



How can Myanmar enhance its aggregate fiscal discipline from medium term to long term?

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20-12-2019

Outline

- Introduction
- Myanmar economic background and fiscal condition
- Literature review and analytical framework for aggregate fiscal discipline
- Analysis for aggregate fiscal discipline
- Findings and recommendations

I . Introduction

- Objectives of the study are
 - To analyze current practicing mechanisms for aggregate fiscal discipline,
 - To identify better mechanisms to enhance aggregate fiscal discipline in Myanmar from medium term to long term.
- Why is enhancing aggregate fiscal discipline important for Myanmar?
 - The requirement to keep balance between resources availability, high development needs and medium-term to long-term fiscal sustainability.
 - Using resources as allocated can support the obtainment of the national economic policy, the objectives of sustainable development and delivery of public services.

II. Myanmar Economic Background and Fiscal Condition

II.1. Myanmar Economic Background

<u>Subject Descriptor</u>	<u>Year</u>									
	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018 (6 months)</u>	<u>2018-2019</u>	<u>2019-2020 Estimate</u>
Population (million)		60.98	61.57	51.99	52.45	52.92	53.39	53.71	53.71	
Gross domestic product, constant prices (growth rate)	5.60	7.30	8.40	8.00	7.00	5.90	6.80	6.50	6.80	7.00
Inflation, average consumer prices	6.83	0.36	5.76	5.14	7.26	9.10	4.62	5.00	8.00	6.71
Current account balance (% of GDP)	-1.70	-1.74	-0.60	-4.18	-3.08	-4.02	-6.45	-4.7	-2.00	-3.00
Government deficit (including Local Gov) (% of GDP)	-3.7	-2.1	-1.6	-1.3	-4.4	-2.8	-3.1	-1.5	-6.25*	-6.87
Government gross debt (% of GDP)	34.92	35.40	36.41	33.26	38.15	35.60	38.36	37.71	37.11**	
Real GDP per Capita at 2010/2011 prices (Kyats)		889,744	954,969	1,015,273	1,076,763	1,129,828	1,195,548		1,978,100	2,180,755
Unemployment rate (% of total labor forces)		4.01	4.01	4	0.8	2.1	1	1		
Human Development Index (value)		0.549		0.564	0.569	0.574	0.578	0.578		

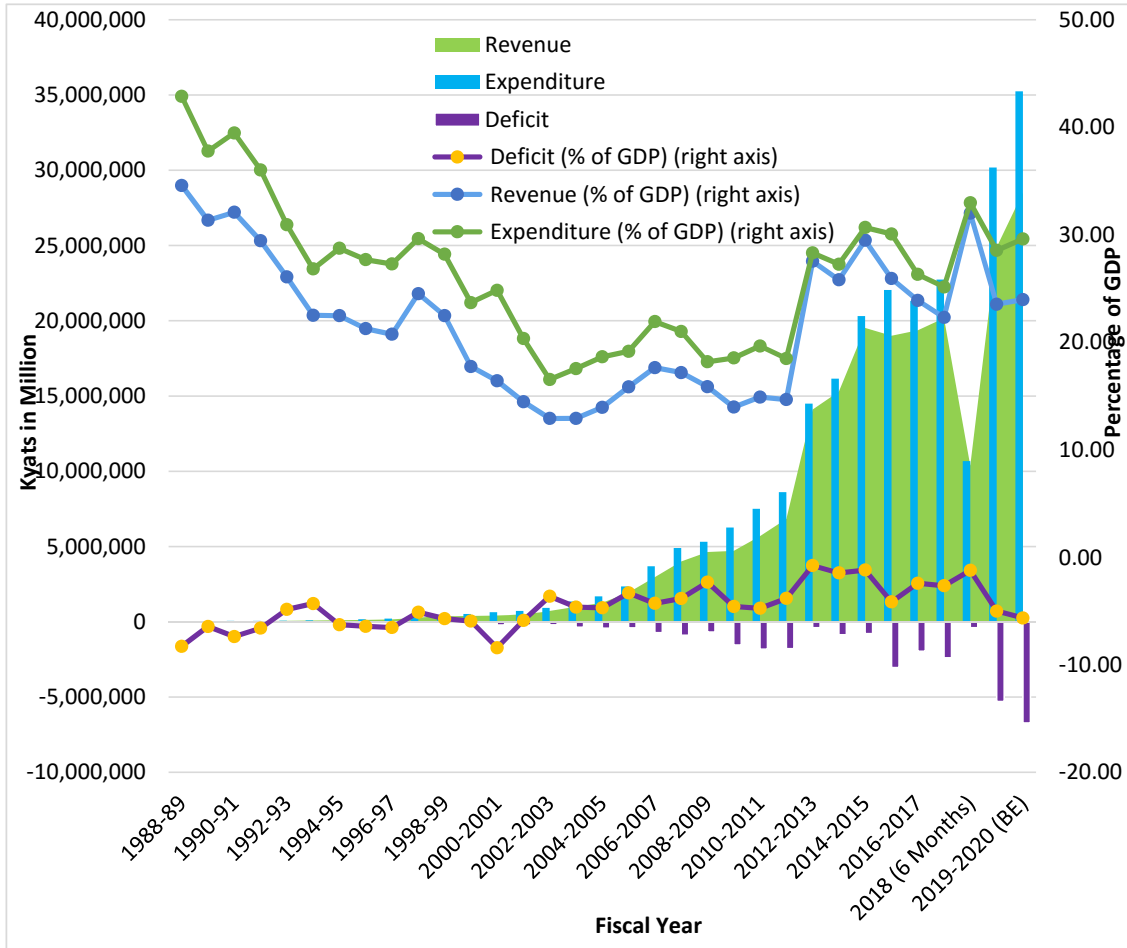
* revised estimate data and ** data till 30-6-2019

Sources: Ministry of Planning and Finance, Ministry of Labor, Immigration and Population and IMF WEO Data

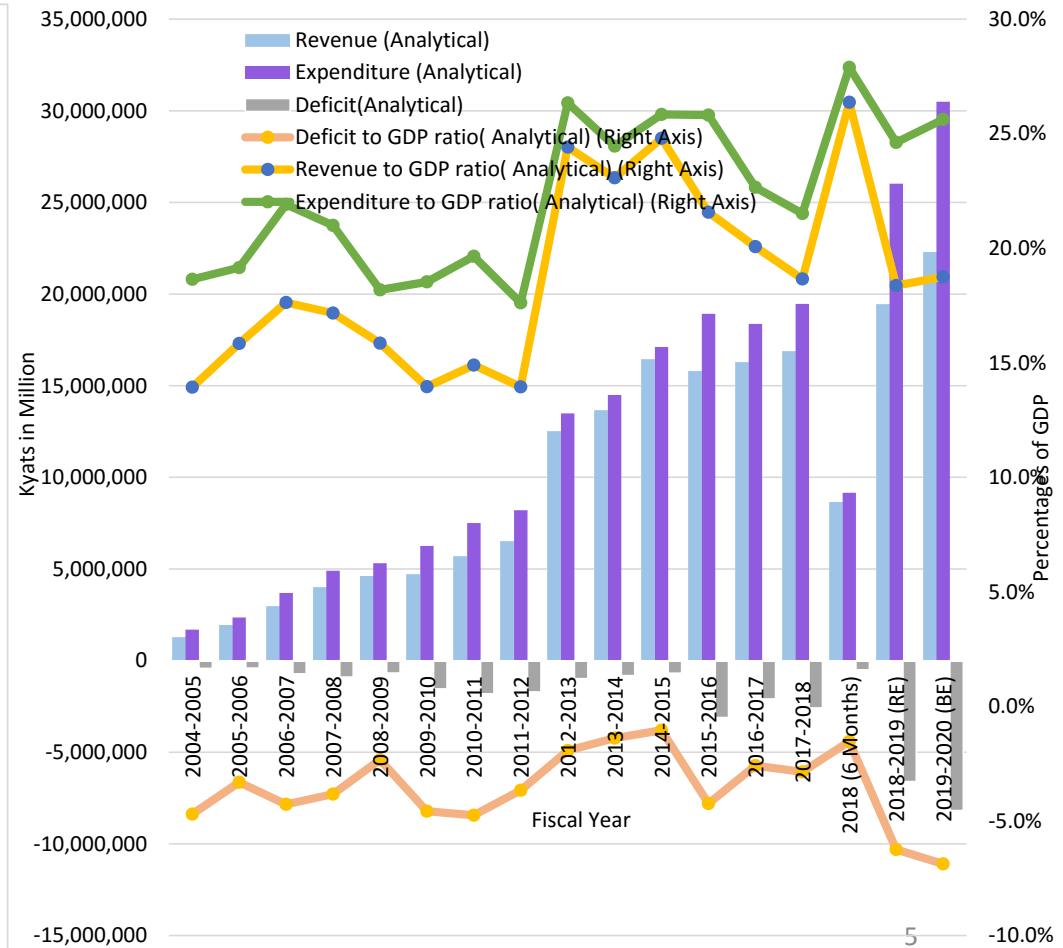
II.2. Fiscal Condition

Revenue, Expenditure and deficit as nominal value and percentage of GDP

Myanmar Accounting Method



Analytical Aggregate Method



III.(1) Literature View

- ❑ Andrews and Compos (2003) describe that “**aggregate fiscal discipline refers to the alignment of public expenditures with total revenues** (domestic revenues plus a sustainable level of foreign borrowing). Total revenue and expenditure are kept in line with intended targets for the fiscal deficit and do not make unsustainable levels of public borrowing.”
- ❑ **Andrew and Compos (2003) and Shick (1998)** state that **budget constraints are need to be set in advance** to avoid higher expenditure, unsustainable deficit and disposal of assets.
- ❑ Cangiano (2013), von Hagen(2002), Alensina (1996), von Hagen and Harden (1996), Shah (2007) state that **institutional arrangements such as law, rules and regulations are important** to achieve aggregate fiscal discipline.
- ❑ Schaechter (2012) and Pattanayak (2018) define that “**A fiscal rule imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates.**”

III.(1) Literature View (Cont.)

- ❑ Compos and Pradhan (1996) describe that **“Aggregate fiscal discipline will depend upon: (i) the existence of a medium-term expenditure framework based upon a consistent macroeconomic program; (ii) the relative dominance of the central ministries; and (iii) the existence of formal constraints on spending and the deficits.”**
- ❑ They argue that **“institutional arrangements can be effective only if there are mechanisms that bind public officials to institutional arrangements.”**
- ❑ They state that to improve **accountability and/or transparency, there is a need to make (i) reconciliation between ex-ante and ex-post aggregate spending and deficits; (ii) sanctions against overspending; (iii) publication and dissemination of the results to the public; and (iv) integration of all expenditures within the budget, including extra-budgetary funds.**
- ❑ The World Bank (1998) states that **comprehensiveness and transparency are essential for effective aggregate fiscal discipline.**

III. (2) Analytical Framework for Aggregate Fiscal Discipline

- According to the above literature view, aggregate fiscal discipline depends on the alignment of expenditure with revenue, and setting the constraint, institutional arrangement, long lasting fiscal rules and laws, comprehensiveness and transparency.
- To analyze aggregate discipline, the paper created an analytical framework by binding the methodology of WB PFM handbook - [Diagnostic Questionnaires](#) for aggregate fiscal discipline which is a questionnaire to assess the quality of institutional mechanisms, and scoring by fiscal-rule characteristics created by [Schaechter](#) (2012) to analyze the fiscal-rule characteristics.
- Scoring by the fiscal-rule characteristics created by Schaechter (2012) especially focus on numerical fiscal rules and procedural rules to enforce numerical rules for fiscal discipline.
- The methodology of WB PFM handbook – Diagnostic Questionnaires for aggregate fiscal discipline is focus on rules and the compliance of the rules for aggregate fiscal discipline.
- To analyze fiscal rules, scores of fiscal-rule characteristics are more comprehensive but do not include the mechanisms to analyze the quality of compliance for revenue and expenditure.
- That is why, the paper uses the following analytical framework by binding these two methodologies.

III. (2) Analytical Framework for Aggregate Fiscal Discipline (Cont.)

Legal basis : What is the highest legal basis of the rule?

- 1: Political commitment,
- 2: Coalition agreement,
- 3: Statutory,
- 4: Constitutional.

Coverage:

○Which sector of the government is covered by the rule?

- 1: Central government,
- 2: General government or wider public sector.

○Which type of debt is covered?

- 1: Only domestic or foreign,
- 2: Both domestic and foreign.

III. (2) Analytical Framework for Aggregate Fiscal Discipline (Cont.)

Enforcement: Are these enforcement mechanisms in place?

- Formal enforcement procedure (Yes: 1, No: 0).
- Monitoring mechanism of compliance outside the government (Yes: 1, No: 0).
- Imposing and monitoring by the donor (Yes: 1, No: 0).
- Enforcement to publish actual figures relative to constraint (Yes: 1, No: 0).
- Existence of formal rules that guard against overspending by the agencies relative to budgeted amounts (Yes: 1 or No: 0).
- Publication of reconciliation of actual expenditures versus budgeted amounts (Yes: 1 or No: 0)
- Taking punitive action against overspending agencies (Yes: 1 or No: 0).
- Enforcement to report on aggregate fiscal outcomes relative to targets (Yes: 1 or No: 0)
- Timely report (Yes: 1, No: 0).
- The percentage deviation between the aggregate spending in the annual budget and the total amount actually spent at the end of the fiscal year (less than 5%: 3, no more than 10%: 2, no more than 20%: 1, more than 20%: 0).
- The percentage deviation between the aggregate spending in the annual budget and the total actual revenue at the end of the fiscal year (less than 5%: 3, no more than 10%: 2, no more than 20%: 1, more than 20%: 0).

III. (2) Analytical Framework for Aggregate Fiscal Discipline (Cont.)

Supporting procedures and institutions: Are these procedures or institutions in place?

- Multi-year expenditure ceilings (Yes: 1, No: 0).
- Publication of multi-year ceiling. (Yes: 1, No: 0).
- Fiscal responsibility law (Yes: 1, No: 0).
- Independent body setting budget assumptions (Yes: 1, No: 0).
- Independent body monitoring budget implementation (Yes: 1, No: 0).
- Percentage difference between the aggregate spending in the medium-term projection and that in annual budget (less than 5%: 3, no more than 10%: 2, no more than 20%: 1, more than 20%: 0).
- Percentage difference between the aggregate spending ceiling in Ministry of Finance budget circular and that in the annual budget (less than 5%: 3, no more than 10%: 2, no more than 20%: 1, more than 20%: 0).
- Percentage difference between the aggregate spending proposed by the Cabinet and the legislature (less than 5%: 3, no more than 10%: 2, no more than 20%: 1, more than 20%: 0).

Flexibility: Are these flexibility characteristics in place?

- Clearly-defined escape clauses (Yes: 1, No: 0).
- Fiscal balances defined in cyclically adjusted terms (Yes: 1, No: 0).

IV. Analysis for Aggregate Fiscal Discipline

<u>Institutional Arrangement</u>	<u>Scores</u>	<u>Findings of Author</u>
1. Legal basis	3	The Budget Law that is approved by Parliament includes a borrowing limit (debt rule).
2. Coverage	4	
2(a). Sectoral coverage	2	The borrowing limit that is enacted in the Union Budget Law covers all government organizations including state-owned economic organizations and Region and State (Local) Government. But it does not set a detailed sector limit separately.
2(b). Coverage of types of debt	2	Borrowing limit covers both domestic and foreign. But it does not set domestic and foreign borrowing separately. Nor is it constant over the medium term.

IV. Analysis for Aggregate Fiscal Discipline (Cont.)

3. Enforcement	8.5	
3(a). Formal enforcement procedure	1	The Debt Management Law 2016 has been enacted to manage the debt by the Government and Ministry of Planning and Finance, and to report to the Parliament.
3(b). Monitoring mechanism of compliance outside the government	1	The representatives of the Parliament check the compliance of borrowing limit by comparing the actual borrowing with enacted borrowing limit in the annual debt report.
3(c) Imposing and monitoring by the donor	0.5	The IMF conducts debt sustainability analysis and releases the debt sustainability benchmark. Although the government does not follow this benchmark officially, they check the borrowing limit by looking at IMF-suggested debt sustainability benchmark.
3(d) Enforcement to publish actual figure relative to constraint	0.5	Although it was not promulgated to publish the actual figures relative to the constraints in Debt Management Law, the government reports actual figures relative to the borrowing constraint, and the parliament checks the government debt through the annual debt report. The borrowing limit was kyats 5,400 billion and actual borrowing was kyats 3,847 billion in 2017-2018 fiscal year.
3(e) Existence of formal rules that guard against overspending by the agencies relative to budget amounts	1	There is a formal rule. According to Financial Management Regulation 35/2017, any government organization cannot overspend more than the total amounts that are enacted in the Budget Law and Supplementary Appropriation Law. The Budget Department informs the enacted budget and issues budget sanctions in accordance with Budget Law and Supplementary Appropriation Law to the ministries and organizations, and sends a copy of the sanctions to the Myanmar Economic Bank, Auditor General Office and Treasury Department every year. The Myanmar Economic Bank monitors so as not to spend more than total stipulated amount in the Budget Sanctions. The Auditor General Office checks annually the implementation of the ministries and organizations.

IV. Analysis for Aggregate Fiscal Discipline (Cont.)

- | | | |
|---|---|---|
| 3 (f) Publication of actual expenditures versus budget amounts reconciliation | 0 | As the reconciliation between the actual expenditure versus budget amounts are not made, the reconciliation is not published. |
| 3(g) Taking punitive action against overspending agencies | - | There is not that kind of action. The procedural rule (regulations on Financial Management of Myanmar (Ministry of Planning and Finance's Notification No. 35/2017) has already issued the duties and responsibilities of the controlling officer and drawing officer, and it includes the clause not to spend more than budget. Moreover, the Myanmar Economic Bank monitors the ministries' accounts to make sure not to spend more than total stipulated amount in the Budget Sanctions. |
| 3 (h) Enforcement to report on aggregate fiscal outcomes relative to targets | 1 | The procedural rule (the law relating to drafting and submitting the Union Budget) has already been enacted and it includes the clauses to report the implementation of the government organizations to the Parliament. The Ministry of Planning and Finance reports monthly reports, quarterly reports, semi-annual reports and annual reports to the Union Government and the Government reports semi-annual reports and annual reports to the Parliament. Quarterly reports, semi-annual reports and annual reports are published on Ministry's website. |

IV. Analysis for Aggregate Fiscal Discipline (Cont.)

- 3 (j) Timely report
- 0.5 The quarterly reports are published within two months and semi-annual reports are published within a quarter. Temporary actual reports are published within 4 months but the provisional actual and actual take nearly 1 year.
- 3 (k) The percentage deviation between the aggregate spending in the annual budget and the total amount actually spent at the end of the fiscal year
- 1 The percentage deviation of the [aggregated actual spending](#) was -2% on the original approved budget and -11.4% on the revised estimate (approved by legislature) in 2017/18 fiscal year.
- 3 (l) The percentage deviation between the aggregate revenue in the annual budget and the total actual revenue at the end of the fiscal year
- 2 The percentage deviation of the [aggregated actual revenue](#) was 7.1% on the original approved budget and -5.6% on the revised estimate (approved by legislature) in 2017/18 fiscal year.

IV. Analysis for Aggregate Fiscal Discipline (Cont.)

4. Supporting procedures and institutions 4

- 4(a) Multi-year expenditure ceilings 0 The government does not practice [multi-year expenditure](#) ceilings.
- 4(b) Publication of multi-year ceiling. 0 It is not published.
- 4(c) Fiscal responsibility law 0 Although Myanmar does not have a fiscal responsibility law, the duties and responsibilities of the implementing agencies, the government, the Ministry of Planning and Finance and the parliament are enacted in the 2008 Constitution, the law relating to drafting and submitting the Union Budget, and rules and regulations on Financial Management of Myanmar (Ministry of Planning and Finance's Notification No. 35/2017).
- 4(d) Independent body setting budget assumptions 0 Myanmar does not have independent body setting budget assumptions.
- 4(e) Independent body monitoring budget implementation 1 The Union Auditor General Office and the Parliament monitor the budget implementation.
- 4(f) Percentage difference between the aggregate spending in the medium-term projection and that in the annual budget 0 The percentage difference between the total budget ceiling and total spending in annual budget is 31% in the 2019-2020 fiscal year.

IV. Analysis for Aggregate Fiscal Discipline (Cont.)

- 4(g) Percentage difference between the aggregate spending ceiling in Ministry of Finance budget circular and that in the Cabinet approved budget 0 The percentage difference between the total budget ceiling and the Cabinet approved budget was 32% in the 2019-2020 fiscal year.
- 4(h) Percentage difference between the aggregate spending proposed by the Cabinet and the legislature 3 The percentage deviation between aggregate spending proposed by the Cabinet and the legislature approved budget was -1.3% in the 2019-2020 fiscal year.
- 5. Flexibility** 0
- 5(a). Clearly-defined escape clauses 0 The escape clauses are not defined. If the government assumes to add additional borrowing requirements before the enactment of the Supplementary Appropriation Law, they can increase the borrowing limit by adding a clause for an [additional borrowing limit](#) on the Union Supplementary Appropriation Law. If the government needs additional borrowing after enacting Union Supplementary Appropriation Law, they cannot increase the additional borrowing limit.
- 5(b). Fiscal balances defined in cyclically adjusted terms 0 As the calculation of cyclically adjusted fiscal balances needs a lot of capacity and reliable information, the government cannot define cyclically adjusted fiscal balances.

V. Findings and Recommendations

V.(1) Findings on current practicing mechanisms to improve aggregate fiscal discipline

□ Myanmar has some basic foundations that can support improvements in aggregate discipline for short- term

- Good legal basis – enacting a borrowing limit annually in the Budget law with the approval of Parliament,
- Good coverage – covering the whole public sectors’ borrowing limit, and both domestic and foreign debt,
- Good enforcement on existing rules:
 - The responsibilities for monitoring and reporting to the Parliament by the government and Ministry of Planning and Finance are enacted in debt management law;
 - The procedural rules to monitor and guard against overspending by the departmental head and monitoring by the office of the Auditor General and the Parliament for compliance;
 - Conducting debt sustainability analysis and releasing the debt sustainability benchmark by the IMF and checking the actual borrowing and debt outstanding with the IMF-suggested benchmark by the government.

V.(1) Findings on current practicing mechanisms to improve aggregate fiscal discipline

Mechanisms that need to improve are

- ❑ Setting the limit is only one debt rule and it is unsecure for compliance of unforeseeable events such as natural disasters. The government [breached the borrowing limit](#) in 2008-2009 fiscal year and 2015-2016 fiscal year due to Cyclone Nargis, and heavy floods and landslides, and has been setting the borrowing limit incrementally every year since then.
- ❑ Non-existent medium-term budget ceiling consistent with macroeconomics conditions and medium-term investment planning based on resource availability.
- ❑ High deviation
 - between the forecasting and approval by Cabinet,
 - between the forecasting and approval by Parliament,
 - between the actual expenditure and the legislature-approved budget in the revised estimate.
- ❑ Lack of comprehensive management in assets and liabilities and fiscal risk

V.(2) Policy Recommendations

- **Recommendations** for enhancing Myanmar aggregate fiscal discipline from medium term to long term are
 - To strengthen medium-term forecasting and developing the capacities for
 - ✓ Macroeconomic assumptions and outlook,
 - Organize the technical team for macroeconomic forecasting under the five implementation teams,
 - Forecasting once a quarter on macroeconomic conditions by the technical team and reporting their forecasting results to the implementation teams,
 - The implementation teams review and recommend their respective sector, and get agreement on the forecasting results and report to the Macroeconomic Management Coordination Group,
 - Review their forecasting and actual situation quarterly.
 - ✓ Fiscal framework binding with debt sustainability and revenue forecasting,
 - ✓ Investment planning,
 - ✓ The analysis on any major deviations, taking the necessary actions and explaining any major changes.

V.(2) Policy Recommendations (Cont.)

- To submit medium-term fiscal framework and medium-term investment planning to the Cabinet and getting approval from them and reporting the medium-term revenue floor and expenditure ceiling to the line agencies.
- To upgrade the numerical fiscal rules by
 - ✓ Setting for the medium term and avoiding raising it year by year,
 - ✓ Adding the escape clauses for natural disasters,
 - ✓ Adding additional fiscal rules such as a current revenue to expenditure ratio.
- To reduce the supplementary grants gradually and enforce the enhancement of budget monitoring by the departmental heads to make sure the budget is spent as they planned and achieved the intended objectives.

V.(2) Policy Recommendations (Cont.)

- To initiate the management of
 - ✓ Fiscal risks, start from contingent liabilities of public corporations and the Social Security Board,
 - ✓ Assets and liabilities.
- To improve the legal framework, enforcement and compliance for medium-term forecasting and ceiling, medium-term investment planning, and the management of assets and liabilities, these three areas should be added in the Public Finance Management Bill that has been discussed between executive branch and legislative branch for four years since 2015.



Thank you for your attention

ご清聴ありがとうございました