



Overview: Fiscal Sector In Myanmar

Workshop for Staff of
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Development
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Outline

- I. Fiscal Sector Overview
- II. Fiscal Policy Considerations
- III. Myanmar's Budget in International Comparison
- IV. Debt Sustainability

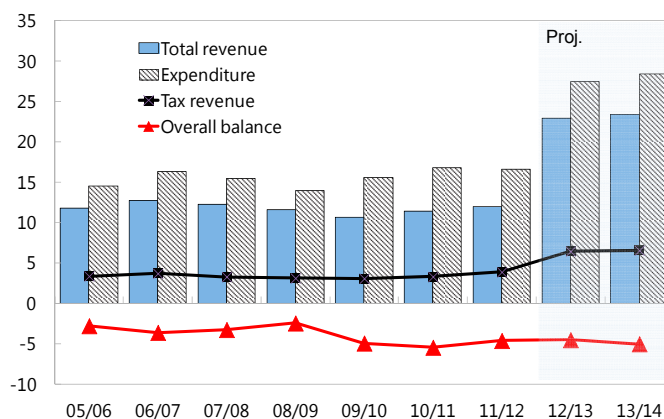
Fiscal Sector Overview

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)



3

Fiscal Sector Overview

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.

4

Fiscal Sector Overview

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).

5

Fiscal Sector Overview

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

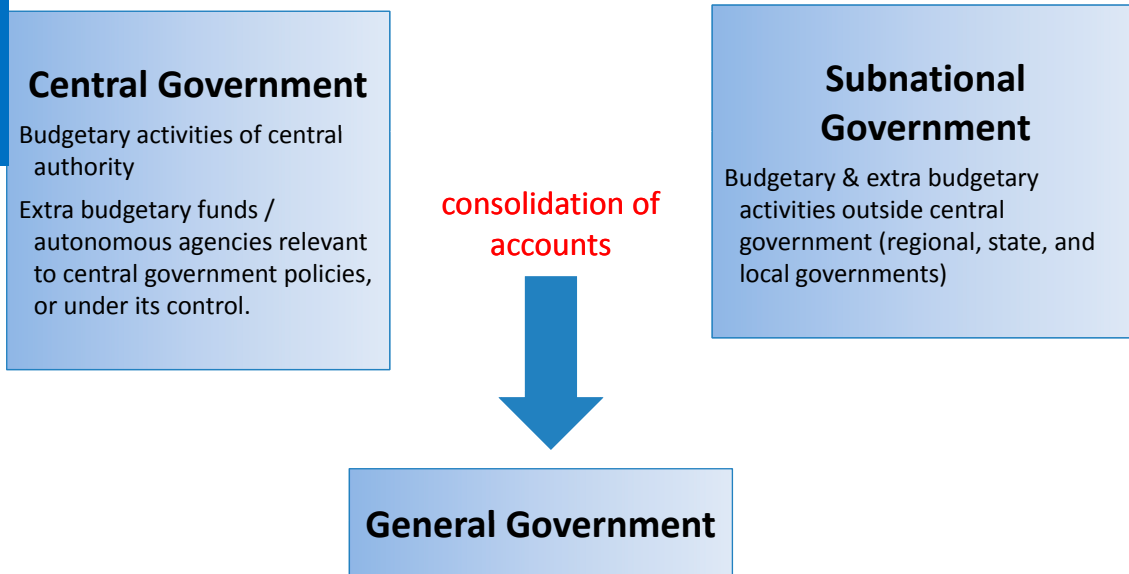
- Central bank (monetization)
 - Bank financing
 - Non-bank financing

Foreign borrowing

6

Fiscal Sector Overview

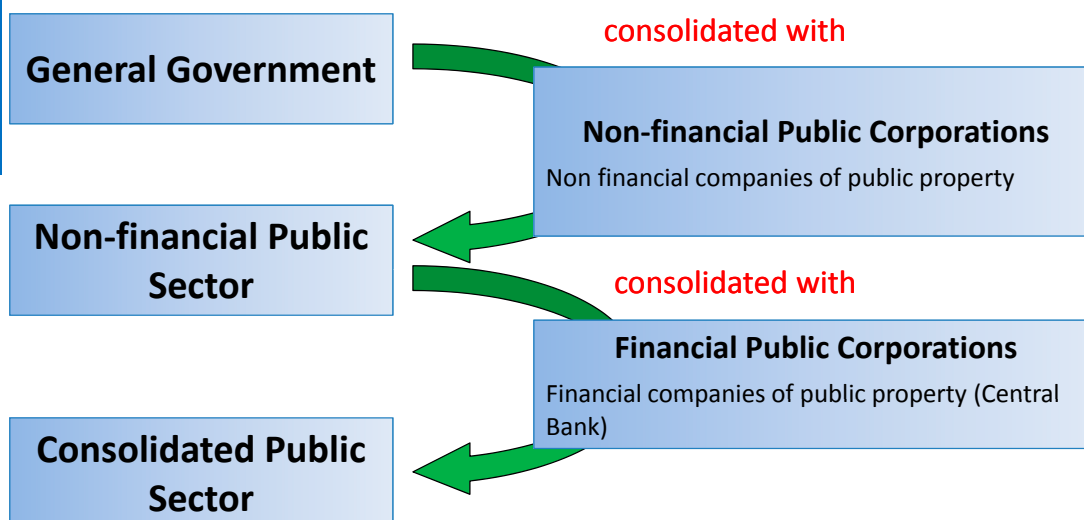
Coverage—General Government



7

Fiscal Sector Overview

Coverage—The Public Sector



8

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9

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



10

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



11

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



12

Fiscal Policy Considerations

Spending constraints

Absorptive capacity constraints:

How much can be spend effectively?

Depends on

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

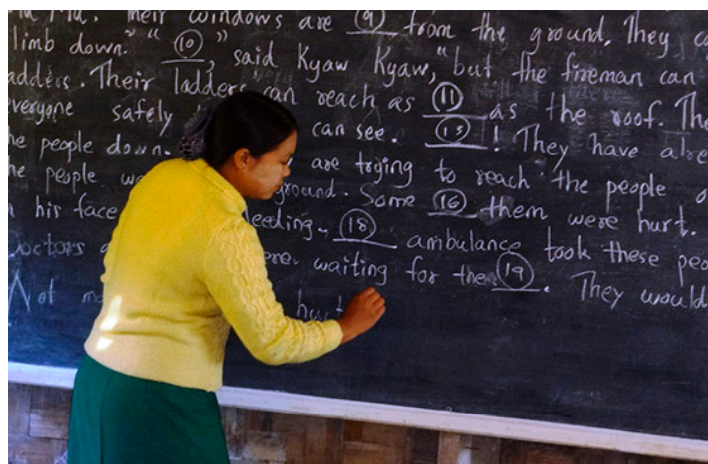
13

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!



14

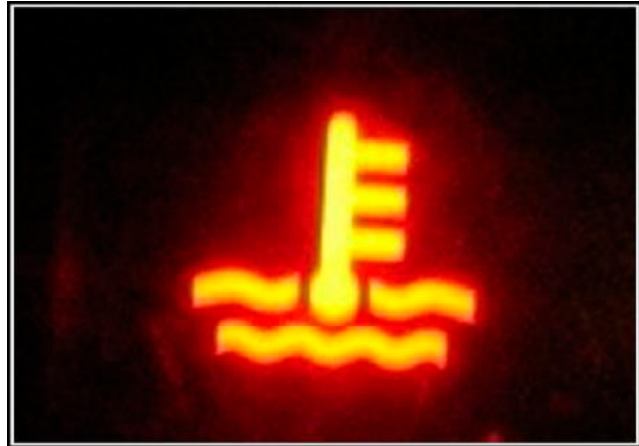
Fiscal Policy Considerations

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



15

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



16

Fiscal Policy Considerations

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

17

Fiscal Policy Considerations

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

18

Fiscal Policy Considerations

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

19

Fiscal Policy Considerations

Fiscal policy options for addressing these constraints

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

20

Fiscal Policy Considerations

Fiscal policy options for addressing these constraints

Expenditure policies—selected examples:

- Composition of current and capital expenditures
→ capital expenditures create demand for recurrent spending items such as maintenance
 - Wage policies
→ adequate and competitive compensation, but ...
→ wage bill needs to be affordable
 - Prioritization of expenditures
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21

Fiscal Policy Considerations

Fiscal policy options for addressing these constraints

Revenue policies—selected examples:

- 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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22

Outline

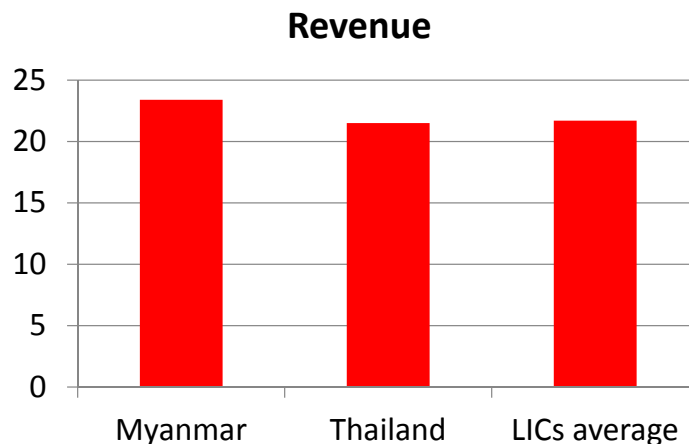
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23

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)



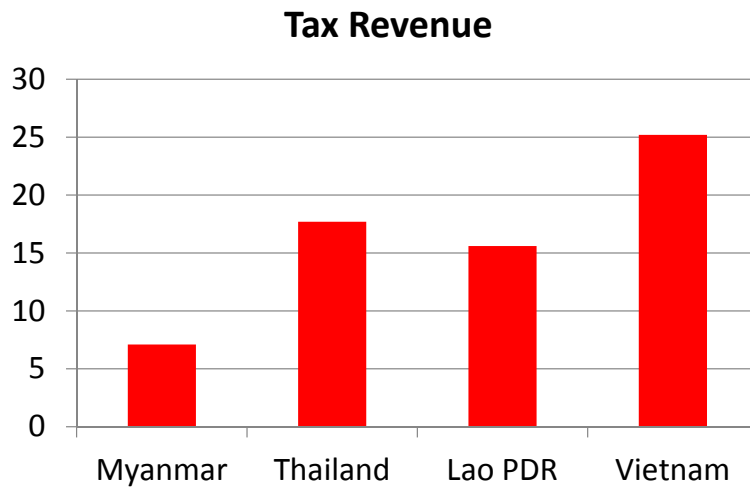
24

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!

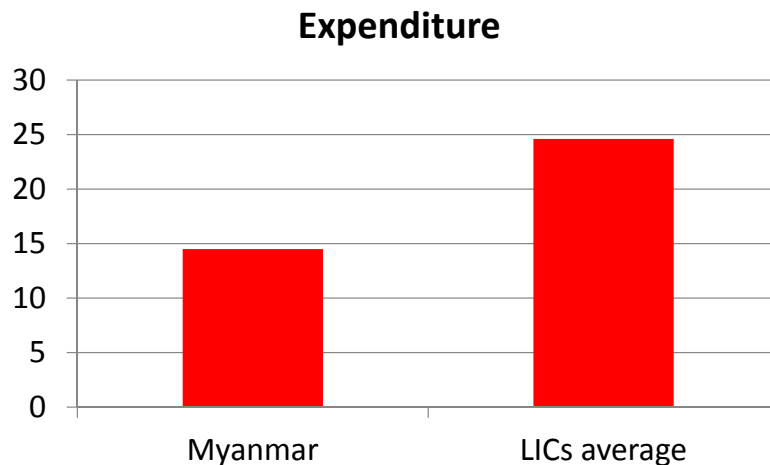


25

Myanmar's Budget in International Comparison

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

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



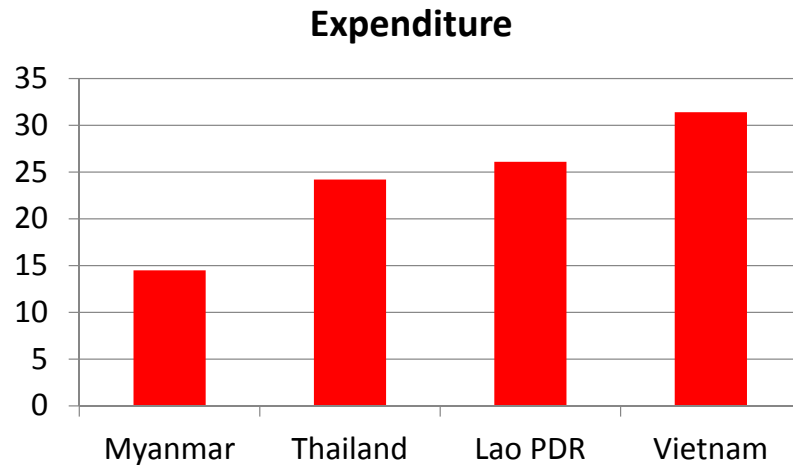
26

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?

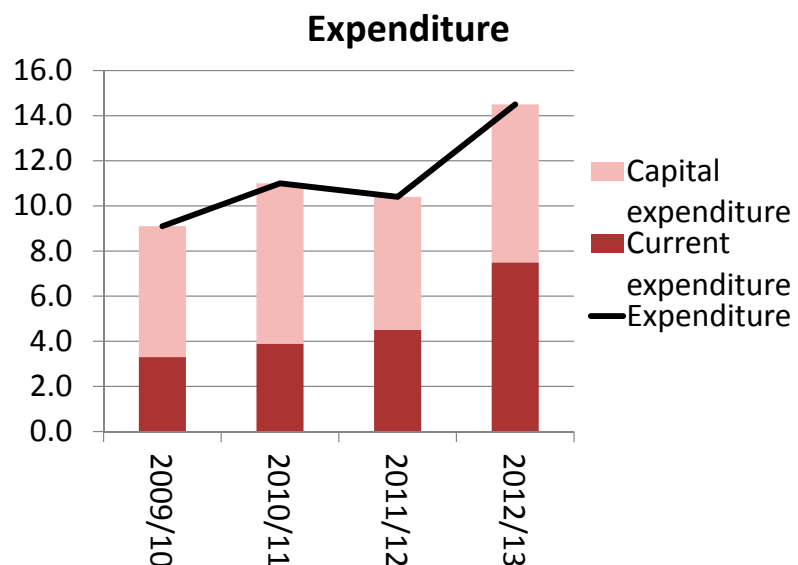


27

Myanmar's Budget in International Comparison

Expenditure developments in Myanmar (in % of GDP)

Expenditure level in 2012/13 represents already large increase compared to previous years!

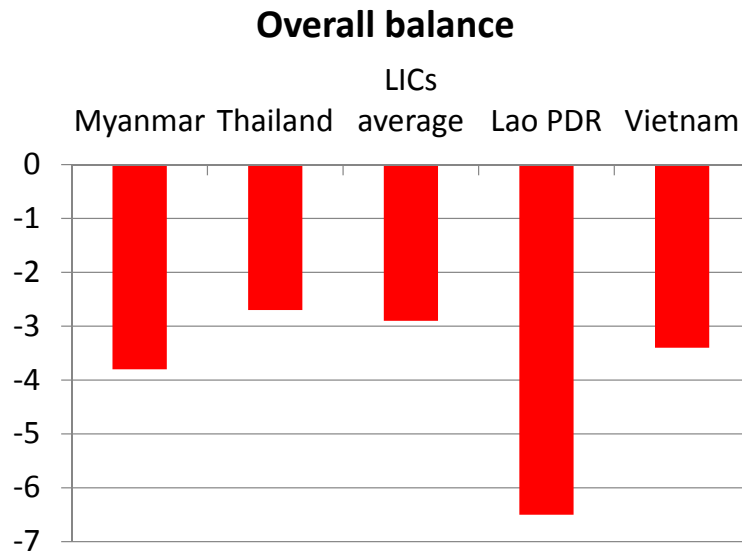


28

Myanmar's Budget in International Comparison

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

Myanmar's overall deficit is internationally comparable

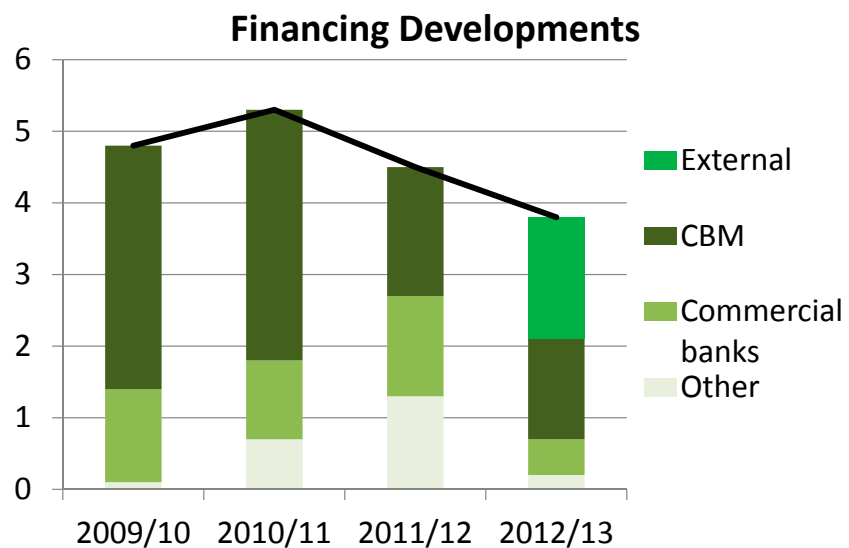


29

Myanmar's Budget in International Comparison

Financing developments in Myanmar (in % of GDP)

CBM financing used to be significant but now external financing is available as well.



30

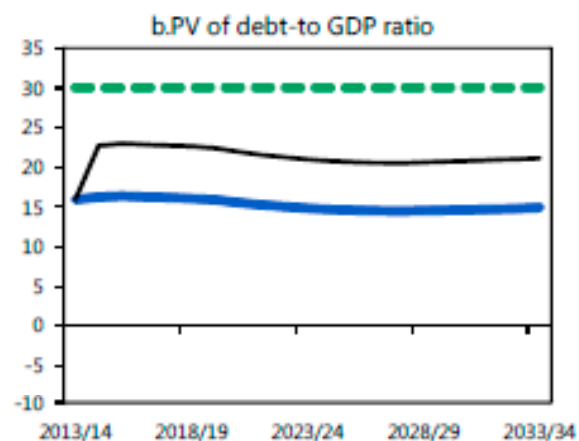
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31

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



32

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

Next, we will explore in more detail ...

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