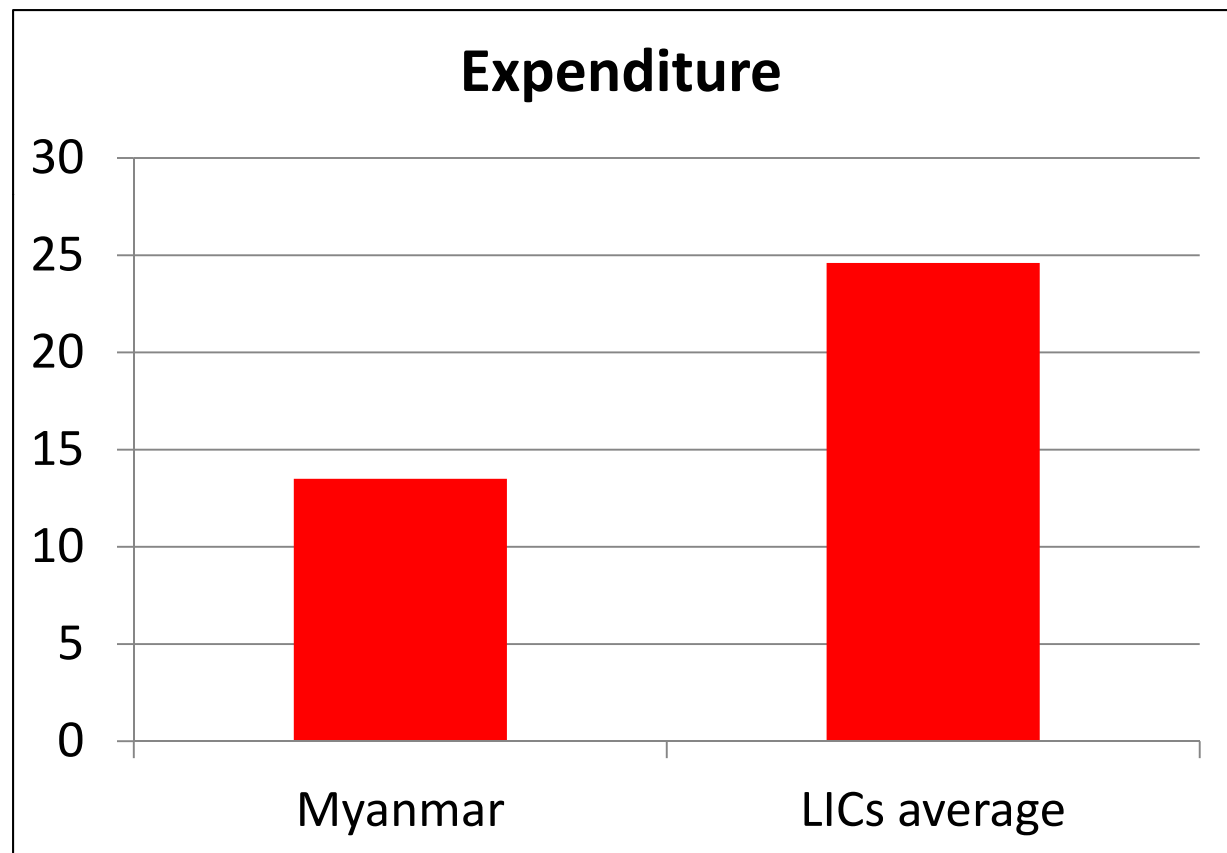
Large revenue potential from tax reform!



# Myanmar's Budget in International Comparison

## Expenditures-to-GDP ratios in 2012/13 (excl. SEEs)

Expenditures in Myanmar are low compared to other LICs ...

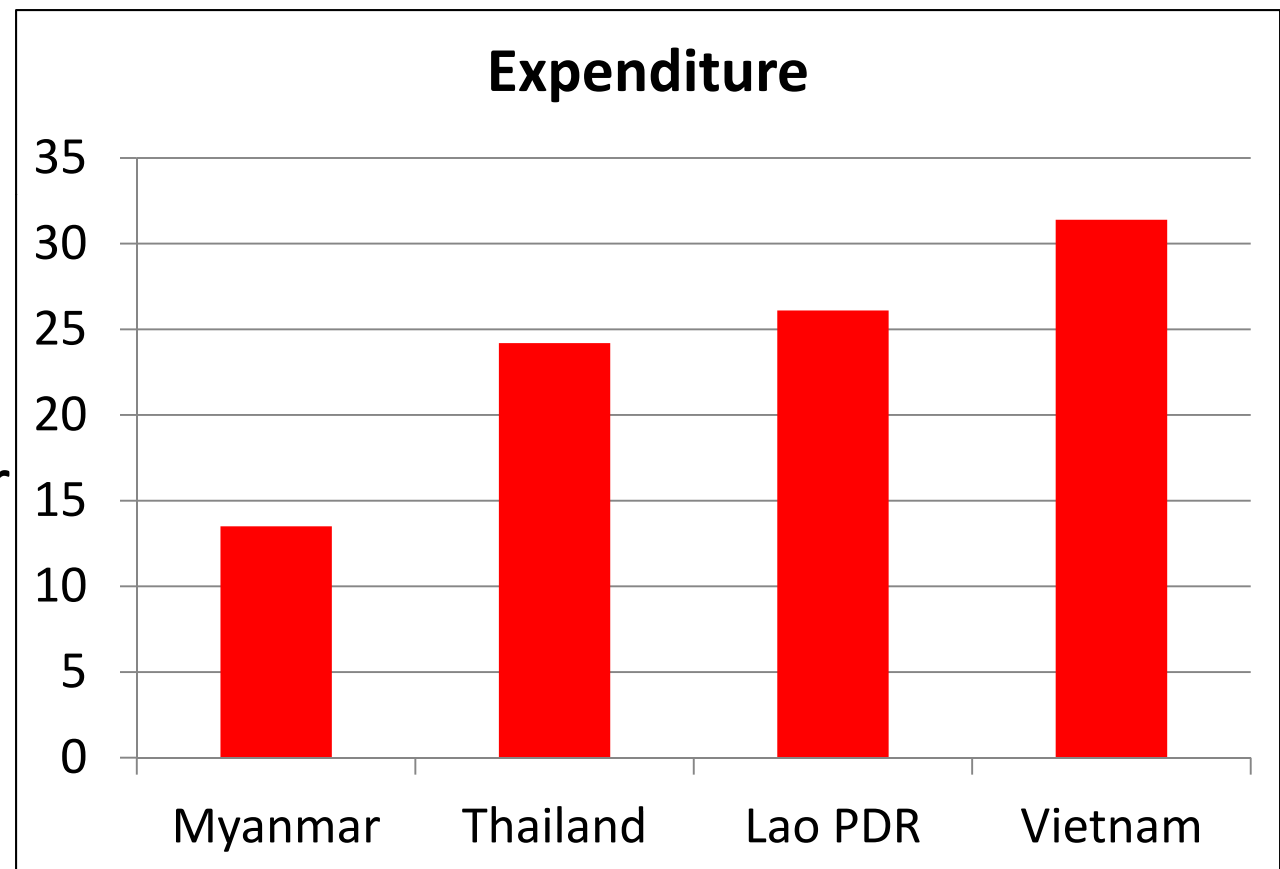


# Myanmar's Budget in International Comparison

## Expenditures-to-GDP ratios in 2012/13 (excl. SEEs)

... and in  
regional  
comparison

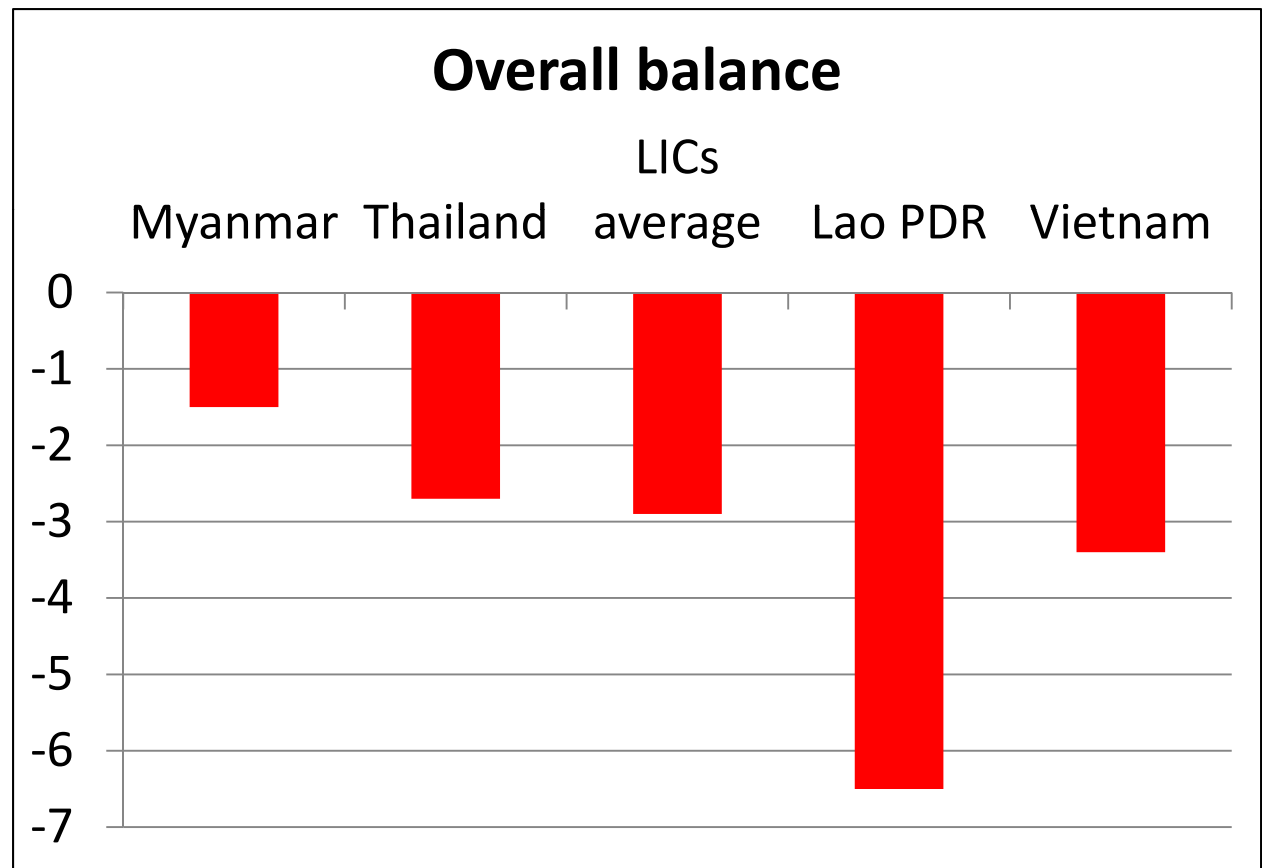
Case for higher  
(tax) revenues  
and higher  
expenditures?



# Myanmar's Budget in International Comparison

## Overall Balance-to-GDP ratios in 2012/13 (excl. SEEs)

Myanmar's overall deficit is internationally low in 2012/13 (but is projected to rise over medium term)



# Project Myanmar's Budget

## Project Myanmar's budget for 2014/15:

- For 2013/14, we use the budget
- For 2014/15, develop your budget projections in terms of GDP
- Next, compute the budget in billions of kyat



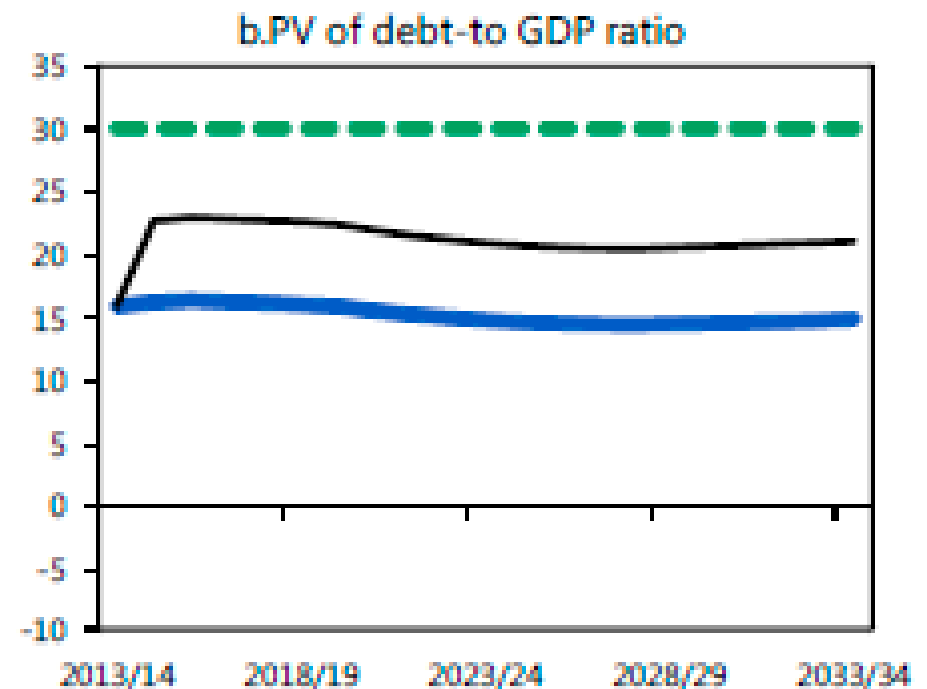
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# Debt Sustainability

- IMF debt sustainability analysis:
  - It's complicated ...
  - IMF sees Myanmar at 'low risk of debt distress'
- Rule of thumb:
  - Keep debt-to-GDP ratio stable (or even better, have it decline over time)
  - GDP measures repayment capability of economy



# Debt Sustainability

## Debt dynamics

$$Debt_t = Debt_{t-1} - OB_t$$

→ Debt dynamics depend on size of fiscal deficits!

In terms of Debt ratios:

$$\frac{Debt_t}{GDP_t} = \frac{1}{1 + NGDP\_growth} \cdot \frac{Debt_{t-1}}{GDP_{t-1}} - \frac{OB_t}{GDP_t}$$

→ Nominal GDP growth matters!

# Outlook

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**Next, we will explore in more detail ...**

- ... the external sector, which helps with analyzing exports, imports, foreign reserves and external competitiveness.