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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]

[a]Research Department, International Monetary Fund, Washington, DC, 20431.
[b]Strategy, 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

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