Managing Resource Revenues in the CAREC countries

Overview

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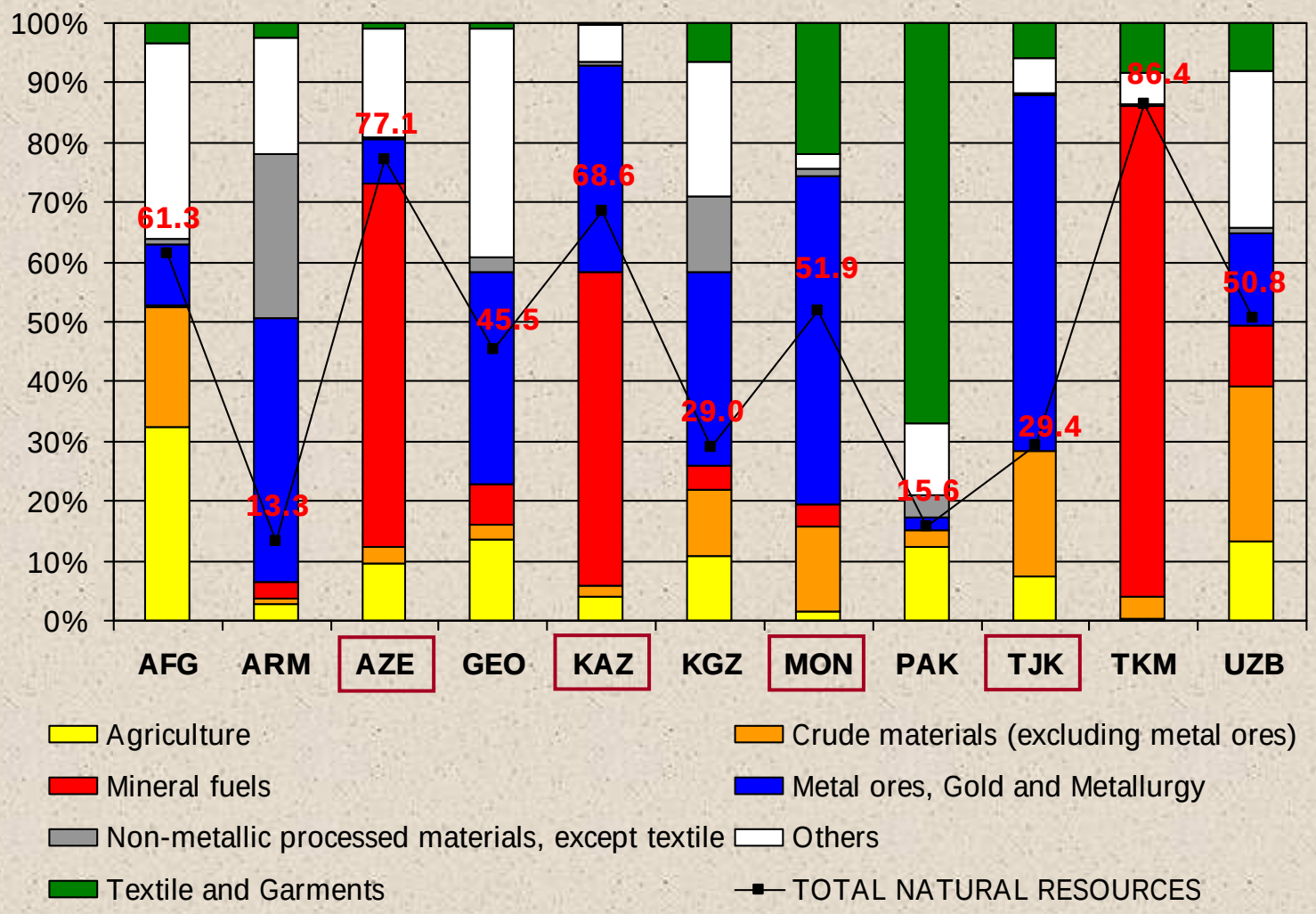
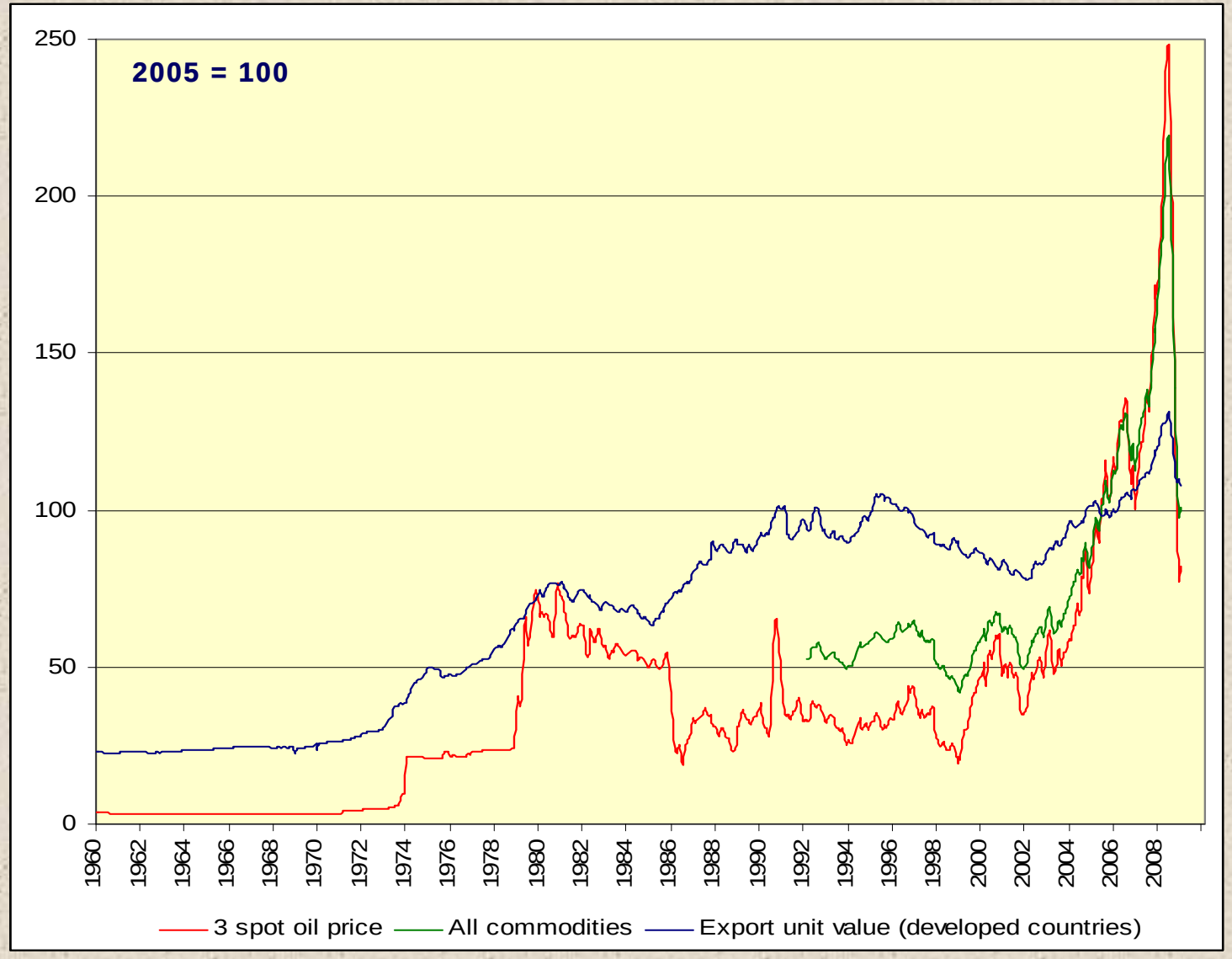
ADB

High share of natural resources (2005)



Source basic data: UN COMTRADE
Note: Mineral fuels consists of petroleum and electric current

High volatility of commodity prices

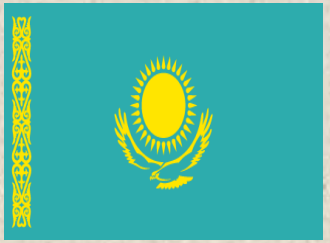


Presentation

- Today's Session
- Externalities in the Tradable Sector
- Capital Inflows and the Ricardian Curse
- Key Challenge for Policymakers

Today's Session

- Presentation by 4 local research institutes


PPRC

CESD

ISS

IER

- Presentations

  Management of Resource Revenues in the CAREC Region: A Tale of the Two Booms

  Impact of Geography and Natural Resource Abundance on Growth: The CAREC Countries

- Discussion & way forward

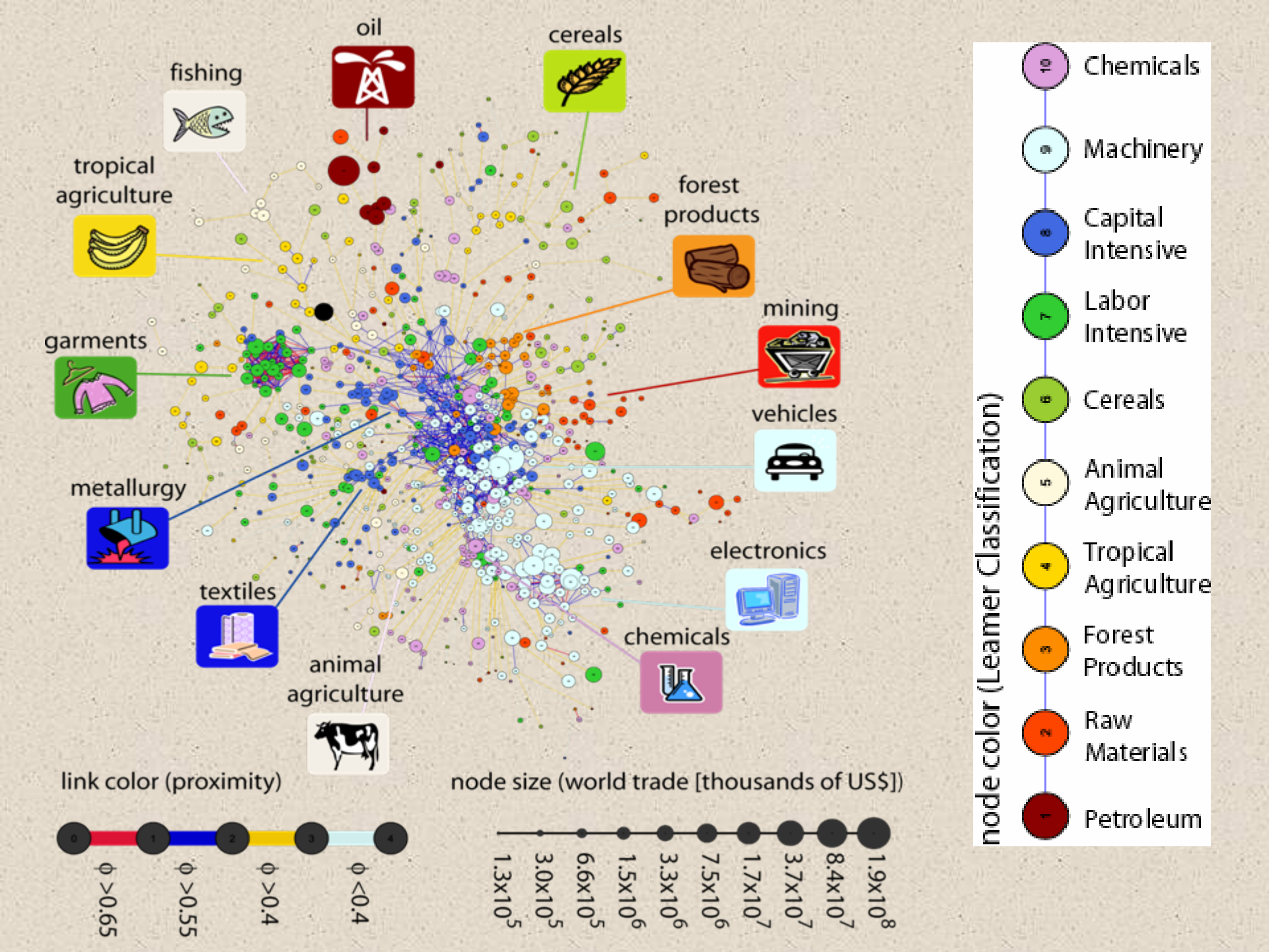
Externality in the Tradable Sector

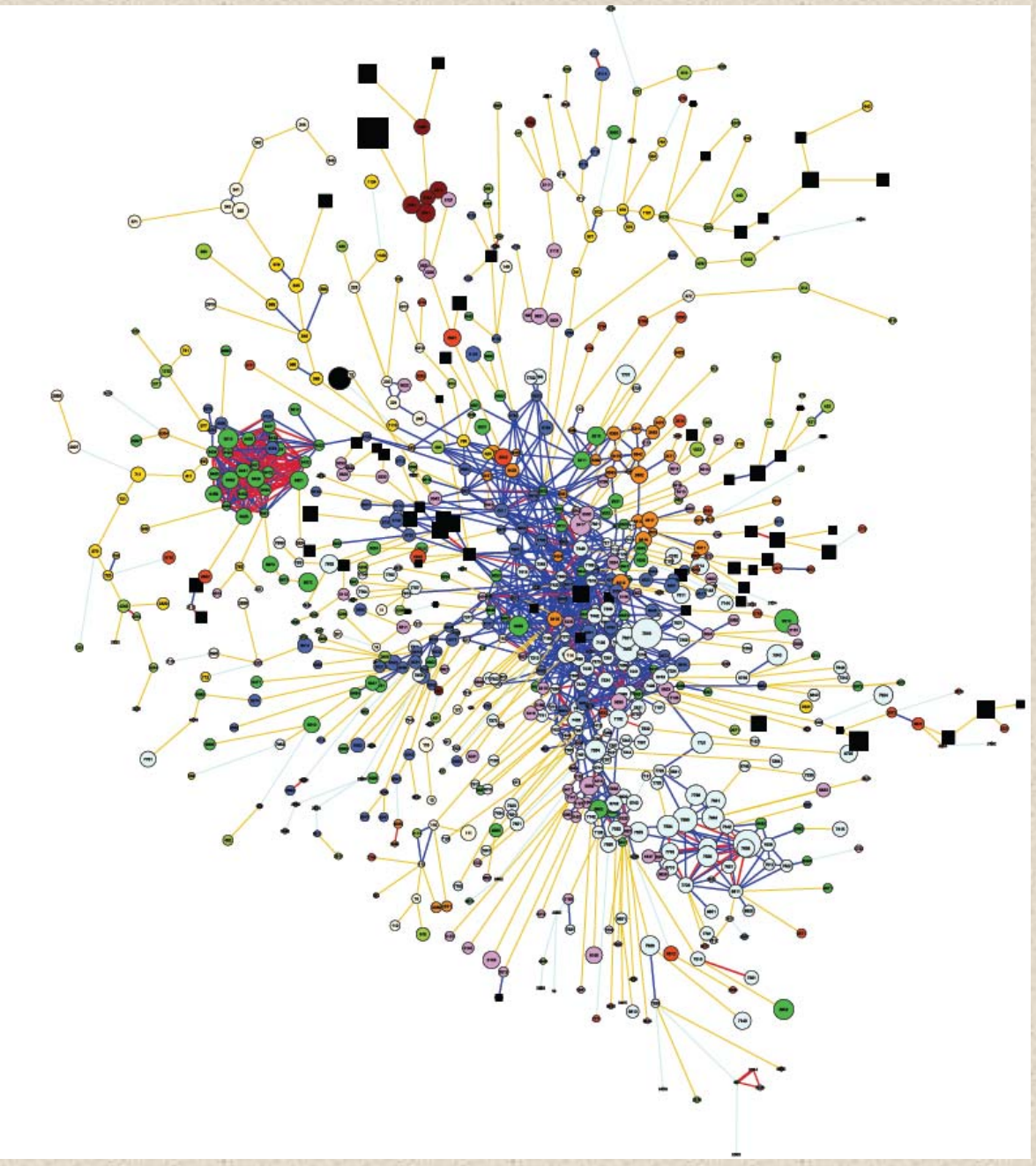
- **Resource boom as a mixed blessing**
  - ✓ **The Dutch disease**
    - → **Tradable sector must be something special (industry specific externality)**
      e.g., Learning-by doing etc.
  - ✓ **Resource curse**

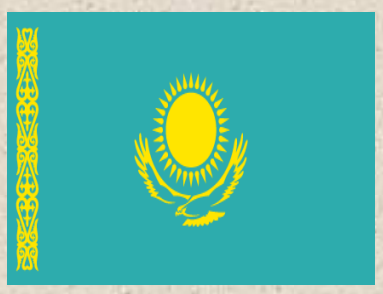
- **New view on the externalities**
  - ✓ **Product space (network view of development)**
    - → **capability**

Structural transformation
“Co-evolution of products and capability”

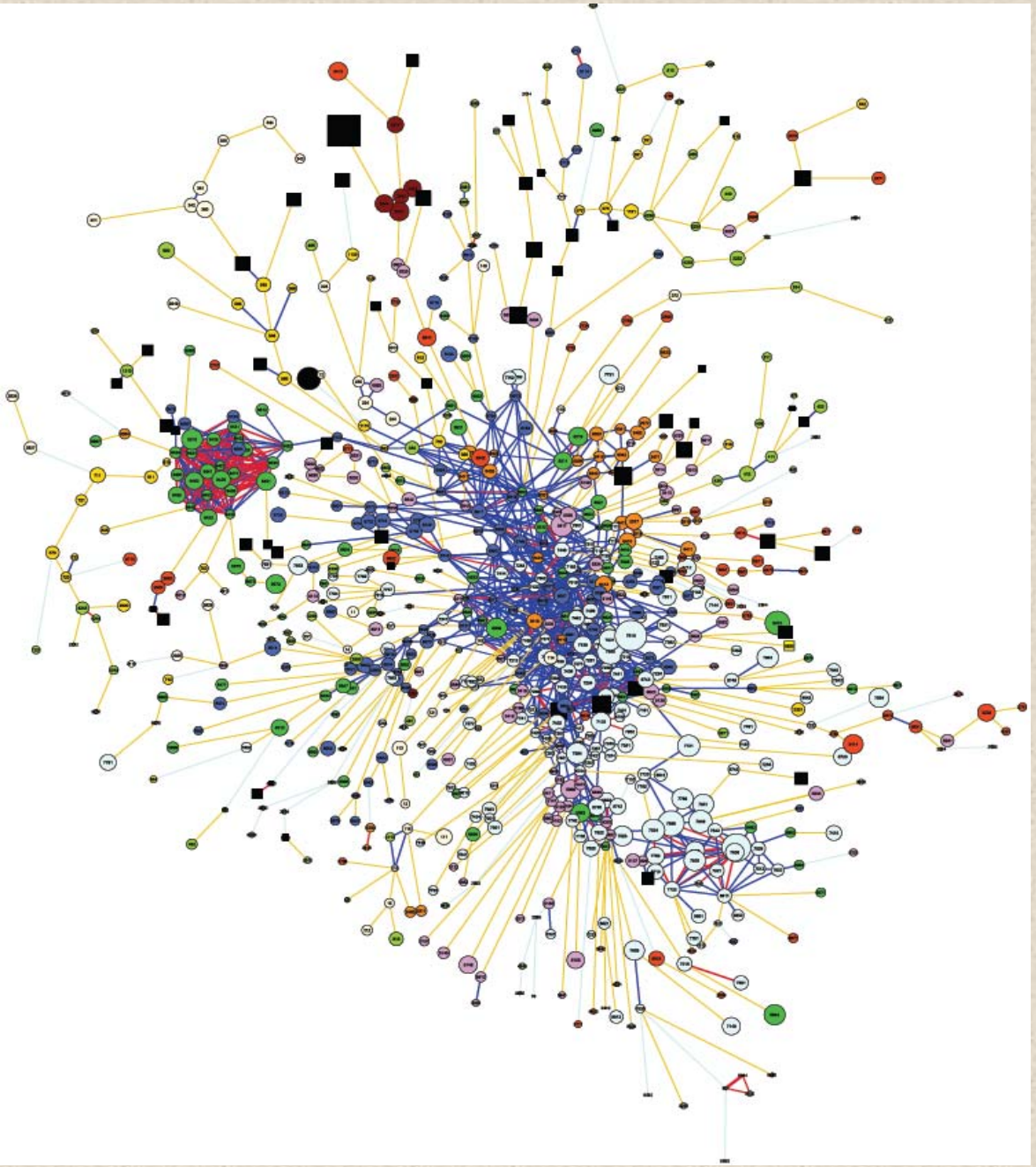
- A process of increasing the amount and complexity of human and social capabilities
- Products differ in their complexity levels, i.e., in the number and sophistication of the capabilities required → Proximity
- Structural transformation is a process whereby firms move from the poor into the rich part of the product space


oil
cereals
fishing
tropical agriculture
forest products
mining
garments
vehicles
metallurgy
electronics
textiles
chemicals
animal agriculture
link color (proximity)
0
1
2
3
4
ϕ >0.65
ϕ >0.55
ϕ >0.4
ϕ <0.4
node size (world trade [thousands of US$])
1.3x10^5
3.0x10^5
6.6x10^5
1.5x10^6
3.3x10^6
7.5x10^6
1.7x10^7
3.7x10^7
8.4x10^7
1.9x10^8
node color (Leamer Classification)
10
Chemicals
9
Machinery
8
Capital Intensive
7
Labor Intensive
6
Cereals
5
Animal Agriculture
4
Tropical Agriculture
3
Forest Products
2
Raw Materials
1
Petroleum

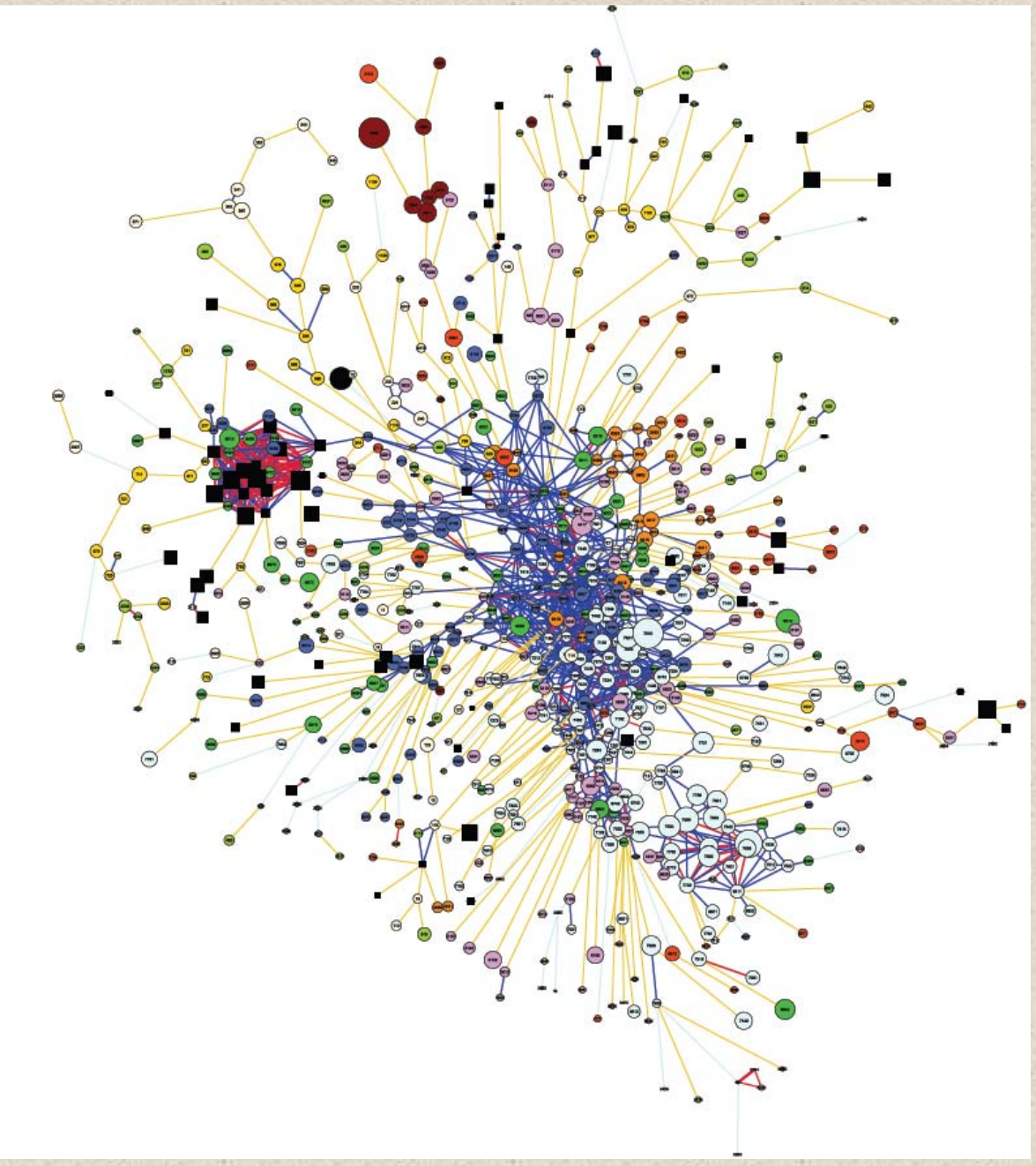




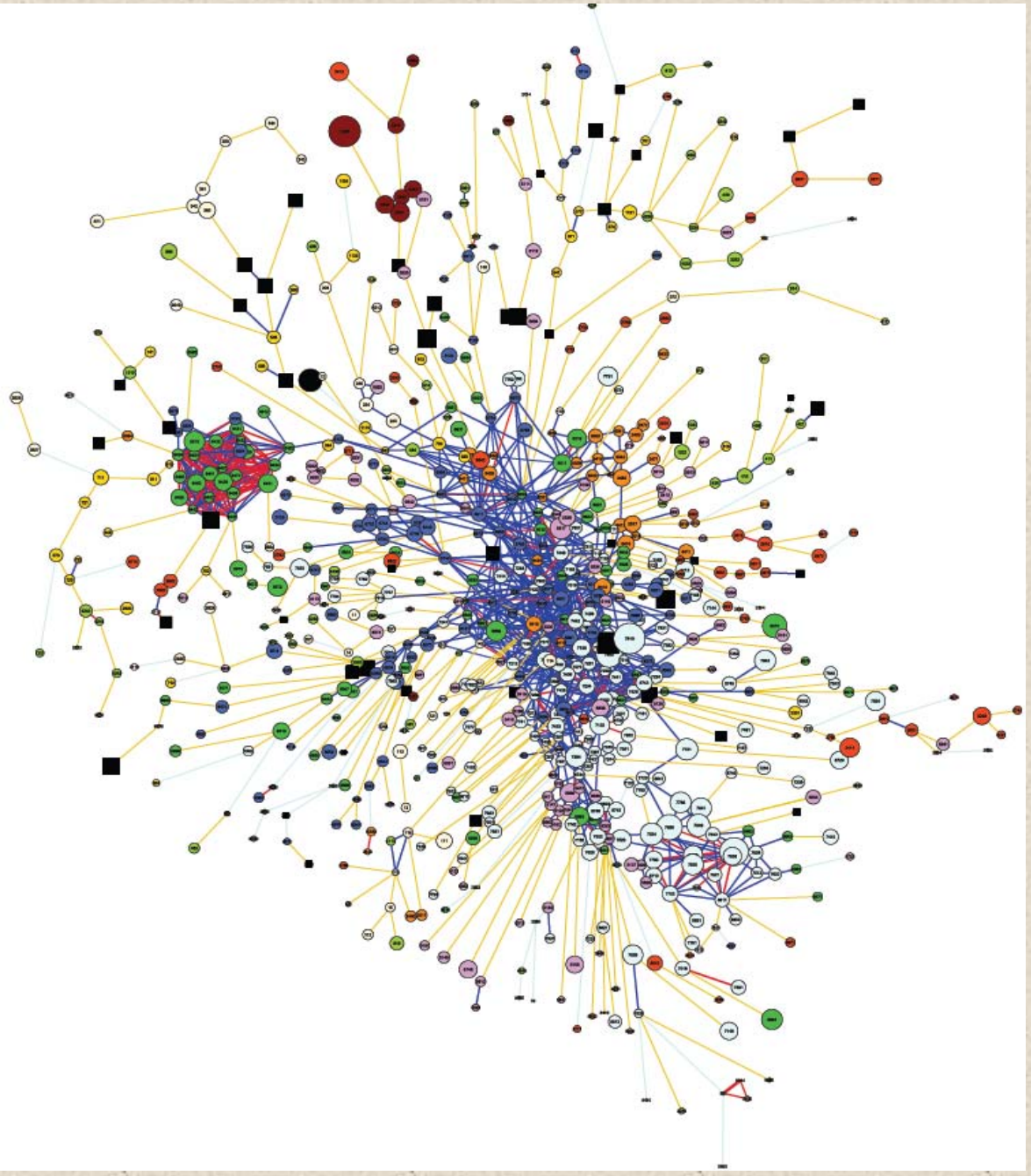
2005



2005



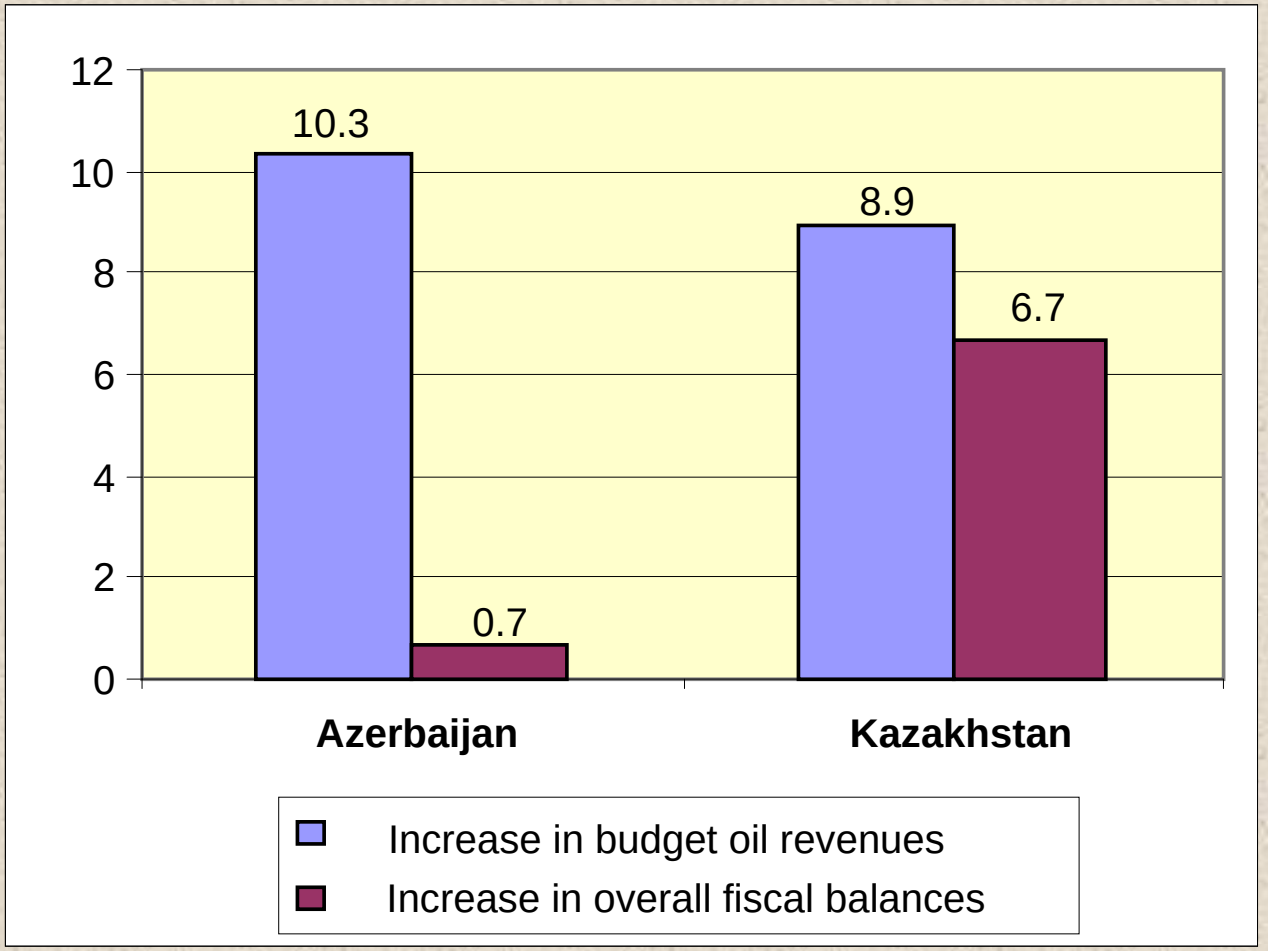
2005



2005

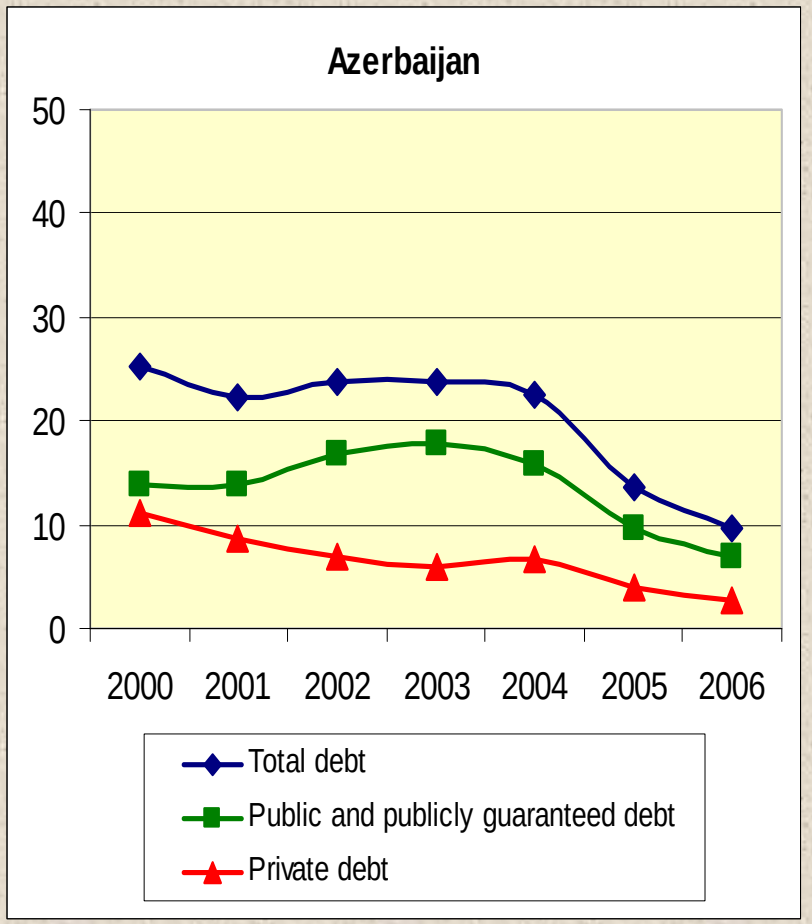
Savings from government oil revenues

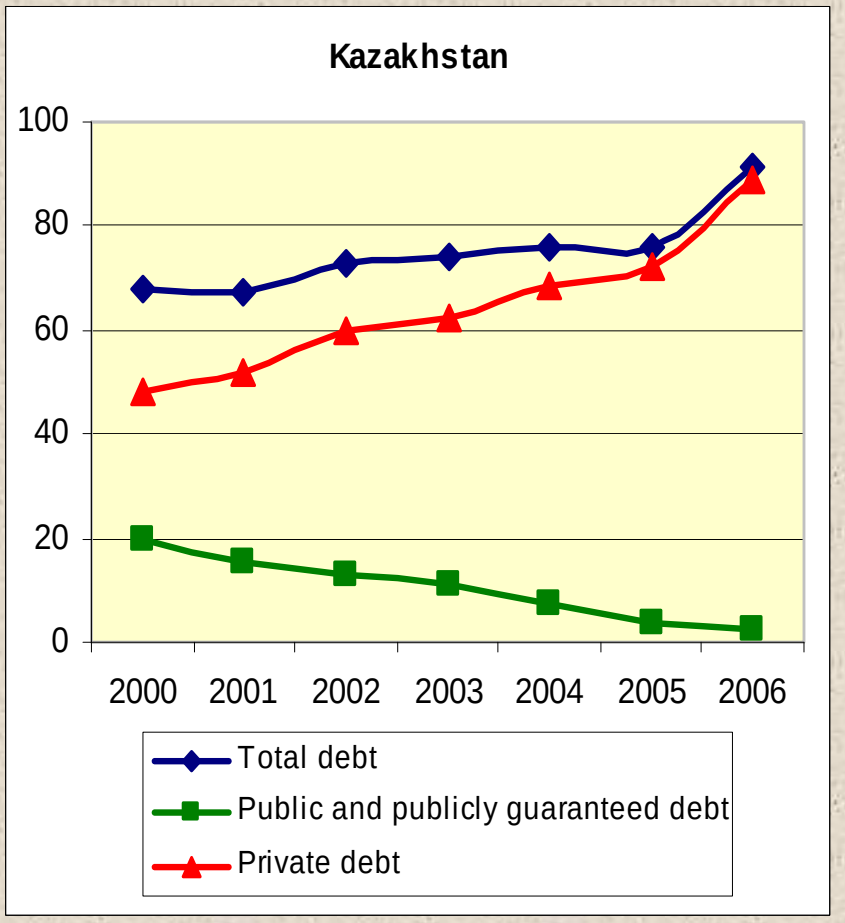
(2003-2006, % of 2006 GDP)



External debt

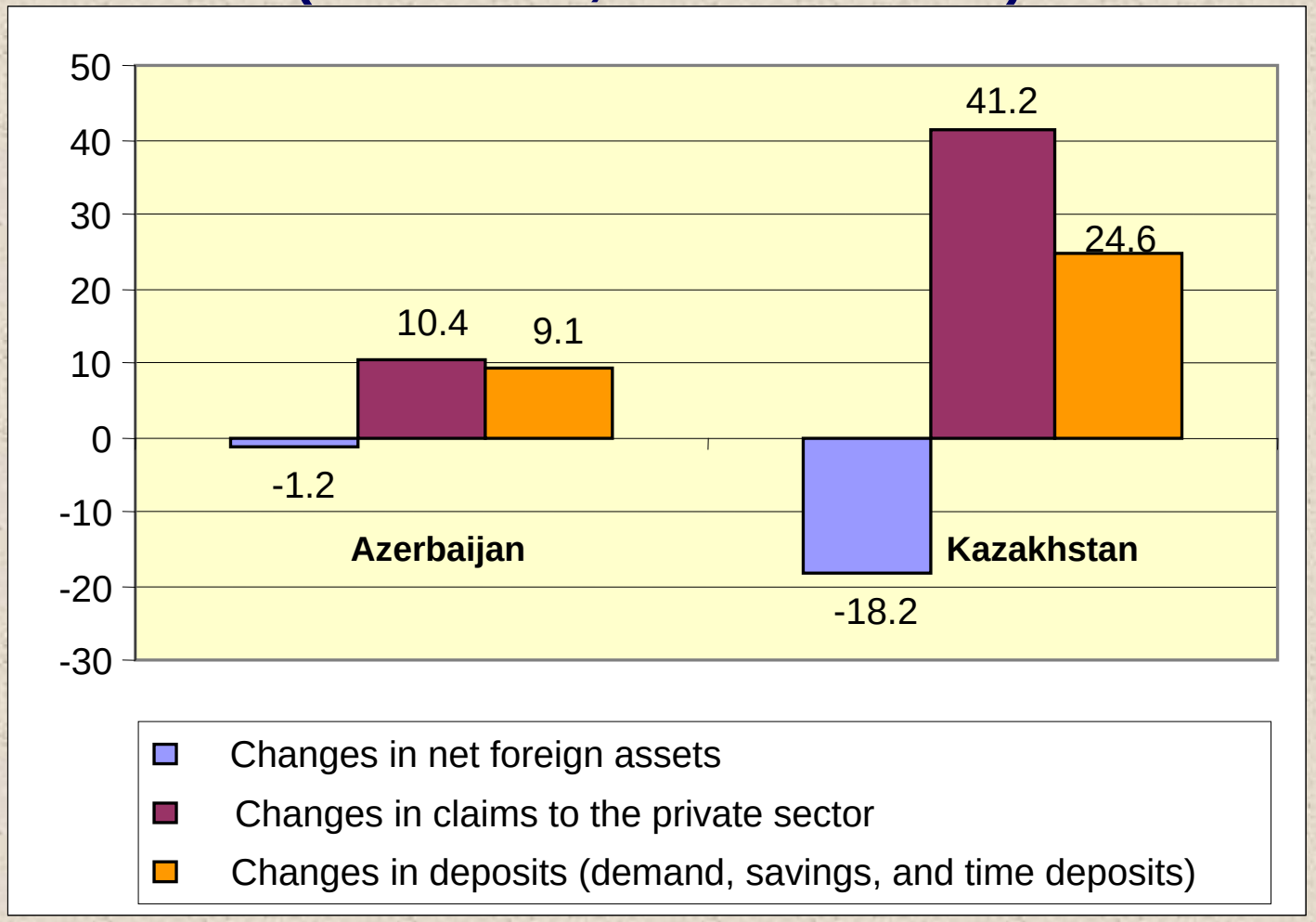
(Outstanding, % of GDP)





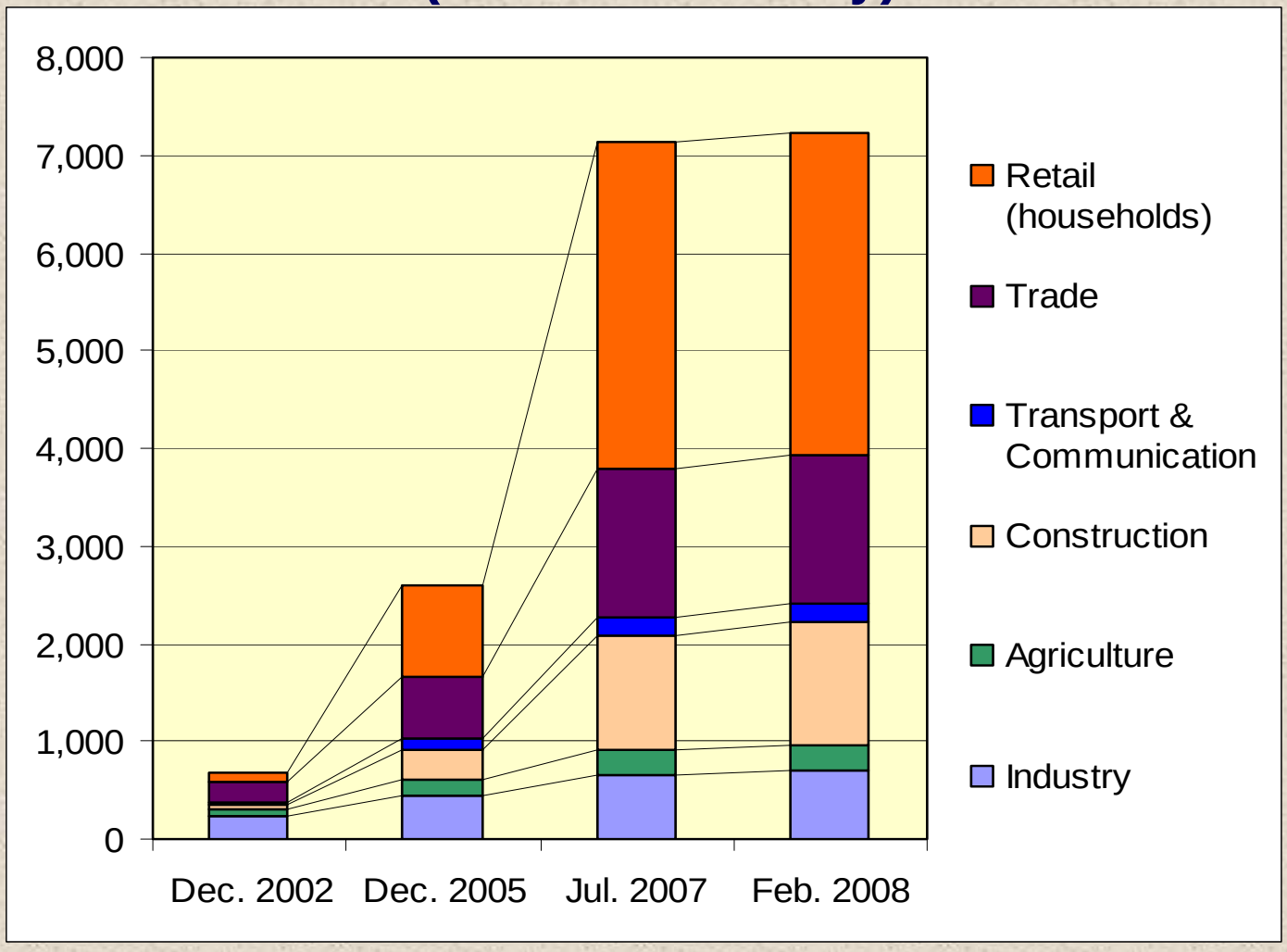
Sources of bank lending

(2003-2006, % of 2006 GDP)



Kazakhstan: Bank lending

(bill local currency)



Key Challenge

Policymakers need to find balance between:

- ✓ **Maintaining macroeconomic stability (by sterilizing resource revenues)**
- ✓ **Saving oil wealth for future generations (by saving resource revenues)**
- ✓ **Fulfilling development needs (by spending resource revenues)**

Thank you