How Can Myanmar Enhance Its Aggregate Fiscal Discipline from Medium Term to Long Term?

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How Can Myanmar Enhance Its Aggregate Fiscal Discipline from Medium Term to Long Term?

Abstract

Aggregate fiscal discipline plays a vital role to keep a balance between resource availability and social and infrastructure development needs. It is also critically important to maintain fiscal sustainability from medium term to long term. Myanmar has already set strengthening public finance management to support stability and efficient resource allocation as Strategy 2.4 of the Myanmar Sustainable Development Plan (2018-2030). The government is striving to achieve it. Moreover, when the resources are used as allocated, the national economic policy and objectives for sustainable development and delivery of public services are more comfortable to obtain.

This paper tries to analyze the current practicing mechanisms for aggregate fiscal discipline in Myanmar. This paper also tries to identify the mechanisms that can enhance the aggregate fiscal discipline from medium term to long term. The paper creates an analytical framework by binding a diagnostic questionnaire for the aggregate fiscal discipline from the World Bank's Public Expenditure Management Handbook with scoring by the fiscal-rule characteristics created by Schaechter (2012), IMF to analyze the characteristics of the fiscal rules based on fiscal data and information.

The analysis results show that there is a little improvement of aggregate fiscal discipline in recent years according to the revenue and expenditure outturn data. Moreover, Myanmar has some of the necessary foundations that can support improvements in aggregate discipline in the short-term. They are setting the borrowing limit for one year at the national level, checking actual financing with other development partners' debt sustainability benchmarks, a good legal basis, excellent coverage and sound enforcement by the Parliament for existing numerical fiscal rules and fiscal matters. However, the study also finds that the current practicing mechanisms for aggregate fiscal discipline still need to improve from medium term to long term. The current practicing mechanisms are only focused on the respective fiscal year and not taking the medium term into consideration.

The policy implications for enhancing aggregate fiscal discipline from medium term to long term are developing capacities and strengthening medium-term forecasting for macroeconomic outlook, the fiscal framework and investment planning, upgrading the numerical fiscal rules, reducing the supplementary grant gradually and enforcing enhancement of the budget monitoring by the departmental heads, strengthening the revenue mobilization, and initiating the management of assets and liabilities, and fiscal risks.

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I. Introduction

Nowadays the world is changing rapidly with advanced technologies and full of uncertainty, of which macroeconomic uncertainties and imbalance are severe. This impacts Least Developed Countries, which are especially vulnerable, including Myanmar as it has low revenue (revenue analytical method to GDP ratio is approximately 18.4%) and heavily depends on natural resources (natural resource revenue to GDP is approximately 4.4%[1]), and the annual financing from both domestic and external sources is approximately 3% of GDP, and the debt outstanding to GDP ratio was 38% of GDP in fiscal year 2017-2018, the same level the IMF suggested as a debt sustainability benchmark in 2018. On the other hand, Myanmar's expenditure required for social and infrastructure development needs is high.

Aggregate fiscal discipline plays a vital role keeping a balance between resource availability and social and infrastructure development needs, and to maintain fiscal sustainability from medium term to long term. Myanmar has already set the strengthening of public finance management to support stability and efficient resource allocation as Strategy 2.4 of the Myanmar Sustainable Development Plan (2018-2030), which the government is striving to achieve. Aggregate fiscal discipline is a basis for public finance management. It can support the achievement of the objectives of efficient resource allocation, effective expenditure management and sustainable fiscal condition from medium term to long term. A lack of discipline and budgetary realism in making strategic policy choices leads to a mismatch between policies and resources. Furthermore, fiscal stability creates an environment that encourages the sound allocation of resources in accordance with strategic priorities and the efficient and effective use of resources in the implementation of strategic priorities (WB, 1998). Moreover, when the government uses the resources as allocated, it can support the attainment of the national economic policy and objectives for sustainable development and delivery of public services.

This paper tries to analyze the current practicing mechanisms of Myanmar for aggregate fiscal discipline and to identify the mechanisms that can enhance aggregate fiscal discipline in Myanmar from medium term to long term. The research focuses on aggregate fiscal discipline by addressing the following questions.

What is the current aggregate fiscal discipline condition in Myanmar?

What are the current practicing mechanisms to improve aggregate fiscal discipline?

[1] Fourth MEITI (2016-2017 FY)

How could we enhance aggregate fiscal discipline in Myanmar?

This paper creates an analytical framework by binding a diagnostic questionnaire for aggregate fiscal discipline from the World Bank's Public Expenditure Management Handbook (1998) with scoring by the fiscal-rule characteristics by Schaechter (2012) to analyze the aggregate fiscal-discipline condition in Myanmar. This paper also uses fiscal data and information to analyze aggregate fiscal discipline in Myanmar.

The structure of the paper has six chapters, including this introduction. The second chapter exposes Myanmar's economic background and fiscal condition. The third chapter is about the literature view and analytical framework for aggregate fiscal discipline. The fourth chapter is the analysis for aggregate fiscal discipline, the fifth chapter is findings and policy implications, and the final chapter is the conclusion.

II. Myanmar's Economic Background and Fiscal Condition

II.1. Myanmar's Economic Background

Myanmar has a population of over 53 million people, real GDP per capita was 1,195,548 kyats,[2] and the inflation rate was approximately 5% in the 2017-2018 fiscal year. It has been facing dual deficits—budget deficit and current account deficit. The budget deficit was approximately 3% of GDP (according to the GFS analytical method), and the current account deficit was approximately 6% of GDP in the 2017-2018 fiscal year. The current account deficit has improved to 4% in the 2018-2019 fiscal year according to IMF WEO data. The main factors of budget deficit were a decrease of state-owned economic organizations' revenue, low tax revenue and rising current expenditure. The critical element that caused the current account deficit was a trade deficit in which import exceeds export. The current account deficit is financed by capital inflows (especially foreign direct investment inflow). Moreover, government debt outstanding to GDP was 38% in the 2017-2018 fiscal year the same as the debt sustainability benchmark that was recommended by the IMF till 2018. Country's GDP has been growing moderately (about 6.8 % growth rate), and the unemployment rate was about 1% of the total labor force. Myanmar's human development index was 0.578 (Table 1).[3]

[2] It is approximately US $1200.

[3] Human Development Indices and Indicators: 2018 Statistical Update, Myanmar

Table 1. Myanmar's Major Economic Indicators

Subject Descriptor	Year								
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020 BE
Population (Million)		60.98	61.57	51.99	52.45	52.92	53.39	53.71	
Gross domestic product, constant prices(growth rate)	5.60	7.30	8.40	8.00	7.00	5.90	6.80	6.80	7.00
Inflation, average consumer prices	6.83	0.36	5.76	5.14	7.26	9.10	4.62	8.00	6.71
Current account balance(% of GDP)	-1.70	-1.74	-0.60	-4.18	-3.08	-4.02	-6.45	-4.16	-4.77
Government deficit(including Local) (% of GDP)	-3.7	-2.1	-1.6	-1.3	-4.4	-2.8	-3.1	-6.25*	-6.87
Government gross debt (% of GDP)	34.92	35.40	36.41	33.26	38.15	35.60	38.36	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		
Human Development Index (value)		0.549		0.564	0.569	0.574	0.578		

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

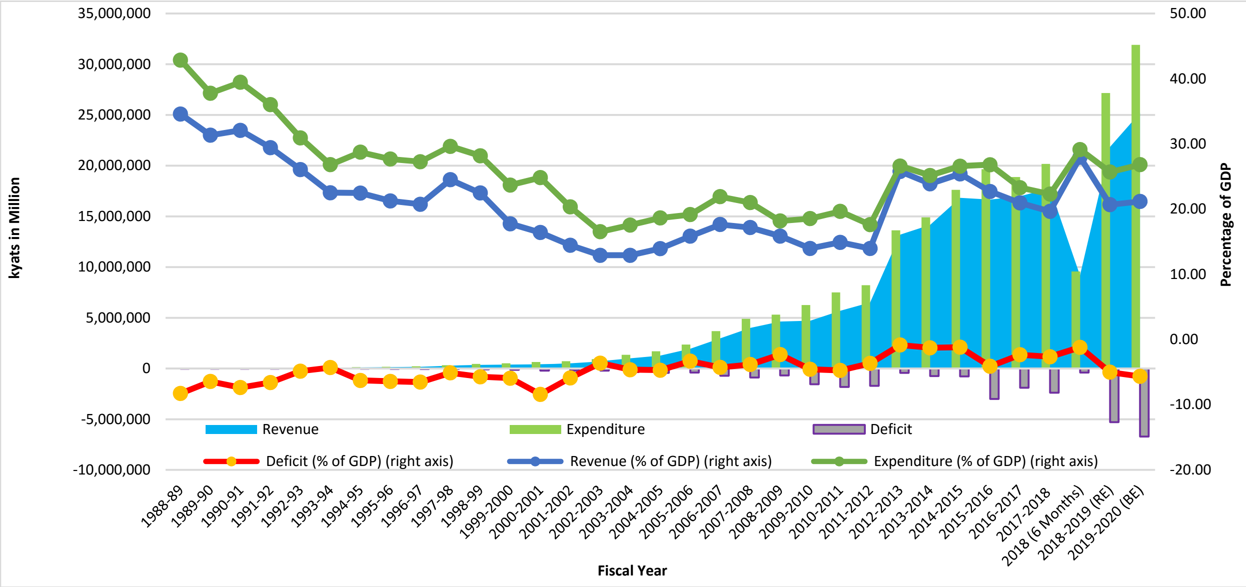
Note: *Government deficit is revised estimate data and **Government gross debt (% of GDP) is till 30 June 2019.

II.2. Fiscal Condition

Myanmar runs a budget deficit every fiscal year. Myanmar's budget deficit to GDP ratio was between 5% and 9% from the1989-1990 fiscal year to the 2001-2002 fiscal year except for the1992-1993 fiscal year and the 1993-1994 fiscal year, and under 4.5 % of GDP from the 2002-2003 fiscal year to the 2017-2018 fiscal year according to the Myanmar accounting method. Myanmar's budgeting and accounting system records revenue inflow from all transactions and records expenditure outflow from all transactions except for selling and redeeming of Treasury bonds and bills. Myanmar's budget has three main types which are current, capital and financial on both the revenue and expenditure side.

Although Myanmar's budget deficit was under 4.5% of GDP, which was recommended by the IMF, Myanmar hit its debt sustainability benchmark 38% of GDP in the 2017-2018 fiscal year. On the other hand, Myanmar's funding needs for infrastructure development, and social and economic development are high as Myanmar is still a Least Developed Country and ranks low in the Human Development Index. The incumbent executive and legislative branches approved to spend more than 5% of GDP in the 2018-2019 fiscal year and the 2019-2020 fiscal year to implement infrastructure and social development. And according to the legislature's approved budget data, the government budget deficit to GDP ratio will be 5.01% and 5.65% in the Myanmar accounting method (Figure 1). If we calculate using the international accounting method that does not take in consideration borrowing and principal repayment of debt and the flow of data of financial assets in the revenue and expenditure calculations, the budget deficit will be 6.25% and 6.87% (Figure 2) in the 2018-2019 fiscal year and the 2019-2020 fiscal year respectively.

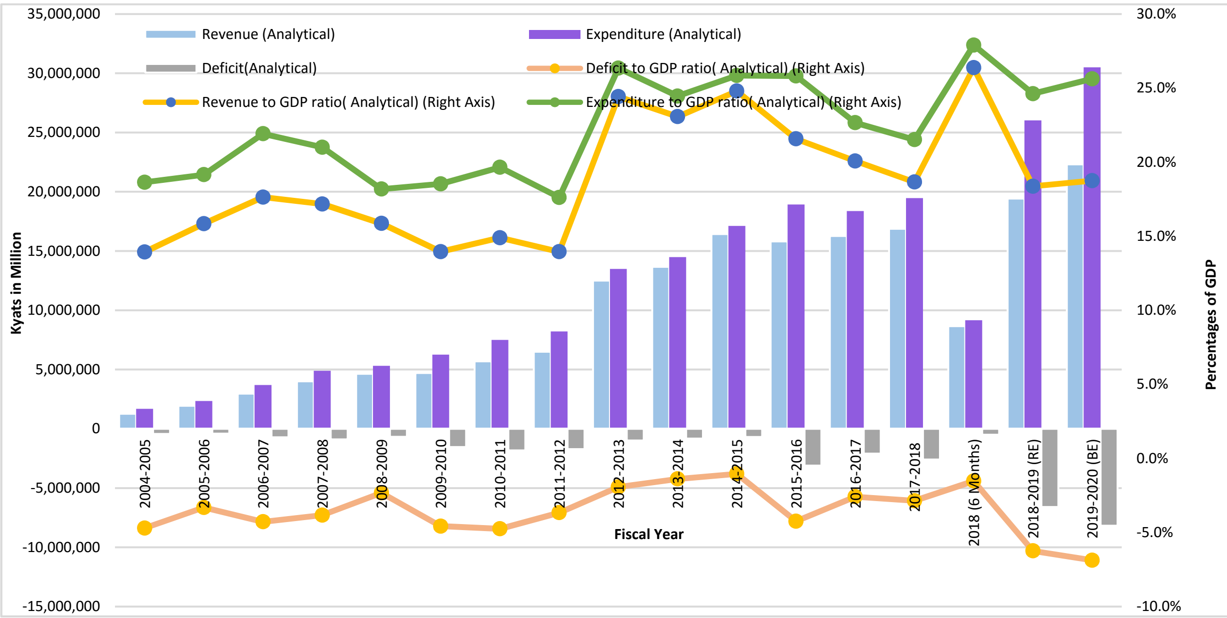
Figure 1. Union revenue, expenditure, the deficit as nominal value and percentage of GDP according to the Myanmar accounting method



Note: Consolidations for inter-transactions have not been made.

Source: Budget Department

Figure 2. Union revenue, expenditure and the deficit as nominal value and percentage of GDP according to the analytical aggregate method



Note: Consolidations for inter-transactions have not been made.

Source: Budget Department

III. Literature View on Aggregate Fiscal Discipline and Analytical Framework for Aggregate Fiscal Discipline

III.1. Literature View on Aggregate Fiscal Discipline

Andrews and Campos (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). It means that total revenue and expenditure are kept in line with intended targets for the fiscal deficit and do not make unsustainable levels of public borrowing” (page 2).

Allen and Tommasi (2001) state that “fiscal discipline pertains to effective control of the budget totals, by setting the ceiling on expenditure that are binding on both aggregate level and individual spending entities. An effective budget system is one that has a disciplined total. Control of the total is the first purpose of every budget system. There would be no need for budgeting if the totals were permitted to float upward to satisfy all demands” (page 19).

Schick (1998) also describes that “the spending (and other budgets) totals needs to be set independently of and before decisions are made on the various parts of the budget to improve the aggregate fiscal discipline. If it is not, the spending or deficit totals will drastically increase to accommodate budget request. The totals must be reasonably firm—hard constraints rather than soft targets—and must be enforced throughout the year while spending is underway, not just during the period when the budget is being prepared. Moreover, the aggregates must be sustainable over the medium term or longer through policies and instruments that enable the government to maintain discipline year after year. Unless spending is controlled, there is a strong possibility that the expenditure objective will be compromised and that the government will seek to achieve the desired fiscal posture by raising taxes or disposal of assets instead of limiting expenditure” (page 12-13).

Campos 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. But while such rules may exist on paper, they may not be binding. The allowing mechanisms can help improve accountability and/or transparency and thus impose political costs on politicians and bureaucrats from violating the rules: (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” (page 5).

Cangiano et al (2013) state that “A well-established body of theoretical and empirical analysis also shows how budgetary institutions can influence fiscal outcomes. Institutions are defined as the laws, procedures, rules, and conventions—including the bodies created by those norms—that influence fiscal policy decision-making and management. Strong institutions can improve fiscal performance by highlighting the need for sustainable policies, exposing the full cost of public interventions, and raising the cost of deviating from stated fiscal objectives. By increasing the credibility of announced policies, strong institutions can also foster more favorable macroeconomic conditions and improve market confidence, which further support the restoration of fiscal sustainability” (page 6).

Von Hagen (2002) states that “Fiscal institutions have important consequences for the spending performance of governments, both in terms of the level of spending, the composition of spending, and the levels of deficits and debts. Appropriate institutional design can help mitigate problems of waste, divergences between public preferences and what the public sector delivers, and fiscal profligacy.” “Centralization of the budget process leads to lower government deficits and debts can be considered as empirically well-established today. It has been confirmed in very different geographical and political settings. Thus, one can conclude that centralization of the budget process is an important and effective way to mitigate the common pool problem of public budgeting” (page 276).

Alesina et al (1996) also state that “budgetary institutions are all the rules and regulations according to which budgets are drafted, approved and implemented. Budget institutions can influence fiscal outcomes because they determine how the “game is played” amongst agents with different incentives concerning fiscal discipline. One can identify three types of budgetary institutions: i) laws (constitutional or not) which establish fiscal constraints, such as balanced budget laws; ii) procedural rules; iii) rules concerning the transparency of the budget” (page 4).

Von Hagen and Harden (1996) state that “The budget process, in the broadest sense, is a system of rules, both formal and informal, governing the decision-making process that leads to the formulation of a budget by the executive, its passage through the legislature, and its implementation. These rules divide this process into steps and determine which steps are taken when. The rules also assign roles and responsibilities to the participants and regulate the flow of information among them and thus distribute strategic influence and create or destroy opportunities for collusion” (page 1).

Shah (2007) states that “Budgeting institutions is generally defined as the collection of the formal and informal rules and principles governing the budgeting process within the executive and the legislature. Budgeting institutions divide the budgeting process into different steps, determine who does what and when in each step, and regulate the flow of information among the various actors” (page 29).

Campos and Pradhan (1996) argue that “institutional arrangements can be effective only if there are mechanisms that bind public officials to institutional arrangements. They argue that public officials will incur a sufficiently high cost if they violate the arrangements. They show that certain mechanisms that enhance transparency and accountability can indeed introduce such costs and thus lead to better expenditure outcomes” (page 35).

The World Bank (1998) states that “Comprehensiveness and transparency are essential for effective aggregate fiscal discipline. Formal rules designed to achieve aggregate fiscal discipline create incentives for evasion, particularly to take activities off-budget or to engage in creative accounting. Extra budgetary funds, earmarking and quasi-fiscal activities are among the egregious examples of ways of getting around aggregate fiscal discipline” (page 28).

Schaechter et al (2012) state that “A fiscal rule imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. The boundaries are set for the fiscal policy which cannot be frequently changed and some operational guidance is provided by specifying a numerical target that limits a particular budgetary aggregate” (page 5).

Pattanayak (2018) defines that “A fiscal rule imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. Fiscal rules typically aim at correcting distorted incentives and containing pressures to overspend, particularly in good times, so as to ensure fiscal responsibility and debt sustainability” (page 75).

The World Bank (1998) states that “An MTEF is a whole-of-government strategic policy and expenditure framework within which ministers and line ministries are provided with greater responsibility for resource allocation decisions and resource use. The key to a successful MTEF is that institutional mechanisms assist and require relevant decision-makers to balance what is affordable in aggregate against the policy priorities of the country. The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources. The matching of costs should normally occur in the context of the annual budget process, which should focus on the need for policy change to reflect changing macroeconomic conditions as well as changes in strategic priorities of the government. Conservatively defining the medium-term aggregate resource envelope should help change the psychology of budgeting from a “needs” to an “availability” mentality as well as enhance the predictability of resource flows and policy over the medium and short term” (page 48).

Many papers have examined and analyzed the importance of aggregate fiscal discipline and the factors that can affect it. According to the literature and empirical view, aggregate fiscal discipline depends on the ability to keep the alignment of public expenditures with domestic revenues plus a sustainable level of foreign borrowing. Setting the budget constraint in advance independently, the existence of a medium-term expenditure framework and appropriate institutional design and transparency can support aggregate fiscal discipline.

The World Bank’s Public Expenditure Management Handbook (1998) highlights the fact that good analysis and sound policy are not enough to ensure sound and sustainable outcomes. If the institutional arrangements are not supportive or demanding of good performance, the results will not be sustainable on the ground. That handbook includes checklists and questionnaires to analyze aggregate fiscal discipline, and the paper uses that diagnostic questionnaire for aggregate fiscal discipline which is part of a questionnaire to assess the quality of institutional mechanisms to analyze aggregate fiscal discipline.

The paper also uses the methodology of scores by fiscal-rule characteristics that was created by Schaechter (2012). It is especially focused on the detail of numerical fiscal rules and procedural rules to enforce numerical rules. To analyze fiscal rules, scores by fiscal-rule characteristics are more comprehensive for the formal institutional setup than the diagnostic questionnaire for aggregate fiscal discipline. However, it does not explicitly account for the degree of compliance with the rules, and it also not include the mechanisms to analyze the quality of compliance for revenue and expenditure implementation. The World Bank’s Public Expenditure Management Handbook focuses on rules in general and compliance of the rules for aggregate fiscal discipline.

The paper creates the following analytical framework by binding on the methodology of World Bank’s Public Expenditure Management Handbook—diagnostic questionnaires for the aggregate fiscal and scores by fiscal-rule characteristics to analyze aggregate fiscal discipline.

III.2. Analytical Framework for Aggregate Fiscal Discipline

A lot of empirical evidence shows that aggregate fiscal discipline is essential for the fiscal sector and focusing on the current fiscal year is not enough. Medium-term to long-term sustainability, institutional arrangement, fiscal transparency, medium-term macroeconomic forecasting, budgeting and planning can support improvements in aggregate fiscal discipline.

According to empirical evidence, many countries practiced different institutional arrangements depending on their countries situations—formal institutional restraints on aggregate expenditure (Indonesia) through formal laws (Maastricht, New Zealand, Australia) to public commitments by the executive (with or without the commitment of the legislature—the U.S.)—to improve aggregate fiscal discipline.

The paper uses the following analytical framework to analyze the practicing mechanisms for aggregate fiscal discipline in Myanmar. It is created by binding the methodology of the World Bank’s Public Expenditure Management Handbook by using diagnostic questionnaires for aggregate fiscal discipline with Schechter’s (2012) scoring by fiscal-rule characteristics. The highest scores reflect the best practice of institutional arrangements for aggregate fiscal discipline.

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 the wider public sector.

Which type of debt is covered?

1: Only domestic or foreign,

2: Both domestic and foreign.

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 figure relative to the 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, more than 5% but no more than 10%: 2, more than 10% but 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, more than 5% but no more than 10%: 2, more than 10% but no more than 20%: 1: more than 20%: 0),

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),

The percentage difference between the aggregate spending in the medium-term projection and that of the annual budget (less than 5%: 3, more than 5% but no more than 10%: 2, more than 10% but no more than 20%: 1: more than 20%: 0),

The percentage difference between the aggregate spending ceiling in Ministry of Finance budget circular and that of the annual budget (less than 5%: 3, more than 5% but no more than 10%: 2, more than 10% but no more than 20%: 1: more than 20%: 0),

The percentage difference between the aggregate spending proposed by the Cabinet and that approved by the legislature (less than 5%: 3, more than 5% but no more than 10%: 2, more than 10% but 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. The Analysis for Aggregate Fiscal Discipline

The following is an analysis for aggregate fiscal discipline in Myanmar.

Institutional Arrangements	Scores	Findings of the author
1. Legal basis	**3**	The Budget Law that is approved by Parliament every year includes the borrowing limit (debt rule) (Annex 1).
2. Coverage	**4**	
2.1. 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. However, it does not set a detailed sector limit separately.
2.2. Coverage of types of debt	2	The borrowing limit covers both domestic and foreign. Nevertheless, it does not set the domestic borrowing limit and the foreign borrowing limit separately. Nor is it constant over the medium term.
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 the Ministry of Planning and Finance and to report to the Parliament (Annex 2).
3(b). Monitoring mechanism of compliance outside the government	1	The representatives of the Parliament check the compliance of the borrowing limit by comparing the actual borrowing with enacted borrowing limit in the annual debt report submitted by the Ministry of Planning and Finance.
3(c). Imposing and monitoring by the donors	0.5	The official borrowing limit is set in the Union Budget Law by executive and legislative branches. The IMF also 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 the IMF-suggested debt benchmark.
3(d). Enforcement to publish actual figures relative to these borrowing constraints	0.5	The debt management law has been enacted to report the borrowing and repayment of debt during the fiscal year, and outstanding debt to the government and Parliament. 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. Moreover, the Parliament checks government debt through the annual debt report. The borrowing limit was kyats 5,400 billion, and actual borrowing was kyats 3,847 billion in the 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 the rules and regulations on the financial management of Myanmar (Ministry of Planning and Finance's notification no. 35/2017), any government organization cannot overspend more than the total amounts in the Union Budget law and the Union Supplementary Appropriation Law. The Budget Department reports on the enacted budget and issues budget sanctions in accordance with the Union Budget Law and the Union Supplementary Appropriation Law to the ministries and organizations, and sends the copy of those sanctions to the Myanmar Economic Bank, Auditor General Office and Treasury Department every year. The Myanmar Economic Bank monitor so as to not spend more than the total stipulated amount in the budget sanctions by all agencies. The Auditor General Office checks the implementation of the ministries and organizations, and compliance annually.
3(f). Publication of actual expenditures versus budget amounts reconciliation	0	As the reconciliation between the actual expenditure versus budget amounts was not made, the reconciliation between the actual expenditure versus budget amounts was not published.
3(g). Taking punitive action against overspending agencies	0	There is not that kind of action. Procedural rules and regulations on the financial management of Myanmar (Ministry of Planning and Finance's notification no. 35/ 2017) has already been issued the duties and responsibilities of the controlling officer and drawing officer. It includes the clause not to spend more than the budget. Moreover, the Myanmar Economic Bank monitors ministries' accounts to make sure not to spend more than the total stipulated amount in the budget sanctions. The Auditor General Office checks the implementation and compliance of the rules annually.
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 submits monthly reports, quarterly reports, semi-annual reports and annual reports to the Union Government and the government submits semi-annual reports and annual reports to the Parliament. Quarterly reports, semi-annual reports and annual reports are published on the Ministry's website.
3(i). 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 four months, but provisional actual and actual are taken nearly a year.

3(j). Enforcement of assets and liabilities management including fiscal risk management	0	There is no centralized agency that monitored financial assets except cash. The Treasury Department monitors financial liabilities, such as foreign borrowing and repayment. The Ministry of Planning and Finance compiles the flow data of financial assets and liabilities included in the respective fiscal year budget as financial revenue and expenditure and submits it to the Parliament. However, the records of stock of financial assets except cash are maintained in the respective organizations. The Union Auditor General Office has checked the financial assets when they conduct annual auditing and has reported it to the Parliament in recent years. The Ministry of Planning and Finance compiles the flow data of non-financial assets included in the respective fiscal year budget as capital revenue and expenditure and submits it to the Parliament. The stock data for non-financial assets are only available in the respective departments. A systematic record of assets was not available, and most of the records were only for machinery, and equipment names and quantity, and did not include values and lifetime. Infrastructure asset records are weaker than records of office equipment.
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 aggregate actual spending was -2% on the original approved budget and -11.4% on the revised estimate (approved by the legislature) in the 2017/18 fiscal year (Annex 3).
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 the legislature) in the 2017/18 fiscal year (Annex 4).
4. Supporting procedures and institutions	**4**	
4(a). Multi-year expenditure ceilings	0	The government has been forecasting the medium-term fiscal framework. However, there are a lot of challenges in forecasting the medium-term fiscal framework (Annex 5). The Ministry of Planning and Finance has issued a one-year expenditure ceiling to the line ministries since the 2015-2016 fiscal year and has not practiced multi-year expenditure ceilings yet.

4(b). Publication of multi-year expenditure ceiling.	0	As the government has not practiced multi-year expenditure ceilings, it has not been published.
4(c). Fiscal responsibility law	0	Myanmar does not have a fiscal responsibility law. However, the duty and responsibilities of the implementing agencies, the government, the Ministry of Planning and Finance and the Parliament are enacted in the 2008 Constitution (Annex 6), the law relating to drafting and submitting the Union Budget (annex 7), and rules and regulations on the financial management of Myanmar (Ministry of Planning and Finance's notification no. 35/2017)[4] (Annex 8).
4(d). An independent body setting budget assumptions	0	Myanmar does not have an independent body setting budget assumptions. But the IMF forecasts government revenue and expenditure and makes press releases for all four sectors every year.
4(e). An independent body monitoring budget implementation	1	The Union Auditor General Office and the Parliament have taken the roles of external oversight and monitored the budget implementation.
4(f). The 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 budget in the annual budget was 31% in the 2019-2020 fiscal year (Annex 9).
4(g). The percentage difference between the aggregate spending ceiling in the 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 (Annex 9).

[4] The 2008 Constitution is available at http://burmalibrary.org/docs5/Myanmar_Constitution-2008-en.pdf , and the law relating to Drafting and Submitting the Union Budget is available at https://www.president-office.gov.mm/?q=hluttaw/law/2015/07/16/id-10466 and amending Law relating to Drafting and Submitting the Union Budget is available at https://www.constitutionaltribunal.gov.mm/lawdatabase/my/law/1594 in the Burmese language.

4(h). The percentage difference between the aggregate spending proposed by the Cabinet and that approved by 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 (Annex 9).
5. Flexibility	**0**	
5(a). Clearly-defined escape clauses	0	The escape clauses are not defined. If the government presumes to add additional borrowing requirements before enacting supplementary law, it can raise the borrowing limit on the Union Supplementary Appropriation Law. If the government needs additional borrowing after enacting the Union Supplementary Appropriation Law, they cannot raise 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.
Total	**18.5/39**	

V. Findings and Policy Implications on Current Practicing Mechanisms to Enhance Aggregate Fiscal Discipline from Medium Term to Long Term

V.1. Findings on Current Practicing Mechanisms to Enhance Aggregate Fiscal Discipline

Myanmar has improved aggregate fiscal discipline a little in recent years according to revenue and expenditure aggregate outturn data than before. Moreover, Myanmar also has some basic foundations that can support improvement in aggregate discipline for the short term. They are having:

(1). Good legal basis on the existing numerical fiscal rule	-	Enacting the borrowing limit annually in the Union Budget Law with the approval of the Parliament (Pyidaungsu Hluttaw).
(2). Excellent coverage by the existing numerical fiscal rule	-	Covering the whole public sectors' borrowing limit and covering both domestic and foreign borrowing.
(3). Sound enforcement on the existing numerical fiscal rule	-	Enacting the responsibilities for monitoring and reporting by the government and the Ministry of Planning and Finance to the Parliament in debt management law. It has been monitored by the

Parliament.

- Conducting the 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.

- Stipulating the procedural rules to monitor and guard against overspending by the departmental head in the rules and regulations on the financial management of Myanmar (the Ministry of Planning and Finance's notification no. 35/2017) and monitoring by the office of the Union Auditor General and the Parliament for compliance.

However, some mechanisms needed improvement to enhance aggregate fiscal discipline from medium term to long term. They are:

(1). Setting the borrowing limit is only one debt rule and it is un-secure for compliance for unforeseeable events such as natural disasters, setting the borrowing limit incrementally. The government breached the borrowing limit in 2008-2009 fiscal year and 2015-2016 fiscal year due to Cyclone Nargis, and massive floods and landslides, and has been setting borrowing limit incrementally every year since then.

(2). The non-existence of a medium-term budget ceiling consistent with macroeconomic conditions and medium-term investment planning based on resource availability.

(3). The high deviation:

between the expenditure forecasting and expenditure approved by the Cabinet,

between the expenditure forecasting and expenditure approved by the Parliament,

between the actual expenditure and the legislature-approved budget in the revised estimate due to a high supplementary grant and low implementation.

(4). Underestimation of revenue by the line agencies on the original budget estimate and overestimation in the revised estimate projection by the implementation agencies.

(5). Lack of comprehensive management in assets and liabilities and fiscal risk.

V.2. Policy Implications on Current Practicing Mechanisms to Enhance Aggregate Fiscal Discipline from Medium Term to Long Term

Using a combination of literature view and analysis of data and information, the policy implications for enhancing Myanmar aggregate fiscal discipline from medium term to long term are:

(1). To strengthen the medium-term forecasting and developing the capacities for:

a. Macroeconomic assumptions and outlook,
b. Fiscal framework binding with debt sustainability and comprehensive revenue forecasting,
c. Investment planning,
d. The analysis of any significant deviation, taking the necessary actions and explaining any significant changes in the above forecasting areas.

(2). To submit the medium-term fiscal framework and medium-term investment planning to the Cabinet and getting approval from them, and report the medium-term revenue floor and expenditure ceiling that has been approved by the Cabinet to the line agencies,

(3). To upgrade numerical fiscal rules by:

a. Setting for the medium term and avoiding raising it year by year,
b. Adding the escape clauses for natural disasters,
c. Adding additional fiscal rules such as a current revenue to expenditure ratio.

(4). To reduce 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,

(5). To initiate management of:

a. Fiscal risks, starting from the management of contingent liabilities of public corporations and the Social Security Board,
b. All assets and liabilities.

As Myanmar does not have independent body setting budget assumptions, the budget assumption set by the government is critically important to support for better budget planning by keeping a balance between resource availability and resource requirement from medium term to long term consistent with the macroeconomic conditions. The government has already set up (10) Sectoral Coordination Groups and one of them is the Macroeconomic Management Coordination Group led by the Union Minister for Ministry of Planning and Finance. Under that group, it has organized five implementing teams, namely the CBM-MoPF Coordination Team, Revenue Forecasting and Monitoring Team, Medium-Term Fiscal Framework Team, Expenditure Management Team, and Financing and Fiscal Risk Management Team. Moreover, they have discussed and presented their respective areas at the Macroeconomic Management Coordination Group meeting.

The policy implication for forecasting macroeconomic assumptions and outlook is to organize the technical team under these five implementation teams, forecast once a quarter on macroeconomic conditions by the technical team and report their forecasting results to the implementation teams, the implementation teams review and recommend their respective sector and get the agreement on the forecasting results and report to the Macroeconomic Management Coordination Group. When the next quarter comes, both the technical team and implementation teams should review their forecasting and actual situation to improve their forecasting in the macroeconomic conditions.

The medium-term fiscal framework forecasting team should use the forecasting results of the technical team for macroeconomic assumptions, the revenue forecasting and monitoring team, and the financing and fiscal risk management team as the input to forecast the whole fiscal framework consistent with macroeconomic conditions, resource availability and debt sustainability for the medium term. And then forecasting the result of financing in the medium-term fiscal framework should be used as the borrowing limit for the medium term, and the forecasting result of expenditure in the medium-term fiscal framework should be informed to the Planning Department to forecast medium-term investment planning consistent with resource availability.

After that, the Ministry of Planning, Finance and Industry should submit the forecasting results of the medium-term fiscal framework and medium-term investment planning to the Cabinet to make discussions on both the medium-term fiscal framework and the medium-term investment planning, and to get approval and commitment from the Cabinet as the budget based on the final approval of the Cabinet for the executive branch. After getting approval of the Cabinet, the Ministry of Planning, Finance and Industry should report this medium-term fiscal framework and medium-term investment planning to line agencies to improve the predictability of resource levels and to know the availability of their resources for the medium term.

For improving the legal framework, enforcement and compliance for the medium-term fiscal framework 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 over four years since 2015.

VI. Conclusion

Fiscal policy should be geared towards aggregate fiscal discipline for long-term sustainability while the development policy is anchored to achieving the Sustainable Development Goals (SDGs). Moreover, when the government uses resources as allocated, the national economic policy and objectives for sustainable development and delivery of public services are easier to be obtained.

Enhancing aggregate fiscal discipline from medium term to long term has become an important policy challenge for many developed and developing countries, including Myanmar. Low resource availability and high development needs in Myanmar, and aggregate fiscal discipline from medium term to long term are of critical importance for sustainable development of the nation. Furthermore, enhancing aggregate fiscal discipline can support the achievement of the objectives of efficient resource allocation, effective expenditure management, and vice versa.[5]

Analyzing aggregate fiscal discipline in Myanmar by using fiscal data and information, this paper finds that there is a little improvement of aggregate fiscal discipline in Myanmar based on aggregate expenditure outturn and revenue outturn. Moreover, Myanmar has already set up some fundamental laws, numerical fiscal rule~~s~~ and procedural fiscal rules. Furthermore, the existing numerical fiscal rule~~s –~~covers the whole public sector, and the Parliament has made strong enforcement on the existing numerical fiscal rule~~s~~.

Nevertheless, the existing rules is still needed to be upgraded further for the medium term. Furthermore, the medium-term forecasting for macroeconomic conditions, fiscal framework and investment planning, and management of assets and liabilities are also weak.

The policy implications for enhancing aggregate fiscal discipline in the medium term to long term are developing capacities and strengthening medium-term forecasting for macroeconomic outlook, fiscal framework, and investment planning, upgrading the numerical fiscal rules, reducing the supplementary grant gradually and enforcing the enhancement of budget monitoring by the departmental heads, strengthening the revenue mobilization and initiating the management of assets and liabilities and fiscal risks.

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Annex 1. Setting the borrowing limit (debt rule) on the Union Budget Law and actual borrowing

The borrowing limitation (debt rule) is enacted in the Union Budget Law every year, but it is not fixed for multiple periods. The Union Budget Law is drafted by the Ministry of Planning and Finance, and approved by the Financial Commission, the Cabinet and the Pyidaungsu Hluttaw (Parliament) for one fiscal year. So the borrowing limit also is only in effect for a fiscal year. The borrowing limit is changed and incremented almost every fiscal year to cover the respective fiscal year financing provision. Moreover, the limitation of borrowing can be amended by the Union Supplementary Appropriation Law if the government assumes that they need to borrow more than the borrowing limitation in the Union Budget Law due to additional budget requests in the Supplementary Budget. Although the numerical fiscal rule has already been set up, it did not have a medium-term perspective except the 2013-2014 fiscal year and the 2014-2015 fiscal year, which were stable for two years.

The borrowing limits that were enacted on the Union Budget Law and Union Supplementary Appropriation Law at the respective fiscal year are as follow.

(Kyats in Billion)

Fiscal Year	Borrowing Limit		
	The Union Budget Law	The Union Supplementary Appropriation Law	Total
2007-2008	600	200	800
2008-2009	600	200	800
2009-2010	600	1,200	1,800
2010-2011	1,800	900	2,700
2011-2012	2,500		2,500
2012-2013	2,600		2,600
2013-2014	3,600		3,600
2014-2015	3,600		3,600
2015-2016	3,900		3,900
2016-2017	5,000		5,000
2017-2018	5,200	200	5,400
2018	4,200		4,200
2018-2019	7,200	500	7,700
2019-2020	9,000		9,000

Source: Budget Department

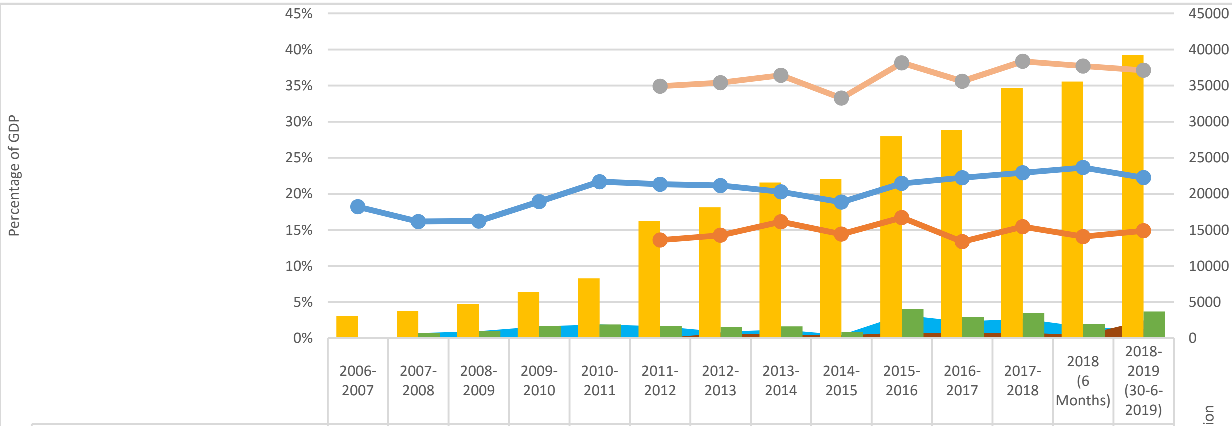
When the government sets a borrowing limit, the government considers how much the Myanmar accounting deficit will be and the amount of foreign loans that will be available within the fiscal year. Myanmar's numerical fiscal rule is based on how much the government would like to spend and how much domestic resources are available. The relationship between setting the borrowing limit and budget provision is as follows.

(Kyats in billion)

Fiscal year	Myanmar Accounting Method (RE)			Foreign borrowing (RE)	Total financing	Borrowing limit (BE+SG)
	Revenue	Expenditure	Deficit (Domestic financing)			
2011-2012	6,306	8,466	2,160	5	2,165	2,500
2012-2013	11,866	13,531	1,665	976	2,641	2,600
2013-2014	13,869	16,755	2,886	960	3,846	3,600
2014-2015	16,892	19,443	2,552	638	3,190	3,600
2015-2016	17,872	21,531	3,659	1,410	5,070	3,900
2016-2017	17,095	21,106	4,010	1,264	5,275	5,000
2017-2018	18,832	22,760	3,929	1,903	5,831	5,400
2018 (6 months)	8,526	10,547	2,021	995	3,016	4200
2018-2019	21,867	27,160	5,293	2,213	7,507	7,700
2019-2020 (BE)	25,200	31,919	6,719	2,445	9,164	9,000

Note: BE= Budget Law, SG= Supplementary Appropriation Law, RE= BE+SG
Source: Budget Department

Actual borrowing (debt flow) and stock data for the respective fiscal year



	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018 (6 Months)	2018-2019 (30-6-2019)
Domestic Debt flow		703	970	1647	1893	1657	886	1190	473	3237	2296	2705	1562	1,228
Foreign Debt Flow		1	2	3	3	3	694	458	368	768	635	782	425	2,463
Debt Stock(year end)	3,068	3,771	4,741	6,388	8,281	16,273	18,125	21,575	22,032	27,970	28,861	34,699	35,550	39,241
Total Debt Flow during fiscal year		704	972	1,650	1,896	1,660	1,580	1,648	841	4,005	2,931	3,487	1,987	3,691
Domestic Debt to GDP ratio(LHS)	18%	16%	16%	19%	22%	21%	21%	20%	19%	21%	22%	23%	24%	22%
Foreign Debt to GDP ratio(LHS)						14%	14%	16%	14%	17%	13%	15%	14%	15%
Total Debt to GDP ratio(LHS)						35%	35%	36%	33%	38%	36%	38%	38%	37%

Source: Treasury Department and Budget Department (Foreign Debt to GDP ratios before 2011-2012 are not available)[6]

[6] Debt stock at the end of the year were not the same to debt stock at the beginning of the year, plus debt flow during the year and debt stock at the end of the year were calculated based on the respective year's last date's exchange rate.

In the 2007-2008 and the 2008-2009 fiscal year, the borrowing limit was set the same level at kyats 800 billion, and the actual borrowing was kyats 709 and 970 billion respectively. Although borrowing was set as kyats 800 billion, the actual borrowing was kyats 970 billion, and the government borrowed over 20% more than what was stipulated in 2008, the Union Budget Law and the Union Supplementary Appropriation Law, as both the revenue and expenditure were affected by Cyclone Nargis in 2008. In the 2009-2010 fiscal year, the government stipulated the borrowing limit as kyats 600 billion on the Union Budget Law (original budget) and then they raised additional borrowing limit kyats 1200 billion on the Union Supplementary Appropriation Law. The borrowing limit has been increasing year by year since then, except for the 2014-2015 fiscal year which had the same borrowing limit as the 2013-2014 fiscal year. Even though the government had increased the borrowing limit every year, they breached the borrowing limit that was stipulated in the 2015-2016 fiscal year's Union Budget Law, and it was affected by floods and landslides in 2015. The additional borrowing limit was not stipulated in the Union Supplementary Appropriation Law from the 2011-2012 fiscal year to the 2016-2017 fiscal year. Additional borrowing limit was set on the Union Supplementary Appropriation Law to cover their financing need in the 2017-2018 fiscal year and 2018-2019 fiscal year, but actual financing was under the initial borrowing limit. A few representatives in the Parliament discussed increasing the borrowing limit on the 2019-2020 fiscal year's Union Budget Bill more than the borrowing limit on the 2018-2019 fiscal year's Union Budget Law and discussed keeping the borrowing limit the same level as the 2018-2019 fiscal year's Union Budget Law. However, most of the representatives have agreed to raise the borrowing limit to cover financing needs for the 2019-2020 fiscal year and they approved it as the government submitted borrowing limit.

Annex 2. Abstract clauses from the Public Debt Management Law

3. The Union Government, instead of the nation may, with the approval of the Pyidaungsu Hluttaw, take loans for the following matters:

(a) to finance for the Budget deficit of the nation,

(b) to finance for the projects and investments,

(c) to reschedule or restructure the debt and to make repayment of the debt before the due date,

(d) to maintain credit balance of the single Treasury account within the specified amount that is specified by the minister of the Ministry of Planning and Finance,

(e) to fulfil foreign reserve requirement, if necessary, which is maintained at the Central Bank of Myanmar,

(f) to make repayment for liabilities of the government guarantees,

(g) to on-lend to the Region or State Government, municipalities, state-owned economic organizations and other organizations that have already been approved by the Parliament,

(h) to carry out protection, reduction and elimination of the effects of the natural and environmental disasters, and contingency situations of the nation,

(i) to finance for other matters that are enacted on the Union Budget Law.

4. Borrowing money for the above matters shall incur only for matters that have already been approved by the Cabinet for borrowing in accordance with debt management law.

5. The Minister of the Ministry of Planning and Finance may borrow from domestic or external by signing loan agreements, issuing government security bonds or issuing government guarantees in accordance with the stipulation for taking loans on the Union Budget Law. Borrowing shall be in line with the objectives and limitations of the Union Budget Law.

6. The Union Government may empower the Union Minister for the Ministry of Planning and Finance to enable implementation of all or part of the matters contained in this chapter. The Minister for the Ministry of Planning and Finance may, on behalf of the Union, furnish guarantees for taking loans contained in this chapter.

34. (a) The Ministry of Planning and Finance shall record public debt, lending, on-lending, guarantees and all financial matters that are related to public debt management in accordance with budget accounting heads and types.

34. (b) The record of all financial matters that relate to public debt shall be maintained in accordance with rules and regulations and by-laws. Bookkeeping of public debt shall obey the Myanmar financial and fiscal reporting standard.

35. All state administrative organizations, Union ministries and departments, Region or State Government, municipalities and state-owned economic organizations shall make the provision on the budget for their borrowing and repayment in accordance with directives of the respective fiscal year’s budget circular, and submit to and get the approval of the Parliament.

37. The Minister of the Ministry of Planning and Finance shall submit an annual debt report that relates to the operation of public debt management, the government’s guarantees and the government’s lending to the Pyidaungsu Hluttaw not later than six months at the end of the fiscal year. The annual debt report shall describe the following matters:

(a) the objective and basic concepts of the debt management strategy,

(b) the operation of the debt management situation during the fiscal year,

(c) the new borrowing contracts during the fiscal year, and their rules,

(d) the debt outstanding of the state administrative organizations, the Union ministries and departments, State or Region Government, municipalities and state-owned economic organizations,

(e) all lending and on-lending,

(f) all government guarantees,

38. (a) The Union Auditor General Office shall conduct auditing functions annually to check the effectiveness of government debt and monitoring of debt management.

38. (b) The audit report and findings shall be submitted to the President and the Pyidaungsu Hluttaw simultaneously.

Annex 3. The percent deviation between total actual spending and aggregate expenditure in the budget

Fiscal Year	Expenditure	
	Percent Deviation on Original Budget	Percent Deviation on Revised Estimate
2011-2012	9.8%	-3.0%
2012-2013	13.5%	0.7%
2013-2014	-7.6%	-11.0%
2014-2015	-8.7%	-9.4%
2015-2016	-4.6%	-8.7%
2016-2017	-6.8%	-10.5%
2017-2018	-2.0%	-11.4%
2018 (6 Months)	-9.3%	

Annex 4. The percent deviation between total actual revenue and aggregate revenue in the budget

Fiscal Year	Revenue	
	Percent Deviation on Original Budget	Percent Deviation on Revised Estimate
2011-2012	20.0%	3.1%
2012-2013	31.3%	11.2%
2013-2014	7.1%	2.1%
2014-2015	1.8%	-0.4%
2015-2016	-2.1%	-6.8%
2016-2017	0.1%	-0.6%
2017-2018	7.1%	-5.6%
2018 (6 Months)	7.6%	

Annex 5. The practice of the medium-term fiscal framework – revenue and expenditure estimation and its challenges

Medium-term fiscal framework (MTFF) forecasting has been implemented by the Ministry of Planning and Finance since the 2015-2016 fiscal year. The objectives are to achieve higher budget credibility, to keep fiscal sustainability, to improve the strategic resource allocation strategy by providing the expenditure ceiling ministry-wide based on available resources and to practice top-down budgeting and bottom-up planning to be in line with international standards based on government policy. The macroeconomic indicators used in forecasting MTFF are the real GDP growth rate, the nominal GDP growth rate, the nominal GDP, inflation, the import growth rate, the exchange rate, the interest rate of T-bonds and T-bills. The baseline for forecasting the MTFF is the previous year's revenue and expenditure. All items are taken into consideration for forecasting the MTFF such as the potential revenue, domestic and foreign loans, and foreign grants, repayment of principal and interest on domestic and foreign loans based on available information. The MTFF is forecasted for the upcoming three years, and the MTFF team forecasts the revenue firstly, and then they forecast current expenditure, and finally, they forecast capital expenditure based on the ratio of current and capital expenditure.

When the MTFF team forecast current expenditure, they also forecast grant transfer from Union to State or Region based on six indicators, which include three development needs indicators and three fiscal constraints indicators, and the development needs indicators are total population, poverty index, and area, and the fiscal constraints indicators are urban population, per capita tax collection, and per capita GDP. The grant transfer from the Union to Region and State is the general purpose grant. They can use this grant for any purpose.

There are a lot of challenges in forecasting the medium-term fiscal framework. The first challenge is collecting the macroeconomic indicators. Forecasting the macroeconomic condition is not easy and it depends on the interrelation of four sectors – real, fiscal, monetary and external sectors. The gross domestic product (GDP) and fiscal indicators (revenue, expenditure and deficit), the balance of payment, and foreign exchange rate and monetary reserve and interest rate are somewhat interrelated with each other, which data contributes to which and to get other macroeconomics indicators is always questionable. A realistic medium-term fiscal framework has to be started by constructing the macroeconomic framework. It can be done by binding the IMF's technical assistance for macroeconomic forecasting and the World Bank's technical assistance for MTFF. However, they do not bind—they go in parallel. The medium-term fiscal framework forecasting team collects the macroeconomic indicators from the respective department, which are forecasted by each department separately instead of constructing the macroeconomic framework.

The second challenge is identifying the index for forecasting of each component of revenue and expenditure. For example, when the MTFF team forecasted the other current revenue (including the revenue from oil and gas), they usually assumed that if the economy grows, the revenue will increase. So the MTFF team used the nominal GDP growth rate or the real DGP growth rate as the index for calculating other current revenue. In reality, the natures of other current revenue vary depending on which kind of sources. If they are natural resources revenue, it will depend on the global price of the respective product, the exchange rate, production and the share of contact for production. Those kinds of information are not available in the Ministry of Planning and Finance. So, information sharing and cooperation and coordination are crucial.

The expenditure forecasting is also challenged as the budgeting has been focusing on how much a given entity needs. The line ministries do not submit detailed costs for each program. Moreover, the Budget Department does not have all the information for the respective ministry resources needs and their priorities. Therefore, forecasting the expenditure is also hindered by a lack of information.

Achieving a reliable and realistic medium-term fiscal framework is not easy work. The people who do the forecasting need to get information such as the multi-year detailed plans of respective ministries and sound macroeconomic indicators for forecasting. The information on the multi-year detailed plans of respective ministries and sound macroeconomic indicators are also not readily available. It needs the capacity to forecast medium term to long term, and information-sharing arrangements are also needed. Moreover, the cooperation and coordination are also critical in forecasting macroeconomic framework and the medium-term fiscal framework.

Furthermore, the revenue floor and expenditure ceiling of the Union organizations are not submitted to the Union Government or Cabinet before issuing the Union budget circular by the Ministry of Planning and Finance. The Ministry of Planning and Finance issues the budget circular to the line organizations and the budget circular includes the revenue floors and expenditure ceiling for the coming year. Although the Ministry of Planning and Finance has reported the revenue floors and expenditure ceiling for the coming year, some line ministries assume the revenue ceiling and expenditure floors. They prepared their budget proposals in excess of the constraints (budget ceiling), and the financial commission and Cabinet approved budgets which were more than the ceiling on the budget circular every year. Nevertheless, the Ministry of Planning and Finance submits the transfer amount from the Union to State or Region, to the Union Government every year to inform the respective Region and State.

Both the Union budget ceiling and Region and State transfer ceiling that were included in the budget circulars did not cover for the medium term.

Thus, forecasting the medium-term fiscal framework was not comprehensive. Furthermore, they needed to achieve political and managerial support for multi-year perspectives and decision-making, and need to achieve approval and commitment from the Cabinet as the budget is based on final approval of the Cabinet for the executive branch.

Annex 6. The abstract sections from procedural fiscal rules on the 2008 Constitution

The abstract sections about the procedural fiscal rules on the 2008 Constitution Law are as follows:

100 (b) Bills relating to national plans, annual budgets and taxation, which are to be submitted exclusively by the Union Government shall be discussed and resolved at the Pyidaungsu Hluttaw in accordance with the prescribed procedures.

102 The Bills, which are to be discussed and resolved exclusively at the Pyidaungsu Hluttaw need to be vetted before being discussed at the Pyidaungsu Hluttaw, those Bills shall be vetted jointly by the Pyithu Hluttaw Bill Committee and the Amyotha Hluttaw Bill Committee, and the findings and remarks of the Joint Committee together with the Bill shall be submitted to the Pyidaungsu Hluttaw session in accordance with the prescribed procedures.

103 (a) The President or the person assigned by him, on behalf of the Union Government, shall submit the Union Budget Bill to the Pyidaungsu Hluttaw.

(b) The following matters included in the Union Budget Bill shall be discussed at the Pyidaungsu Hluttaw but not refused or curtailed:

(i) salary and allowance of the heads and members of the Union level organizations formed under the Constitution and expenditures of those organizations;

(ii) debts for which the Union is liable and expenses relating to the debts, and other expenses relating to the loans taken out by the Union;

(iii) expenditures required to satisfy the judgment, order, decree of any Court or Tribunal;

(iv) other expenditures which are to be charged by any existing law or any international treaty.

(c) Approval, refusal and curtailing of other expenditures except the expenditures specified in Sub-Section (b) shall be passed by the majority consent of the Pyidaungsu Hluttaw.

(d) The Union Government shall perform as necessary in accordance with the Union Budget Law enacted by the Pyidaungsu Hluttaw.

(e) If in respect of the relevant financial year a need has arisen to authorize the estimated receipts and authorized expenditures in the Union Budget Law enacted by the Pyidaungsu Hluttaw and in addition to estimate receipts and to authorize expenditures, the Supplementary Appropriation Law shall be enacted in the above manner.

(f) The Union Government shall perform as necessary in accordance with the

	Supplementary Appropriation Law enacted by the Pyidaungsu Hluttaw.
190	(a) Bills relating to the regional plans, annual budgets and taxation of the Region or State, which are to be submitted exclusively by the Region or State Government, shall be submitted to the Region or State Hluttaw in accordance with the prescribed procedures.
193	(a) The Region or State Annual Budget Bill to which only by the Region or State Government has the right to be submitted only to the Region or State Hluttaw in accordance with the prescribed procedures. (b) Relating to the Bill in Sub-Section (a), the Region or State Budget including finance received from the Union Fund of the Region or State under the Union Budget Law or the Supplementary Appropriation Law with the recommendation of the Chief Minister concerned shall be discussed, as may be necessary by the Region or State Hluttaw concerned and shall be carried out and approved, refused, curtailed with majority consent. In doing so, the following matters may be discussed at the Region Hluttaw or the State Hluttaw, but not refused or curtailed: (i) salary and allowance of heads and members of the Region or State level organizations formed under the Constitution and expenditures of those organizations; (ii) salary and allowance of heads and members of leading bodies of the self-administered area formed under the Constitution and expenditures of those bodies; (iii) debts for which the Region or State is liable and expenses relating to the debts, other expenses relating to the loans taken out by the Region or State; (iv) expenditures required to satisfy judgment, order or decree of any Court or Tribunal; (v) other expenditures which are to be charged by any law enacted by the Region Hluttaw or the State Hluttaw.
212	(a) Except for Union budget matters, the President shall have the right to promulgate an ordinance for administrative matters that need immediate action during the interval between sessions of the Pyidaungsu Hluttaw.
221	The Union Government shall draft the Union Budget Bill based on the Annual Union Budget, after coordinating with the Financial Commission, and submit it for approval to the Pyidaungsu Hluttaw in accordance with the provisions of the Constitution.
222	The Union Government shall, if the Pyidaungsu Hluttaw is unable to promulgate the Union Budget Bill before the end of the Budget Year, expend within the framework of

the general expenditure included in the last-enacted Budget Law of the Pyidaungsu Hluttaw.

229 (a) The Financial Commission shall be formed with the following persons:

(i) The President - Chairperson,

(ii) Vice-Presidents Vice-Chairpersons,

(iii) The Attorney-General of the Union - Member ,

(iv) The Auditor-General of the Union - Member,

(v) Chief Ministers of the Regions and States - Members,

(vi) The Nay Pyi Taw Council's Chairperson- Member,

(vii) The Minister of Finance of the Union - Secretary.

(b)(i) Forming the Financial Commission, the President may appoint a suitable person as a temporary member if there is a vacancy for any reason.

(ii) The President shall promulgate the formation of the Financial Commission. Moreover, necessary orders or directives, so forth, for the Financial Commission may be promulgated either by the President or the person assigned by him.

230 (a) The budgets of the Union ministries and Union level organizations are to be vetted by a Vice-President assigned by the President, and the estimated budgets of the Union level organizations including the Union ministries are to be submitted to the Financial Commission.

(b) The budgets of the Region or State are to be vetted by the other Vice President assigned by the President. The estimated budgets of the Region or State are to be submitted to the Financial Commission.

(c) The Financial Commission shall;

(i) submit to the Pyidaungsu Hluttaw with the recommendation for the Union Budget which includes the expenditure of the Union territory, supplementary finance as suitable to the Regions or States from the Union Fund, giving grants as a special matter and permitting loans;

(ii) to advise financial matters that should be undertaken;

(iii) carry out the duties assigned by the Pyidaungsu Hluttaw through the promulgation of law for the emergence of a substantial financial system.

(d) The Financial Commission shall submit with the recommendation to the President, the Bill of Union Budget, which includes Union Budget, the distribution of suitable funds from Union Fund accounts to Regions or States, the provisions of funds as a special case and disbursing of necessary loans for submission them to the Pyidaungsu Hluttaw.

(e) The Financial Commission may, if necessary, seek advice from financial experts.

252 The Region or State Government shall, in accordance with the provisions of the Constitution, submit the Region or State Budget Bill based on the Annual Union Budget to the Region or State Hluttaw concerned.

253 The Region or State Government shall, if the Region or State Budget Bill is unable to promulgate before the end of the budget year, expend within the framework of the general expenditure included in the last-enacted budget law of the Region or State Hluttaw.

Annex 7. Abstract procedural fiscal rules from the law relating to drafting and submitting the Union Budget

The procedures and timeline for drafting and submitting the Union Budget Bill by the Union Government to the Parliament are as follows.

(1) The Union Budget Bill has to be submitted to the Parliament by the Union Government before 15 July annually.
(2) The Supplementary Appropriation Bill has to be submitted to the Parliament by the Union Government before 30 April annually.

The necessary documents that shall be submitted by the Union Government (Executive Budget Proposal and its Supporting Documents) to the Pyidaungsu Hluttaw are as follows:

(1) The Union Budget Bill
(2) The Summary of the Revenue and Expenditure
(3) Endorsement of Financial Commission
(4) The Minister of Ministry of Planning and Finance’s Presentation on
    (a) Provision on Medium-Term Fiscal Framework
        1. Revenue
        2. Expenditure
        3. Budget Deficit
        4. Financing
        5. Borrowing
        6. Transfer to State and Region

(b) Fiscal Policy Strategy

1. Generalization on Fiscal Policy
2. Revenue Policy, Expenditure Policy, and Borrowing, Lending and Investment Policy
3. Priority Sector
4. The following year revenue and expenditure provision
5. Other necessary information

(c) Statement on Macroeconomic Situation

1. Generalization on Economy
2. GDP Growth Rate
3. Import, Export, General Reserve, Trade Balance
4. Fiscal Condition
5. Macroeconomic Outlook

(d) The condition of implementation on the Minister's Presentation on the previous year

(e) The implementation situation of the respective Ministry on the current fiscal year

(f) The summary statement of the outstanding Government debt.

(5) Union Budget Brief,

(6) The state-owned economic organizations profit and loss and financial situations,

(7) The provisions of foreign borrowing and foreign aid for the following fiscal year.

<u>The timelines for submitting findings of respective Joint Scrutinizing Committees' members who are assigned by the Speaker of the Parliament are as follows.</u>

(1) The Joint Scrutiny Boards organized with the respective members of the Pyithu Hluttaw and Amotha Hluttaw who has been assigned by the Speaker of the Pyidaungsu Hluttaw to scrutinize the matters of the Annual Union Budget shall submit their findings to the Joint Bill Committee and Joint Public Account Committee before 31 July annually.

(2) Joint Public Account Committee shall submit their appraisal and recommendation on Union Budget Bill that are submitted by the Union Government to the Pyidaungsu Hluttaw before 21 August annually.

(3) Joint Bill Committee shall submit their appraisals and recommendations on Union Budget Bill that are submitted by the Union Government to the Pyidaungsu Hluttaw before 21 August annually.

(4) The Joint Scrutiny Boards organized with the respective members of the Pyithu Hluttaw and Amotha Hluttaw who has been assigned by the Speaker of the Pyidaungsu Hluttaw to scrutinize the matters of the Union Supplementary Appropriation Bill shall submit their findings to the Joint Bill Committee and Joint Public Account Committee before 10 May annually.

(5) Joint Public Account Committee shall submit their appraisals and recommendations on

Union Supplementary Appropriation Bill that are submitted by the Union Government to the Pyidaungsu Hluttaw before 24 May annually.

(6) Joint Bill Committee shall submit their appraisal and recommendation on Union Supplementary Appropriation Bill that is submitted by the Union Government to the Pyidaungsu Hluttaw before 24 May annually.

Note: Although the law structures of clauses are separated according to the Budget and Supplementary Grant, the paper re-groups the clauses into the executive branch and legislative branch - the respective Joint Scrutinizing Committees. The numbers are not reflected original law's clauses.

Annex 8. The duties and responsibilities of controlling officers and drawing officers abstract from rules and regulations on the Financial Management of Myanmar (Ministry of Planning and Finance's Notification No. 35/2017)

The duties and responsibilities of the controlling officer *are as follows:*

73. The controlling officer shall be responsible for his department or organization on behalf of the minister under the Budget Law.

74. The departmental head assigned to administer the department or organization shall be responsible for budget supervision and budget administration. Since he undertakes budget supervision and budget administration of the department or organization, he shall not be absent in monitoring the budget operation of the department or organization regardless of having a separate accounting department under his administration.

75. Every controlling officer is responsible for supervising the functions of collecting officers and to always monitor so that failure, omission or delay may not occur in collecting revenues from department or organizations. The controlling officer is fully responsible for collecting all the revenues and depositing all these collected revenues into a bank without any delay.

76. The controlling officer who has the responsibility of supervising all the financial matters related to the expenditure from the permitted allocation for the financial year shall undertake as follows. The aforementioned controlling officer;

(a) shall not spend more than the permitted appropriation amount;

(b) shall be engaged only for the matters planned and already included in the preparation of the budget;

(c) shall administer expenditure aimed for the benefit of the public;

(d) shall supervise and control to ensure correctness and accuracy of financial operations, compliance of financial rules and regulations, the proper way of spending funds and avoidance of wastage or losses of its office and subordinate office.

77. The departments and organizations shall not spend any expenditure more than the permitted

amounts for the financial year.

78. The controlling officer shall not delegate his power on financial management and supervision to an employee whose rank is lower than the gazette officer without the approval of the ministry or anybody who is assigned by the minister. It is worth recognizing that delegating duties and powers in this way shall not mitigate his duties. The controlling officer may appoint one or more drawing officer. In such event as the assignment of duties and powers on financial management and supervision for their department and organization to employees from other departments and organizations, approval from the ministry shall be requested in advance.

<u>The duties and responsibilities of the drawing officer are as follows</u>.

79. Every drawing officer shall:

(a) not spend more than the funds appropriated and allocated;

(b) monitor the increase of expenditures in comparison with allocation; budgets for account adjustment, due liabilities and other factors affecting their expenditures shall be examined;

(c) spend the funds only for the matters planned;

(d) comply with financial norms for expenditures;

(e) inform in time for the controlling officer to adjust the funds once overspent funds or surplus funds can be predicted out of allocated funds;

(f) comply with major financial practices;

(g) be responsible for collecting all the receivable funds of their department and organization immediately and wholly deposit into the bank.

Annex 9. The comparison of budget ceiling and annual budget, budget ceiling and the Cabinet- approved budget, and the Cabinet -approved budget and the legislature's approved budget

(Kyats in Million)

3c. The difference between the ceiling that was issued in a budget circular by the Ministry of Planning and Finance, and revenue and expenditure in the annual budget	**Current Revenue**	**Expenditure**
Revenue floor and expenditure ceiling that was issued in a budget circular by the Ministry of Planning and Finance (Kyat in billion)	17,122	20,870
The revenue and expenditure in an annual budget (Kyat in billion)	21,427	27,382
Difference (%)	25%	31%
4a. The difference between the budget ceiling in a budget circular by the Ministry of Planning and Finance, and the budget approved by the Cabinet for 2019-2020 fiscal year.		
Revenue floor and expenditure ceiling that were issued in a budget circular by the Ministry of Planning and Finance (Kyat in billion)	17,122	20,870
The revenue and expenditure approved by the Cabinet (Kyat in billion)	21,327	27,598
Difference (%)	25%	32%

Note: Revenue was only current revenue (excluding interest revenue) and expenditure was current and capital expenditure that will be funded by domestic resources in the budget circular. So the Cabinet approved budget has been adjusted to consistent with ceiling in the budget circular.

4b. The difference between the Union Cabinet's approved budget and the legislature's approved budget for 2019-2020 fiscal year.	**Revenue**	**Expenditure**	**Deficit**
Approved by the Union Cabinet (Kyat in billion)	25,313	32,340	-7,027
Approved by the Legislature (Kyat in billion)	25,200	31,919	-6,719
Difference (%)	-0.4%	-1.3%	-4.4%

Note: It includes all revenue and all expenditure