

EXECUTIVE SUMMARY

Natural resource-rich countries benefited from an exceptional commodity price boom during the 2000s, with metal and oil prices reaching historic highs. This provided a substantial boon to resource-rich developing countries, which benefited from large increases in fiscal revenues and the opportunity to promote economic transformation and development.

However, the more recent reversal in commodity prices has driven home the fact that commodity prices are volatile, unpredictable, and subject to long-lasting shocks. It has also meant that commodity exporters will need to adjust to a—possibly protracted—period of lower export and fiscal revenues.

In light of this recent development, this issue of the *Fiscal Monitor* examines the conduct of fiscal policy under the uncertainty caused by dependence on natural resource revenues. It draws on extensive past research on the behavior of commodity prices and their implications for macroeconomic outcomes, as well as on extensive IMF technical assistance to resource-rich economies seeking to improve their management of natural resource wealth.

Although natural resources represent a tremendous opportunity for economies seeking to promote economic development and the well-being of their populations, in fact this has proven to be surprisingly difficult. Especially in the case of exhaustible mineral and hydrocarbon wealth, many countries have apparently suffered from what is often termed a “resource curse.” In some countries, efforts to jump-start growth and development have not borne fruit, fiscal policies were too procyclical, and underlying institutions were not strengthened sufficiently.

Of course, the experience of these countries has varied considerably and there are examples where these resources have been used in a manner that fosters successful development. In recent decades there has also been greater attention paid by resource-rich countries to upgrading their fiscal policies, rules, and institutions. This has meant that many countries were successful in saving a larger share of the resource revenue

windfall during the 2000s, while also scaling up public investment and social spending.

Important lessons for fiscal policies derive from these divergent experiences and serve as a further reminder of the uncertainty related to commodity prices. Countries face important trade-offs between how much to consume of their nonrenewable resource wealth and how much to save in the form of financial savings and other assets (for example, public infrastructure). For low-income countries there are good arguments to use natural resource wealth to help kick-start development. But it is critical to ensure that public infrastructure investment and social spending be scaled up at a pace that can withstand possible adverse shocks to commodity revenues, and that public investment management be strengthened to ensure the anticipated growth dividends. And since commodity-based revenues are both volatile and exhaustible, it is important that resource-rich countries diversify their sources of revenues, ensuring that the tax base includes the nonresource economy.

Financial (stabilization) buffers should also be built especially to help withstand the uncertainty that commodity-exporting countries are particularly prone to. These buffers will allow for countercyclical fiscal policies, as the economic cycle moves together with the commodity cycle (October 2015, *World Economic Outlook*). And finally, recent experience also confirms that sound fiscal policy and institutions provide the essential basis for ensuring that these policies are well-designed and sustained.

Countries with stabilization buffers are better prepared to manage the sharp fall in commodity prices since 2012. These have led to a substantial growth slowdown in commodity exporters. For countries with sufficient buffers and output at or below potential, prudent fiscal management and smoothing macroeconomic fluctuations go together. For countries that need to adjust and build up buffers, macroeconomic conditions may recommend gradual adjustment to minimize adverse effects on economic activity and growth.