OUTLINE

- Introduction
- Budget sustainability
- Rebalancing the Budget
- Education spending and financing
- Health spending and financing
- Intergovernmental fiscal relations
- Conclusion
PER BACKGROUND AND OBJECTIVES

- **Background:**
  - Big shifts in Union Budget policies since 2011
  - Government spending almost doubled.
  - Spending refocused to address service delivery gaps.

- **PER objectives**
  - Analyze alignment of Union Budget with development priorities.
  - Options to further strengthen Budget policies for development.
  - Initiate regular analysis and dialogue on Budget policies.
PER SCOPE

General Government

Central Government

- State Administrative Organizations
- Ministries

States
Regions
Cantons
Development Committees

State Economic Enterprises

Financial
Non-Financial
Economic growth in Myanmar has been above average for selected countries though the size of general government operations is relatively small.
A large jump in revenue thanks to one off windfalls….

…provided fiscal space for a near doubling in spending…

…and helped maintain a prudent fiscal stance.
DEFICIT FINANCING

Falling public debt stock thanks to arrears clearance...

...gradual diversification in financing sources...

...though reliance on non-concessional domestic finance.

<table>
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<th>Years</th>
<th>Domestic</th>
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<tr>
<td>2013/14</td>
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Percent of GDP (%)

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<th>Foreign Loans</th>
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<th>Other</th>
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<td>1.0</td>
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<td>2008/09</td>
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MEDIUM-TERM FISCAL FRAMEWORK

- **Baseline:**
  - 8.5 percent growth
  - 16 percent decline in gas prices
  - 7 percent real increase in spending

- **Sharp decline in gas prices:**
  - 7 percent real decline in spending by 20/21
  - 20 percent of capital budget in baseline

- **Low non-gas revenue:**
  - Revenue at 6 percent of GDP
  - 13 percent real decline in spending by 20/21

- **Slower growth:**
  - 6.5 percent economic growth
  - 7 percent real decline in spending by 20/21

Gas price projections (US$/MMBTU)

- Optimistic (DEC growth + 1 SD 18%)
- Baseline
- Pessimistic (DEC growth - 1 SD 18%)
- Low Case
FISCAL RISK MANAGEMENT

- **Debt management**
  - Develop, adopt and publish borrowing plan
  - Explicitly assign authority to approve loans to MOF under Public Debt Law

- **Commodity price volatility**
  - Review treatment of hydrocarbon SEE profits
  - Integrate gas price developments in MTFF
  - Consider fiscal rules linked to commodity revenues

- **Fiscal oversight of State Economic Enterprises**
  - Initiate TA on SEE classification, regulations, revenue treatment, fiscal reporting and fiscal risk monitoring
  - Adopt comprehensive framework for fiscal oversight of SEEs
Government revenue/GDP has historically been below potential... 

...across all types of tax and non-tax revenue... 

...including customs receipts, which are traditionally large in comparator countries.
In 2009/10, spending on general public services and defense far exceeded the average share of budgets in lower middle income countries.

By 2013/14 there was a gradual rebalancing towards social services, economic services, social protection.
In 2009/10, capital investment dominated the budget, crowding out employee compensation and non-wage recurrent spending. By 2013/14, capital investment declined sharply creating fiscal space for wages and salaries, and other operational expenditure.
WAGE BILL

The wage bill increased rapidly over the review period, though various indicators suggest that this is not large compared to other countries or potential needs. Additional increase however should be closely linked to sustainability and pay and grading considerations.
Government under-spending on education and prohibitive household financing requirements have left major gaps in education outcomes. In 2009, around 63 percent of total education spending came from households, compared to 19 percent across other countries.
EDUCATION POLICIES AND SPENDING

Reforms initiated since 2012/13: elimination of primary and secondary school fees, compulsory primary education, 79,000 more teachers, expansion of stipend program for poor students, and delegation of some spending authority. Quadrupling in general government spending.
POLICY PRIORITIES

- **Quality of education:**
  - Introduce and regularly undertake assessment of learning outcomes.

- **Linking plans to spending:**
  - Strengthen capacity on administrative, performance and fiscal data.
  - Establish policy analysis unit.

- **Fiscal space for emerging priorities:**
  - Costing of selected new initiatives (e.g. more school years, teacher training)
  - Explore options for creating fiscal space including efficiency gains within the sector

- **Delegation of spending authority:**
  - Gradual devolution of management responsibilities within a framework of accountability for results.
In 2012, government spending on public health was $1.6 per capita per year, with out of pocket payments by households accounting for almost 80 percent of total health spending. This created serious obstacles to healthcare access and some of the lowest health outcomes among ASEAN countries.
Overall level of spending by MoH has risen nine fold since 2011/12…

…driven in big part by capital spending, including machinery and equipment and construction of primary care facilities…

…wage bill has tripled to hire more health professionals. Big increase is on drugs and medical consumables, to alleviate out of pocket payments.
POLICY PRIORITIES

- **Efficiency of spending:**
  - Increase spending on areas with strong public goods characteristics (e.g., prevention and treatment of communicable diseases) can improve allocative and technical efficiency.
  - Formulation of a comprehensive policy for the strategic, cost-effective and timely procurement of pharmaceuticals could improve technical efficiency.
  - Available data suggests that improved linkage between the capital and recurrent budget can improve technical efficiency over the medium-term.

- **Equity of spending:**
  - Despite increased spending on rural health facilities, available data suggests that the gap between spending on urban and rural facilities increased between 2009 and 2013, which should be reviewed.
  - Households face a real risk of incurring large medical care expenditures if any member falls ill due to the absence of any prepayment mechanisms, such as health insurance. Review options for enhancing universal healthcare access.
State/Region expenditure as a share of overall public sector expenditure is unsurprisingly low relative to international comparators. Capital spending as a ratio of State/Region budgets is high, with 11 States/Regions spending at least 40 percent of their budgets on capital.
SPENDING AND POVERTY

The level of per capita spending across States/Regions seems weakly correlated with poverty levels. Authorities in poorer States/Regions with low population density are expected to play a bigger role due. However, a fuller picture of per capita spending and poverty links would also require analysis of Union spending in each State/Region.
REVENUE DECENTRALIZATION

The overall level of revenue of States/Regions is unsurprisingly low, in line with limited spending assignments. All major sources of general government revenue (i.e. commercial tax, personal and corporate income taxes, customs duties, stamp duties, various fees and fines, and the majority of revenues derived from natural resources) accrue to the Union government.
LOCAL REVENUE

Around half of own source revenue in 2013/14 came from non-tax, a third from capital receipts, and around 17 percent from taxes.

The burden of State/Region revenue does not seem to be very progressive when comparing revenue collection per capita to poverty incidence.
FISCAL TRANSFERS

Fiscal transfers have helped equalize per capita receipts across States/Regions. A rules-based system to determine fiscal transfers would further strengthen transparency and predictability. Two possible options: (i) determine fiscal gap based on revenue forecast and spending needs based development criteria; (ii) apply formula on pre-determined envelope.
CONCLUSION

- Major rebalancing in Union Budget policies, as government embarks on a process to use the Budget as an instrument for development.

- As revenue windfalls begin to recede, increased pressure on fiscal balances as government looks to delivering on development needs on the back of constrained fiscal space.

- Early results evident within social sectors. Further refinement in priorities will help to further build on those.

- Myanmar entering early phases of decentralization debate. Important to coordinate across stakeholders and develop a common vision.

- PER provides an entry point for more engagement and policy dialogue on budget policy issues.