

# Analyzing the Fiscal Sector

## Overview

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“Introduction to Financial Programming”  
December 16-20, 2013 Yangon, Myanmar



## Overview

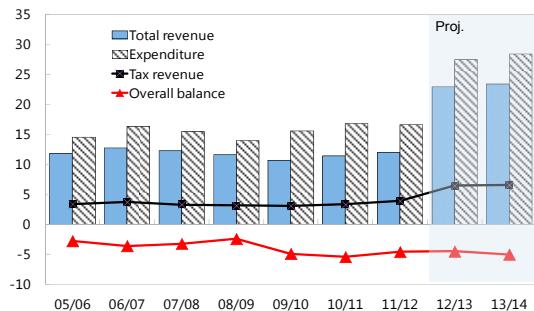
- I. The Government Budget
- II. Useful Concepts & Indicators
- III. Debt Sustainability



## I. The Government 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)



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### Revenues 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.

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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).

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## Financing

Total revenues and grants –  
Total expenditures =  
OVERALL BALANCE

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

### Domestic borrowing

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

### Foreign borrowing

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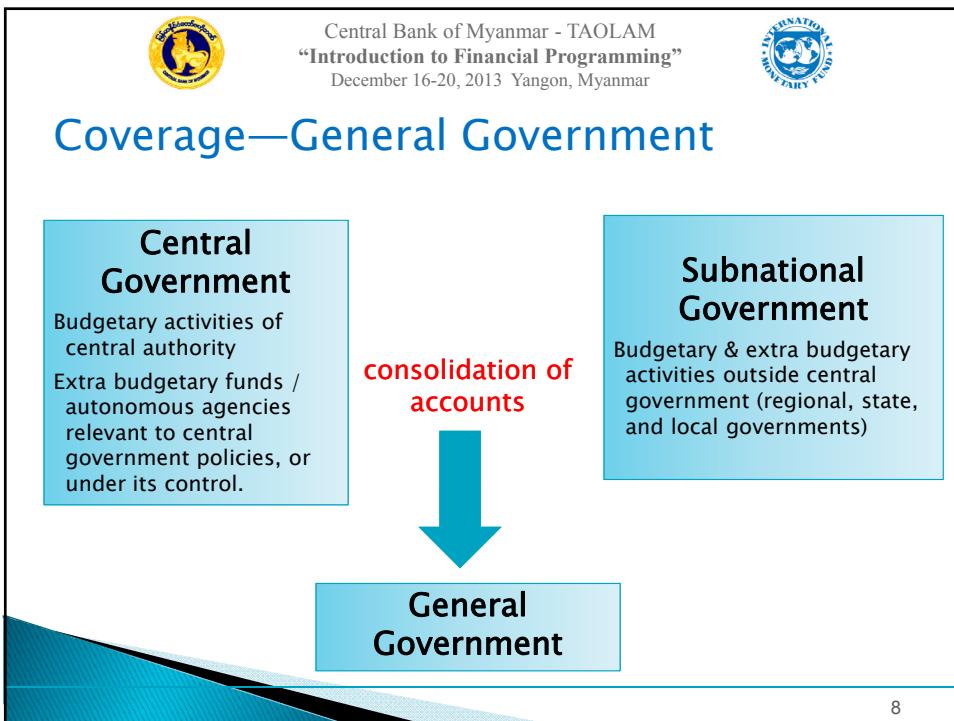

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**Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2010/11–2014/15**

**Consolidated Accounts**

|  | 2010/11 | 2011/12    | 2012/13 | 2013/14 | 2014/15 |
|--|---------|------------|---------|---------|---------|
|  |         | Prel. Act. | Est.    | Budget  | Proj.   |
| (In billions of kyat)                              |         |            |         |         |         |
| Revenue and grants                                 | 4,551   | 5,206      | 10,587  | 11,191  | 12,285  |
| Tax revenue  | 1,318   | 1,683      | 2,758   | 2,609   | 3,209   |
| Transfers from SEEs to Union Government            | 783     | 988        | 912     | 949     | 949     |
| SEEs receipts net of transfers to Union Government | 2,022   | 2,376      | 6,564   | 7,180   | 7,674   |
| Other nontax revenue                               | 427     | 158        | 329     | 361     | 361     |
| Grants   | 0.36    | 0.22       | 24      | 92      | 91      |
| Expenditure  | 6,722   | 7,208      | 12,333  | 14,492  | 14,962  |
| Expense  | 3,519   | 4,259      | 7,904   | 9,989   | 10,259  |
| Union government                                   | 1,548   | 1,945      | 4,009   | 4,941   | 5,211   |
| SEEs net of transfers to Union Government          | 1,971   | 2,314      | 3,895   | 5,047   | 5,047   |
| Net acquisition of nonfinancial assets             | 3,203   | 2,949      | 4,429   | 4,504   | 4,704   |
| Union government                                   | 2,831   | 2,572      | 2,934   | 2,993   | 3,193   |
| SEEs   | 372     | 377        | 1,495   | 1,511   | 1,511   |
| Gross operating balance                            | 1,033   | 947        | 2,683   | 1,203   | 2,026   |
| Union government                                   | 982     | 885        | 14      | -930    | -600    |
| SEEs net of transfers to Union Government          | 51      | 62         | 2,669   | 2,133   | 2,627   |
| Net lending (+)/borrowing (-)                      | -2,171  | -2,002     | -1,746  | -3,301  | -2,678  |
| Union government                                   | -1,850  | -1,687     | -2,920  | -3,923  | -3,793  |
| SEEs net of transfers to Union Government          | -321    | -315       | 1,174   | 622     | 1,116   |
| Financing  | 2,171   | 2,002      | 1,746   | ...     | 2,678   |
| External (net) 1/                                  | 3       | 6          | 794     | ...     | 1,259   |
| Domestic (net)                                     | 2,167   | 1,996      | 952     | ...     | 1,418   |
| CBM  | 1,407   | 790        | 645     | ...     | 496     |
| Commercial banks                                   | 437     | 588        | 253     | ...     | 736     |
| Other 2/   | 323     | 618        | 53      | ...     | 186     |
|  |         |            |         |         | 0       |

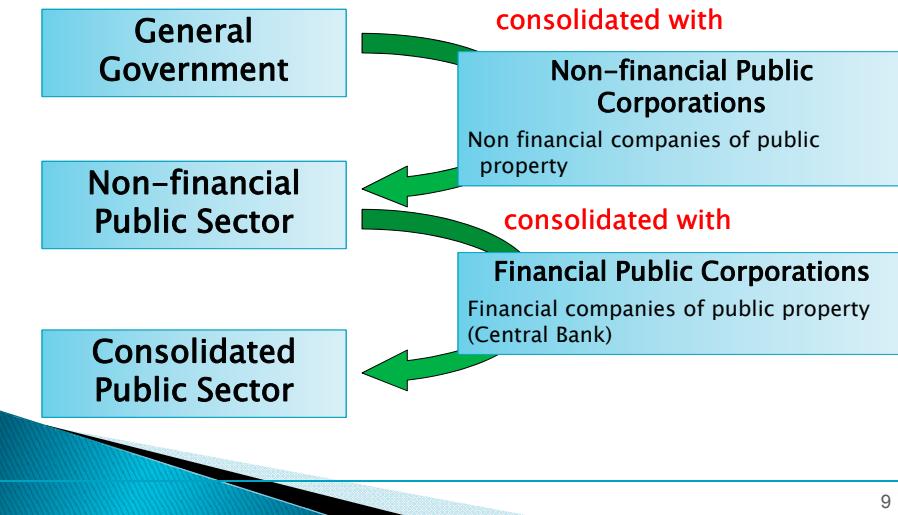
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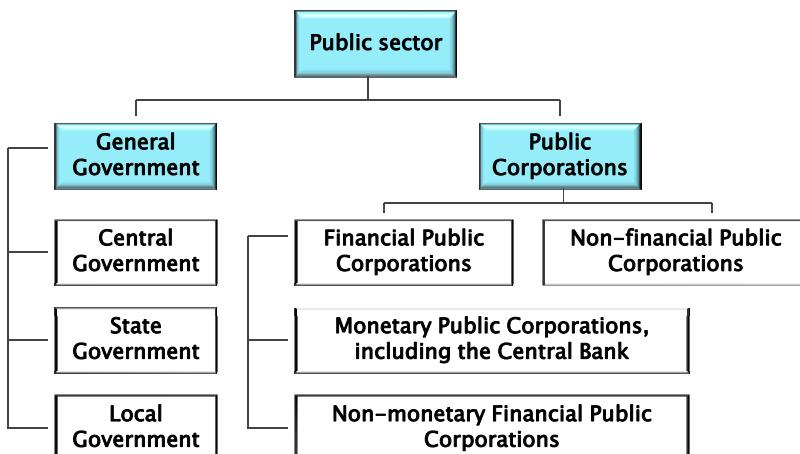
## Coverage—The Public Sector



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## Coverage—The Public Sector: Summary



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## What coverage does the IMF use for Myanmar? And Why?

Look it up in the staff report!

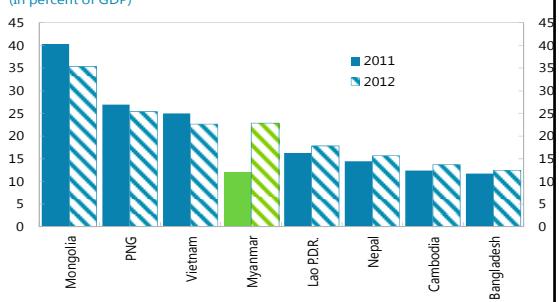


## Analzying the Budget Exercise I

How does Myanmar's  
budget compare to  
Thailand's?

- ▶ Analysis in terms of  
GDP ratios
- ▶ Comparing/matching  
coverage
- ▶ What to look for?
  - Differences in structure
  - Key indicators (to be  
tackled later)

**Government Revenue Excluding Grants**  
(In percent of GDP)

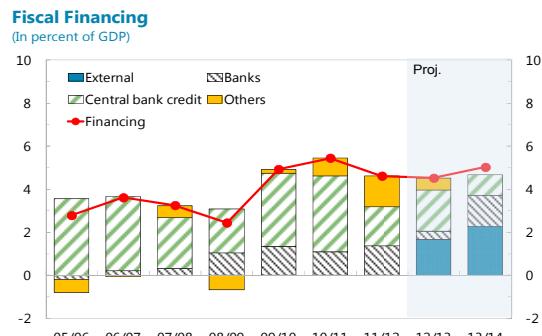




## Exercise II

What are key budgetary developments in Myanmar?

- ▶ Analysis in terms of GDP ratios
- ▶ Create graph(s) of fiscal ratios
- ▶ What to look for?
  - Focus on changes in 2012/13
  - Look at financing



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## II. Useful Concepts & Indicators

### Introducing the ‘line’—Overall Balance

Above the line

Non repayable receipts: taxes, profits, and grants

Expenditures

Below the line

Changes to repayable resources: debt, deposits

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## Conventional Fiscal Deficit Indicator: The overall balance

Total revenues and grants –  
Total expenditures and net lending =  
OVERALL BALANCE

- ▶ It reflects the financing needs of the general government, and is sometimes called the net borrowing requirement
- ▶ It is usually presented in percent of GDP
- Matters for debt sustainability!
- *Change in overall balance is rough indicator of demand impact of fiscal policy*

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## Adjusted overall fiscal balance

Overall balance –  
Selected items =  
ADJUSTED OVERALL BALANCE

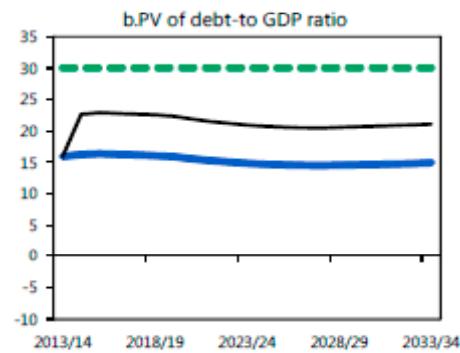
- ▶ Often excludes:
  - Grants
  - Revenues that are not predictable or out of the government control (e.g. the gas or oil revenue)
- What type of adjusted overall fiscal balance would be useful for Myanmar?
  - Depends on purpose ...
  - What would we need to do to measure demand impact?

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### III. 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
  - What is Myanmar's projected debt trajectory?



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### 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!



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**Thank You!**

**This is (almost) everything you  
need to analyze fiscal  
developments!**