

Author's Accepted Manuscript

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Bin Grace Li, Pranav Gupta, Jiangyan Yu



PII: S2110-7017(16)30037-3
DOI: <http://dx.doi.org/10.1016/j.inteco.2017.03.001>
Reference: INTECO117

To appear in: *International Economics*

Received date: 20 May 2016
Revised date: 11 March 2017
Accepted date: 15 March 2017

Cite this article as: Bin Grace Li, Pranav Gupta and Jiangyan Yu, From Natural Resource Boom to Sustainable Economic Growth: Lessons from Mongolia *International Economics*, <http://dx.doi.org/10.1016/j.inteco.2017.03.001>

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From Natural Resource Boom to Sustainable Economic Growth: Lessons from Mongolia^{*}

Bin Grace Li^{a*}, Pranav Gupta^b, Jiangyan Yu^b

^aResearch Department, International Monetary Fund, Washington, DC, 20431.

^bStrategy, Policy, and Review Department, International Monetary Fund, Washington, DC, 20431.

bli2@imf.org

pgupta@imf.org

jyu@imf.org

*corresponding author

Abstract

Many resource-rich developing countries are in the process of harnessing immense mining resources towards inclusive growth and prosperity. The often-large infrastructure gap in developing countries calls for public investment to unlock the long-term growth potential. This paper utilizes a structural model-based approach to analyze macroeconomic impacts of different public investment strategies on key fiscal and growth variables. We apply the model to one of the resource-rich developing countries -- Mongolia. We find that, although scaling up of public investment could provide a boost to the growth, too rapid fiscal outlays will push the economy to its limit of absorptive capacity and increase macroeconomic vulnerabilities. Prudent fiscal policy, particularly moderating infrastructure investment and optimizing investment efficiency is essential to maintain economic stability, as well as to boost the long-term sustainable growth for developing countries like Mongolia.

JEL Classification Numbers: E62; F34; Q32

Keywords: Natural resources management; Debt sustainability; Public investment.

^{*} We are grateful to Andy Berg, Koshy Mathai, Susan Yang, and seminar participants at the IMF Research Department, the IMF Asian Pacific Department, the Central Bank of Mongolia, and the Ministry of Finance of Mongolia for comments and suggestions. This working paper is part of a research project on macroeconomic policy in low-income countries supported by U.K.'s Department for International Development. The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF, IMF policy, or of DFID.

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