

Analyzing the Fiscal Sector

Overview

Jan Gottschalk
TAOLAM

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Central Bank of Myanmar - TAOLAM
“Introduction to Financial Programming”
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Overview

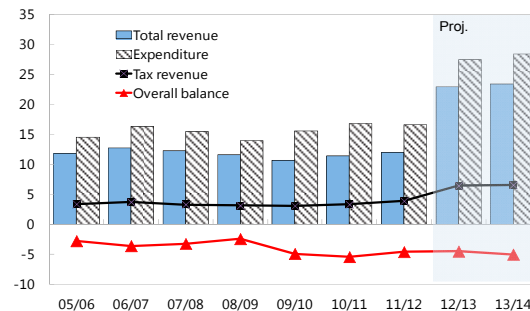
- I. The Government Budget
- II. Useful Concepts & Indicators
- III. Debt Sustainability



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) → resources < spending
→ 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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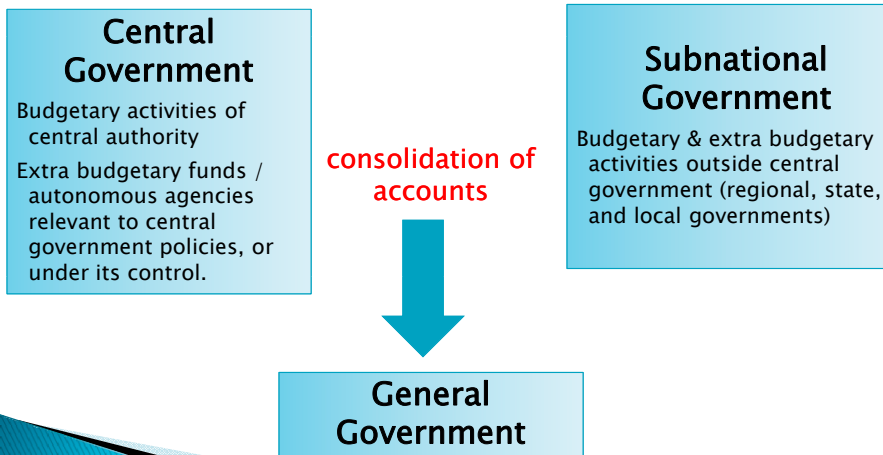
Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2010/11–2014/15
Consolidated Accounts

	2010/11	2011/12	2012/13	2013/14		2014/15
		Prel. Act.	Est.	Budget	Proj.	Proj.
(In billions of kyat)						
Revenue and grants	4,551	5,206	10,587	11,191	12,285	14,486
Tax revenue	1,318	1,683	2,758	2,609	3,209	3,811
Transfers from SEEs to Union Government	783	988	912	949	949	1,546
SEE receipts net of transfers to Union Government	2,022	2,376	6,564	7,180	7,674	8,520
Other nontax revenue	427	158	329	361	361	423
Grants	0.36	0.22	24	92	91	186
Expenditure	6,722	7,208	12,333	14,492	14,962	17,358
Expense	3,519	4,259	7,904	9,989	10,259	11,660
Union government	1,548	1,945	4,009	4,941	5,211	6,293
SEEs net of transfers to Union Government	1,971	2,314	3,895	5,047	5,047	5,367
Net acquisition of nonfinancial assets	3,203	2,949	4,429	4,504	4,704	5,698
Union government	2,831	2,572	2,934	2,993	3,193	3,939
SEEs	372	377	1,495	1,511	1,511	1,759
Gross operating balance	1,033	947	2,683	1,203	2,026	2,825
Union government	982	885	14	-930	-600	-327
SEEs net of transfers to Union Government	51	62	2,669	2,133	2,627	3,153
Net lending (+)/borrowing (-)	-2,171	-2,002	-1,746	-3,301	-2,678	-2,873
Union government	-1,850	-1,687	-2,920	-3,923	-3,793	-4,266
SEEs net of transfers to Union Government	-321	-315	1,174	622	1,116	1,393
Financing	2,171	2,002	1,746	...	2,678	2,873
External (net) 1/	3	6	794	...	1,259	1,440
Domestic (net)	2,167	1,996	952	...	1,418	1,433
CBM	1,407	790	645	...	496	358
Commercial banks	437	588	253	...	736	1,075
Other 2/	323	618	53	...	186	0

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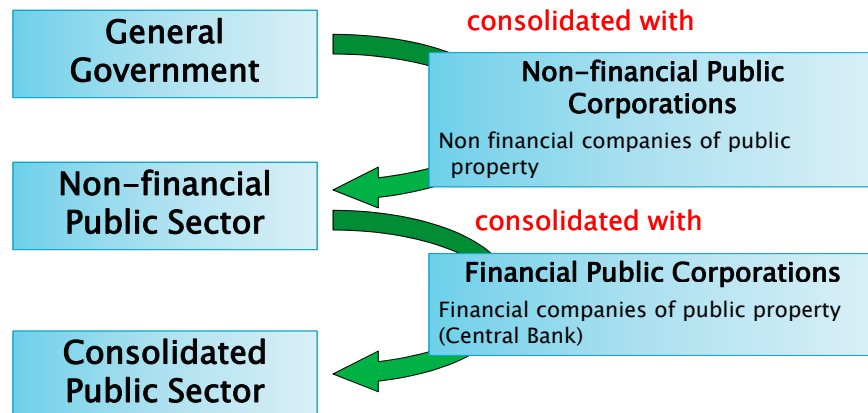
Coverage—General Government



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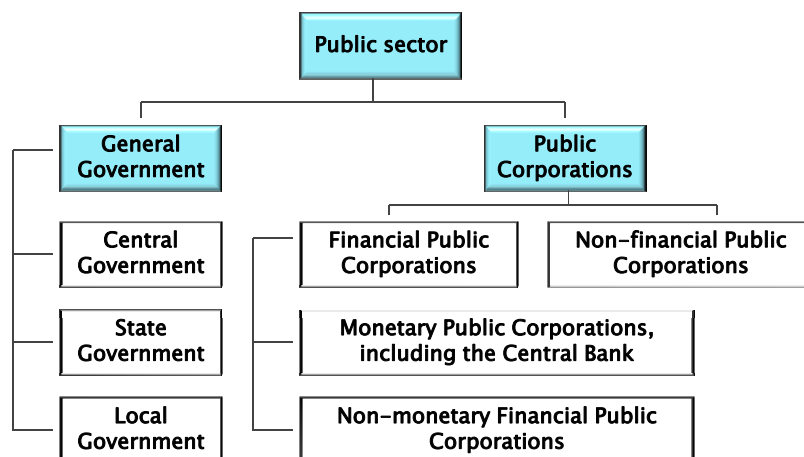
Coverage—The Public Sector



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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!



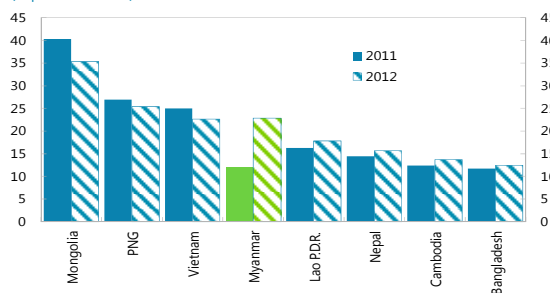
Analyzing the Budget

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)



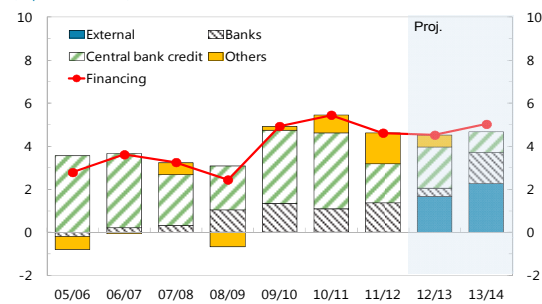


Exercise II

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

Fiscal Financing
(In percent of GDP)



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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

$$\text{Total revenues and grants} - \text{Total expenditures and net lending} = \text{OVERALL BALANCE}$$

- ▶ 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

$$\text{Overall balance} - \text{Selected items} = \text{ADJUSTED OVERALL BALANCE}$$

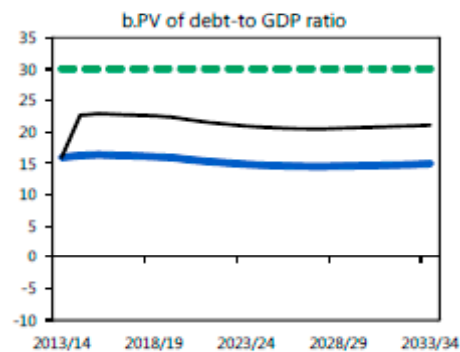
- ▶ Often excludes:
 - Grants
 - Revenues that are not predictable or out of the government control (e.g. the gas or oil revenue)
- What type of adjusted overall fiscal balance would be useful for Myanmar?
 - Depends on purpose ...
 - What would we need to do to measure demand impact?

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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!



Thank You!

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