**Analysis of the “Dutch Disease” Effect and Public Financial Management in Mongolian Economy**

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**Abstract**

This paper aims to diagnose Mongolian economy on whether the economy has suffered from the Dutch Disease by applying a vector auto-regression model for the period from 1993 to 2016 under the current market-based regime including resource-booming times. From the outcomes of a VAR model estimation, it was found that there is a great possibility that Mongolian economy has been suffering from the Dutch Disease through the resource movement effect and the spending effect such that the boom in the mining sector has crowded out manufacturing activities; and that the boom in the mining sector has not contributed to, or even deteriorated the capital accumulation effect that alleviates the Dutch Disease. The strategic policy implications for the current Mongolian public financial management are that the part of the existing resource fund should be used for public investment to facilitate capital accumulation, specifically, for the projects on education, health and economic infrastructure to promote industrial diversification.

**Keywords:** Dutch Disease, Public financial management; Mongolian economy; Vector auto-regression; Public investment.

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