



Myanmar Budget Brief

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Contents

Preface and acknowledgments	4
Executive summary	6

1

Public finance trends

8

AGGREGATE FISCAL ENVIRONMENT	8
REVENUE	11
EXPENDITURE	18

2

Service delivery

20

HEALTH SECTOR	22
EDUCATION SECTOR	28
SOCIAL PROTECTION	33

3

Long-term assessment of economic management

36



Figures

FIGURE 1	FISCAL BALANCE (MMK, BILLIONS)	9
FIGURE 2	BUDGET OUTTURNS AND ESTIMATES FY2016–FY2023, MMK BILLIONS	10
FIGURE 3	MOPF REVENUE COLLECTION (% OF GDP)	12
FIGURE 4	REVENUE COLLECTION BY TAX TYPE	12
FIGURE 5	TAX COMPLIANCE % OF SURVEYED FIRMS REPORTING NON-PAYMENT OF TAXES (BY FIRM SIZE)	13
FIGURE 6	TAX COMPLIANCE % OF SURVEYED FIRMS REPORTING PAYING TAXES (BY INDUSTRY)	13
FIGURE 7	FIRMS REPORTING PAYMENT INCREASES AMONG TAX-PAYING FIRMS	14
FIGURE 8	AVERAGE TAX PAYMENT INCREASE (CHANGE IN THE PAST 3 MONTHS COMPARED TO THE SAME PERIOD A YEAR AGO)	14
FIGURE 9	REVENUE BREAKDOWN, BY TYPE (% OF TOTAL REVENUE)	15
FIGURE 10	PROFITABILITY IN ENERGY SEES PROFIT/(LOSS), FY2020–FY2023, MMK BILLIONS	16
FIGURE 11	BUDGET PRIORITIES (BY SECTOR/MINISTRY, % OF TOTAL)	19
FIGURE 12	HUMAN DEVELOPMENT INDEX	21
FIGURE 13	MYANMAR HEALTH INDICATOR TRENDS	22
FIGURE 14	BUDGET ALLOCATION AND SPENDING ON HEALTH IN MMK MILLION AND EXPENDITURE % OF UNION BUDGET (RHS)	24
FIGURE 15	MOHS OVERALL BUDGET EXECUTION	25
FIGURE 16	RECURRENT AND CAPITAL BUDGET EXECUTION	25
FIGURE 17	GENERAL GOVERNMENT HEALTH EXPENDITURE (% OF GDP)	27
FIGURE 18	GENERAL GOVERNMENT HEALTH EXPENDITURE PER CAPITA (CURRENT US\$)	27
FIGURE 19	GROSS ENROLLMENT RATES	28
FIGURE 20	COMPLETION RATES BY EDUCATION LEVEL, 2010–2017 (%)	28
FIGURE 21	MOE BUDGET ALLOCATION AND SPENDING % OF UNION BUDGET AND % OF GDP (RHS), 2012–2023	29
FIGURE 22	SPENDING ON EDUCATION % OF TOTAL GOVERNMENT EXPENDITURE AND % OF TOTAL GDP: MYANMAR VERSUS NEIGHBORING AND COMPARATOR COUNTRIES	30
FIGURE 23	MOE BUDGET ALLOCATION BY DEPARTMENT FY2017–FY2021 (% OF BUDGET)	31
FIGURE 24	MOE OVERALL BUDGET EXECUTION	32
FIGURE 25	RECURRENT AND CAPITAL BUDGET EXECUTION	32
FIGURE 26	EAST ASIA AND PACIFIC REGION SPENDING ON SSN (% OF GDP, 2019)	33
FIGURE 27	MINISTRY OF SOCIAL WELFARE, RELIEF AND RESETTLEMENT	35
FIGURE 28	MYANMAR FELL BEHIND ITS NEIGHBORS (GDP PER CAPITA INDEX)	37
FIGURE 29	TAX COLLECTION (% OF GDP)	39
FIGURE 30	INFLATION (ANNUAL %)	41
FIGURE 31	PUBLIC HEALTH SPENDING 1971–2021 (% OF GDP)	42
FIGURE 32	SPENDING ON EDUCATION AND HEALTH 1975–1984, 1996–1999, AND 2020–2021 (% OF BUDGET)	42



Preface & Acknowledgments

This Budget Brief presents a summary of developments in Myanmar's public finances public finances. This report includes three sections that cover the aggregate fiscal update, a primer on public finance developments in core service ministries, and a longer-term view of fiscal management in Myanmar. The report relies on data obtained from published reports of the Ministry of Planning and Finance, open-source data, and news that was analyzed and cross-checked as part of the monitoring work. Where news reports are referenced, additional efforts were made during the monitoring process to triangulate reports from several reputed news media sources to ensure veracity of the information presented.

The Myanmar Budget Brief was prepared by a team led by Ildrim Valley (Public Sector Specialist), Pike Pike Aye (Public Sector Management Specialist), and included Thanapat Reungsri (Consultant), Nang Mo Kham (Senior Health Specialist), Saw Thu Nandar (Consultant), Aung Phyo Kyaw (Consultant), Saurav Dev Bhatta (Senior Economist), Theingie Han (Consultant), Francesca Lamanna (Senior Economist), and Sandi Soe Lwin (Program Assistant).

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Executive summary



1

Widening fiscal gap

THE FISCAL DEFICIT widened in FY2021 (year ended September), and a continued deterioration in the fiscal position is expected over the 12 months to March 2023. In nominal kyat terms, the FY2021 fiscal deficit was around MMK 8.9 trillion (9.2 percent of domestic gross domestic product [GDP]). The authorities' first full-year budget covering the period from April 2022 to March 2023 projects a large fiscal deficit of around MMK 7.4 trillion (around 6.7 percent of GDP), despite an ambitious projection for revenue collection. The authorities' financing estimates for the period of 6 months to March 2022 suggest increased reliance on the Central Bank of Myanmar (CBM) as a financing source, with the expectation that 55 percent of public financing needs during the period would be met by the CBM.

2

Budget execution worsened in FY2021

BOTH EXPENDITURE and revenue outturns have declined as a proportion of the budgeted amounts, falling to 82 percent and 70 percent, respectively. This marks a notable decline in aggregate budget credibility following strong performance between 2015 and 2020.

3

Tax collection has declined from 6.5% to 4.9 % of GDP

PROSPECTS OF SIGNIFICANT increases in tax collection remain low with only 31 percent of surveyed firms reporting paying any taxes, down from 47 percent between August 2020 and January 2021.



4

State Economic Enterprise (SEE) vulnerabilities

LOSSES IN LARGE SEEs are adding to fiscal pressures, with Myanmar Oil and Gas Enterprise (MOGE) recording a loss of MMK 1.3 trillion in FY2021. The economic downturn and any further extraction of revenues from SEEs to compensate for declining tax revenues will further exacerbate the financial risks and contingent liabilities from SEEs.

5

Low COVID-related expenditure

LESS THAN 2.5 PERCENT of spending during FY2021 (MMK 0.7 trillion, 1 percent of GDP) has been reported under the COVID-19 Economic Relief Plan (CERP).

6

Budgetary priorities lean toward energy & defense

THIS IS ACCOMPANIED by reduced planned spending on health, education, and social protection, at the time when the vulnerable are most in need of fiscal support. Underinvestment in these sectors places recent hard-won gains in the provision of core public services at risk.

7

Current policies are reminiscent of those of earlier military governments which prioritized defense spending and costly import substitution over social spending

IN THE DECADES PRIOR TO 2011, budget policies contributed to a minimally functioning state dominated by military concerns rather than social services, diverting resources away from public service provision. At the same time, the state continuously struggled to mobilize tax revenue, with revenue generation relying on natural resource extraction through SEEs as well as on implicit and informal taxes, with the latter contributing to the distrust between taxpayers and the government.



1

Public
finance
trends

1.1

Aggregate Fiscal
Environment

1 Starting in April 2022, Myanmar's budget calendar has changed from October–September to April–March. This marks a return to the fiscal calendar used before FY2019. To accompany the change, a 6-month interim budget was introduced to bridge the end of FY2021 on September 30, 2021 and the new FY2023 that commenced on April 1, 2022. In this note, FY2021 refers to the year ended September 2021, FY2022 refers to the 6-month interim budget period, and FY2023 refers to the year ended March 2023.



A detailed understanding of the fiscal position is constrained by limited access to fiscal data. Few publicly available documents provide a glimpse into budgetary priorities and fiscal position. These include the 6-month interim Budget Law, 6-month National Planning Law, and 6-month Citizen's Budget for October 2021 to March 2022, quarterly reports covering FY2021, and the 12-month Budget Law and 12-month National Planning Law for April 2022 to March 2023—made public on the Ministry of Planning and Finance (MOPF) website.¹ The availability of these data is a result of the continued practice of some of the fiscal transparency measures developed as part of previous public financial management (PFM) reforms. However, access to the type of disaggregated data that was previously available is limited.

This includes, for example, an economic breakdown of expenditure data at 2- and 4-digit levels (for example, payroll), monthly tax revenue collection by tax types, and government financing (for example, central bank financing and debt).

The fiscal deficit remains wide amidst low revenue collection (Figure 1). In nominal kyat terms, the estimated revenue collected during FY2021 has fallen by nearly 30 percent year-on-year, from MMK 27,200 billion to MMK 19,197 billion. The drop has been partially offset by reduced spending, but still contributed to a fiscal gap of MMK 8,880 billion (9.16 percent of GDP) for FY2021. The authorities' own budget projections for FY2023 indicate a sizable deficit of MMK 7,400 billion, which will keep the fiscal gap at elevated levels as a share of GDP.

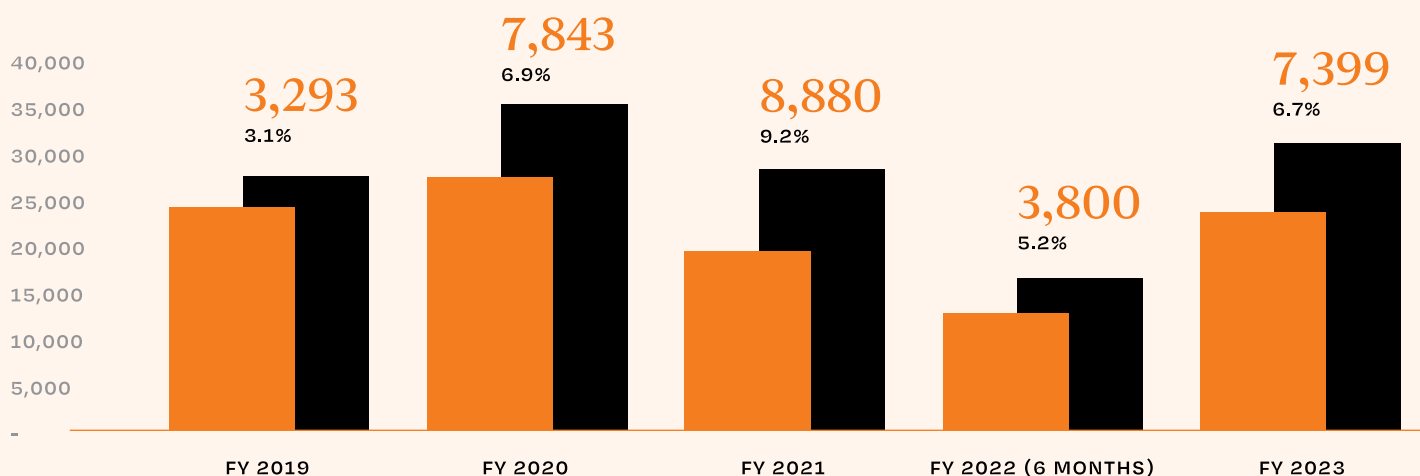
FIGURE 1 FISCAL BALANCE

MMK, BILLIONS

● REVENUE

● EXPENDITURE

DEFICIT IN MMK B. AND % OF GDP



Source: <https://www.mopf.gov.mm/>; World Bank Staff estimates.

BUDGET ESTIMATES

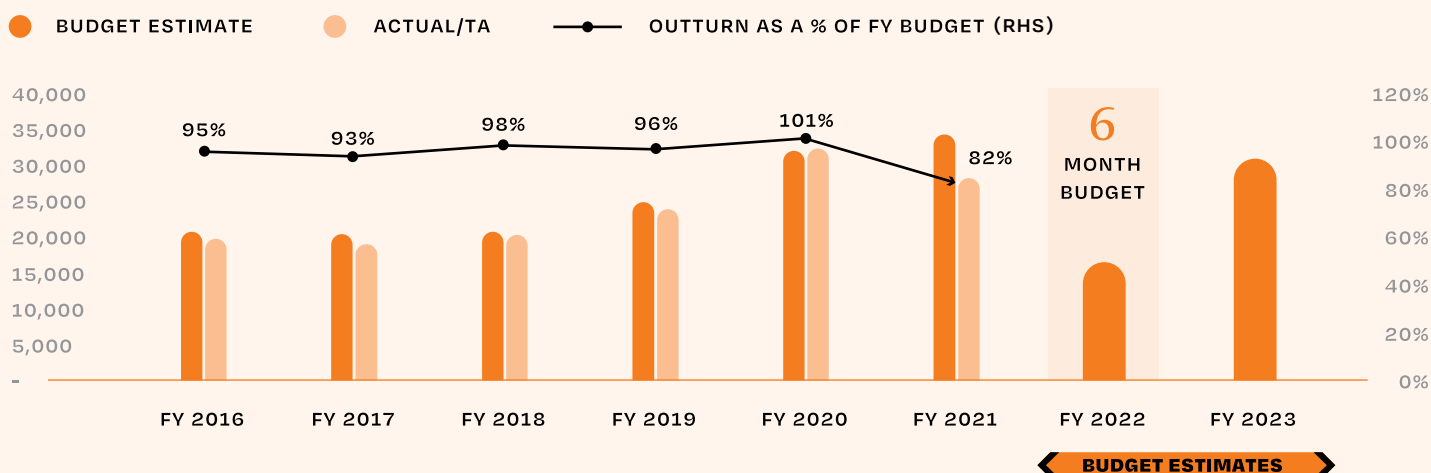
Budget execution worsened in FY2021. Both expenditure and revenue outturns worsened in FY2021, declining to 82 percent and 70 percent, respectively (Figure 2). This marks a notable decline in aggregate budget credibility following strong performance between 2015 and



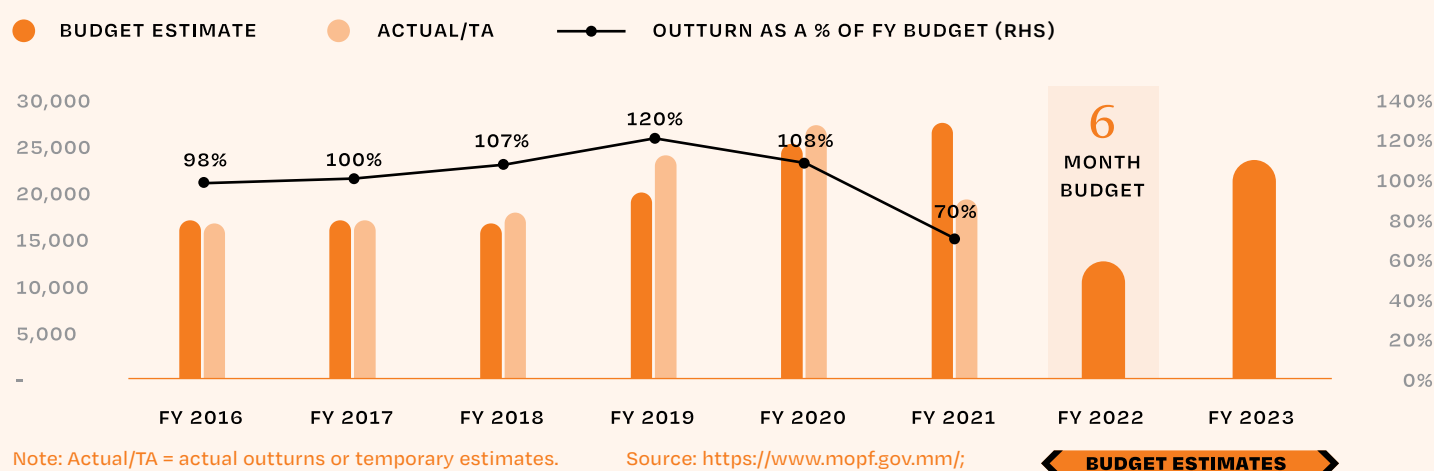
2020.² The drop in budget credibility could be explained by the events which followed the 2021 February coup, with capacity to spend and raise revenue both adversely affected, including because of the Civil Disobedience Movement (CDM) which has had implications for public sector staffing and the payment and collection of taxes and fees. Going forward, the first quarterly reports for the 6-month budget in FY2022 and FY2023, the first full-year budget under the authorities, will provide an indication of whether there could be a reversal in poor budgetary outturns.

FIGURE 2 BUDGET OUTTURNS AND ESTIMATES FY2016–FY2023 (MMK, BILLIONS)

Aggregate expenditure outturn



Aggregate revenue outturn



Note: Actual/TA = actual outturns or temporary estimates.

Source: <https://www.mopf.gov.mm/>;
World Bank Staff estimates.

² The latest public expenditure and financial accountability (PEFA) assessment in Myanmar, covering FY2015–FY2018, rated the aggregate expenditure and revenue outturns with the highest rating (criteria: outturn deviated by less than 5 percent from the approved budget in two of the last three fiscal years) although these mask considerable composition variations, for example, weak budget credibility and in-year adjustments at the ministry level.



The use of CBM financing appears to have increased, with a shift away from T-bills and T-bonds issuance. Since February 2021, the domestic securities market has become a less viable source of financing and development assistance has declined. According to the 6-month Citizen's Budget issued by the authorities for the 6 months to March 2022, 55 percent of public financing needs were expected to be met by the CBM, with only 18 percent being covered by the issuance of T-bills and T-bonds. This marks a significant unwinding of previous efforts to reduce the share of CBM financing. By comparison, across the FY2020 and FY2021 budgets (on average), it was projected that those proportions would be roughly reversed, with 17 percent of financing needs to be met by the CBM and 52 percent to be covered by bill and bond issuance. ●

1.2

Revenue



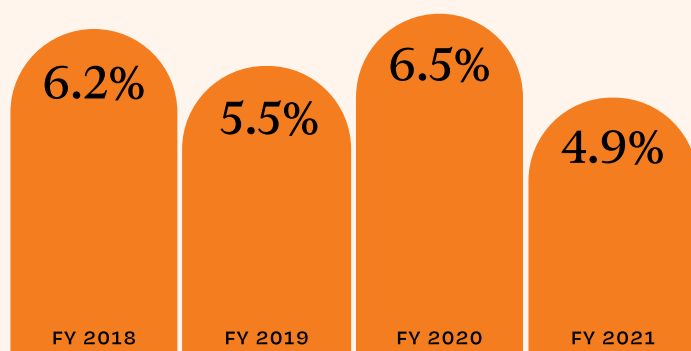
³ The Specific Goods Tax Law replaced commercial tax on a list of specific goods that are imported into Myanmar, manufactured in Myanmar, or exported to a foreign country. The list of specific goods includes products such as cigarettes, tobacco leaves, cigars, wine, beer, as well as natural resource products such as teak, lumber, jade, kerosene, petroleum, diesel and natural gas. The SGT rates range from 5 percent to 60 percent.

⁴ In retail and hospitality sectors, commercial tax is usually paid in the form of stamps that businesses buy from the Internal Revenue Department and then affix to a customer's receipt. Reports indicate that several businesses are no longer affixing these stamps and/or accepting customers' requests not to pay (Myanmar Economic Monitor July 2021, World Bank).

Tax collection declined from 6.5 percent to 4.9 percent of GDP in FY2021 (Figure 3). The decline in tax revenue was led by a weakened collection of income taxes, specific goods tax (SGT),³ and commercial tax—the three largest tax sources. Income tax receipts fell by 40 percent in FY2021, from MMK 3.5 trillion to MMK 2 trillion, followed by a 35 percent decrease in collection of the SGT and a 25 percent decrease in commercial tax. Overall, tax revenue declined by 35 percent in nominal terms, from MMK 7.3 trillion in FY2020 to MMK 4.7 trillion in FY2021 (Figure 4).⁴

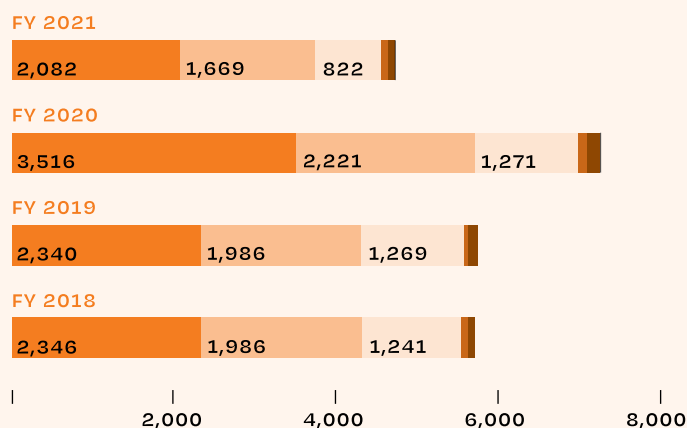
FIGURE 3 MOPF REVENUE COLLECTION

% OF GDP

Source: <https://www.mopf.gov.mm/>.**FIGURE 4 REVENUE COLLECTION BY TAX TYPE**

FY2018–FY2021 (MMK, BILLIONS)

- INCOME TAX
- COMMERCIAL TAX
- SPECIFIC GOODS TAX
- STAMP DUTY
- LOTTERY TAX
- GEMSTONE TAX



Source: IRD Annual Report for FY2021.

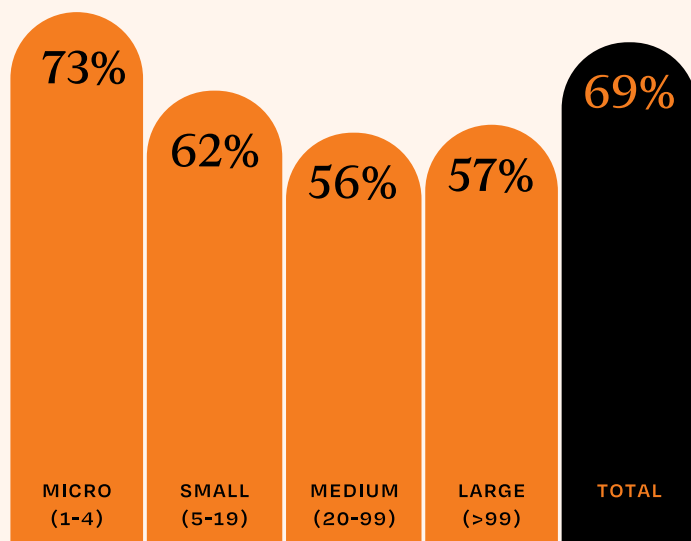
The administration projects ambitious revenue collection for its first full-year budget in FY2023. The budget estimates revenue collection of MMK 23,434 billion. This is over 22 percent higher than the MMK 19,197 billion collected during the last full 12-month fiscal year (FY2021). This appears unlikely, considering the current levels of economic performance and data from a sample of Myanmar's firms.

Over two-thirds of sampled firms report not paying taxes (Figure 5). The share of firms not paying taxes appears to have increased since before February 2021. According to the World Bank Firm Survey, April 2022, around 69 percent of the 473 surveyed firms indicated that they had not paid taxes in the previous 3 months, noticeably higher than the 53 percent of firms reporting nonpayment between August 2020 and January 2021. Nonpayment of taxes is higher among smaller firms (1–4 employees) and less common among medium (20–99 employees) and large firms (more than 100 employees). Across sectors, tax compliance is highest among firms in the food and beverage sectors (37–38 percent), manufacturing (36 percent), and retail/wholesale (34 percent) (Figure 6).



FIGURE 5 TAX COMPLIANCE

% OF SURVEYED FIRMS REPORTING NON-PAYMENT OF TAXES (BY FIRM SIZE)

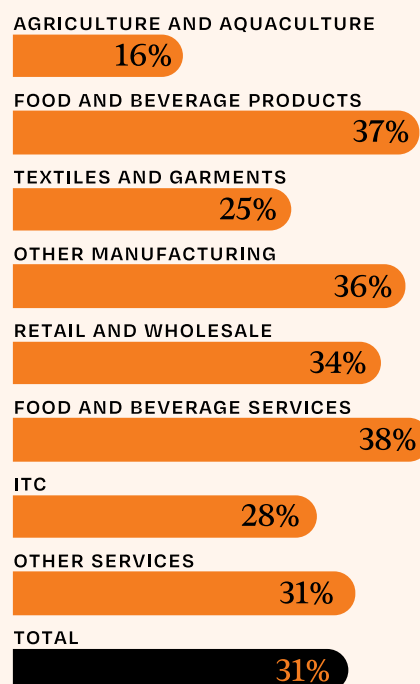


Note: ITC = Information Technology and Communication.

Source: Myanmar Firm Surveys, Round 11, April 2022.

FIGURE 6 TAX COMPLIANCE

% OF SURVEYED FIRMS REPORTING PAYING TAXES (BY INDUSTRY)



Prospects of significant increases in tax collection remain low. Only 18 percent of tax-paying firms report an increase in tax payments when compared to the same period last year (first months following the February coup, Figure 7). The large majority of firms (78 percent) reported that tax payments remained the same while 4 percent of firms reported a decrease in tax payments. Out of the firms that reported an increase in tax payments, the average increase was around 5 percent (Figure 8). This includes variation across sectors with nearly all of the increase in payments concentrated in the agriculture sector, where firms report an increase of over 27 percent.

Declines in tax collection are shifting revenue reliance toward non-tax revenue and SEE contributions. The revenue data between FY2019 and FY2023 budgets suggest a shift away from tax revenues, comprising three major taxes: income tax, commercial tax, and SGT. Tax revenue collection declined from 31 percent in FY2019 to 27 percent in FY2021 as a share of total revenue collected.



FIGURE 7 FIRMS REPORTING PAYMENT INCREASES AMONG TAX-PAYING FIRMS

OVER 3 MONTHS COMPARED TO THE SAME PERIOD A YEAR AGO



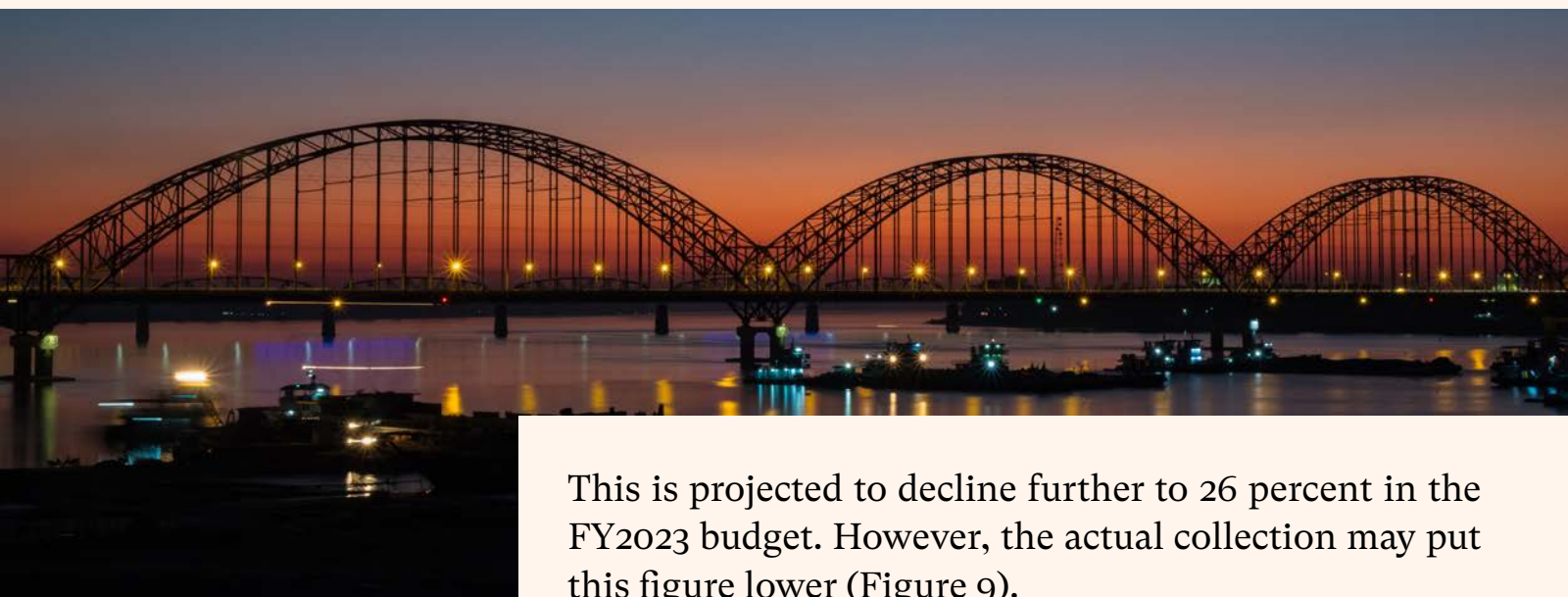
FIGURE 8 AVERAGE TAX PAYMENT INCREASE

CHANGE IN THE PAST 3 MONTHS COMPARED TO THE SAME PERIOD A YEAR AGO



Note: Sample size: 141 firms.

Source: Myanmar Firm Surveys, Round 11, April 2022.



This is projected to decline further to 26 percent in the FY2023 budget. However, the actual collection may put this figure lower (Figure 9).

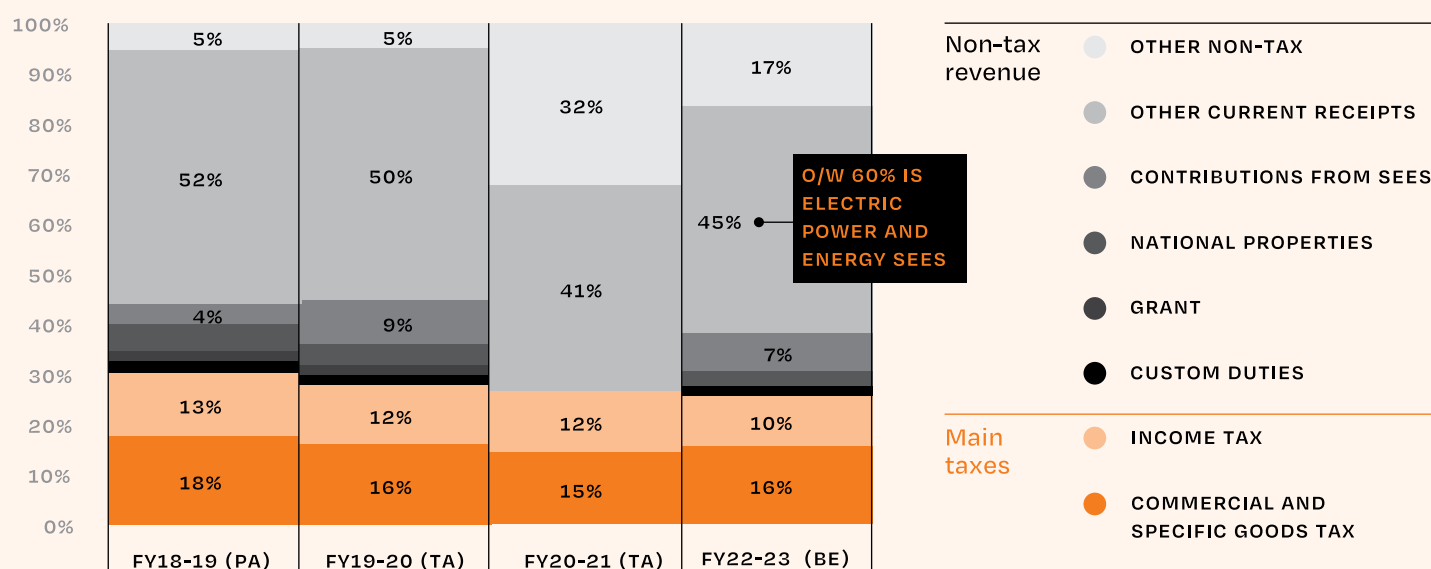
Non-tax revenues account for a large share of total revenues but have declined in nominal terms. Non-tax revenue typically provides over two-thirds of total revenue, the large majority of which is derived from SEEs in the energy sector. Non-tax revenues are estimated to account for 69 percent of total revenue in FY2023, higher than the actual collection of 64 percent of total revenue in FY2020. Despite the projections of non-tax revenue accounting for the larger share of total revenue, collection in nominal terms is estimated to decrease to MMK 16 trillion in FY2023, down from MMK 19 trillion (19 percent of GDP) a year earlier.⁵

⁵ A year earlier implies the last full-year budget in FY2022.



FIGURE 9 REVENUE BREAKDOWN, BY TYPE

% OF TOTAL REVENUE



Note: BE = budget estimates; PA = provincial actuals; TA = temporary actuals.

Nontax revenue includes collection by Ministries, Nay Pyi Taw Development Council, and the Central Bank of Myanmar.

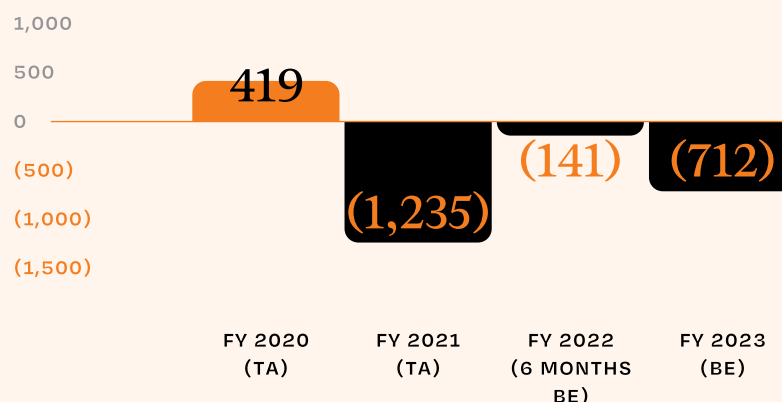
Source: MOPF - <https://www.mopfi.gov.mm/>; World Bank Staff estimates.

Losses in large SEEs are adding to the fiscal pressures. In FY2021, energy SEEs recorded a loss of MMK 1,235 billion (equivalent to around 6 percent of overall revenues), down from the profit of MMK 419 billion recorded in FY2020 (Figure 10). The overall loss is possibly attributable to losses at electricity-related SEEs and a decline in gas export earnings, with gas production and export volumes declining between October 2021 and February 2022.⁶ The authorities' own revenue projections estimate a loss of MMK 151 billion in the 6-month interim budget (FY2022) and a further loss of another MMK 712 billion in its first full 12-month budget in FY2023. The FY2023 budget estimates a loss of MMK 1.7 billion in the electricity sector. The countrywide power cuts worsened since early 2022, driving households and businesses into deeper hardship.⁷ The reduction in available power capacity is largely driven by suspension of LNG power plants. The surging LNG price and depreciating Kyat against the US dollar rendered some operations not financially viable. Furthermore, revenue collection challenges in the power sector, cash shortages, and the banking sector crisis reduced the ability of the regime to pay the power producers.

⁶ World Bank 2022. "Myanmar Infrastructure Monitoring: Energy Sector." <https://documents1.worldbank.org/curated/en/099045104062298290/pdf/P177540085ed880ca098230031387b28dd2.pdf>

⁷ <https://asia.nikkei.com/Spotlight/Myanmar-Crisis/Myanmar-energy-crisis-deepens-as-power-plant-investors-balk>



FIGURE 10 PROFITABILITY IN ENERGY SEES
PROFIT/(LOSS), FY2020–FY2023 (MMK, BILLIONS)


Note: BE = budget estimate;
TA = temporary actuals.

Energy SEEs in the figure include the Myanmar Oil and Gas Enterprise, Electricity Supply Enterprise, Electric Power Generation Enterprise, Myanmar Petroleum Product Enterprise and Yangon/Mandalay Electricity Supply Corporation (YESC/MESC); YESC/MESC distribute electricity in the two largest cities. Electricity is produced by either the state-owned plants or private companies, which is then sold to Electric Power Generation Enterprise at a contractually determined rate.

Source: MOPF - <https://www.mopfi.gov.mm/>; World Bank Staff estimates.

Despite this, SEEs appear to be returning to a more dominant role in Myanmar's economy and public finance. They are involved in most sectors and are now estimated to contribute to over 50 percent of the government's fiscal revenues. According to the authorities' budget, SEEs are estimated to contribute to at least 52 percent of budgeted revenue for the FY2023 budget. These are expressed through direct SEE contributions⁸ and 'other current receipts' (Figure 9). The revenue reliance on SEE activity is likely higher, with both tax and non-tax collections also directly and indirectly linked to SEEs. With the economy in a bind and a deteriorating fiscal environment, SEEs are likely to exert an even more considerable influence on Myanmar's economic composition and growth. Recent news of reviving operations of some state-owned enterprises (such as the Myanmar Salt Enterprise⁹ and steel mills¹⁰) is an indication of efforts to exert stronger state direction in the economy.

⁸ "Contributions from SEEs" are reported separately from the SEEs operational revenue.

⁹ <https://www.gnfm.com.mm/mse-branded-ord-production-to-resume-operations-in-july/>.

¹⁰ <https://www.gnfm.com.mm/beef-up-implementation-of-steel-mills-in-myingyan-pinpet-regions/>.



The overall health of SEEs could be a source of fiscal risk. In addition to fiscal pressures in electricity SEEs, as highlighted above, other SEEs may also be experiencing a build-up of vulnerabilities. Even before the pandemic, state-owned enterprises in developing countries have been characterized by poor performance and financial health.¹¹ The profitability of Myanmar SEEs has been further undermined by the dual shocks of covid and coup. The worsening performance in SEEs would contribute to a weaker fiscal position and increased pressure to fund their operations and debt obligations from other sources of public sector revenue. The economic downturn and any further extraction of revenues from SEEs to compensate for declining tax revenues will further exacerbate the financial risks and contingent liabilities from SEEs by reducing their ability to service debt and other obligations. ●

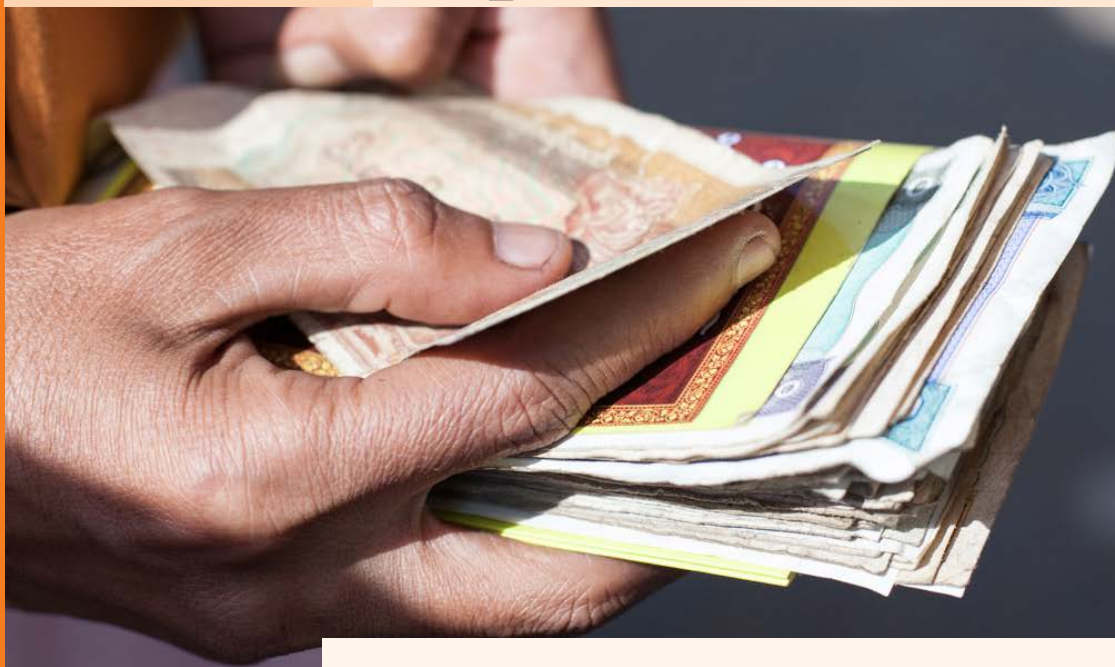
¹¹ Fiscal Monitor (IMF, April 2020). Core issues that are seen to be contributing to poor financial health (for example, unclear/ unfunded mandates, limited transparency, weak governance oversight) are present in Myanmar.

“Even before the pandemic, state-owned enterprises in developing countries have been noted for poor performance and financial health”



1.3

Expenditure



The FY2023 budget increases allocations as a share of budget toward energy and defense with reduced planned spending on health, education, and social protection (Figure 11):

→ Energy spending continues to dominate, taking up around one-quarter of the budget with increases in allocation as a share of the budget. The sector has seen the largest increase in its share of the budget—2.2 percentage points compared with FY2021 budget. Nearly all of it is budgeted under the energy SEEs. The increase could be, at least partially, reflecting the downward pressure on the exchange rate. Exchange rate depreciation increases the kyat value of spending, particularly in the import dependent sectors (for example, energy and defense).

→ Under the authorities, budgeted defense spending (12 percent) continues to be larger than allocations to health (2.8 percent) and education (7 percent) combined. Spending on defense has increased from 10 percent of the budget in FY2021 to 12 percent in the FY2023 budget. The extent of off-budget military spending is not clear.

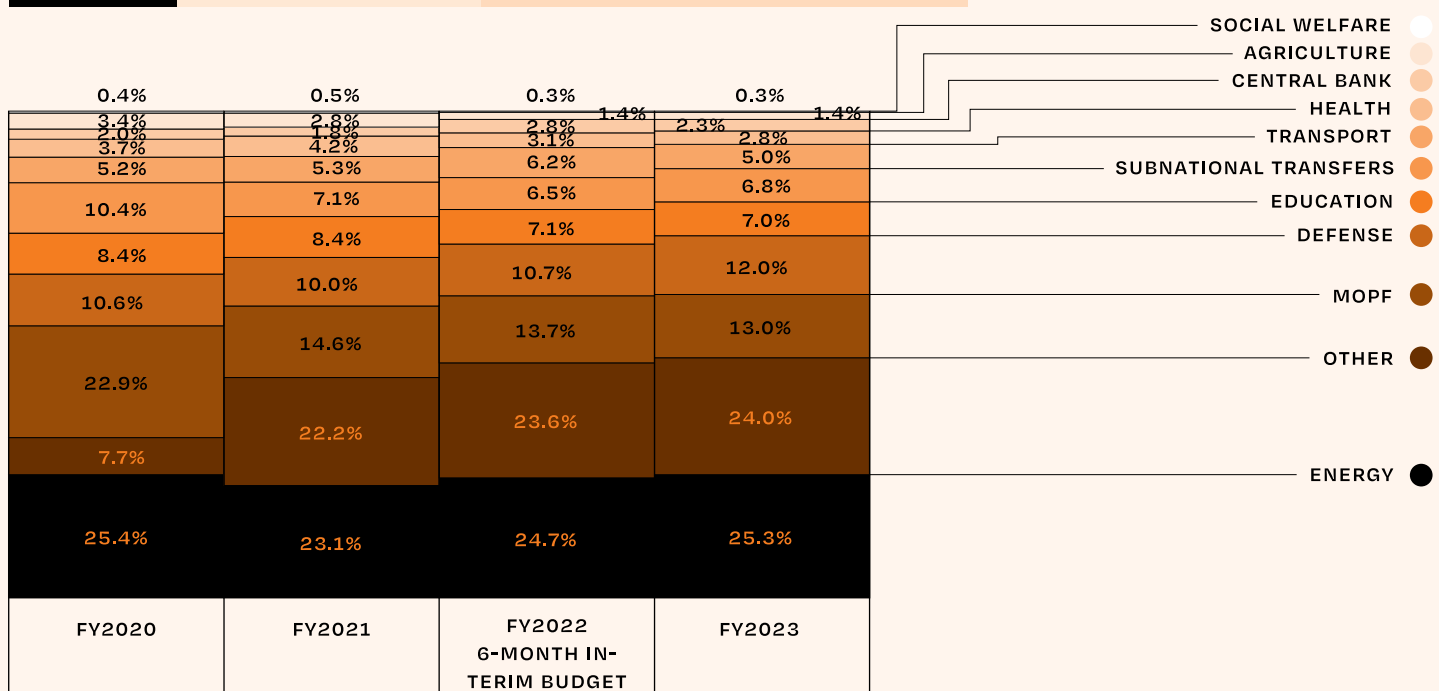


→ Budgeted spending on health, education, and social protection, already taking up a relatively small share of the budget, has each decreased by over 1 percent of the budget. Collectively, they account for just over 10 percent of the overall budget. These are discussed in more detail in the following section.

Less than 2.5 percent of spending during FY2021 has been reported under CERP. The 2020 CERP committed to ambitious plans to mitigate the impacts of the COVID-19 pandemic while establishing foundations to support rapid economic recovery.¹² During FY2021, MMK 700 billion (approximately 1 percent of GDP) was recorded as CERP spending. Most of the CERP expenditure for FY2021 (MMK 551 billion out of MMK 700 billion) was reported under MOPF for the cost of the vaccine. The rest of the CERP expenditures were reported under the Social Security Fund (MMK 48 billion), the Ministry of Health (MMK 46 billion), 14 states/regions (MMK 36 billion), and the Ministry of Defense (over MMK 11 billion). ●

¹² CERP articulated 7 goals, 10 strategies, 36 action plans, and 78 actions, covering a broad range of extraordinary fiscal measures, combined with a set of human-focused and commonsense policy responses. The plan did not make budgetary commitments, the cost of CERP is estimated to be between MMK 2.9 and MMK 3.7 trillion (2.5 to 3.2 percent of GDP) depending on the coverage of the plan.

FIGURE 11 BUDGET PRIORITIES BY SECTOR/MINISTRY, % OF TOTAL



Note: BE = budget estimates.

Transport and energy sectors are predominantly SEE spending (80% and 90% of the sector, respectively). 'Other' includes ministries of labor, industry, natural resource and environment, information, border affairs, international cooperation, and so on.

Source: MOPF - <https://www.mopfi.gov.mm/>; World Bank Staff estimates.

2

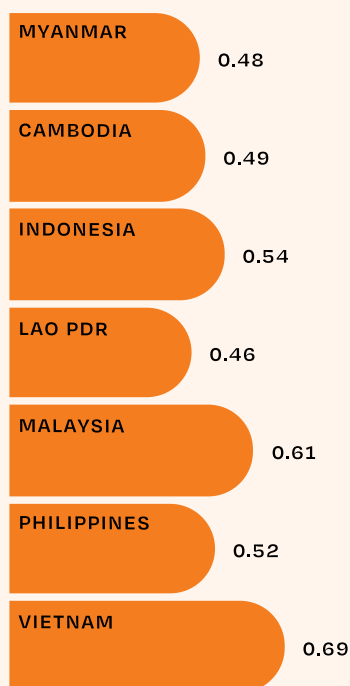
Service Delivery



Following significant increases in expenditure on health and education since 2011, budget resources for these sectors are now decreasing. Increased share of resources under the FY2023 budget toward energy (25 percent) and defense (12 percent) comes at the expense of planned spending on health (down to 2.8 percent from 4.2 percent of the budget in FY2021), education (7 percent from 8.4 percent in FY2021), and social protection (0.3 percent from 0.5 percent in FY2021). In nominal kyat terms, the FY2023 budget implies a decline in spending of 17, 33, and 35 percent on health, education and social protection, respectively, from FY2021 budget levels.

Data availability limits the analysis of spending cuts in services. The projected declines in spending on social sectors could be reflecting the decreased demand for services as well as supply-side constraints through a decrease in external financing, lower priority placed on social sectors, and staffing issues (including because of



FIGURE 12**HUMAN DEVELOPMENT INDEX**

Source: World Bank Human Development Index.

13 <https://www.straitstimes.com/asia/se-asia/myanmar-students-skip-school-amid-boycott-fear-of-bombings>

suspensions and/or participation in the Civil Disobedience Movement). In 2021, one-quarter of Myanmar's more than 12 million students have reportedly enrolled for the new school year.¹³ Reduced planned spending could also reflect the decrease in the availability of external financing provided by donors. Access to a more detailed breakdown of planned spending would help determine the drivers for the decline and where the reductions in planned spending are concentrated in the budget.

Even before the COVID-19 shock and the military coup, Myanmar lagged behind the region on the Human Capital Index (HCI). The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health. In 2020, Myanmar's HCI was 0.48 (Figure 12), lower than the average for the region (0.61). The index of 0.48 indicates that a child born in Myanmar will be 48 percent as productive when s/he grows up as s/he could be if s/he enjoyed complete education and full health. ●

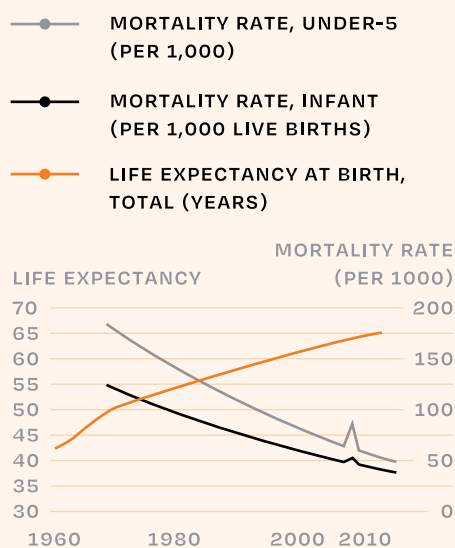


2.1

Health sector

FIGURE 13

MYANMAR HEALTH INDICATOR TRENDS



Source: World Development Indicators (WDI).

Health outcomes in Myanmar have improved over the last few decades but remain among the lowest in the region. Life expectancy at birth has risen from just 42 years in 1960 to 67 years in 2020. Since 1990, the under-five mortality rate (U5MR) has fallen from 106 per 1,000 live births to 50; infant mortality rate (IMR) has declined from 76 per 1,000 live births to 40; and the maternal mortality ratio (MMR) fell from 520 per 100,000 live births to 227 (Demographic and Health Surveys [DHS], 2015–2016) (Figure 13). However, Myanmar still lags behind in health outcomes compared to its neighbors in the region (Table 1). Childhood and maternal undernutrition continue to constitute a serious public health and development concern. In 2015, 29.2 percent of children under 5 years of age in Myanmar were stunted (DHS, 2015–2016). Wide variations in health outcomes and access to health services are also observed across the country based on geography, gender, and income.

TABLE 1 SELECTED HEALTH OUTCOME INDICATORS

MYANMAR VERSUS COMPARATOR COUNTRIES 2015

Indicator	Myanmar	Cambodia	Lao PDR	Thailand	Vietnam
Life expectancy	66	68	66	75	76
IMR (per 1,000 live births)	40	25	51	11	17
U5MR (per 1,000 live births)	50	29	67	12	22
MMR (modelled estimate per 100,000 live births)	178 (227 from DHS)	161	197	20	54

Source: WDI database, Myanmar DHS.



The hard-won gains Myanmar has made in its health outcomes since 2021 are under threat, first by the COVID-19 pandemic and then because of disruptions in the essential health services and supply chain, and decrease in the health workforce especially in the public sector due to the CDM. Though the availability of routine health services has improved with a decline in COVID-19 cases, it is still showing a significant decline compared to the pre-coup period.

Despite the gains since 2021, Myanmar's health sector faces several persistent challenges as a result of decades of neglect and underinvestment. The National Health Plan (NHP), 2017–2021, identified important challenges in health systems including public finance management. Underinvestment, lack of clear recruitment and deployment policies, limited clarity around roles and responsibilities of different health cadres, imbalance in pre-service training, project-oriented in-service training, and limited continuous professional development have led to chronic shortages, inappropriate balance and mix of skills, inequitable distribution, and difficulties in rural retention among human resources for health. Decades of underinvestment in the sector before 2011 resulted in weakened health infrastructure, compounded by a lack of a clear nationwide infrastructure investment plan and standardized design of health facilities. Rural and frontline facilities providing primary care had received less attention and investment over the past few decades compared to tertiary care facilities, and this has resulted in limited availability, readiness, and coverage of primary care services. The situation is more dire in conflict-affected and hard-to-reach areas and communities. Myanmar also lags behind in its preparedness to prevent, detect, and respond to disease outbreaks and pandemics (Joint External Evaluation and Global Health Security Index). The COVID-19 pandemic and the military coup have further exposed and exacerbated these challenges in the health systems.

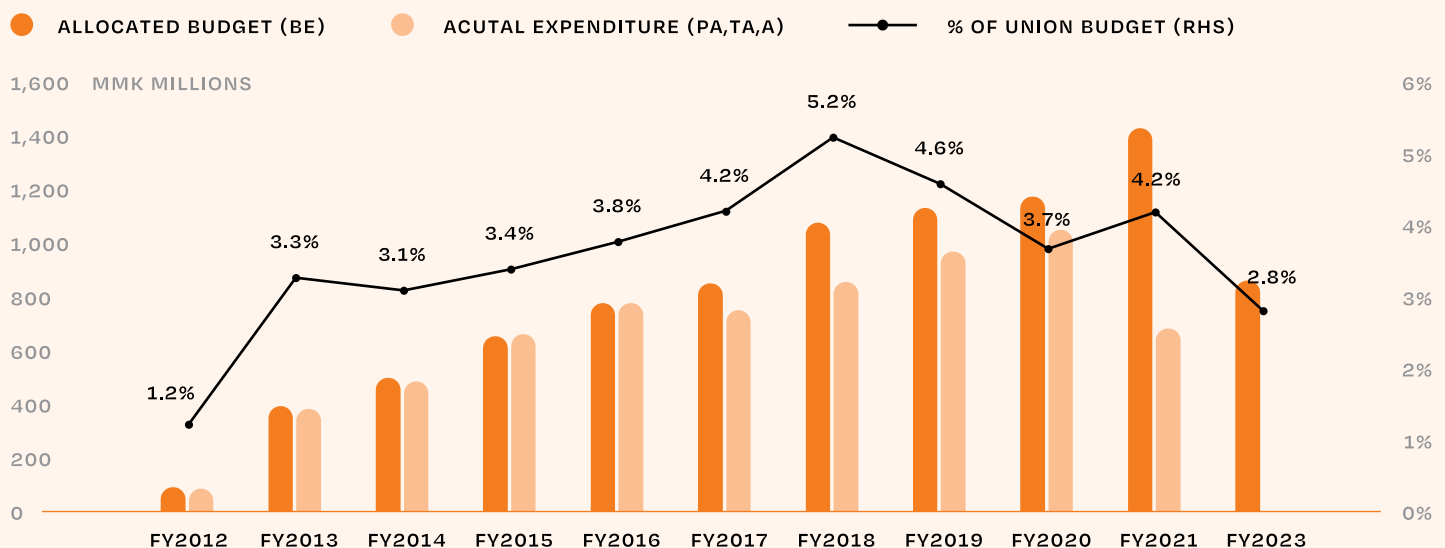


With historically low levels of public funding for the health sector, the financial burden has to be borne by households. Out-of-pocket (OOP) spending accounts for more than 75 percent of total health expenditure in Myanmar, and as a share of household spending, it is greatest for the poorest, with adverse implications for financial protection. Approximately 16 percent of Myanmar households are spending over 10 percent of their total expenditure on health. In 2017, more than 3 percent of the population spent more than 25 percent of household consumption or income on OOP health care expenditure, only second to Cambodia.

With the shift in government priority toward social service sectors since 2011, there was a significant effort to increase public spending on health (Figure 14). Between FY2012 and FY2018, the government increased its allocation to health from 0.19 percent to 1.16 percent of GDP or from 1.21 percent to 5.23 percent of the union budget. However, because of the historically low levels of spending, in 2015, Myanmar's total health expenditure per capita continued to be low at MMK 70,100, or US\$54 per year (Health Financing Systems Assessment,

FIGURE 14 MOHS BUDGET ALLOCATION AND SPENDING

IN MMK, MILLIONS (PRIMARY VERTICAL AXIS) AND BUDGET AS % OF UNION TOTAL (SECONDARY VERTICAL AXIS), FY2012–FY2023



Note: A = actuals; BE = budget estimates; PA = provisional actuals; TA = temporary actuals. FY2022 6-month budget is omitted from the analysis

Source: MOPF - <https://www.mopfi.gov.mm/>; World Bank Staff estimates.

2018). After 6 years of steady increase, the health share of the union budget started to decline in FY2019, and stood at 4.2 percent of the union budget or 1.5 percent of GDP in FY2021.

There has been a persistent challenge with execution of the budget in the health sector. Execution rate hovered around 90 percent between FY2011 and FY2016 and then proceeded to decline further.

FIGURE 15 MOHS OVERALL BUDGET EXECUTION

PROVISIONAL ACTUALS VERSUS BUDGET ESTIMATES (%), FY2012–FY2021

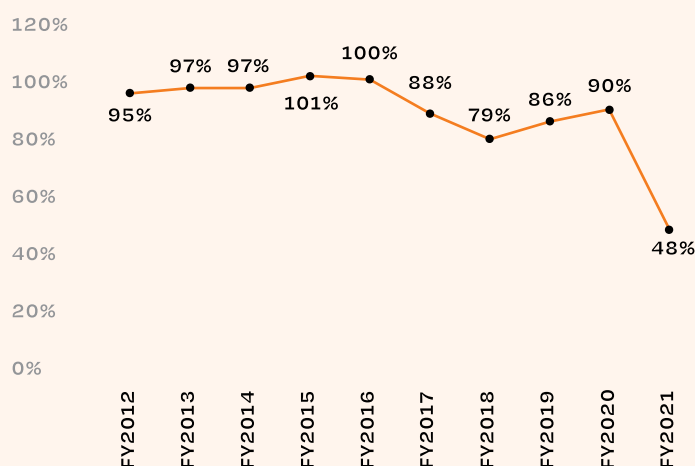
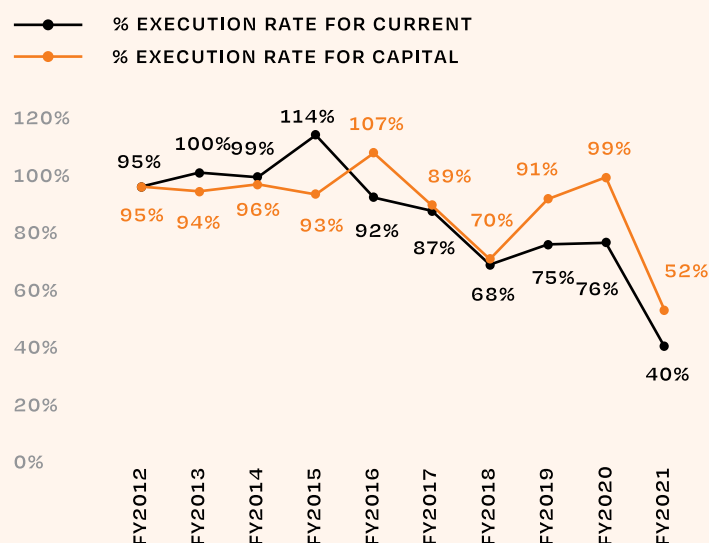


FIGURE 16 RECURRENT & CAPITAL BUDGET EXECUTION

PROVISIONAL ACTUALS VERSUS BUDGET ESTIMATES (%), FY2012–FY2021



Note: MoHS = Ministry of Health and Sports.

Source: MOPF - <https://www.mopf.gov.mm>; World Bank Staff estimates.

Annual health spending by the authorities declined by 35 percent in FY2021. Despite the nominal increase in allocation to the MoHS (from MMK 1,172 billion to MMK 1,429 billion), the expenditure execution dropped to 48 percent (52 percent of recurrent budget and 40 percent for capital) or around 0.7 percent of GDP. This translates to a decrease from 0.9 percent of GDP a year earlier, the lowest spending in the region (Figure 17). This sharp drop in budget execution has come at a crucial period where more efficient execution is needed to address the spread of the COVID-19 pandemic and sustain essential health services to maintain the gains made



previously in health outcomes. Data availability places limits on identifying the bottlenecks in execution; however, it is likely that boycotts and the CDM across the country have likely constrained the public sector's capacity to provide critical health services. Specifically, the CDM has resulted in the lack of manpower at the facilities to deliver services. At the same time, staffing issues may have constrained the functioning of the MoHS bureaucracy at the management and decision-making levels, leading to delayed and oftentimes ineffective decisions and approval processes.

Fiscal resources in the health sector are being squeezed under the authorities' first full-year budget. The FY2023 budget allocates MMK 861 billion to the health sector¹⁴, a decline from 4.2 percent to 2.8 percent as the share of the total union budget. This amounts to about US\$7.8 per person, lower than US\$9.5 per person in 2019 which was already the lowest in the region (Figure 18)—for example, lower than US\$25 per person in the Lao People's Democratic Republic (Lao PDR) and US\$28 per person in Cambodia in 2019. The actual spending will likely be lower, given the weak execution in recent years. ●

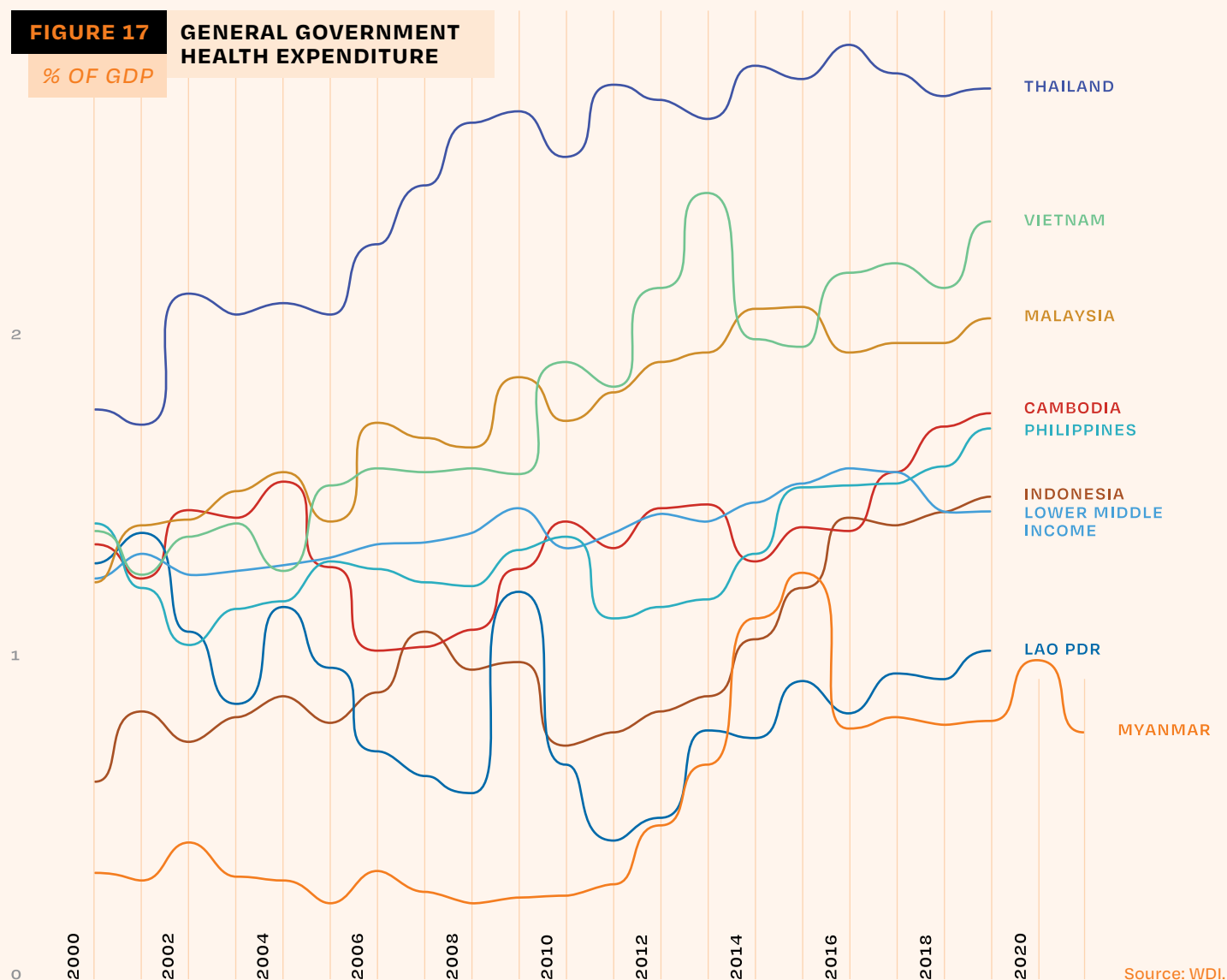
¹⁴ In July 2021, the authorities separated the MoHS into two different ministries: Ministry of Health and Ministry of Sports and Youth Affairs. In FY2023, MMK 861 billion was allocated to the former and MMK 46 billion to the latter.

Despite the gains since 2021, Myanmar's health sector faces several persistent challenges as a result of decades of neglect and underinvestment

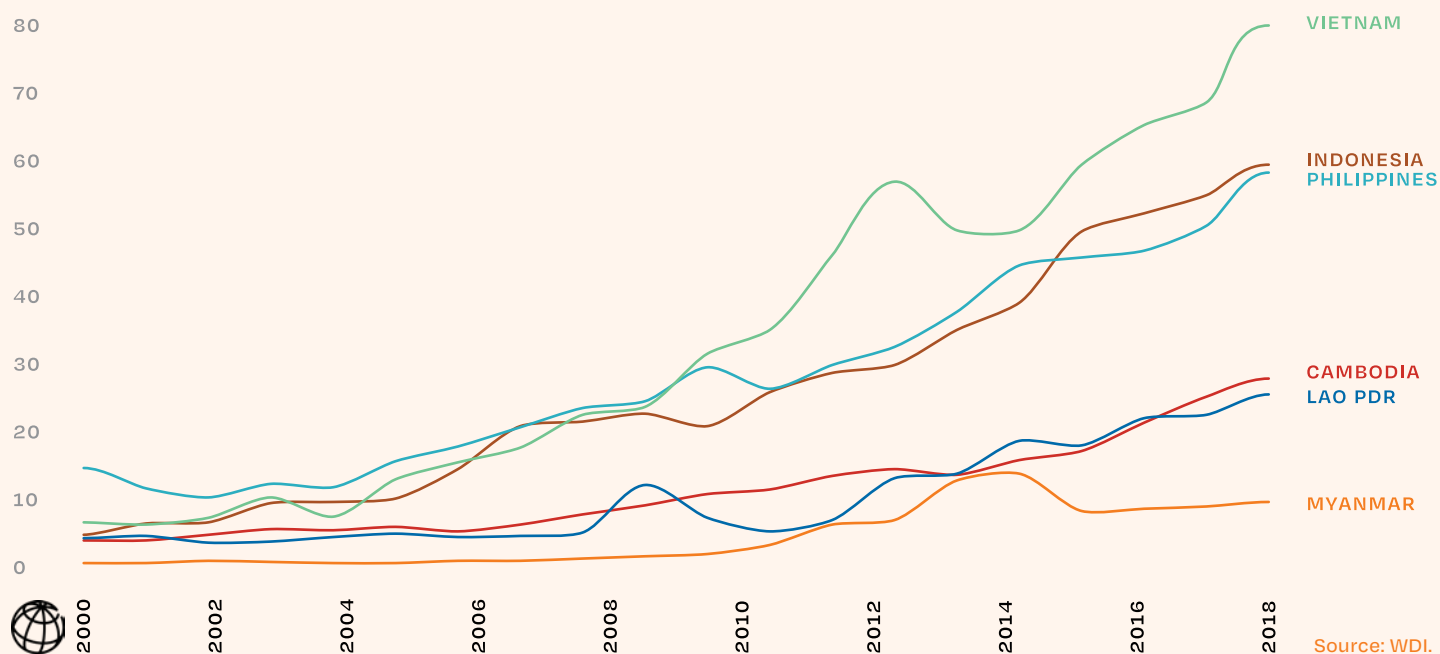


FIGURE 17 GENERAL GOVERNMENT HEALTH EXPENDITURE

% OF GDP


FIGURE 18 GENERAL GOVERNMENT HEALTH EXPENDITURE

PER CAPITA (CURRENT US\$)

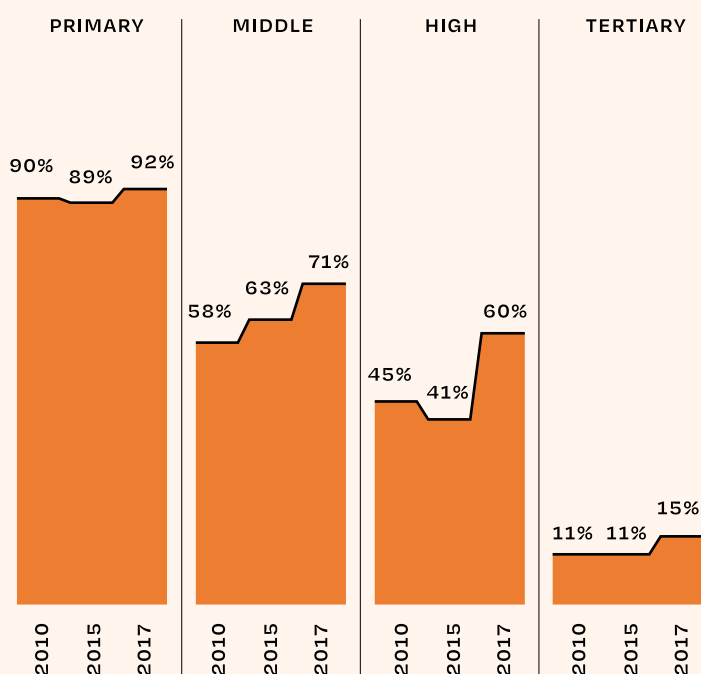
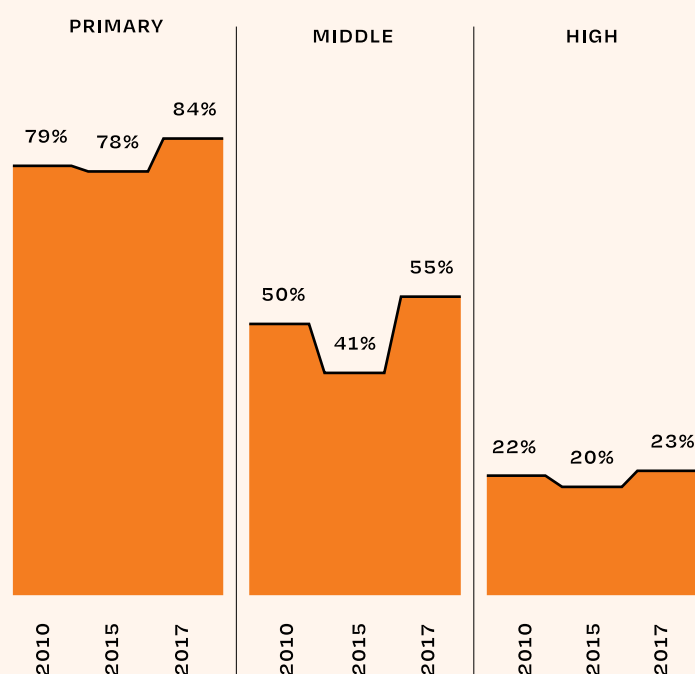


2.2

Education sector



Myanmar has made remarkable improvements during the past decade in ensuring access to school education. This includes increased rates in gross enrollment between 2010 and 2017 at all levels of schooling (from primary schools to higher education institutions) as well as an increase in completion rates (Figure 19 and Figure 20). These translate to increased years of learning, which ultimately lead to improved learning outcomes, boosting human capital.

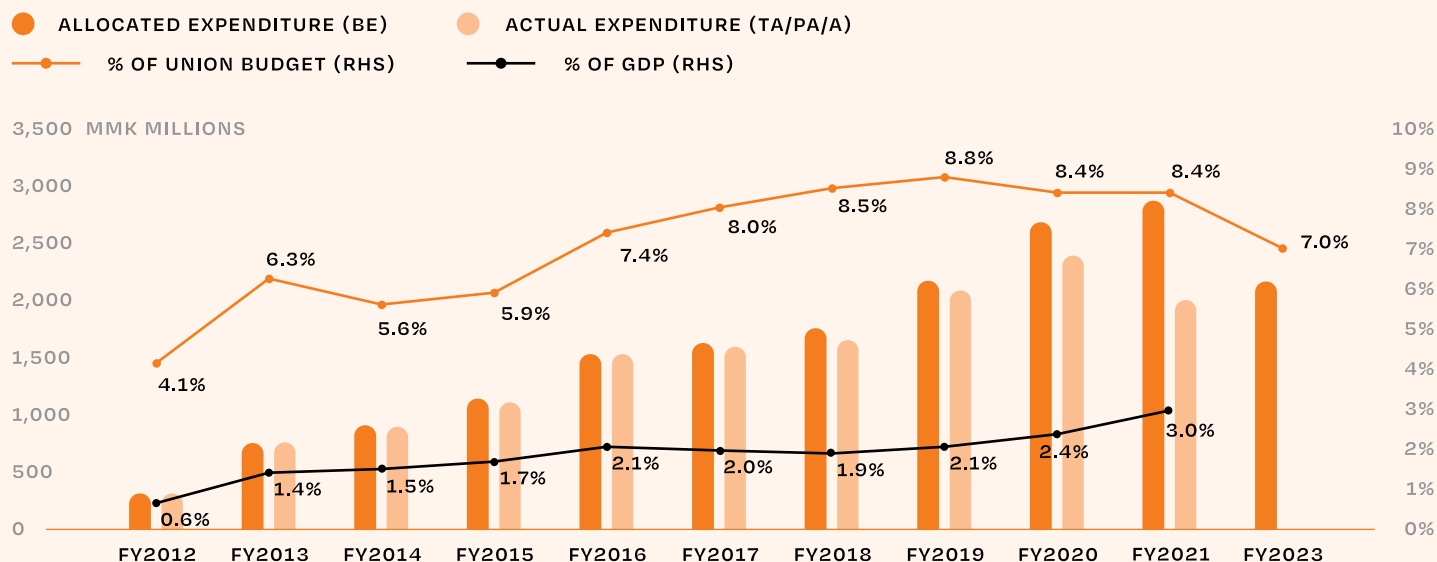
FIGURE 19 GROSS ENROLLMENT RATES*BY EDUCATION LEVEL, 2010–2017 (%)***FIGURE 20 COMPLETION RATES***BY EDUCATION LEVEL, 2010–2017 (%)*

The COVID-19 global pandemic has added further challenges to the education system and resulted in considerable learning losses, exacerbated by the military coup. Schools were closed as the number of confirmed COVID-19 cases were increasing in 2020. Public schools closed for the entire 2020–2021 school year, affecting all students and resulting in a significant negative impact on expected years of schooling (EYRS), learning adjusted years of schooling (LAYS), learning outcomes, and income earning potential. The situation has deteriorated since February 2021.

The 2015 Law Amending the National Education Law has specifically prescribed education expenditure to reach up to 20 percent of the total union government expenditure in Myanmar. While short of achieving this aspiration, public resources allocated to education have increased significantly over 10 years, reflecting the priority given to the education sector by the last two administrations. The total budget allocation for the MoE amounted to only MMK 310 billion in FY2012 and increased over nine-fold up to MMK 2,873 billion in FY2021 (Figure 21). Nevertheless, at 8.4 percent of the total union budget and 2.4 percent of GDP in FY2020, public education expenditure in Myanmar remains con-

FIGURE 21**MoE BUDGET ALLOCATION & SPENDING**

MMK, MILLIONS (PRIMARY VERTICAL AXIS) AND % OF UNION BUDGET AND GDP (SECONDARY VERTICAL AXIS), FY2012-FY2023



Note: BE = budget estimates; TA / PA / A = temporary, provisional actuals and actual outturns. FY2022 6-month budget is omitted from the analysis

Source: MOPF - <https://www.mopf.gov.mm/>; World Bank Staff estimates.



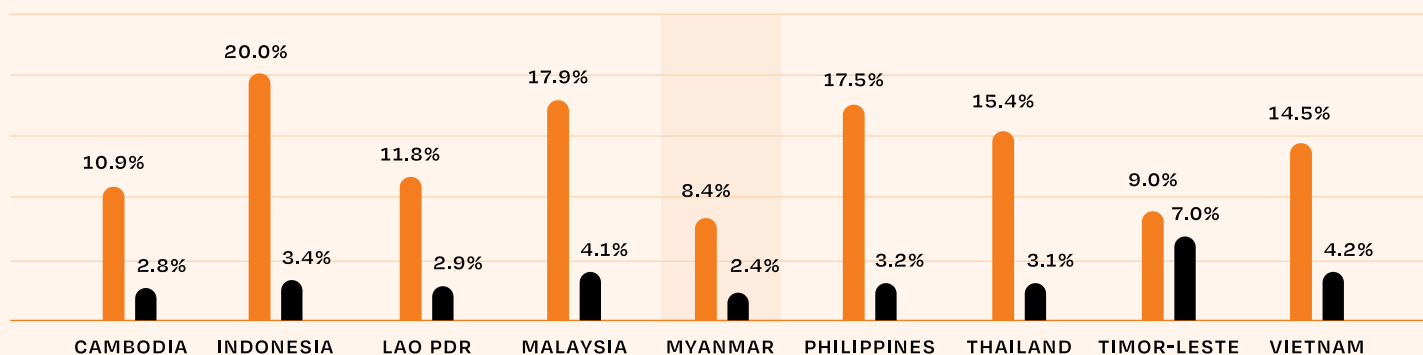
siderably lower than in neighboring and comparator countries (Figure 22). This is set to decrease in FY2023, with only around 7 percent of the total union budget allocated to the MoE.

Most of this increase in the education budget can be allocated to the increase in the Department of Basic Education (DBE), which accounted for over 70–80 percent of total MoE planned spending between FY2017 and FY2021. Other key departments include the Department of Higher Education (DHE) which accounted for 14–18 percent and the Department of Technical, Vocational Education and Training (DTVET)¹⁵ which constituted 1–7 percent of the total budget between FY2017 and FY2021 (Figure 23).

FIGURE 22 SPENDING ON EDUCATION

% OF TOTAL GOVERNMENT EXPENDITURE AND % OF TOTAL GDP: MYANMAR VERSUS NEIGHBORING AND COMPARATOR COUNTRIES

- EXPENDITURE ON EDUCATION AS % OF TOTAL GOVERNMENT EXPENDITURE (%)
- EXPENDITURE ON EDUCATION AS % OF TOTAL GDP (%)



Source: World Bank's Education Statistics (EdStats) and internal documents, Citizen's Budget (FY2020).¹⁶

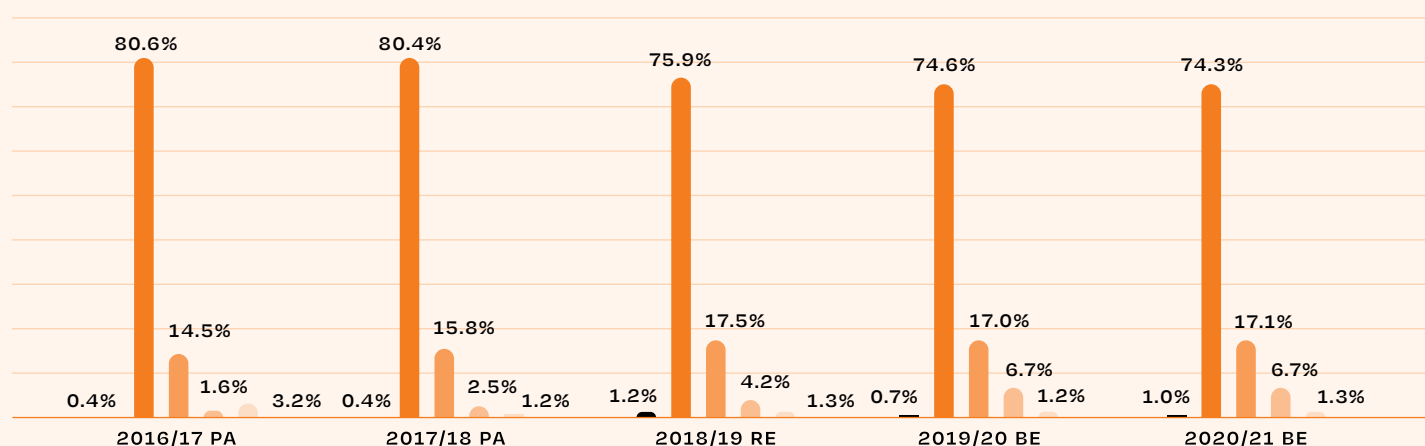
¹⁵ Since the authorities announced the reorganization of the MoE into two different ministries—the MoE and Ministry of Science and Technology (MoST)—in June 2021, DTVET was transferred under the supervision of the MoST. Moreover, the MoST has reestablished the Department of Advanced Science and Technology (DAST) which administers all technological and computer universities (TUs/CUs) similar to the DHE under the MoE.

¹⁶ Data on Education Financing for Indonesia, the Philippines, Thailand, Cambodia, and Timor-Leste are obtained from various internal documents of the World Bank. Data for Lao PDR, Malaysia, and Vietnam are extracted from the World Bank's Education Statistics (EdStats) portal and data for Myanmar is taken from the Citizen's Budget (FY2020). 2020 is the most recent year for which data are available for Indonesia, Thailand, Cambodia, Myanmar; 2019 for Malaysia, the Philippines, and Timor-Leste; 2018 for Vietnam; 2014 for Lao PDR.



FIGURE 23 MoE BUDGET ALLOCATION BY DEPARTMENT*FY2017–FY2021 (% OF BUDGET)*

- ALTERNATIVE EDUCATION + EDUCATION RESEARCH, PLANNING AND TRAINING
 ● BASIC EDUCATION ● HIGHER EDUCATION ● TVET ● OTHERS



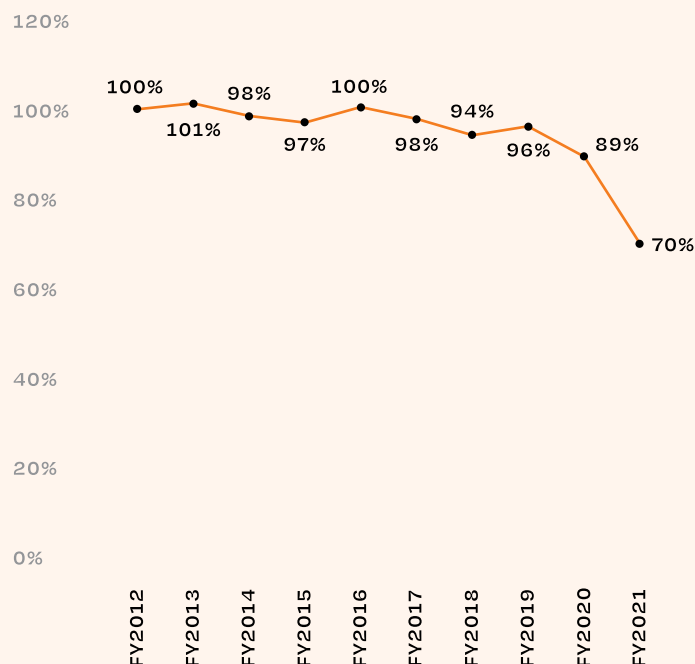
Source: MoE; World Bank Staff estimates.

Budget outturns worsened in FY2020, following a relatively fair performance in budget credibility. With the nationwide school closures due to the COVID-19 pandemic, the execution rate decreased to 89 percent in FY2020. Following the dual shocks of COVID-19 and the coup, the execution rate continued to decline further to 70 percent in FY2021 (Figure 24). Challenges in implementation are observed across both recurrent and capital budgets, slightly worse for the latter. Before COVID-19, delays in procurement processes were often cited as a reason for poorer execution of the capital budget. Affected by both COVID-19 and the political crisis, only 69 percent of the capital budget was spent in FY2021. Possibly owing to a considerable number of MoE teaching and nonteaching staff joining the CDM, the MoE budget implementation capacity was constrained, resulting in only 70 percent of the recurrent budget being implemented in FY2021 (Figure 25).

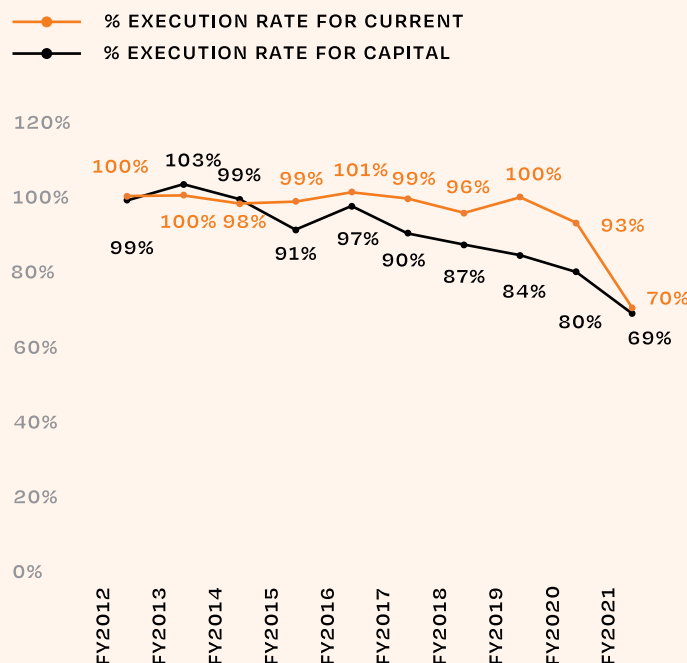


FIGURE 24 MoE OVERALL BUDGET EXECUTION

PROVISIONAL ACTUALS VERSUS BUDGET ESTIMATES (%), FY2012–FY2021

**FIGURE 25 RECURRENT AND CAPITAL BUDGET EXECUTION**

PROVISIONAL ACTUALS VERSUS BUDGET ESTIMATES (%), FY2012–FY2021



Source: MOPF - <https://www.mopf.gov.mm>;
World Bank Staff estimates

Access to more detailed data breakdowns could strengthen the analysis. A 2- to 4-digit breakdown by economic classification is essential to analyze the detailed pattern of expenditure for both departmental and school levels. Considering the significant involvement of the education workforce in CDM, one would expect to see a decrease in payroll and allowance (01 budget code) and changes in goods and services (03 budget code) and transfer payments (05 budget code). The MoE uses the 03 codes to hire daily-wage teachers and staff, teaching assistants, and ethnic language teachers and incur printing and publishing costs and office expenses. Since the DBE has been providing the school grant, School Improvement Support Program (SISP), using a simple formula, the grant expenditure of schools in the designated 13 budget codes could be used to conduct a school-level spending analysis. ●

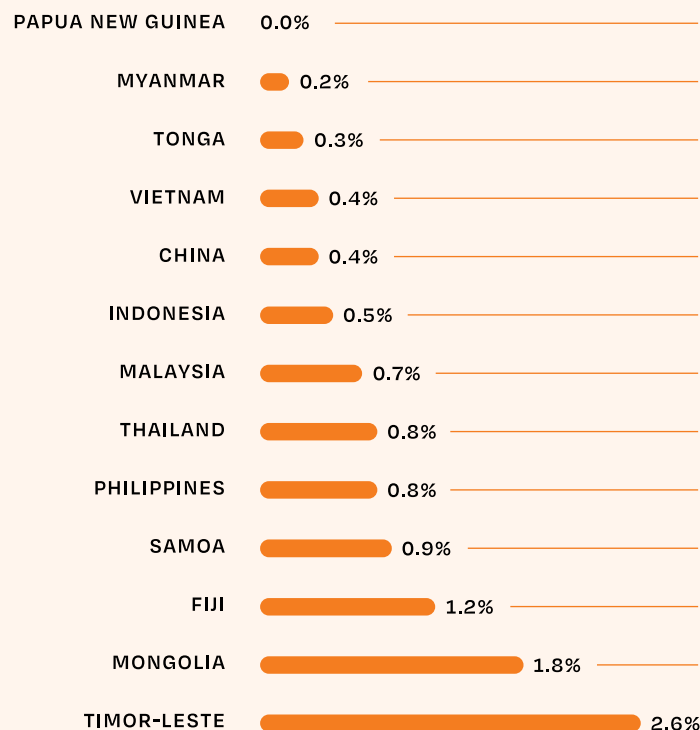


2.3

Social Protection

Myanmar has an underdeveloped social protection system. This is critical as social protection could play a key role in reducing poverty and inequality and fostering human capital. The overall spending and coverage of social protection programs, particularly for a social safety net (SSN), remain limited (Figure 26). Spending on SSNs in Myanmar is significantly lower than in other countries, at only 0.2 percent of GDP in 2019 compared to East Asia and Pacific regional average of about 0.8 percent of GDP with a global average of about 1.5 percent of GDP.¹⁷ Myanmar's neighbors spend larger shares on social protection, for example, 0.8 percent of GDP in Thailand.

FIGURE 26 EAST ASIA AND PACIFIC REGION SPENDING ON SSN
% OF GDP, 2019



¹⁷ Latest data for East Asia and Pacific region, O'Keefe, Dutta, Palacios, and Moroz. Forthcoming. "Diverse Paths: The Dynamic Evolution of SP in Asia and the Pacific." and for global average World Bank. 2018. "State of Social Safety Nets, 2018."



After increases in budget allocations for the Ministry of Social Welfare, Relief and Resettlement (MSWRR), over much of the past decade, these trends have reversed since FY2021 (Figure 27). Recognizing the necessity to invest in protecting the poor and the most at-risk population and the need to enhance human capital and productivity, a National Social Protection Strategic Plan (NSPSP) was developed in 2014 and accompanied by a 2018–2022 Medium-Term Sector Plan. Building on the NSPSP, in recent years before the pandemic, the Government of Myanmar has made major commitments to expand its social protection system through the MSWRR. The budget allocations have increased nearly nine-fold between 2016 and 2021, albeit from low levels. This trend was largely driven by increases in the maternal and child cash transfer (MCCT) program. This has been reversed under the new FY2023 budget, with the budget allocations to the MSWRR declining to 0.31 percent of the total union budget from 0.45 percent a year earlier (Figure 27). This translates to a decrease to MMK 97 billion from MMK 160 billion in FY2021.

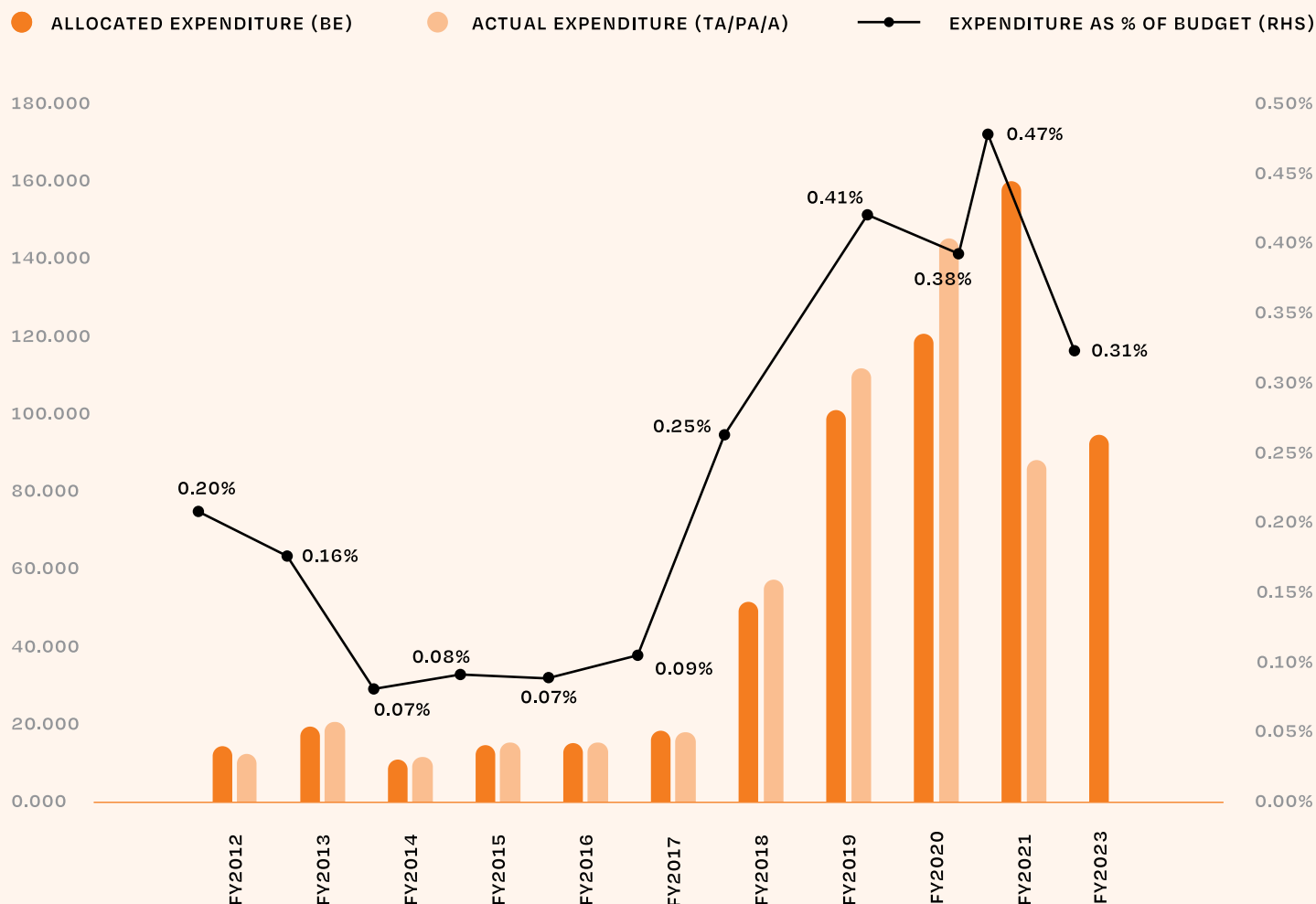
Annual spending by the MSWRR has also declined. Actual spending declined by 35 percent in FY2021, despite higher allocations. Budget execution dropped to 55 percent of allocations in FY2021, a significant departure from spending outturns in recent years. The level of spending is far from sufficient to support the country's vulnerable, particularly amidst increasing food and energy prices.

Data limitations present a gap for understanding the decline in budget allocations and the spending pattern. Access to government accounts at a 2-digit level may help determine the level of allocations to key policy programs, such as the cash transfers to the vulnerable, implemented by the MSWRR, or budgeted amounts for disasters under the emergency reserve fund. Furthermore, as with the other sectors, budget data on payroll will provide an indication of the ministry's staff headcount and the impact of the CDM. ●

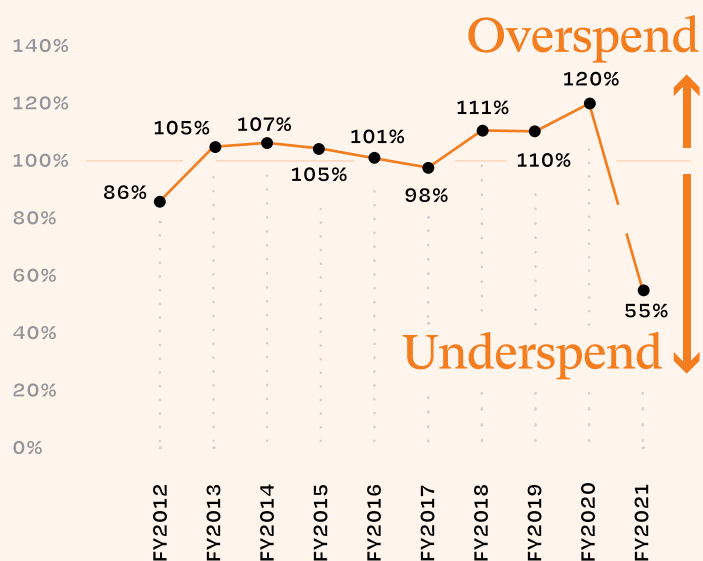


FIGURE 27 MINISTRY OF SOCIAL WELFARE, RELIEF AND RESETTLEMENT

MMK, MILLIONS AND % OF TOTAL UNION SPENDING, FY2012-FY2023



Note: BE = budget estimates; TA / PA / A = temporary, provisional actuals and actual outturns. FY2022 6-month budget is omitted from the analysis

BUDGET OUTTURN, % OF MINISTRY BUDGET

Source: MOPE; World Bank staff estimates.

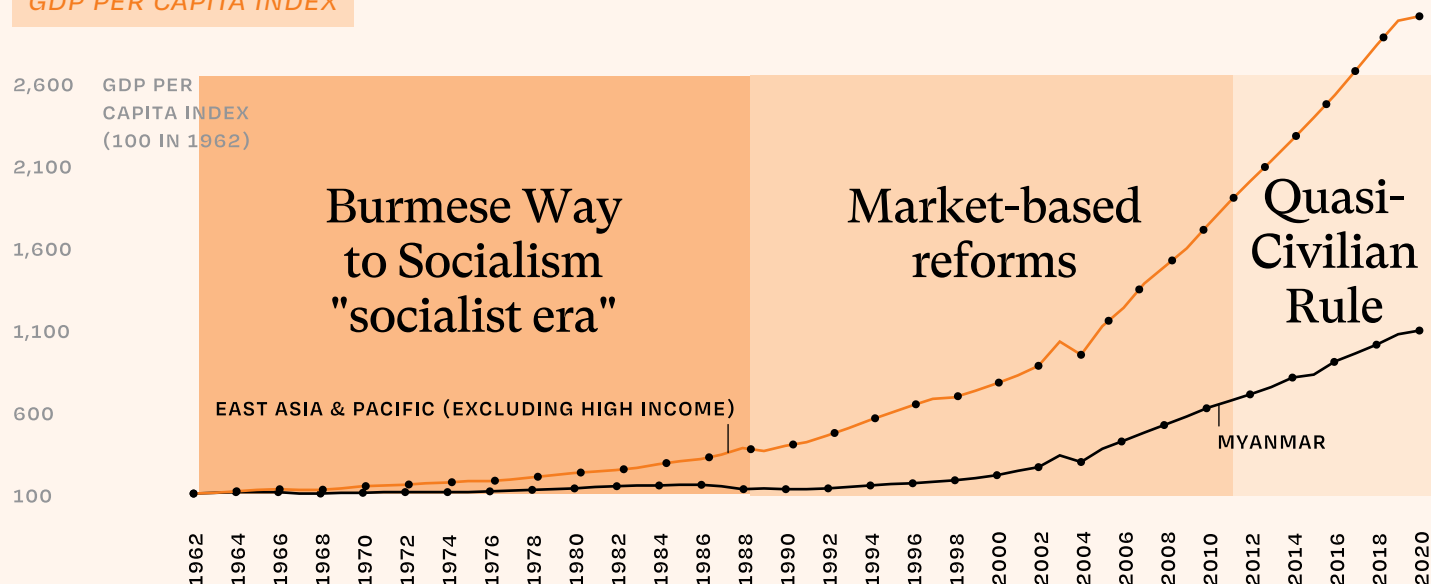
3



A longer-term perspective *on* fiscal management

This section provides a broad historic perspective on Myanmar's economic governance. Myanmar's economic history in the 50 years to 2011 can be broadly characterized by two periods: the first between 1962 and 1988, referred to as 'Burmese way to Socialism', followed by a transition toward a market-based system between 1988 and 2011. The governments during these periods focused on the suppression of separatist movements, resulting in minimally functioning state institutions dominated by military concerns rather than social services—ultimately diverting resources away from public services and limiting potential growth (Figure 28). These have left the chal-



FIGURE 28 MYANMAR FELL BEHIND ITS NEIGHBORS**GDP PER CAPITA INDEX**

Source: WDI;
World Bank Staff
estimates.

lenging legacy of a weakened social contract, top-down decision-making, and a weak orientation toward service provision, which remained a considerable obstacle to reforms since 2011.

Political and economic reforms, which commenced in 2011 as part of a transition to quasi-civilian rule, have promoted growth and improved welfare outcomes. The first democratic elections in five decades were held in 2015. The transition from a planned to an open market economy brought about average annual growth rates of 7 percent and a decline in poverty rates, from 38 percent in 2010 to 26 percent in 2015. The impact of these transitions has been felt by all sectors of society. For example, access to electricity has nearly doubled for Myanmar's population, particularly in rural areas, albeit from a particularly low base, and mobile phone ownership rose from 4.8 percent in 2010 to 82 percent in 2017.

Throughout the different military governments, the state struggled to mobilize tax revenue. Tax collection has consistently suffered from weak administrative capacity, prevalent evasion and granting of exemptions, and at times complex taxation structure (IMF 1999;



World Bank 1985).¹⁸ Relatively high levels of tax collection in the 1970s can be partly attributed to the introduction of the commodities and service tax (CST), which included a tax on all imports by SEEs which supplemented import licenses and duties, and a tax on goods and services produced by SEEs. By taxing all SEE output and their imports, the tax base was broadened considerably. The growth rate for CST eventually declined relative to the relevant tax bases, possibly because of complex rules and exemptions.¹⁹ Scarce data for the period suggest low levels of compliance and continued widespread granting of exemptions. For example, in 1980, only about 16,000 individuals were subject to income tax, including fewer than 1 percent of civil servants (World Bank 1985).

Against poor tax collection, revenue generation included implicit and informal taxes, contributing to the distrust between taxpayers and the government. Myanmar's recent tax reforms, which commenced in early 2010, had to navigate the perceptions that tax collection had previously been incorrect, arbitrary, or unaccountable. These were not easily linked to corruption or a lack of capacity in government, but rather closely tied to the long-standing distrust between citizens, businesses, and the state for decades under military rule (Bissinger 2016).²⁰ People did not perceive that taxes led to improved goods and services that promoted well-be-

18 IMF Staff Country Report No 99/134.

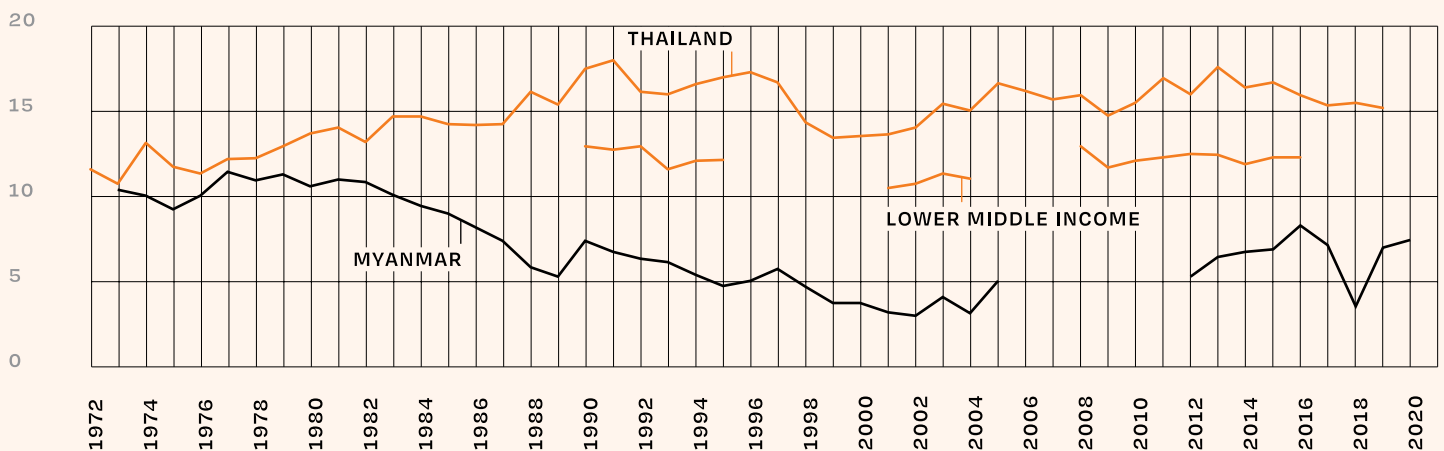
19 Imports by government ministries, exempted from CST, may have been rising as a share of total imports, and there may have been an increase in the use of the so-called Special Order procedures whereby imports can be removed from customs before completion of the necessary paper work for collecting CST and custom duties by promising that the payments would be made in the future.

20 Bissinger, J. 2016. "Local Economic Governance in Myanmar." The Asia Foundation.



ing or a better business environment. During Myanmar's socialist era, when many businesses were not legal, people had to hide their economic activity due to fear of arrest. Even after some sectors were liberalized, taxation, licensing, and other aspects of business-government engagement were arbitrary and often perceived by businesses as unfair. A number of taxes were levied in nonstandard ways. For example, in the 1990s, farmers were required to sell a fixed number of baskets of rice per acre to a state enterprise (Myanmar Agriculture Procurement Trading) at a below-market price. Such practices were estimated to yield 2–3 percent of GDP in FY1999, almost as large as actual levels of tax collection (IMF 1999).

FIGURE 29 TAX COLLECTION % OF GDP



Source: WDI

The state had to disproportionately source earnings from state-owned companies (SEEs), which have long relied on natural resource extraction. SEEs heavily dominated the economy since the 1960s. SEEs were introduced in Myanmar in 1962. Considerable nationalization of firms took place and the total number of SEEs is anecdotally thought to have been around 15,000. Estimates of revenue collection in the 1980s show that 85 percent of public revenues were collected from the SEEs (World Bank 1985).²¹

²¹ This includes direct SEE contributions, revenue from the CST which was primarily levied on SEE imports and production, and royalties from natural resource extraction.

SEEs have continued to evolve since the socialist era, with government policy changing significantly after 1988. This culminated in the establishment of a Privat-



ization Commission in 1995, which privatized 772 entities between 1995 and 2011²². Since 2011, the number of SEEs continued to fall from 44 to 32 in 2018. Twelve SEEs were integrated into ministries and departments, ceasing to be SEEs and converted into regular administrative units in government, although still earning nontax revenues and owning assets. Of the remaining 32, 7 SEEs have been corporatized and have been able to operate with a greater degree of autonomy. SEEs accounted for between 35 percent and 45 percent of public sector expenses and receipts between 2013 and 2016. However, SEE revenues have declined significantly as a share of GDP, from 10 percent of GDP in FY2014 to 6.4 percent in FY2018, driven by declining profitability because of lower natural gas prices, inefficient production methods, and exposure to market competition. While SEE expenditures have also declined (especially with respect to capital expenditures), from 6.6 percent of GDP in FY2014 to 5.3 percent in FY2018, they have not been able to offset the fall in revenue.²³

During the 1980s and 1990s governments ran persistently high deficits, financed through the CBM. During FY1981–FY1985, the overall deficit in the consolidated public sector budget ranged between 9 percent and 12 percent of GDP. In the late 1990s, the overall deficit had decreased but consistently remained above 5 percent of GDP. The financing of the deficit relied primarily on borrowings from the domestic banking system and to a smaller extent on foreign borrowings, which amounted to 8 percent and 4 percent of GDP, respectively, in FY1985. In the 1990s, the deficit continued to be primarily financed by the CBM. Bank credit provided financing between 4 percent and 8.3 percent of GDP, with an estimated 90 percent of the bank financing taking the form of CBM credit. A corollary of reliance on CBM financing was persistently high rates of inflation (Figure 30). SEEs acted as the chief factor behind the public sector deficits. Despite contributing a lion's share of public resources, the SEEs retained

²² World Bank. 2017. "Myanmar Public Expenditure Review 2017: Fiscal Space for Economic Growth." World Bank, Yangon, Myanmar.

²³ "A Country Private Sector Diagnostic: Creating Markets in Myanmar - Building Markets for a Sustainable Economic Recovery" May 2020



24 Subsequently, they also consumed a large share of available credit; credit to SEEs has grown from around 13 percent of GDP in 1979 to 57 percent in 1985.

weak financial positions²⁴ and presented a drag on public finances. In the early 1980s, the deficit in the SEEs amounted to around 8–9 percent of GDP.

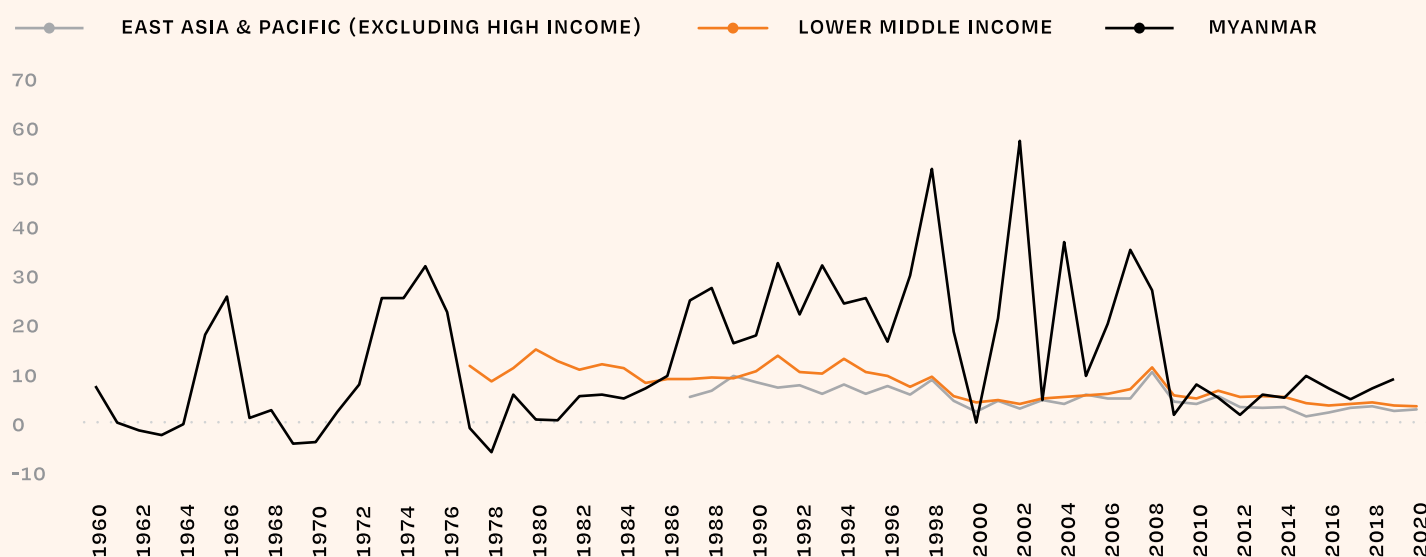
TABLE 2 OVERALL BUDGET BALANCE AND FINANCING

1981–1984 AND 1995–1998 (PERCENT OF GDP)

	FY1981	FY1982	FY 1983	FY 1984	FY 1995	FY 1996	FY 1997	FY1998
Overall balance	-8.90	-10.14	-10.87	-8.56	-6.10	-6.20	-6.60	-5.10
Domestic bank finance	4.99	5.32	4.97	5.17	5.70	8.30	4.40	4.00

Source: IMF 1999; World Bank 1985.

FIGURE 30 INFLATION ANNUAL %



Source: WDI; World Bank Staff estimates.

Spending on education and health in the past decades has been low (Figure 32). In FY1976, government expenditure on health was approximately 0.8 percent of GDP (Figure 31). This fell to 0.4 percent of GDP by FY1996 and just under 0.3 percent of GDP by FY2011. Education spending has generally been higher than on health. In the mid-1970s, spending on education accounted for about 12 percent of public sector spending. This has fluctuated since, remaining largely under 10 percent of spending for the sample of years throughout the three decades (Figure 32). Underfunding in services



has contributed to Myanmar's persisting weak human capital (Figure 12) and parallel institutions for service provision. In the absence of sufficient government provision of public goods and services, informal and community-based institutions have often filled the gaps. Many such institutions are primarily financed by donations through the self-organization of communities to provide essential services. Subsequently, donations account for a substantial share of household spending, with households estimated to pay more than twice to community groups than they pay in taxes annually (McCarthy 2016).²⁵

25 McCarthy, G. 2016. "Building on What's There: Insights on Social Protection and Public Goods Provision from Central-East Myanmar." International Growth Centre.

Ultimately, these budget policies contributed to a minimally functioning state dominated by military concerns rather than social services, diverting resources away from public service provision. The state continuously struggled to mobilize tax revenue, with revenue generation relying on natural resource extraction through SEEs as well as on implicit and informal taxes, with the latter contributing to the distrust between taxpayers and the government. ●

FIGURE 31 ANNUAL PUBLIC HEALTH SPENDING
1971–2021 (% OF GDP)

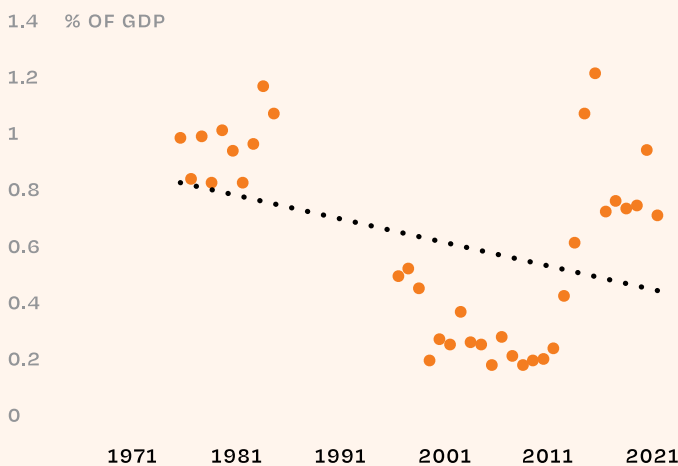


FIGURE 32 SPENDING ON
EDUCATION & HEALTH

1975–1984, 1996–1999,
AND 2020–2021 (% OF
BUDGET)

