



MINISTRY OF ECONOMY  
AND DEVELOPMENT

# MACROECONOMIC REPORT

2024 Q4





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FEBRUARY 2025

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# MACROECONOMIC REPORT

## 2024 Q4

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## Abbreviations

FDI	Foreign direct investment
GDP	Gross domestic product
GHG	Greenhouse gas
MED	Ministry of Economy and Development
MCGA	Mongolian Customs General Administration
NBFI	Non-bank financial institutions
NEER	Nominal effective exchange rate
NSO	National Statistical Office
PMI	Purchasing Managers' Index

## EXECUTIVE SUMMARY

**The mining, trade and service sectors were key drivers of economic growth.** The economy grew by 5.0 percent in the first three quarters of 2024, fueled by higher production of coal, iron ore, and copper concentrate, and sustained growth in the trade and service sectors. However, the decline in agricultural output due to unfavorable weather conditions continued to dampen overall growth. Growth in employment and accumulation of capital stock in the mining sector boosted potential output growth to 4 percent, and negative output gaps in both mining and non-mining sectors have closed.

**On the demand side, growth was supported by consumption and investment.** Domestic demand remained strong, driven by higher household consumption supported by rising wages and social benefits, as well as increased public consumption due to higher government spending. Capital formation also expanded, reflecting a rise in stocks of machinery and equipment. However, imports surged as demand for both consumption and investment rose.

**Inflation accelerated in the final quarter of 2024.** Average inflation reached 6.8 percent in 2024 and rose to 9.0 percent by year-end. Credit growth in the banking sector intensified, reaching its highest level in the past decade and becoming a key driver of money supply growth. In addition, easing lending conditions among banks and non-bank financial institutions, the expansion of easy loan services, and rising consumer loans have increased inflationary pressures through stronger domestic demand.

**The budget balance recorded a surplus of MNT 2.5 trillion in the first three quarters of 2024.** Budget revenue grew by 28.9 percent, driven by higher income and value-added tax revenues, despite the decline in coal prices putting pressure on royalty revenues. Budget expenditures surged by 34.4 percent mainly reflecting public sector wage hike aimed at improving social security for public employees and working conditions in rural areas. The government nominal debt-to-GDP ratio increased to 38.9 percent at the end of the third quarter of 2024. However, the government debt burden is expected to increase in the medium term due to bonds issued by the capital city in both domestic and international markets.

**The current account deficit widened due to the growth in imports.** The current account deficit expanded as import growth reached 27.4 percent year-on-year in the first three quarters of 2024, outpacing export growth by 23.1 percentage points. However, the growth in imports, largely driven by industrial inputs and investment-oriented capital goods that enhance the economy's production capacity, is expected to support overall economic growth in the years ahead. The annual growth of international reserves slowed in the third quarter of 2024 due to increased demand for foreign currency, and the nominal effective exchange rate depreciated.

**Mongolia has upgraded its credit rating, supported by policies focused on ensuring macroeconomic stability.** Despite facing a series of challenges including the pandemic, geopolitical tensions, and global inflation and tight monetary policies, Mongolia has successfully upgraded its credit rating. In particular, the credit rating was upgraded to "B+, stable" by the Fitch Ratings, to "B+, positive" by S&P Global Ratings, and to "B2, stable" by Moody's, reflecting a resilient economic activity, reductions in external debt burdens, improved external buffers following export recovery, and a positive economic outlook.

## NEAR-TERM OUTLOOK

**The economic growth is expected to be around 8.0 percent in 2025.** Higher production of main mining products including coal, iron ore, and copper is expected to support the mining sector. The rise in imports of machinery and equipment is expected to boost potential output and growth of the economy. The mining and transportation sectors are projected to sustain robust growth in 2025, supported by a twofold increase in heavy machinery imports for mining and an 85 percent rise in imports of vehicles for goods transportation.

The ongoing energy sector projects, including Buuruljuut and Choibalsan power plants and Baganuur battery storage, are expected to enhance the economy's potential. Moreover, the agricultural sector, which has contracted for the past seven consecutive quarters, is expected to recover and make a positive contribution to growth as well. The manufacturing sector is expected to be supported by the recovery of agricultural output and a rise in imports of food production equipment, facilitated by customs tax exemptions on agricultural machinery. Strong domestic demand is expected to drive growth in the trade and service sectors.

Coal and copper concentrate export volumes are projected to exceed expectations in 2024, and Mongolia plans to export 83 million tons of coal and 1.78 million tons of copper concentrate in 2025. However, global commodity price volatility, driven by market uncertainties and geopolitical tensions, poses risks to export revenues.

**Inflation is projected to remain above the central bank's target range on average in 2025.** In particular, the contraction in the agricultural sector is expected to reduce meat supply, leading to meat price increases that exceed normal seasonal trends. In addition, higher electricity tariffs are anticipated to contribute to rising inflation in domestically produced goods and services. The adjustment of public transportation fares in February 2025 has

also added upward pressure to inflation. Looking ahead, risks of higher imported inflation remain elevated due to geopolitical instability, climate change, and disruptions in transportation and logistics.

# CHAPTER I

## REAL SECTOR

- 1.1. Aggregate supply
- 1.2. Aggregate demand
- 1.3. Labor market and Enterprises
- 1.4. Business cycles

## 1. REAL SECTOR

### OVERVIEW

Intensification of economic domestic activities remained. On the supply side, growth in trade, services, along with mining and mining led transportation growth were the key drivers of the growth. On the demand side, strong consumption and investment were the primary contributors. Mining industry grew by 10.8 percent that surpassed the high growth seen in 2023, supported by Oyu tolgoi underground extraction increase. Household real income and consumption were fueled by a rise in national average wage, which reached MNT 2.5 million, compounded by an increase in labor force participation that amounted to 62.2 percent, together contributed to economic domestic activation. Output gap was positive at 1.7 percent, mainly supported by mining activities, signaling an increase in the demand driven inflationary pressure.

## 1.1. Aggregate supply

- 1. Economic growth is primarily driven by mining and service sectors.** Nominal GDP increased by 19 percent year-on-year, reaching MNT 56 trillion in the first three quarters of 2024, while real GDP grew by 5.0 percent. The mining and service sectors contributed 6 percentage points to real GDP growth, while the persistent contraction in the agricultural sector continued to constrain overall economic growth.
- 2. The production of coal, iron ore, and copper concentrate continued to increase, although the pace of growth in the mining sector slowed due to the base year effect.** The growth of the mining sector slowed to 11.4 percent in the first three quarters of 2024, compared to 32.7 percent in the same period last year. Coal production reached 72.2 million tons, marking a 28 percent increase, while iron ore output rose to 7.2 million tons, a 30 percent rise compared to the same period last year. Copper concentrate production increased by 5.1 percent to 1,104 thousand tons, driven by the intensified production at the Oyutolgoi underground mine. In contrast, crude oil and gold production declined by 13 percent and 12 percent, respectively. Moving forward, the production of coal, iron ore, and copper concentrate is expected to support growth in the mining sector.
- 3. With robust growth in the service sector, non-mining sectors contributed two-thirds of the total growth.** Non-mining sectors expanded by 4.0 percent in the first three quarters of 2024. In the third quarter of 2024, growth in the service sectors gained momentum, while the expansion of the construction and manufacturing sectors moderated, and the agricultural sector continued to contract. Particularly, growth in non-transportation service sectors – wholesale and retail trade, information and communication, and other services – accelerated to 8.8 percent in the first three quarters of 2024, contributing 3.7 percentage points to the economic growth. The wholesale and retail trade sector experienced a 7.9 percent growth, driven by increased household consumption. The increase in the number of actively operating entities, higher employment levels, and rising loan issuance all indicate a growth in activity within the trade sector. In the trade sector, 14,810 new enterprises were established, and the number of active enterprises rose by 6 percent, while newly issued loans grew by 34 percent year-on-year as of the first three quarters of 2024. Moreover, the information and communication sector experienced a growth of 14.4 percent, while other service sectors expanded by 8.6 percent. Moving forward, the service sector is expected to sustain its growth and continue to contribute to overall economic growth.
- 4. The transportation sector expanded in parallel with the growth in trade turnover.** In the first three quarters of 2024, the volume of carried freight reached 87.5 million tons, recording a 21 percent year-on-year increase. The growth was primarily driven by a higher export volume of mining products, which accounted for 86 percent (75.0 million tons) of total freight transport. Furthermore, imports via railway and transit transportation increased by 6.8 percent and 7.8 percent, respectively, further contributing to the 16 percent growth of the transportation sector, which added 0.9 percentage points to overall economic growth.
- 5. Beverages and chemical production supported the manufacturing sector growth.** In the first three quarters of 2024, the manufacturing sector output remained largely unchanged from the previous year, with a modest growth of 0.1 percent. The 10 percent

increase in beverage production, which accounts for approximately 20 to 25 percent of the sector's output, was the primary driver of the sector's growth. Specifically, soft drink production grew by 7 percent, alcohol production increased by 35 percent, and juice production rose by 40 percent. Additionally, increased activity in the mining sector stimulated the production of chemical products for explosives, further supporting the growth of the manufacturing sector. In contrast, the reduced production of meat and cashmere, which accounts for about 15 percent of the manufacturing sector, due to significant livestock losses from adverse weather conditions in 2023-2024, dampened the sector's overall growth.

**6. The growth of the construction sector was supported by engineering infrastructure projects implemented in the capital city.** The construction sector grew by 7.8 percent in the first three quarters of 2024, aligning with our projection. The growth was mainly driven by the construction of roads, bridges, overpasses, levees, and pipelines in the capital city. Furthermore, the construction of commercial buildings and road maintenance projects in Umnugovi and Khovd aimags also contributed to the sector's growth.

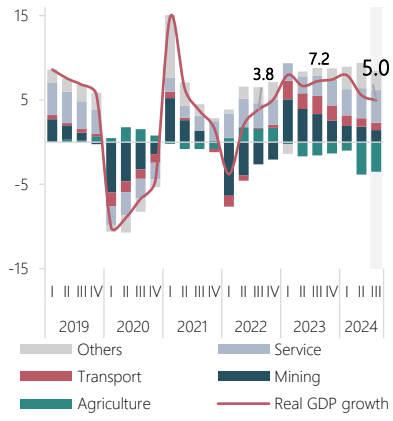
**7. The production of electricity and water supply remained stable.** As of the first three quarters of 2024, energy production<sup>1</sup> increased by 5.1 percent, reaching 6,186 million kWh, while water distribution grew by 4.2 percent, totaling 52.5 million m<sup>3</sup> compared to the same period last year. Energy production serves as intermediate consumption for other economic sectors and is vital for their sustained growth. Therefore, it is crucial to continue liberalizing the energy sector, attract investment, and expand its capacity.

**8. The reduction in the sown area of wheat had a negative impact on the agricultural sector.** Livestock accounts for approximately 90 percent of the agricultural sector, while crop production represents about 10 percent and the impact of crop production on the agricultural sector tends to increase in the third quarter of each year. In the third quarter of 2024, adult livestock losses increased by 43,000 heads compared to the previous quarter, bringing the total loss to 8.1 million heads. In addition, the total sown wheat area, which accounts for approximately 60 percent of the total crop area, decreased by 5.3 percent compared to last year, leading to a reduced harvest and hindering the recovery of the agricultural sector.

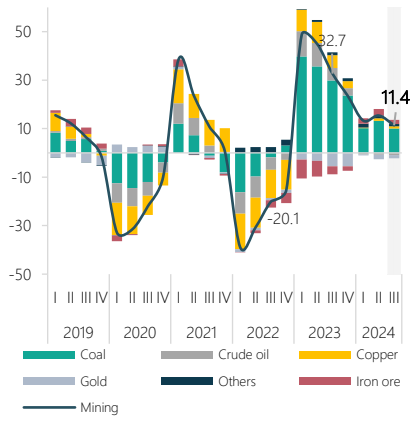
*Figure 1.1. Real GDP growth*

1. Real GDP growth contribution (percentage points)	2. The mining sector growth (percent)	3. The agricultural sector (thousand heads)
--------------------------------------------------------	------------------------------------------	------------------------------------------------

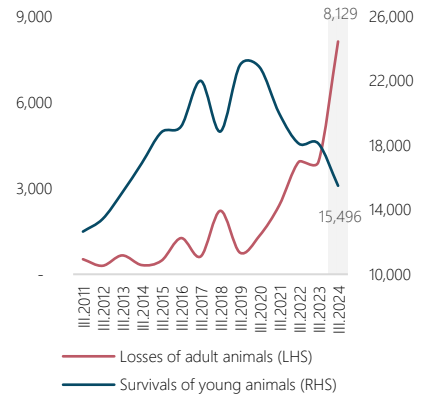
<sup>1</sup> The sum of electricity and renewable energy production



Source: NSO  
 Note: Contributions of sectors to the y-o-y cumulative growth of real GDP.



Source: NSO  
 Note: Contributions of key commodities to the y-o-y cumulative growth of mining real GDP.



Source: NSO  
 Note: Animal losses of the first 3 quarters of each year.

*Box 1. The economic impact of carbon taxation*

**Current state of GHG emissions and challenges**

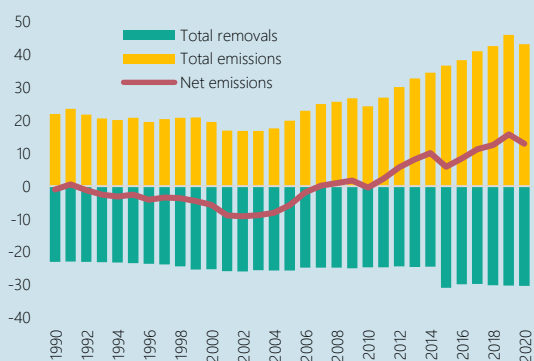
Mitigating climate change is becoming increasingly important as global greenhouse gas emissions continue to rise worldwide. Over the past century, the average temperature has risen by 1.1°C globally, and by 2.2°C in Mongolia, accompanied by a growing frequency of extreme weather events.

Mongolia contributes only 0.12 percent of global GHG emissions but ranks 9th globally in terms of per capita GHG emissions (World Bank, 2024). Until 2006, Mongolia had been a net carbon sink country, but since 2007, total emissions have exceeded removal levels, reaching 43.1 million tons of CO<sub>2</sub>e in 2020 (Figure I.2.1). Notably, 97 percent of total emissions come from agriculture and energy sectors, primarily due to the traditional livestock practices, the rapid increase in the livestock numbers, and heavy reliance on coal for energy source (Figure I.2.2).

Herder households account for approximately 20 percent of all households in Mongolia, with over 80 percent owning up to only 500 livestock. The increasing frequency of disasters, such as drought and dzud, has significant adverse effects, including fluctuations in herders' incomes, reduced livestock production, disruptions in raw material supplies, and a subsequent slowdown in economic activity. These impacts contribute to higher poverty rates and widening income inequality.

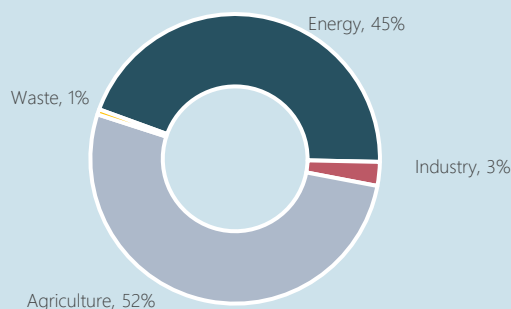
*Figure I.2. GHG emissions*

**1. GHG emissions (million tons, CO<sub>2</sub>-eq)**



Source: NSO

**2. GHG emissions (million tons, CO<sub>2</sub>-eq)**



Source: NSO

Note: Net emissions are the sum of total emissions and total removals.

Therefore, Mongolia ratified the Paris Agreement on September 1, 2016, and established National Determined Contribution (NDC), which was approved by the Government Decree No.407 of November 19, 2019, with the aim to contribute to the Paris Agreement. Following the entry into force of the Paris Agreement, member states must establish their NDC and report on their progress every 5 years. Within this framework, Mongolia has pledged to reduce its national greenhouse gas emissions by 22.7 percent, or 16.89 million tons of CO<sub>2</sub> equivalent, by 2030 compared to the projected emissions under a business-as-usual scenario for 2010.

**International practice of carbon pricing**

The carbon pricing instruments are an effective policy tool for mitigating climate change, achieving the Paris Agreement goal of limiting global temperature increase below 2°C, aiming for 1.5°C, and reducing GHG emissions. The number of countries that implement carbon pricing is increasing, with 75 carbon tax and emissions trading systems (ETS) in operation worldwide as of 2024, covering approximately 24 percent of global emissions (World Bank, 2024). These mechanisms take various forms, such as carbon taxes, emissions trading systems, and carbon crediting, with flexible designs and approaches emerging. Low- and middle-income countries contribute 60 percent of global emissions and account for 80 percent of committed emissions. Currently, carbon pricing covers 31 percent of emissions in high-income and 22 percent in middle-income countries, highlighting the growing need for low- and middle-income countries to introduce carbon pricing.

A carbon tax targets specific sectors and activities based on their GHG emissions, with the opportunity to expand the tax base, generate additional fiscal revenues, and reduce emissions. The resources and revenue collected from a carbon tax can be targeted to vulnerable households and used to support them, fund public services, build fiscal resilience, and finance

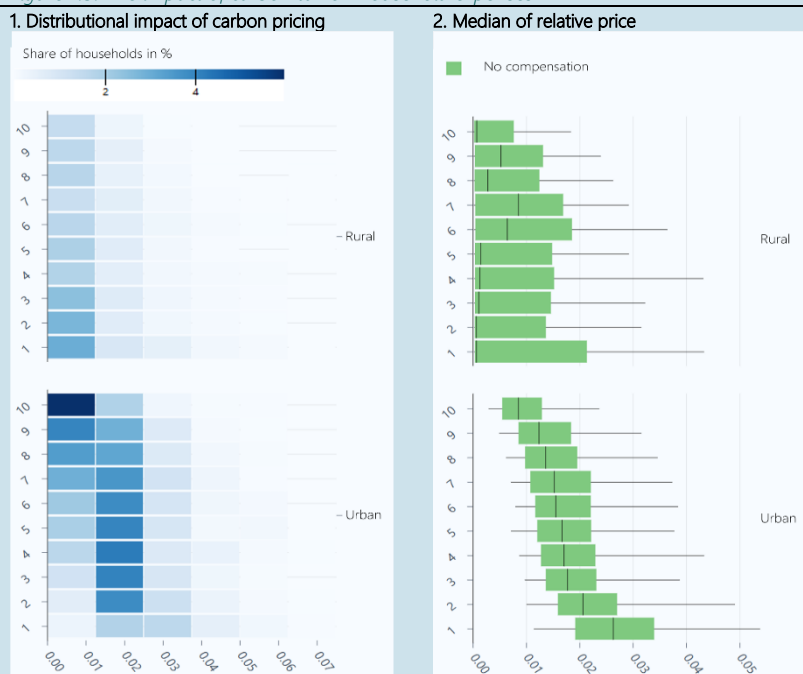
investment aligned with SDG. A well-designed progressive carbon pricing can increase significant economic and social benefits. Global carbon pricing revenues reached USD 104 billion in 2023, with more than half allocated to funding climate and environment-related programs.

### Analysis of the distributional impact of carbon pricing on households

The Carbon Pricing Incidence Calculator (CPIC)<sup>1</sup> is a publicly available tool that measures the distributional impact of a carbon price on different income groups when carbon pricing is introduced for emissions across nationally /all sectors, specifically in the electricity sector, and liquid fuels including transportation and heating, provides comparative scenarios based on how carbon pricing revenues are compensated back to per household, per capita, etc.

Among the various scenarios offered from the CPIC, we selected a scenario where a national carbon price in the US\$1/tonne in the electricity sector is introduced and showed its distributional impact in Figure 1.3 by comparing rural and urban households. In that case, in urban areas, households with the highest income (10th income group) face the lowest carbon tax burden compared to other income groups, while the burden on household spending tends to increase as income decreases.

Figure 1.3. The impact of carbon tax on household expenses



**Vertical axis:** Income group. Splits the population into ten equally sized income groups (deciles). Group 1 represents the poorest 10%, group 5 the richest 10% and so on.

**Horizontal axis:** relative price, percent.

Resource: <https://www.cpic-global.net/country/MNG>

Note: The first-order relative additional costs to households by dividing absolute additional costs by total household expenditure.

In figure 1.4, carbon tax revenues (revenues collected from the carbon pricing) are used to finance a compensating transfer equally to per capita or per household.

**A. A case when 100 percent of carbon pricing tax revenues are distributed back to each household.**

When tax revenue does not compensate, low-income households tend to bear a higher tax burden on their relative cost. However, if tax revenues are returned evenly among households as a lump-sum transfer, the burden on relative cost becomes similar across different income groups, especially in urban areas, resulting in an average increase in relative costs of about 0.01 percentage points.

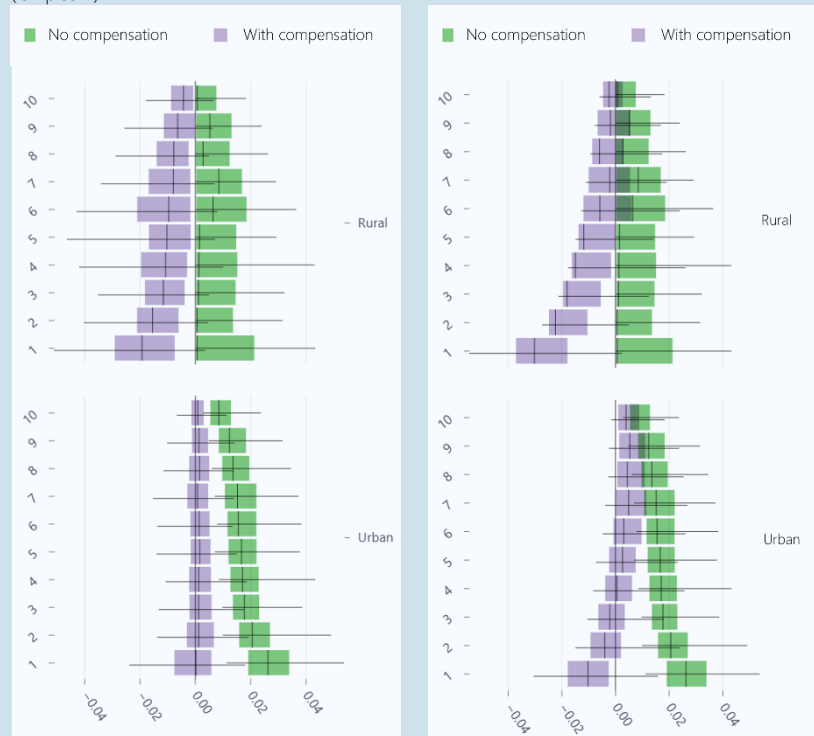
**B. A case when 100 percent of carbon pricing tax revenues are distributed back to each person.**

When the carbon tax revenues are distributed equally to each person, it alleviates the cost burden on low-income households while having small effect on high-income households, regardless of whether they are in rural or urban areas. In contrast, rural households receive larger refunds from the transfer, favoring low-income groups.

In brief, while distributing carbon tax revenue equally to everyone reduces the cost burden on low-income households, distributing it equally to every household result in a similar cost burden on households regardless of income group.

Figure 1.4. Allocation of carbon tax revenues

1. Costs with a per when 100% of carbon pricing tax revenue are distributed back to the population via equal per household transfer (lump sum)
2. Costs with a per when 100% of carbon pricing tax revenue are distributed back to the population via equal per capita transfer (lump sum)



**Vertical axis:** Income group. Splits the population into ten equally sized income groups (deciles). Group 1 represents the poorest 10%, group 10 the richest 10% and so on.

**Horizontal axis:** relative price, percent.

**The purple boxplot** shows the costs with a per when 100% of revenues are distributed back to the population via Equal per household or per capita transfer (lump sum).

**Negative values** indicate that households are better off than before the policy intervention, i.e. are being overcompensated.

Resource: <https://www.cpic-global.net/country/MNG>

<sup>1</sup> CPIC was developed by a working group of a scientific think tank-Mercator Research Institute on Global Commons and Climate Change and funded by the German Corporation for International Cooperation (GIZ).

Note: The first-order relative additional costs to households by dividing absolute additional costs by total household expenditure.

## 1.2. Aggregate demand

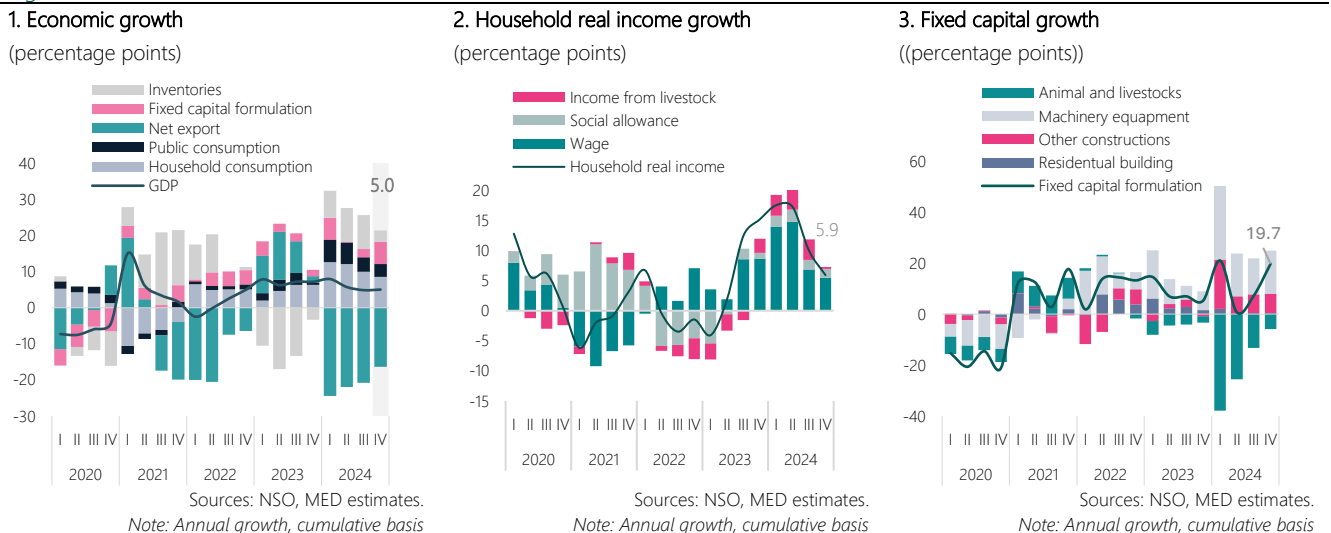
9. Domestic economic activation has remained, on demand side, both household spending and investment played key role in supporting economic growth. Household real income growth fueled consumption, which rose by 12.9 percent compared to 2023. Highest spending increases were in durable goods such as apparel, furniture, and housing, and expenditures on services related to transportation and dining. Government spending expanded by 18.3 percent in 2024, driven by a significant 2.3 times rise in budget expense for wages and promotions relative to 2023. Gross capital formation grew by 22.2 percent year-on-year, driven by intensified maintenance and construction activities, reduced livestock losses in the second half of the year, and higher imports of heavy machinery, which further contributed to the overall growth.
10. Despite 7 consecutive quarters of rise in household real income, growth momentum slowed in 2024Q4. Household real income – adjusted for inflation, grew by 5.9 percent in 2024Q4, which is 4.1 percentage points lower than growth in previous quarter, 9.3 percentage points lower compared to level of year before. Household income recovered and

consistently grew by more than 10 percent from the second half of 2023, following the government's introduction that increases in pensions, social benefits and wages in July 2023. The relatively stable price levels of goods and services throughout most of the year, along with improvements in employment, positively impacted household income. However, household real income growth eased due to high baseline growth and gradual inflation increase at the end of year.

National Research and Consultancy Center's consumer confidence index survey revealed a continued rise in consumer confidence, the index remained above 100 points for all four quarters of 2024. However, in the fourth quarter, it dropped to 104.7, a decline of 10.1 points from the previous quarter, signaling a weakening in consumer confidence.

11. Real income of urban households continued to grow, unfortunately, it is declining for rural households. Average nominal income for households in Ulaanbaatar accounted MNT 3.1 million, whereas for households in countryside, it was MNT 2.1 million. Also, household real income in Ulaanbaatar grew by 11 percent, while household real income in the countryside declined by 4.9 percent in 2024Q4.

Figure 1.5. Growth contribution



Median wage surpassed MNT 2 million in 2024Q3, supporting earnings of individuals with paid jobs. On the other hand, households wage income in the countryside is limited and nearly half of their earnings come from livestock and agricultural production. Contraction in agriculture related income due to unfavorable weather conditions has further worsened livelihoods in countryside. By 2023, out of overall 983 thousand households, 305 thousand reside in countryside.

According to National Statistics Office estimates, 21.2 percent of households in Ulaanbaatar live on less than MNT 1.6 million, while 57.3 percent of households in countryside are in same situation.

**12. Investment grew as financial condition has become more supportive.** Gross capital formation records all changes in fixed and current capitals across economic sectors. Stronger financial sources fueled the gross investment, particularly, fiscal investment reached MNT 7.9 trillion in 2024, marking a 53.1 percents increase from previous year, issued credit amounted to MNT 57.1 trillion, rose by 36.7 percent, meanwhile foreign direct investment inflows reached USD 2.6 billion, up by 17.7 percent. By the first half year, adult animal losses reached 8.1 million heads and played role to deduct capital stock. However, this indicator reduced to 1.3 million in the second half year, helped to mitigate the negative impact. Meanwhile, machinery stock grew by 36.3 percent as imports for mining investment accelerated and non-residential construction increased by 22.9 percent due to activation of road, bridge and maintenance works. As a result, fixed capital formation expanded by 19.7 percent in 2024.

**13. Inventory growth was significant compared to the previous year.** Changes in inventories are a notoriously volatile expenditure component of GDP. It includes various types of inventories, such as residual goods, final products and work in progress. However, extracted mining raw materials are dominate inventory in Mongolia. As a consequence of elevated global economic uncertainty due to regional conflicts and trade wars, demand for gold has been increasing as a secure investment and hedge against risk. As a result, gold price has been peaking at its highest level in the history. Bank of Mongolia acquired 16.5 tons gold in gross weight, a 7.9 percent decline in 2024 from a year before, leading to doubt that gold miners are holding back due to higher price expectation.

**14. Higher than expected growth in imports contributed to a bigger deduction in net exports.** Net exports refer to the difference between revenue earned by exports and payment made for imports. Net exports declined by 58.9 percents as goods and services imports increased by 17.7 percents in 2024 and contributed negatively by 16.4 percentage points to overall growth. However, external price pressures remained moderate as global commodity prices were stable, while goods imports surged by 20.2 percent. In other words, 90 percent of import growth was explained by an increase in volume, indicating higher demand from households and businesses. Moreover, service imports grew by 14.4 percents, driven by an increase in all types of freight transport and a larger outflow of people travelling for education and business purposes.

### 1.3. Labor Market and Enterprises

15. **Driven by economic growth, the labor market continues to expand, with employment levels rising.** In the third quarter of 2024, the number of employees increased by 34 thousand compared to the same period last year and by 121 thousand compared to pre-pandemic levels, reaching 1 million 360 thousand. Adjusted for seasonal variations<sup>2</sup>, the number of employees rose by 51 thousand compared to the same period last year. This growth was primarily influenced by an increase of 46 thousand employees in the services sector, 26 thousand in the trade sector, and 11 thousand in the transportation sector. However, declines in agriculture contributed to a decrease of 50 thousand employees in the sector, along with a drop of 3 thousand in manufacturing and 1 thousand in the energy sectors, which moderated the growth pace. By region, employment in urban areas increased by 62 thousand compared to the same period last year, reaching a total of 624.2 thousand. In contrast, rural areas experienced a decline of 28 thousand, bringing the total down to 736.1 thousand. More specifically, the number of employees decreased by 18 thousand in the

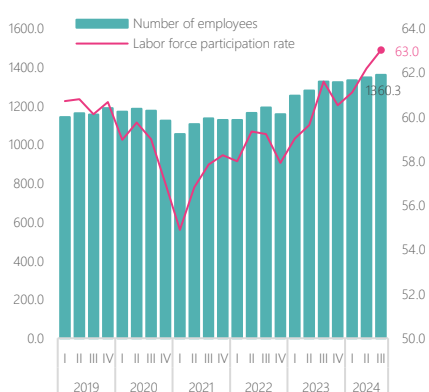
Khangai region, 7 thousand in the Central region, and 3 thousand in the Western region.

16. **Employment indicators showed improvement as individuals moved from the non-labor force population into the labor force.** The labor force grew by 48 thousand compared to the same period last year, reaching 1.448 million. This expansion raised the labor force participation rate by 1 percentage point year-on-year to 63 percent, marking its highest level in a decade. Adjusted for seasonal variations, the participation rate stood at 60.9 percent, an increase of 0.9 percentage points from the same period last year.

Alongside the increase in employment, a reduction of 23 thousand in the non-labor force population also played a critical role in labor force growth. This decline reflects a decrease in the number of potential labor force participants—individuals willing to work but previously unable to find opportunities. This trend highlights positive developments in labor market activity and workforce engagement.

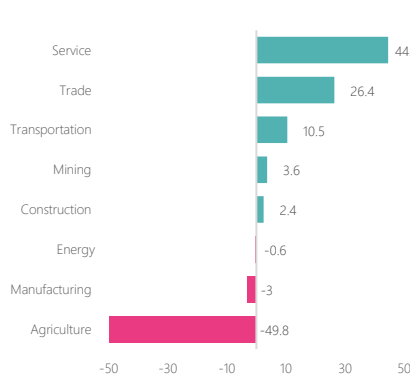
Figure 1.6. Labor market

1. Number of employees, labor force participation rate (thousands, percentage)



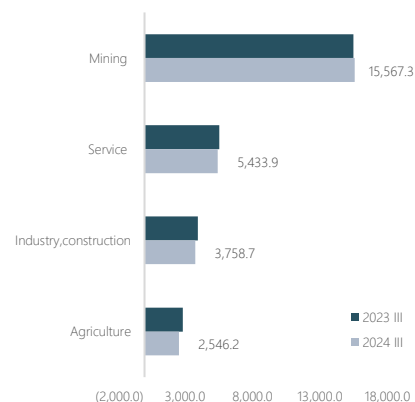
Source: NSO

2. Changes in the number of employees, by sector (thousands of people)



Source: NSO

3. Labor productivity level, by sector (MNT thousands)



Source: NSO

<sup>2</sup> Seasonal adjustment is a statistical method used to eliminate recurring seasonal patterns from time series data. These patterns often result from factors such as weather changes, holidays, school

schedules, and agricultural cycles. By removing these consistent fluctuations, seasonal adjustment allows for a clearer view of underlying trends and cyclical movements, making it easier to compare data across different time periods.

**17. Unemployment among individuals lacking professional skills and experience increased.**

The number of unemployed people rose by 14 thousand, or 19 percent, compared to the same period last year, reaching 88.1 thousand. As a result, the unemployment rate increased by 1 percentage point year-on-year to 6.1 percent. When analyzing the reasons for the rise in unemployment, the main contributors were individuals lacking professional skills and experience, whose numbers increased by 4.6 thousand; those returning from living abroad, which rose by 2.7 thousand; and seasonal workers, which increased by 1.2 thousand. Conversely, the number of individuals not interested in working decreased by 1.5 thousand, those on maternity leave or caring for children dropped by 1 thousand, and those unemployed due to organizational closures declined by 0.7 thousand.

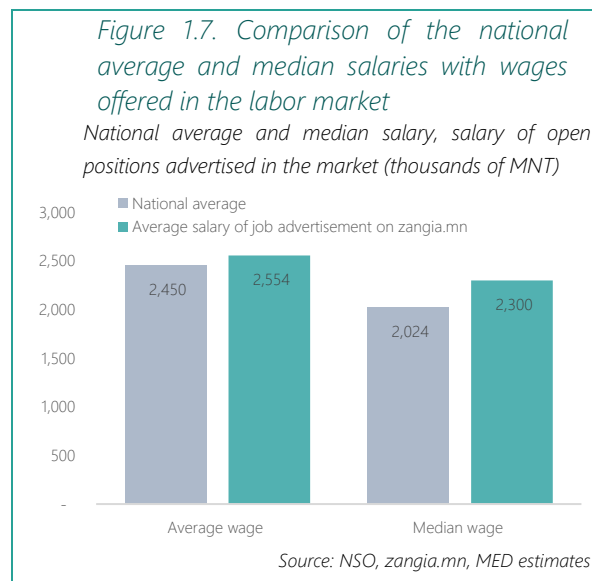
**18. The national average wage is increasing.**

According to the National Statistics Office, the nominal average wage increased by 470 thousand MNT compared to the same period last year, reaching 2.45 million MNT in the third quarter of 2024. Similarly, the median wage grew by 468 thousand MNT, amounting to 2.024 million MNT. Despite the average wage reaching 2.5 million MNT, the median wage indicates that more than half of employees earn less than 2 million MNT.

By sector, the mining industry recorded the highest average wage at 5.196 million MNT, which is 2.1 times higher than the national average. Additionally, the average wage of workers in the electricity and water sectors increased by 1.068 million MNT year-on-year, reaching 3 million MNT, positively contributing to the growth of the national average wage. However, the average wage in the

accommodation, food, and service sectors remains at 1.611 million MNT, which is 1.6 times lower than the national average.

According to data from the labor market website [www.zangia.mn](http://www.zangia.mn) the average salary of the 32 thousand<sup>3</sup> job advertisement advertised in the third quarter of 2024 was 2.554 million MNT, which is 104 thousand MNT higher than the national average. The median



salary for these postings was 2.3 million MNT, exceeding the national median by 276 thousand MNT.

By sector, the highest average salaries were observed in construction (3.1 million MNT), mining (3 million MNT), and marketing and sales (2.8 million MNT). Conversely, the sectors with the lowest average salaries, ranging between 2.0 and 2.1 million MNT, include media, services, and tourism.

As shown in Figure 1.7, the average and median salaries of job advertisement on the [www.zangia.mn](http://www.zangia.mn) platform are 4% and 14% higher, respectively, than the national average and median salaries. The salaries for job advertisements on this platform are likely to be

<sup>3</sup> Of these job advertisement, 4.6 thousand were in the finance and insurance sector, 4.2 thousand in the mining sector, 4.1 thousand in the trade sector, 2.8 thousand in the manufacturing and

construction sector, 2.6 thousand in the services sector, and 11 thousand in other sectors.

higher than the national average due to factors such as the size of the posting enterprise, the unique characteristics of the positions, and the limited availability of qualified labor for these roles.

**19. Declining productivity levels in non-mining sectors have slowed labor productivity growth.**

Labor productivity increased by 76.5 thousand MNT, or 1 percent, compared to the same period last year, reaching 5 million 908 thousand MNT. By sector, productivity in the mining sector rose by 85.8 thousand MNT year-on-year, reaching 15 million 567 thousand MNT—approximately three times higher than the national average. However, the agricultural sector experienced a contraction, with productivity declining by 288.9 thousand MNT, or 10.2 percent, to 2 million 546 thousand MNT. Furthermore, driven by an increase in the number of employees, productivity in the industrial and construction sectors, as well as the services sector, declined. Productivity in the industrial and construction sectors fell by 199.4 thousand MNT, reaching 3 million 758 thousand MNT, while the services sector saw a decrease of 102.2 thousand MNT, reaching 5 million 434 thousand MNT.

**20. Growth in domestic economic activity has intensified enterprise operations.**

As of the third quarter of 2024, the total number of enterprises registered in the Business Registration Database reached 250.8 thousand, an increase of 20.2 thousand from the same period last year. Of this growth, 12.7 thousand were newly established enterprises that have not yet commenced operations, while 6.8 thousand were actively operating enterprises. The increase in both actively operating and newly established enterprises indicates enhanced business activity.

By sector, the trade and services sectors accounted for the largest share of growth, with

8.3 thousand newly established enterprises and 4.6 thousand actively operating enterprises added. Notably, the growth in the number of newly established enterprises surpassed the 10-year average growth rate of 9.4 percent for the same quarter by 33.4 percent. This growth was positively influenced by increased economic activity and increased household income. In particular, wholesale and retail trade enterprises, particularly those dealing in food, beverages, tobacco, agricultural raw materials, and livestock trade, saw significant increases.

Additionally, growth in the transport sector contributed to an increase in enterprises engaged in vehicle and equipment sales. The government's decision to designate 2023–2025 as the "Years to Visit Mongolia" and active policies and measures to promote tourism led to a rise in enterprises providing tourism, restaurants, and accommodation services. There was also an increase in non-governmental organizations, labor unions, medical institutions, educational centers, business consulting services, computer programming, architecture, and engineering activities.

In agriculture, the growth in the number of enterprises has surpassed the 10-year average by 19.1 percent for actively operating enterprises and 144.9 percent for newly established enterprises as a result of active policies implemented to support the agriculture sector. Notable growth was observed in livestock breeding and mixed farming operations, as well as in enterprises supporting post-harvest agricultural activities (Figure 1.8).

Boosted by mining export growth, the number of actively operating enterprises increased by 79 in mining and 397 in transportation, and the number of newly established enterprises rose by 67 in mining and 721 in transportation.

Growth in newly established enterprises in the transportation sector exceeded the 10-year average by 48.2 percent.

**21. Increased household real income has led to a rise in small enterprises operating in trade and services.** Of the 104.6 thousand actively operating enterprises registered in the Business Registration Database, 86.2 percent, or 90.1 thousand, have 1–9 employees (Table 1). The number of small enterprises with 1–9 employees increased by 6.3 thousand compared to the same period last year, with 4.4 thousand of these operating in the trade and services sector. /76 percent, or 68.9 thousand, of small enterprises with 1–9 employees are operating in the trade and services sector./

Meanwhile, enterprises with 10–19 employees reached 6.4 thousand, an increase of 319 compared to the same period last year, primarily driven by growth in the agriculture, services, and construction sectors. Additionally, 87 enterprises with 20–49 employees and 65 enterprises with more than 50 employees commenced operations, with 80–90 percent of these concentrated in the services sector.

*Table 1. Change in the number of enterprises operating by employee count*

Number of employees	Number of enterprises	Percentage change	Note
1-9	90.1	7.5%	The service sector accounted for two-thirds of the growth.
10-19	6.4	5.3%	Agriculture and service sectors contributed one-third of the growth respectively, while construction

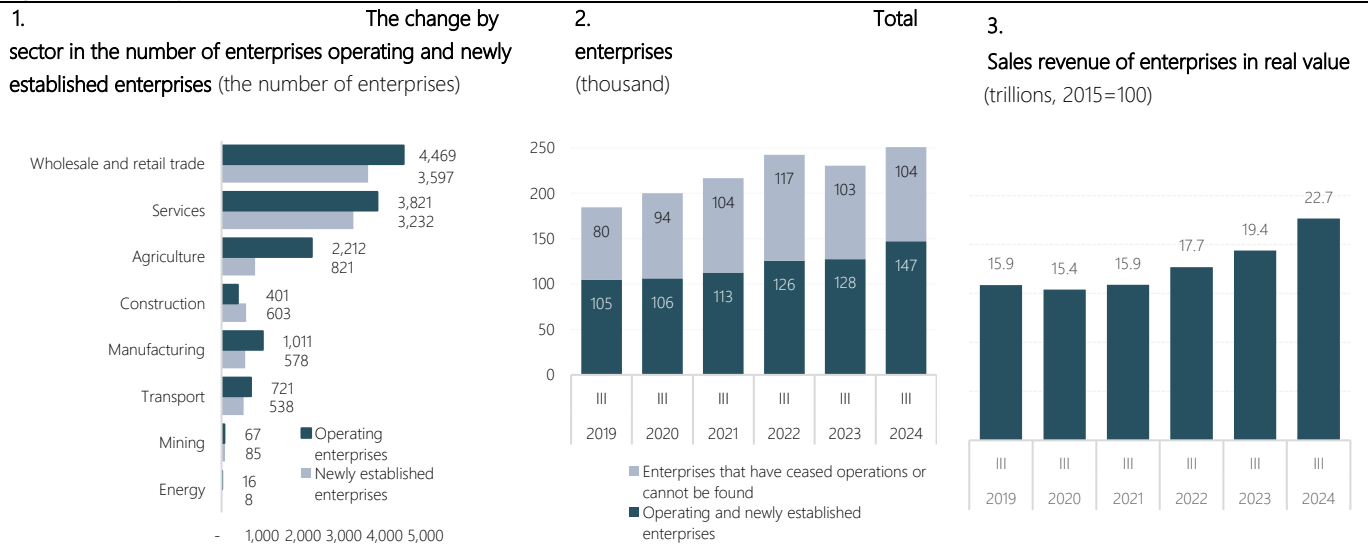
			made for 13 percent of the growth.
20-49	5.2	1.7%	Of the 87 newly started enterprises, 72 are in services, 15 in construction, and 11 in manufacturing. On the other hand, the trade sector has seen a decline in 32 enterprises.
50+	2.9	2.3%	Of the 65 new enterprises, 61 are in services, 12 in transportation, 7 in mining, and 6 in construction.
			Conversely, the number of enterprises in the trade sector declined by 19.
Total	104.6	6.9%	

**22. The majority of the growth in enterprise sales revenue was driven by the services sector.** As of the third quarter of 2024, the real sales revenue of enterprises increased by 17.0 percent year-on-year, reaching MNT 22.7 trillion. Of this growth, 6.0 percentage points were contributed by the services sector, primarily by the wholesale and retail trade sector, which makes up a significant portion of the services industry. Additionally, the mining

sector accounted for 5.2 percentage points of the revenue growth, agriculture for 3.4 percentage points, transportation for 1.7 percentage points, and water and electricity

for 0.9 percentage points. In contrast, sales revenue in the construction and manufacturing sectors declined compared to the same period last year.

Figure 1.8. Enterprises



Source: NSO

Source: NSO

Source: General Authority of Taxation

Box 2. Consumer confidence index

**In the third quarter of 2024, consumers' economic expectations improved, with the Consumer Confidence Index increasing by 9.9 points compared to the same period last year and by 6.1 points compared to the previous quarter.**

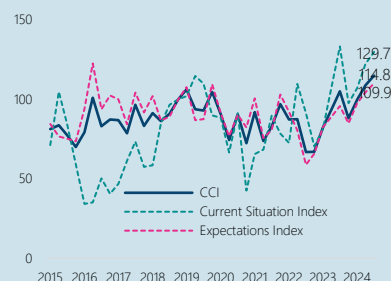
The Consumer Confidence Index (CCI), calculated by the National Research and Consulting Center (NRCC Co. Ltd) and the Japan-Mongolia Center for Human Resource Development, measures consumers' optimism about the general economic condition and household financial situation. The index is calculated based on two sub-indices: the Current Situation Index (business conditions and job availability) and the Expectations Index (business conditions, job availability, and income). The CCI is based on a nationwide survey using a random sampling method, taking values between 0 and 200. The closer the index is to 200, the higher the consumer confidence; the closer it is to 0, the lower the confidence. An index of 100 is considered to indicate a normal economic state.

The CCI reached 114.8 in the third quarter of 2024, marking the highest level since 2015. This was primarily driven by improved economic expectations for the next six months. Table 2 presents the index's component breakdown.

**1. Current Situation Index:** *The evaluation of business conditions worsened, leading to a 3.4-point decrease in the Current Situation Index compared to the same period last year.* This index measures citizens' perceptions of the current economic situation based on business conditions and job availability. In the third quarter of 2024, the Current Situation Index decreased to 129.7. This decline was mainly influenced by an increase in the percentage of respondents rating business conditions as "poor," which reached 49.0% marking a 9.7-point increase compared to the same period last year. However, two-thirds of respondents continued to rate job availability as good or normal.

**2. Expectations Index:** *Consumers' expectations for the next six months improved, resulting in a 14.2-point increase in the Expectations Index compared to the same period last year.* The Expectations index measures citizens' outlook on near-term economic conditions based on business conditions, job availability, and income expectations. In the third quarter of 2024, the Expectations Index rose to 109.9, driven mainly by increased optimism regarding business conditions and job availability over the next six months. However, the percentage of respondents expecting an increase in income decreased by 1.4 points, while those expecting a stable income increased by 4.0 points.

Figure 1.9. Consumer Confidence Index, by quarter (2018=100)



Source: National Research and Consulting Center (NRCC Co. Ltd)  
 Note: The CCI and its component indexes are adjusted for seasonal effects and compared with the result of 2018Q4.

Table 1. Consumer Confidence Index Components

	2023.III	2024.III	Change
<b>CURRENT SITUATION INDEX ▼</b>			
<i>Business conditions ▼</i>			
Good	11.1	11.9	0.80▲
Normal	45.3	38.2	-7.10▼
Bad	39.3	49.0	9.70▲
<i>Job availability ▲</i>			
Good	33.5	34.0	0.50▲
Normal	31.6	33.3	1.70▲
Bad	31.4	31.1	-0.30▼
<b>EXPECTATIONS INDEX</b>			
<i>Business conditions ▲</i>			
Good	14.7	17.7	3.00▲
Normal	61.0	64.2	3.20▲
Bad	18.7	15.6	-3.10▼
<i>Job availability ▲</i>			
Good	22.6	31.8	9.20▲
Normal	55.8	51.7	-4.10▼
Bad	17.2	13.4	-3.80▼
<i>Income expectations ▲</i>			
Good	27.1	25.7	-1.40▼
Normal	53.5	57.5	4.00▲
Bad	17.0	15.3	-1.70▼

Source: National Research and Consulting Center (NRCC Co. Ltd)

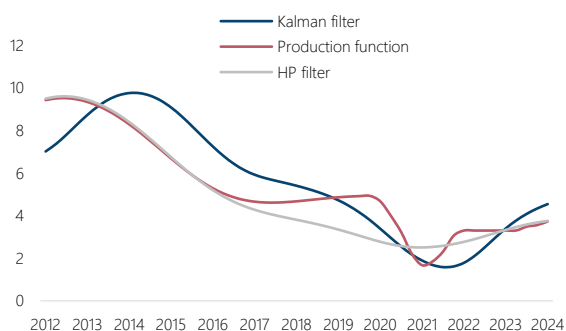
## 1.4. Business cycle

23. The potential output growth sustained momentum, driven by fixed capital formation growth and labor market recovery. In the third quarter of 2024, the potential growth remained at around 4 percent, mainly driven by a 7.2 percent growth in capital stocks, such as machinery and equipment, following intensification of mining activities. Additionally, acceleration of labor market supported potential growth.

24. The negative output gap is closed due to mining and non-mining sector expansion. The sustained growth of mining, along with complementary growth in the transportation sector and an increase in the service sector driven by strong domestic demand, primarily supported the closure of the negative output gap, 0.5 percentage points higher than its potential.

Figure 1.10. Output gap 11

### 1. Potential GDP growth (percentage)

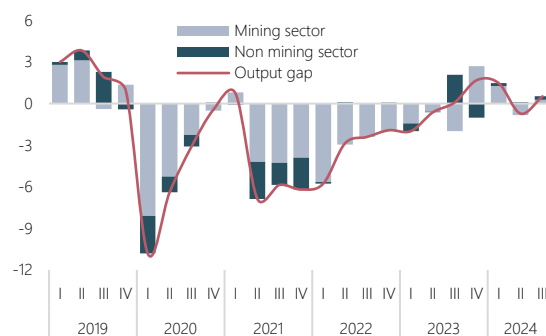


Source: Estimation of the MED

Note: Potential output growth is calculated by 3 different approaches HP filter, Kalman filter and Production function

### 2. Output gap (percent of potential output)

(percent of potential output)



Source: Estimation of the MED

Note: Output gap is calculated by the difference between actual GDP or actual output and potential GDP. Calculation methodology of output gap is shifted from Production function approach to Monetary Policy analysis with a Quarterly Projection model.

## CHAPTER II

# FISCAL SECTOR

- 2.1. Budget performance
- 2.2. Fiscal policy
- 2.3. Government debt sustainability

## 2. FISCAL SECTOR

### OVERVIEW

The total budget revenue reached MNT 31.4 trillion, an increase of MNT 7.0 trillion, driven by robust economic activity and higher mining export volumes. Consequently, the overall fiscal balance recorded a surplus of MNT 1.0 trillion in the final quarter of 2024. However, weakening coal prices continue to exert downward pressure on mineral royalty revenues.

On the expenditure side, the 2024 budget amendment raised total expenditures by 11.4 percent relative to the originally approved budget, bringing the total to MNT 30.4 trillion. Under the revised framework, current expenditures increased by MNT 1.2 trillion, while capital spending was augmented by MNT 1.8 trillion. These adjustments reflect the newly formed coalition government's shifting priorities to address structural development challenges outlined in the country's medium- and long-term policy documents.

The nominal government debt reached MNT 33.4 trillion by the end of 2024, representing an 8.5 percent increase year-on-year. Looking ahead, the government debt burden is expected to rise over the medium term, driven by recent domestic and international bond issuances by the capital city.

## 2.1. Budget performance

**25. According to the preliminary execution results for 2024, the structural balance has a deficit of MNT 776.2 billion.** By the end of 2024, total budget revenue reached MNT 29.6 trillion, an increase of MNT 6.3 trillion (27.0 percent) from the previous year. On the expenditure side, total budget expenditure amounted to MNT 30.4 trillion, reflecting a 34.9 percent increase from the previous year, which resulted in a structural balance deficit of MNT 776.2 billion. Nevertheless, the overall fiscal balance and the primary balance recorded surpluses of MNT 1.0 trillion and MNT 2.2 trillion, respectively.

**26. Strong economic activity and an increase in the volume of mining exports contributed to higher revenues from corporate income tax and value-added tax.** Total budget revenue reached MNT 31.4 trillion at the end of 2024, representing an increase of MNT 7.0 trillion (28.7 percent), compared to the previous year. This growth was mainly driven by increases in corporate income tax revenue by MNT 2.5 trillion (65.2 percent), value-added tax revenue by MNT 1.1 trillion (22.8 percent), personal income tax revenue by MNT 757 billion (40.2 percent), and excise tax revenue by MNT 300 billion (39.0 percent).

Furthermore, sustained activity in the mining sector made a significant contribution to maintaining high levels of fiscal revenue from the sector. By the end of 2024, coal export volume reached 83.7 million tons, increasing by 20.3 percent compared to the same period of the previous year, while copper concentrate export volume reached 1.7 million tons, representing a year-on-year increase of 16.2 percent.

**27. The high volume of passenger car imports had a positive impact on excise tax revenue.** Supported by strong domestic demand, imports increased, leading to customs duty revenue reaching MNT 1.0 trillion, a 39 percent increase compared to the previous year. Passenger car excise tax accounted

for 53 percent of total excise tax revenue, and the number of imported passenger cars reached 123.0 thousand units by the fourth quarter of 2024, representing a 67.3 percent year-on-year increase. This sharp increase in import volume was the main driver of the growth in excise tax revenue.

**28. Despite the high volume of commodity exports, the decline in global coal prices contributed to a decrease in royalty revenue.** By major mineral commodity categories, coal accounted for 64.5 percent of total royalty revenue, followed by copper concentrate at 26.0 percent, gold at 3.8 percent, and iron ore at 1.8 percent. Due to the decline in global coal prices, which constitute the largest share of this revenue, royalty revenue recorded sequential declines during the last three months of 2024, amounting to MNT 403 billion, MNT 326 billion, and MNT 255 billion, respectively. Consequently, according to the preliminary 2024 outturn, royalty revenue transferred to the state budget decreased by 1 percent year-on-year, while revenue transferred to the Fiscal Stability Fund declined by 49 percent. Nevertheless, total royalty accumulated in the budget reached MNT 4.6 trillion in 2024, representing an increase of 12.6 percent compared to the previous year.

**29. Revenue generated from the mining sector accounted for 32.1 percent of total budget revenue, indicating that a continued decline in coal prices poses a significant risk to fiscal revenue.**

*Table 2. Sectoral classification of the top 100 corporate taxpayers by major budget revenue categories*

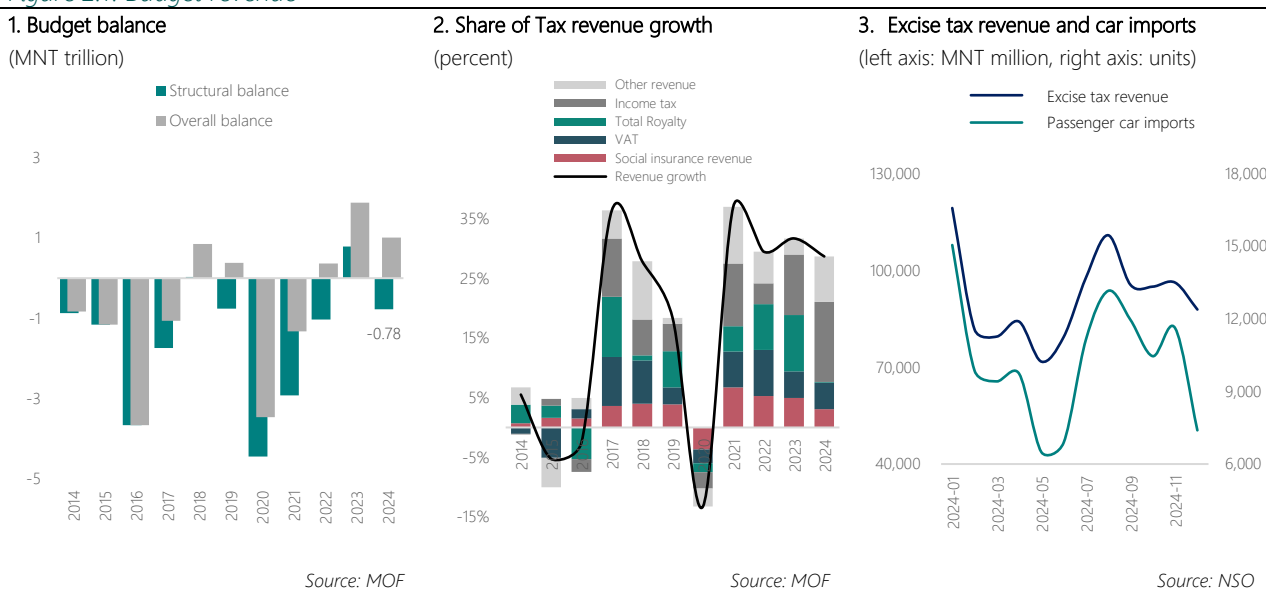
		AAHOAT	AMHAT	HĖAT	XXOAT
1	Mining	29	62	14	21
2	Retail trading	26	10	23	11
3	Financial and insurance	12	9	3	14
4	Manufacturing	9	8	12	8
5	Construction	7	1	11	6
6	Electric	2		13	8
7	Other	13	9	23	30

Revenue accumulated in the budget from the mining sector reached MNT 10.1 trillion, equivalent to 32.1 percent of total budget revenue. By tax category, 40.1 percent of total revenue generated from the mining sector was derived from corporate income tax, while 46.5 percent originated from mineral royalty tax revenue. An analysis of the top

100 taxpayers by tax category further shows that the mining sector remains relatively dominant across all categories except value-added tax and excise tax.

Therefore, it is essential to promote greater sectoral diversification and broaden the economic base to reduce excessive dependence on a single sector.

Figure 2.1. Budget revenue



**30. The increase in wages, pensions, and social benefits supported household consumption and contributed to higher value-added tax revenue.** The adjustment in wages, pensions, and social benefits implemented in April 2024 stimulated both public and household consumption. As a result, value-added tax revenue reached MNT 5.9 trillion during the first four quarters of 2024, representing a year-on-year increase of 22.8 percent.

**31. Amendments were made to the Law on the 2024 State Budget of Mongolia.** Following the constitutional amendment, Mongolia adopted a mixed electoral system, resulting in the establishment of the first 126-member State Great Khural. This marked the formation of Mongolia's first coalition government, consisting of three parties, ensuring that citizens' votes are adequately represented. The coalition government aims to accelerate key development projects. As a result, amendments to the Law on the 2024 State Budget included an increase of MNT 1.2 trillion in current

expenditure and MNT 1.8 trillion in capital expenditures. As a result, total expenditure increased by 11.4 percent compared to the initially approved budget and by 35.4 percent compared to the same period last year, reaching MNT 30.5 trillion.

**32. The gradual increase in civil servants' wages in line with inflation led to an expansion in current budget expenditures.** Total expenditure reached MNT 30.4 trillion in 2024, an increase of MNT 7.7 trillion (34.6 percent) from the previous year, equivalent to 38 percent of GDP. This represents the highest level of public expenditure recorded over the past 15 years. Of the total expenditure increase, current expenditure accounted for MNT 5.0 trillion (22.3 percentage points), while capital expenditure contributed MNT 2.7 trillion (12.3 percentage points). Government efforts to support household incomes, pensions, benefits, and civil service wages were increased by an average of 10 percent, effective from April 1, 2024. As a result,

wage and performance-based incentive expenditures reached MNT 5.4 trillion, increasing 2.3 times compared to the previous year and accounting for the largest share of total expenditure growth at 13.6 percent. In addition, the increase in the minimum wage to MNT 660,000 per month, effective from January 1, 2024, contributed to higher pension expenditures, which increased by MNT 395.6 billion compared to the previous year.

**33. Interest payments on government debt increased for the second consecutive year.** Total interest payments from the budget amounted to MNT 1.2 trillion in 2024, representing an increase of MNT 45.0 billion compared to the previous year. Specifically, external debt interest payments amounted to MNT 1,146.2 billion, while domestic debt interest payments totaled MNT 48.8 billion. Interest payments had previously declined by 11.0 percent in 2021 and 4.5 percent in 2022. However, this trend reversed in 2023 and 2024, with increases of 44.1 percent and 3.9 percent, respectively, driven largely by the growth in external debt. Over the period 2014–2024, government interest payments accounted on average for 7.7 percent of budget expenditure and 10.1 percent of current expenditure. Although this share has declined since 2019, reaching 3.9 percent of total expenditure and 5.4 percent of current expenditure in 2024.

**34. Since the increase in child allowance implemented in 2020, this transfer has accounted for the largest share of social welfare expenditures financed from the budget.** Total social welfare pension and benefit expenditure reached MNT 2.3 trillion in 2024, an increase of MNT 179.8 billion (8.4 percent) compared to the previous year. This increase was primarily driven by higher spending on child allowances. In 2020, as part of measures to support economic recovery during the pandemic and strengthen social protection for vulnerable groups, the monthly child allowance for children aged 0–18 was increased from MNT 20,000 to MNT 100,000. As a result, the share of child allowance in total social welfare expenditure, which stood at 34.1

percent (MNT 229.6 billion) in 2019, increased significantly in subsequent year reaching 65.3 percent (MNT 1.0 trillion) in 2020, 71.8 percent (MNT 1.3 trillion) in 2021, 74.0 percent (MNT 1.5 trillion) in 2022, 71.6 percent (MNT 1.52 trillion) in 2023, and 66.6 percent (MNT 1.54 trillion) in 2024. Compared to the pre-pandemic period, both the level and share of child allowance expenditure increased approximately 4.4–6.7 times and about twofold, respectively.

**35. Expenditures on benefits for salaried mothers, as well as allowances for pregnant and breastfeeding mothers, have declined in line with the falling birth rate.** In 2024, the birth rate decreased by 10 percent compared to the previous year, while the number of pregnant women and individuals caring for children declined by 14 thousand year-on-year. As a result, expenditure on benefits for pregnant and breastfeeding mothers decreased by 11.5 percent, while spending under the “Salaried Mother” program declined by 1.1 percent compared to the previous year. The share of these expenditures in total social welfare pension and benefit spending under the budget has gradually declined. While they accounted for 16.8 percent (MNT 113.5 billion) of total social welfare expenditure in 2019, this share fell to 4.4 percent (MNT 103.6 billion) in 2024, representing a decline of 12.4 percentage points.

**36. Subsidies provided to cover losses in the energy sector and public transportation continued to account for most total subsidies.** As of the fourth quarter of 2024, total subsidies financed from the budget amounted to MNT 954.7 billion, representing a year-on-year increase of 64.7 percent. The share of total subsidies in current expenditure reached 4.3 percent, increasing by MNT 374.9 billion (1.8 percentage points) compared to the same period of the previous year.

Subsidies provided to the energy sector and public transportation entities accounted for approximately 55 percent of total subsidies in 2024. Subsidies allocated to cover public transportation losses

reached MNT 289.4 billion, increasing by 74 percent year-on-year. Likewise, subsidies for losses in the energy sector amounted to MNT 221.6 billion, approximately 3.1 times higher than the previous year, while incentives provided to support agricultural production and products reached MNT 242.9 billion, increasing 2.5 times year-on-year. These increases were the main factors behind the rise in the share of subsidies in recurrent budget expenditure from the 2013–2023 average of 3.4 percent to a level approximately one percentage point higher in 2024.

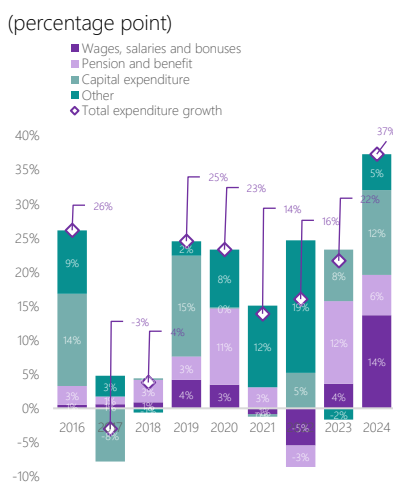
Among the 18 entities operating on the main public transportation routes, 2 are state-owned public

utility enterprises, while 16 operate as limited liability companies. According to disclosures from the Ulaanbaatar Public Transportation Authority, approximately 98 percent of the subsidies allocated to the sector in 2024 were provided to private sector entities.

The continued increase in subsidies to the public transportation sector reflects structural issues, including the failure to regularly update the actual cost of passenger transportation, which contributes to growing operational losses. This indicates the need to conduct comprehensive cost studies and improve management efficiency within public transportation organizations.

Figure 2.2. Budget expenditures

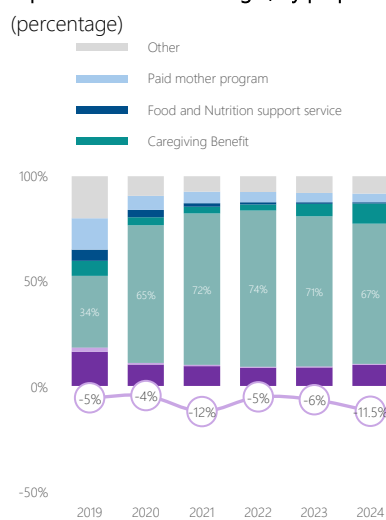
1. Budget expenditure, by economic classification (percentage point)



Source: Estimation of MED, MOF

Note: The share of consolidated budget expenditure expansion was calculated using the cumulative total of the given year.

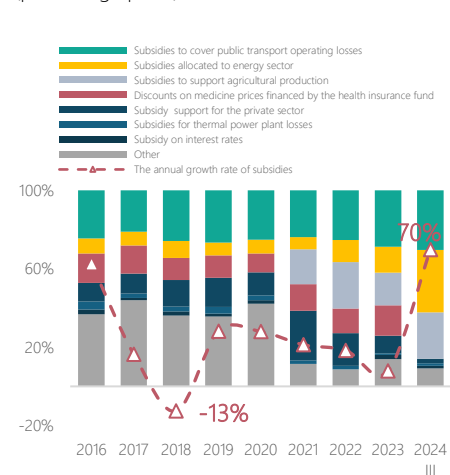
2. Social welfare pensions and allowances expenditure from the budget, by purpose (percentage)



Source: Estimation of MED, MOF

Note: The share of consolidated budget current transfers classified as social welfare pensions and allowances was calculated by purpose.

3. Subsidy growth (percentage point)



Source: Estimation of MED, MOF

Notes: The classification of subsidies granted from the consolidated budget to state-owned and private organizations was calculated as a share of the annual growth in total subsidies.

37. Following the amendment to the 2024 Budget Law of Mongolia, capital expenditure under the budget was increased by MNT 1.8 trillion. The additional spending was primarily aimed at reducing congestion and excessive concentration in Ulaanbaatar, while supporting major development and infrastructure projects. Capital expenditure reached MNT 7.9 trillion by the end of 2024, representing a year-on-year increase of 52.7 percent, while the overall execution rate of investment spending stood at 76.3 percent. By

economic classification, 67.9 percent of total investment expenditure was allocated to buildings and infrastructure, 18.3 percent to other assets, 9.8 percent to equipment, and 3.8 percent to major maintenance works. In 2024, a total of 1,323 projects and programs with a budgeted cost of MNT 11.6 trillion were planned to be implemented through state budget investment, with financing of MNT 3.8 trillion allocated for the year. The execution rate of this financing reached 78.7 percent, equivalent to MNT 3.0 trillion.

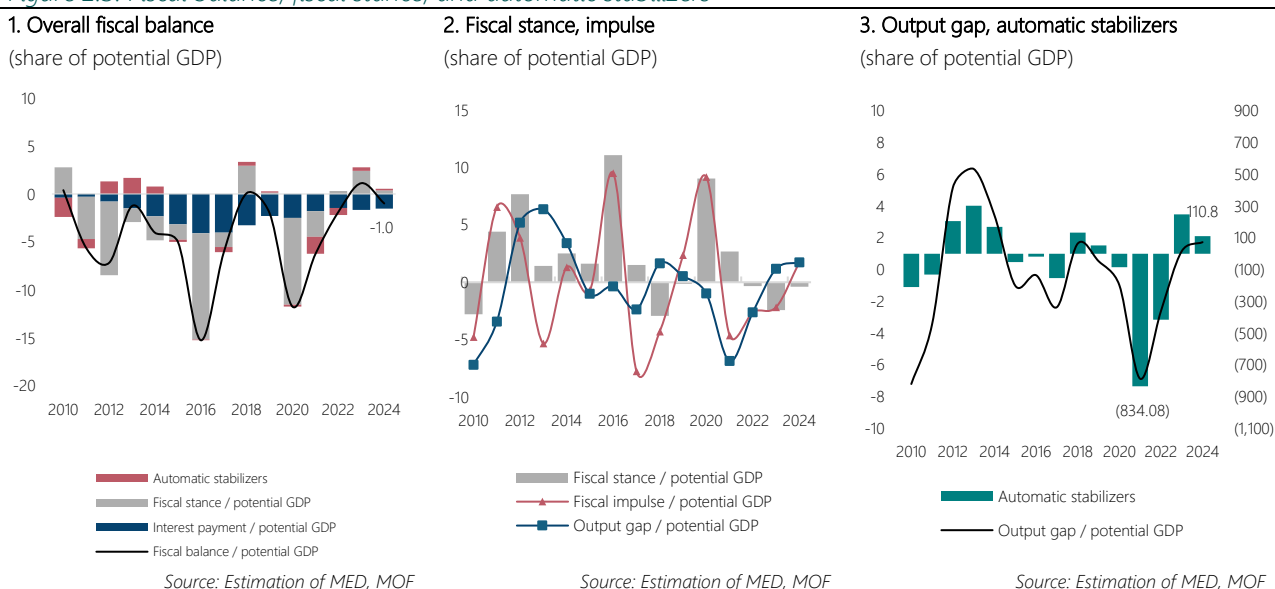
## 2.2. Fiscal policy

38. Interest payment was the main factor contributing to the balanced budget deficit. Figure 2.3 illustrates the factors affecting the fiscal balance by distinguishing the impact of fiscal policy through the fiscal stance, the effect of the economic cycle independent of fiscal policy through automatic stabilizers, and the impact of debt service through interest payments. The fiscal balance recorded a deficit equivalent to 1.0 percent of potential GDP. Within this outcome, automatic stabilizers made a positive contribution of 0.1 percentage points, equivalent to MNT 110.8 billion, while the fiscal stance contributed 0.4 percentage points, or MNT 308.0 billion. However, interest expenditure exerted a negative impact equivalent to 1.5 percentage points of potential GDP, placing a burden of approximately MNT 1.2 trillion on the budget. In other words, debt servicing payments amounting to MNT 1.2 trillion on loans accumulated in previous years became the principal factor contributing to the fiscal deficit.

39. Driven by strong economic activity, automatic stabilizers have contributed positively to the fiscal balance for two consecutive years. During the COVID-19 pandemic, the slowdown in economic activity caused automatic stabilizers to exert pressure on the budget equivalent to MNT 834.0 billion. However, over the past two years, rising real household incomes and improved domestic demand have supported the fiscal balance, with automatic stabilizers contributing MNT 247.6 billion and MNT 110.8 billion, respectively.

40. The positive fiscal impulse indicates that fiscal policy in 2024 became more expansionary compared to the previous year. Fiscal impulse measures the pace of expansionary or contractionary fiscal policy through the annual change in the fiscal stance. By the end of 2024, the fiscal impulse reached 1.8 percent of potential GDP, equivalent to MNT 1.4 trillion, indicating that the pace of contractionary fiscal policy slowed by that magnitude.

Figure 2.3. Fiscal balance, fiscal stance, and automatic stabilizers



## 2.3. Government debt sustainability

41. Following the issuance of domestic and external bonds by the capital city, the nominal stock of government debt increased for two consecutive quarters, reaching MNT 33.4 trillion. After declining for four consecutive quarters due to repayments of external bonds and foreign loans, government debt increased over the last two quarters and reached MNT 33.4 trillion by the end of 2024, representing a year-on-year increase of 8.6 percent. Nevertheless, the government debt-to-GDP ratio declined by 1.9 percentage points from the previous year, reaching 41.8 percent.

Amendments to the Law on Debt Management, adopted on January 17, 2024, introduced provisions allowing the capital city to issue external securities for the implementation of projects and programs included in development policy and planning documents. Under this provision, the capital city issued MNT 500 billion in domestic bonds in June 2024. Subsequently, in November 2024, it privately placed a bond with a 7.75 percent coupon rate on the Vienna Stock Exchange, raising USD 500 million from international markets.

As a result, local government borrowing reached MNT 2.6 trillion, while government debt guarantees increased by MNT 148.4 billion compared to the

previous year. In addition, domestic government debt rose by MNT 166.4 billion, or 71.1 percent year-on-year, reaching MNT 400.5 billion.

42. Financing raised through the capital city's bond issuances will be used to support socially oriented infrastructure and development projects. The proceeds from the above-mentioned securities are planned to finance projects, including the "Selbe Subcenter," the "Booroljuut Thermal Power Plant," a "Battery Energy Storage System," "Road and Road Infrastructure Rehabilitation and Modernization Works," and the "Tuul-1 Wastewater Collector and Flood Protection Infrastructure" project.

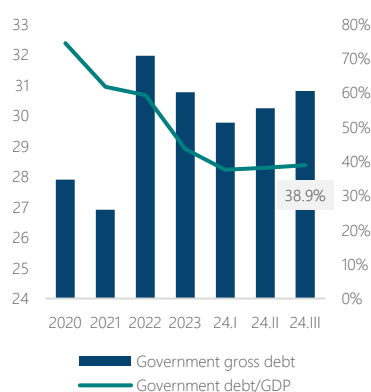
43. External debt continues to constitute the dominant share of total government debt. In 2024, external debt accounted for 90.6 percent of total government debt, making the debt portfolio highly vulnerable to exchange rate shocks and other external risks. Given the high exposure to external debt, interest payments has become the most significant factor affecting the fiscal deficit.

44. The primary balance significantly influences the medium-term outlook for government debt. Debt sustainability analysis provides insights into how sensitive the medium-term trajectory of

Figure 2.4. Government debt

### 1. Government debt

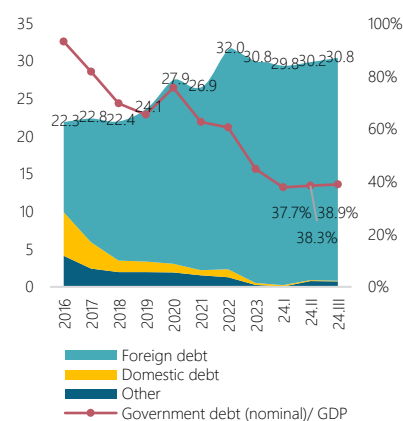
(left axis: MNT trillion, right axis: percent)



Source: MOF

### 2. Government debt composition

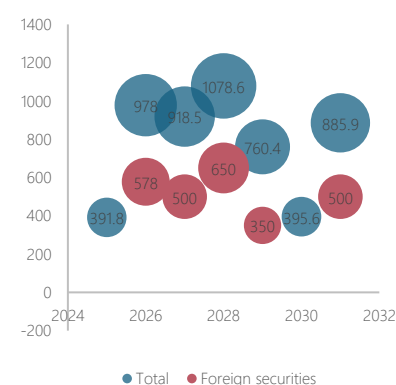
(left axis: MNT trillion, right axis: percent)



Source: MOF

### 3. Government external debt repayment schedule

(USD million)

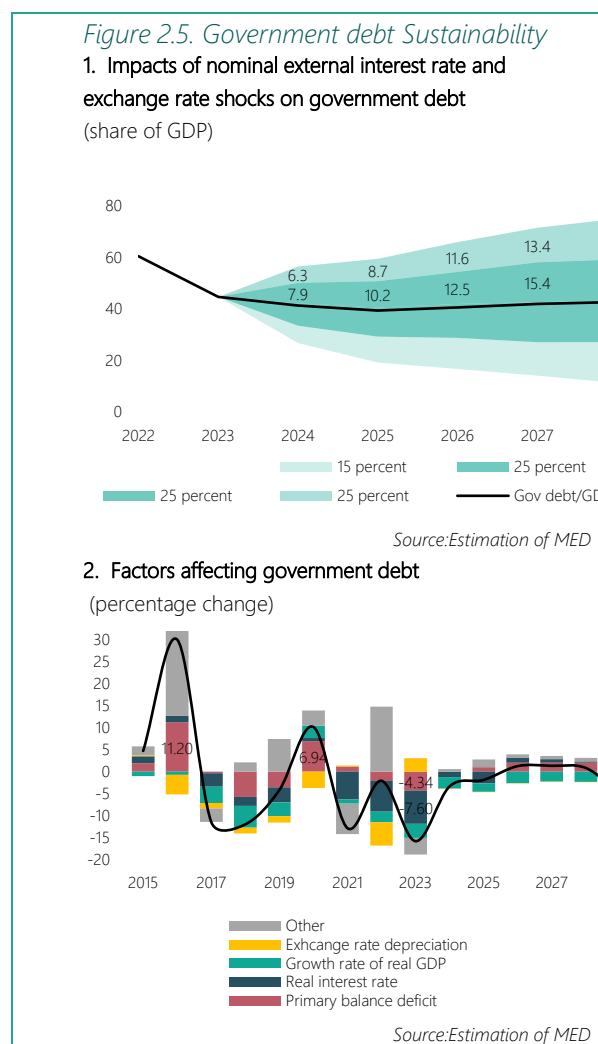


Source: MOF

The government's external debt comprises external securities and foreign loans.

government debt is to key macroeconomic indicators. The analysis assumes the following conditions: 1) No policy or structural changes; 2) All variables other than those impacted by shocks remain constant; 3) The baseline levels for years other than the shock year remain unchanged. According to the baseline projections, GDP growth rates are expected to be 5.6 percent, 8.0 percent, 6.5 percent, and 6.5 percent for 2024–2027, respectively. Inflation is projected at 6.5 percent, 7.5 percent, 5.0 percent, and 4.0 percent during the same period, while exchange rate depreciation is assumed to follow the 10-year average trend. The primary balance is forecast to remain near its projected level, and other macroeconomic indicators are assumed stable at 2023 levels. Under these conditions, government debt is expected to reach 42.7 percent of GDP by 2027. When a one-standard-deviation shock is applied to key indicators in 2025 and 2026, the resulting impact suggests that government debt could increase by 15.4–28.8% above the baseline level by 2027, with a 25 percent likelihood. This indicates that government debt is highly sensitive to macroeconomic uncertainties and the effects of external shocks.

**45. Primary balance surpluses are essential for ensuring the sustainability of government debt.** In 2016, the nominal government debt-to-GDP ratio increased by 30.6 percentage points, with the primary deficit accounting for 11.2 percentage points of this rise. Conversely, in 2020, the nominal debt rose by 10.1 percentage points, of which the primary deficit contributed 6.9 percentage points.



By 2023, the nominal government debt-to-GDP ratio decreased by 15.8 percentage points, driven by a 6.4 percentage-point effect from changes in the real interest rate and a 4.3 percentage-point contribution from the primary surplus. Going forward, real GDP growth and the primary deficit are expected to play a key role in ensuring debt sustainability. Therefore, it is crucial to continue implementing policy measures aimed at maintaining macroeconomic stability.

## CHAPTER III

# MONETARY SECTOR

3.1. Inflation and monetary policy

3.2. Financial sector

## 3. MONETARY SECTOR

### OVERVIEW

By the end of 2024, the annual inflation rate rose to 9.0 percent, primarily driven by strong domestic demand and a notable acceleration in imported goods and services prices. Real household income has recorded growth for two consecutive years, positively influencing the accumulation of total savings. Credit growth in the banking sector has reached its highest level in a decade, serving as a key driver of money supply expansion. Additionally, improvements have been observed in the bank's profitability and loan portfolios.

### 3.1. Inflation

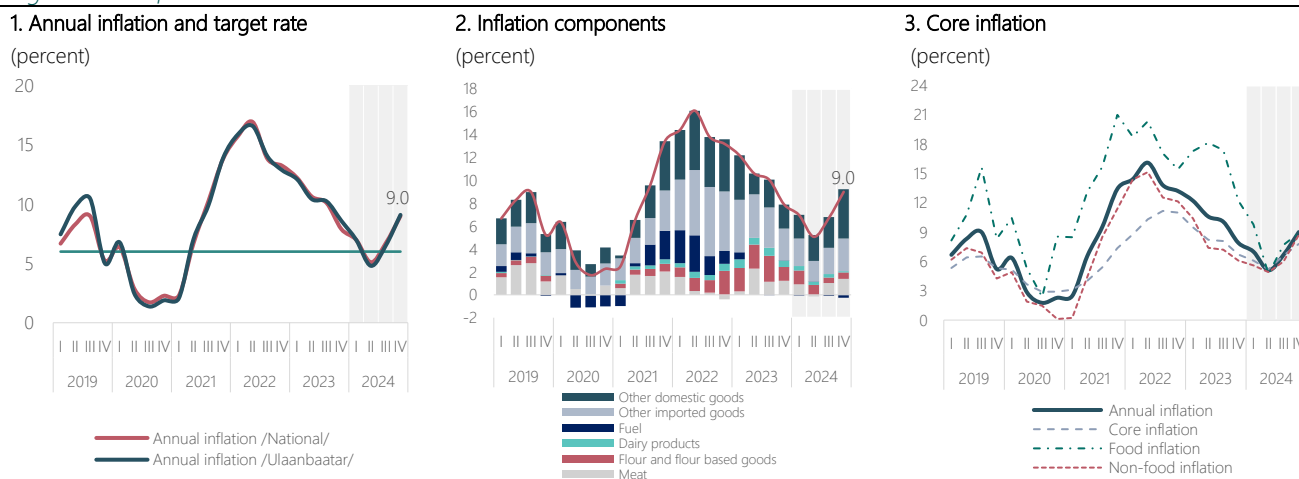
46. Inflation accelerated and exceeded the projection in the fourth quarter of 2024. In December 2024, inflation reached 9.0 percent, marking an increase of 1.1 percentage points compared to a year earlier. Of the total inflation rate, 2.5 percentage points were contributed by food items, 2.2 percentage points by housing, water, electricity, and fuels, 1.1 percentage points by clothing and footwear, and 0.9 percentage points by education services. The main factors behind the 1.1 percentage point increase compared to the previous year were the rise in household electricity bills, rental costs, and prices of clothing and footwear. The higher-than-expected inflation was primarily driven by unexpectedly sharp increases in the prices of meat, cars, and some services.

47. Inflation for both imported and domestic goods and services exhibited an upward trend. As of December 2024, inflation for imported goods stood at 5.7 percent, down by 0.4 percentage points from the same period last year, accounting for 29.1% of overall inflation. However, compared to the previous quarter, it accelerated by 0.9 percentage points. Over 92 percent of the imported goods inflation was attributed to rising prices of non-food items.

Meanwhile, prices of domestic goods and services rose by 11.8 percent year-on-year in December 2024, contributing 70.9 percent to the annual inflation. The primary drivers of domestic inflation were increases in food and service prices. Notably, service prices rose by 12.4 percent compared to the same period last year, contributing 3.4 percentage points to the annual inflation. This acceleration in service price inflation was mainly due to higher household electricity bills and increased prices in the food service.

48. With domestic economic activity remaining robust, demand-driven inflation accounted for the majority of overall inflation. Sustained domestic economic momentum contributed to an upward trend in demand-driven inflation, while supply-side inflation increased primarily due to an increase in electricity tariffs. Core (demand-driven) inflation rose to 7.8 percent, accelerating by 1.2 percentage points compared to the previous quarter. Demand-driven inflation made up 58 percent of the annual inflation. Meanwhile, supply-side inflation reached 11.4 percent, rising by 4.5 percentage points from the previous quarter.

Figure 33.1 Inflation



Source: National Statistics Office

Note: Quarterly inflation rates are calculated from the last months of the quarter.

Source: National Statistics Office

Note: The components of annual inflation are shown by goods and groups with high contributions to inflation

Source: National Statistics Office

Note: Core inflation is calculated by subtracting food, fuel, and solid fuel from total inflation

**49. Inflation for both food and non-food goods and services accelerated compared to the previous quarter.**

As of the fourth quarter of 2024, food inflation reached 8.9 percent, increasing by 1.2 percentage points from the previous quarter. Food inflation, which contributed 2.5 percentage points to the annual inflation, was mainly driven by a 17.1 percent year-on-year increase in meat and meat product prices. Additionally, the price of bread and bakery products rose by 9.4 percent year-on-year, further contributing to the increase. Non-food goods and services inflation reached 8.7 percent, rising by 2.7 percentage points from the previous quarter. The acceleration in non-food inflation was primarily driven by a 40.9 percent year-on-year increase in rental prices for housing, a 77.9 percent rise in household electricity bills, and a 6.8 percent increase in the price of cars.

**50. World container shipping prices and food price index increased compared to the same period last year.**

Drewry's World Container Index surged from February 2024 due to attacks near the Suez Canal in the Red Sea, but gradually declined from August onwards. As of the end of Q4 2024, the global container shipping rate reached USD 3,905 per 40-foot container, which is 27.1% higher than the same period in the previous year and 175% higher than pre-pandemic levels. In December 2024, the food price index reached 127, marking a

6.7% increase year-on-year. On global markets, prices of dairy products, vegetable oils, cereals, and sugar decreased, while meat prices increased. In 2024, global supply chains normalized, and due to tight monetary policy stances, global inflation continued to decline. As of the end of 2024, more than 60% of economies had inflation rates that were either below or slightly above their target levels. As of December 2024, inflation declined in China, the United Kingdom, Turkey, and Sri Lanka, while it increased in Russia, South Korea, Japan, the United States, the Euro area, Kazakhstan, and Kyrgyzstan.

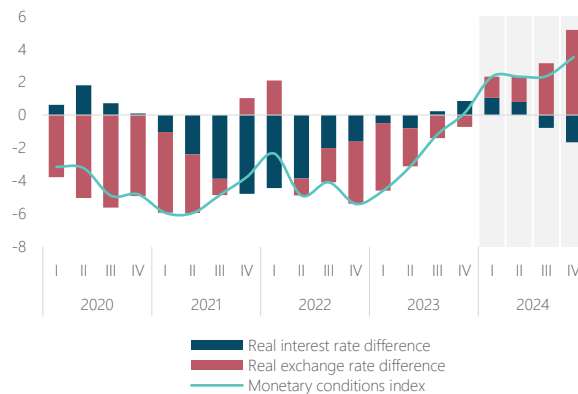
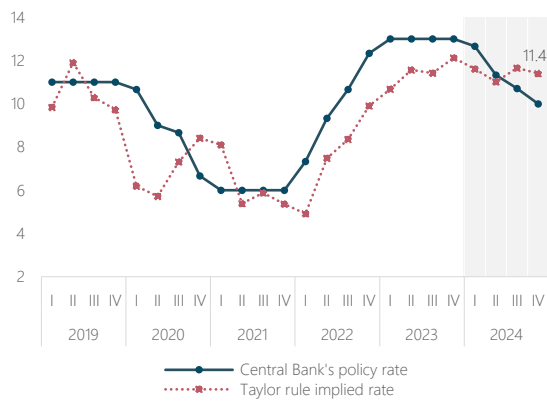
**51. The policy rate is currently below the optimal level.**

In 2024, the central bank lowered the policy rate by 3 percentage points to 10 percent, with the average policy rate for the third quarter at 10.7 percent, which is 1 percentage point below the optimal level indicated by Taylor's Rule. This suggests limited room for further rate reductions. Additionally, starting from the third quarter of 2024, the real interest rate gap began to contribute to the easing of monetary conditions. Given the continued inflation risks stemming from rapid credit growth, fiscal expansion, geopolitical tensions, transportation and logistics disruptions, as well as the adverse effects of dzud, it is essential to maintain the policy rate at an appropriate level.

*Figure 33.2 Taylor's Rule and monetary conditions index*

1. Policy rate and Taylor's rule  
(percent)

2. Monetary conditions index  
(percent)



Source: MED estimation

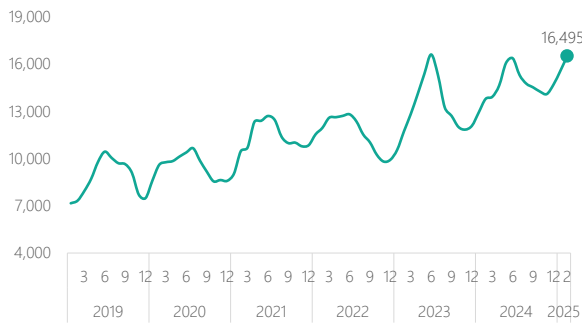
Note: The implied rate calculated by Taylor's rule represents the appropriate value of the central bank's policy rate. It is an equation containing variables such as the policy rate set in the previous quarter, inflation, expected inflation, nominal interest rate, and a fixed coefficient. In connection with the renewal of the MED's methodology for calculating output gap, the Taylor Rule implied rate calculated in previous quarters has been updated.

Source: MED estimation

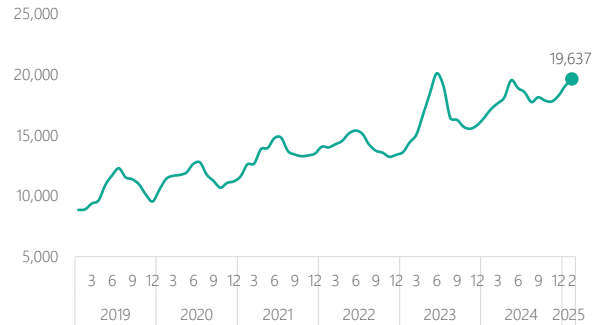
Note: The Monetary Conditions Index is an indicator that measures the impact of monetary policy in an economy. The Monetary Conditions Index was calculated using the GAP methodology of the Monetary Policy Analysis. It is calculated using real interest rates and exchange rates. A positive monetary condition index indicates monetary policy tightening, while a negative index indicates loosening.

Figure 33.3 Prices of some items

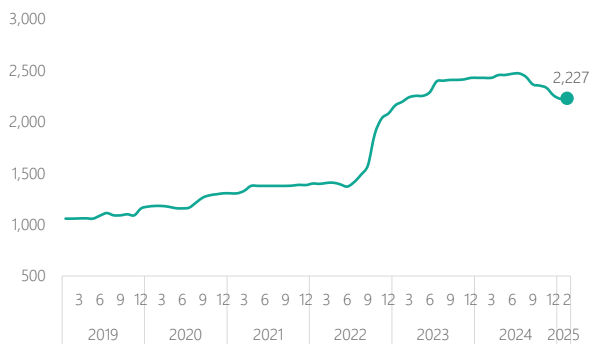
1. Mutton (kg/tugrik)



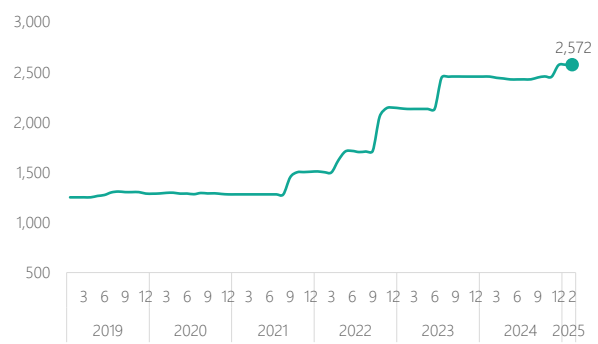
2. Beef (kg/tugrik)



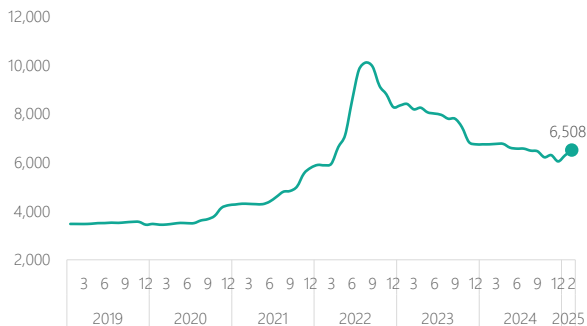
3. Flour, type 1 (kg/tugrik)



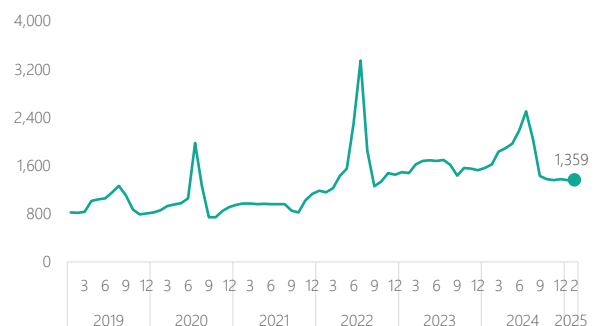
4. Bread, Atar (tugrik)



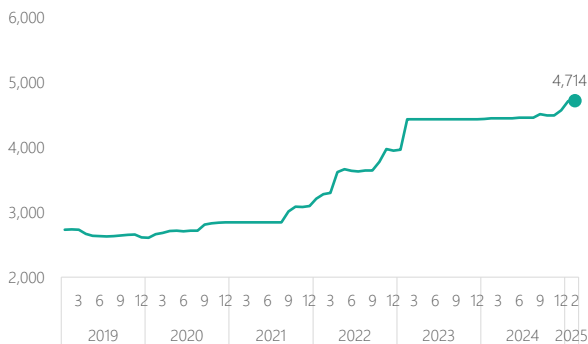
5. Vegetable oil (tugrik)



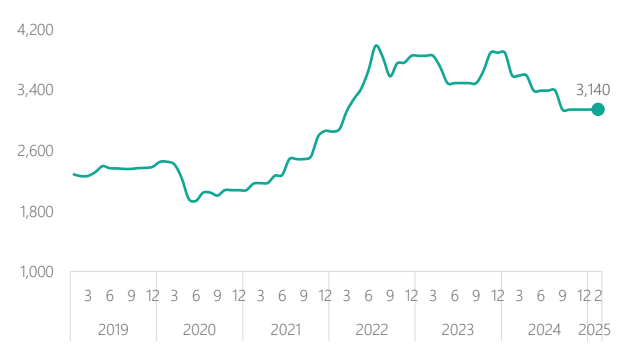
6. Potato (kg/tugrik)



7. Milk (litre/tugrik)



8. Diesel fuel (litre/tugrik)



Source: National Statistics Office

Note: This graph shows monthly fluctuations in the prices of some items within the consumer basket.

## 3.2. Monetary and financial sector

**52. Money supply growth decelerated.** At the end of the 2024, money supply growth reached 15.2 percent, down by 11.7 percentage points from the same period last year. On the liabilities side, domestic currency deposits were the key driver, contributing 13.1 percentage points to the growth, followed by domestic current accounts, which added 4.7 percentage points, and currency outside depository corporations, which accounted for 0.2 percentage points. In contrast, foreign currency deposits and current accounts reduced the money supply growth by 0.4 and 2.4 percentage points, respectively. The appreciation of the exchange rate since August 2023, coupled with its stabilization throughout 2024, contributed to the decline in foreign currency accounts and deposits. On the asset side, net domestic assets contributed 18.0 percentage points to the growth of the money supply, while net foreign assets reduced 2.8 percentage points. The growth in net domestic assets was primarily driven by an acceleration in credit expansion.

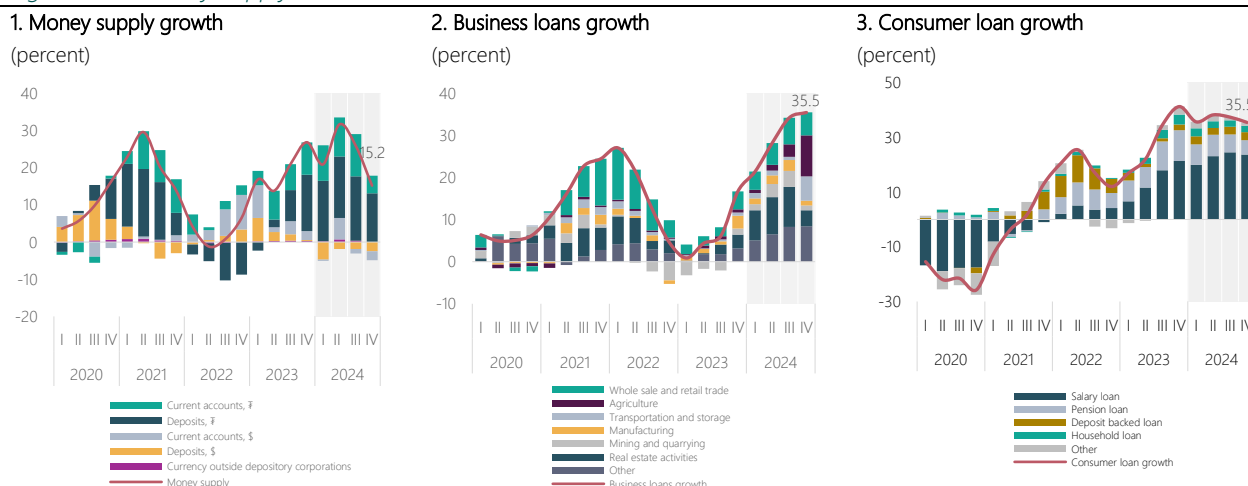
**53. Credit growth remains elevated.** At the end of the 2024, the outstanding balance of credit issued by commercial banks reached MNT 36.8 trillion, marking a growth rate of 35.5

percent, the highest in the past decade. Of the total outstanding loans, 69 percent, or MNT 25.4 trillion, were business loans, while 31 percent, amounting to MNT 11.4 trillion, were consumer loans. The business loan growth reached 35.5 percent, up 2.1 times compared to the same period last year. The largest contributors to business loan growth were real estate loans, which increased by 46.4 percent, followed by wholesale and retail loans with a growth of 18.8 percent, mining and quarrying loans at 76.2 percent, agricultural loans, which surged by 139.3 percent. In contrast, consumer loans growth

**54.** reached 35.5 percent at the end of the 2024, down by 5.8 percentage points from a year earlier. The growth in consumer loans was largely driven by a 47.2 percent increase in salary loans, a 37.6 percent increase in pension loans, a 20.1 percent rise in loans secured by deposits.

**55. Growth in newly issued loans accelerated for business loans but slowed for consumer loans.** Newly issued loans totaled MNT 57.1 trillion, marking an increase of MNT 15.3 trillion, or 36.7 percent, compared to the same period last year. The annual growth rate for newly issued business loans surged to 40.7 percent,

Figure 33.4 Money supply and credit indicators



Source: Estimation of MED, Bank of Mongolia statistics

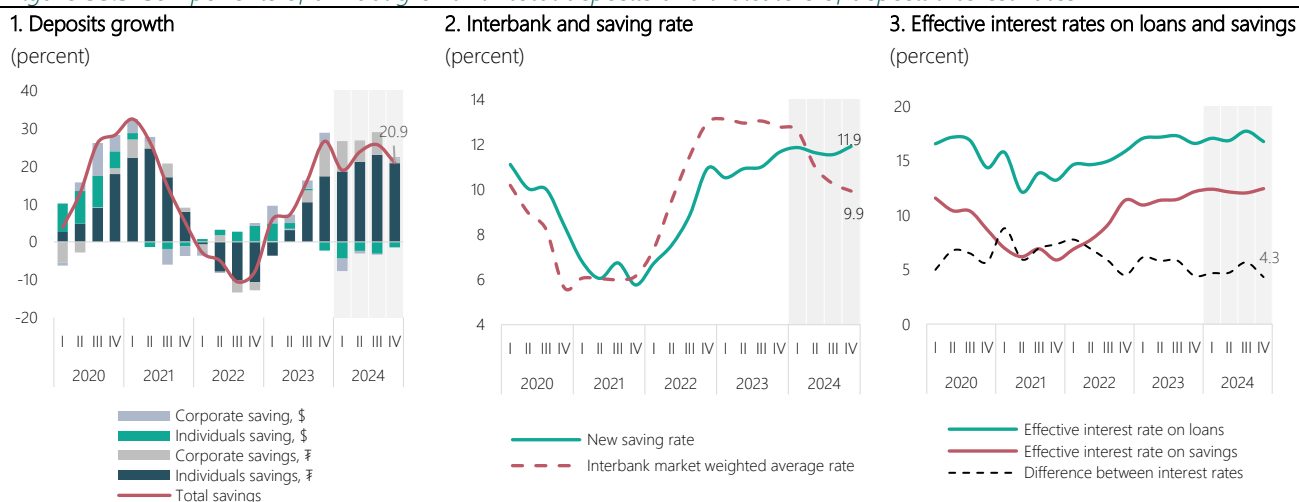
a notable acceleration of 29.5 percentage points from the same period last year. In contrast, newly issued consumer loans grew by 30.1 percent, reflecting a slowdown of 9.4 percentage points year-on-year. The substantial growth in business loans was largely driven by increased lending to mining, wholesale and retail trade, finance, insurance, and real estate sectors.

**56. The mining and real estate sectors contributed positively to the improvement in credit quality.** As of the last quarter of 2024, the total non-performing loans declined by 8.5 percent year-over-year to MNT 1.9 trillion. The decline was primarily driven by a reduction in non-performing loans in the mining, quarrying, and real estate sectors. In contrast, the balance of non-performing consumer loans, including salary, pension, and household consumption loans, rose by 13.5 percent compared to a year earlier. The share of non-performing loans in total loans continued to improve, falling to 5.1 percent, the lowest level recorded in the past eight years.

**57. Domestic currency deposits increased for both individuals and corporations.** As of the end of 2024, total bank deposits reached MNT 26.5 trillion, reflecting a 20.9 percent

increase compared to same period last year. Of this total, individuals' deposits accounted for MNT 22.1 trillion, marking a 23.8 percent year-on-year growth. Breaking this down further, individuals' domestic currency deposits amounted to MNT 18.8 trillion, which represents a substantial year-on-year increase of 32.3 percent. In contrast, individuals' foreign currency deposits stood at MNT 3.4 trillion, experiencing a decline of 8.8 percent compared to the previous year. Corporations' deposits reached MNT 4.4 trillion, showing a robust growth of 8.5 percent year-on-year. Corporations' domestic currency deposits grew to MNT 3.0 trillion, a notable increase of 9.8 percent, while foreign currency deposits reached MNT 1.4 trillion, increased 5.6 percent year-on-year. The weighted average interest rate for domestic currency deposits was 11.8 percent as of the last quarter of 2024. Meanwhile, the weighted average interest rate for foreign currency deposits rose to 3.7 percent, representing an increase of 0.3 percentage points compared to the same period last year. The overall growth in domestic currency deposits, across both individuals and corporations, was primarily driven by the stability of deposit interest rates and the exchange rate.

Figure 33.5 Components of annual growth in total deposits and indicators of deposit interest rates



Source: Estimation of MED, Bank of Mongolia statistics.

Notes: Effective interest rate =  $(1 + \text{nominal annual interest rate} / \text{number of compounding periods per year})^{(\text{Number of compounding periods per year})} - 1$

**58. The weighted average interbank rate declined.**

Following the policy rate cuts, and the weighted average interbank interest rate decreased to 9.9 percent in the end of 2024, down 2.8 percentage points from the same period last year and 0.3 percentage points from the previous quarter.

**59. The difference between the effective interest rates on loans and deposits narrowed compared to the previous quarter.**

In the last quarter of 2024, the effective interest rate of commercial banks reached 16.8 percent, reflecting an increase of 0.2 percentage points from the same period last year. Similarly, the effective interest rate on deposits rose to 12.4 percent, marking an increase of 0.2 percentage points year-on-year. As a result, the difference between the effective rates on loans and deposits narrowed by 1.4 percentage points compared to the previous quarter, reaching 4.4 percent. This represents a decrease of 0.1 percentage points from the same period last year. Despite a policy rate cut, the gap between interest rates on loans and deposits widened compared to the previous quarter.

**60. The growth in the outstanding loans of non-bank financial institutions remained high.**

In the end of 2024, the total outstanding loans of 573 non-bank financial institutions (NBFIs) reached MNT 5.7 trillion, reflecting a 56.4 percent increase compared to the same period last year. Of the total outstanding loan, 93.6 percent were issued to individuals, while 6.4 percent were issued to legal entities. In terms of fintech loan services, NBFIs extended fintech loans amounting to MNT 1.3 trillion to 1.7 million borrowers during the last quarter of 2024. The weighted average monthly

interest rate on loans issued by NBFIs stood at 3.5 percent, marking a modest increase of 0.2 percentage points from a year earlier.

**61. The level of asset dollarization decreased compared to the previous year.**

The share of foreign currency demand deposits and savings deposits in the money supply averaged 24.9 percent in 2024, decreasing by 6.4 percentage points from the previous year. This was influenced by the appreciation and stable maintenance of the exchange rate from the end of 2023 until the second quarter of 2024. However, as the exchange rate depreciated in the fourth quarter of 2024, asset dollarization reached 22.1 percent at the end of 2024, an increase of 0.3 percentage points from the previous quarter.

**62. Profitability of the banking sector improved.**

The return on assets of the banking sector reached 2.4 percent in 2024, improving by 0.2 percentage points compared to the same period of the previous year. The increase in domestic currency deposits and the improvement in loan quality were the main factors contributing to the improvement in banks' profitability from the funding side. The ratio of profit to risk-weighted assets in the banking sector reached 4.9 percent in 2024, increasing by 0.4 percentage points from the previous year, indicating an improvement in the profitability of the banking sector. The growth in banks' net profit, the improvement in loan repayments, and the reduction in the volume of non-performing loans were the main factors behind the improvement in profitability.

## CHAPTER IV

### EXTERNAL SECTOR

- 4.1. Foreign trade
- 4.2. Balance of payments
- 4.3. External debt

## 4. EXTERNAL SECTOR

### OVERVIEW

Although the export volumes of key mining products such as coal, copper concentrate, and iron ore increased, the decline in coal prices limited the growth of export revenues. Imports of investment and consumer goods remained high, reflecting expansion in economic activity. The annual growth of international reserves slowed in the third quarter of 2024, and the nominal effective exchange rate depreciated due to increased import growth and payments related to the central bank's swap agreements.

## 4.1. Foreign trade

- 63. Total foreign trade turnover increased, and the trade balance remained in surplus.** In 2024, Mongolia traded with 160 countries worldwide, with total foreign trade turnover reaching USD 27.4 billion and the trade balance recording a surplus of USD 4.2 billion.
- 64. Growth in export revenue slowed. As of 2024, exports reached USD 15.8 billion, increasing by 3.9 percent compared to the same period of the previous year.** The growth was mainly driven by higher export volumes of copper concentrate and iron ore, as well as rising gold prices in the global market. Going forward, while export volumes of major commodities are expected to remain stable at high levels, border prices of products such as coal and iron ore are expected to decline due to external market conditions.
- 65. Although transportation management at border ports improved and coal export volumes increased, border prices declined.** Due to improved transportation organization and extended operating hours at major border ports, coal exports reached 83.8 million tons, increasing by 20 percent compared to the same period of the previous year. However, as border prices fell by 19 percent, coal export revenue declined by 2 percent year-on-year, negatively affecting overall export growth. Looking ahead, while demand for coking coal in external markets is expected to remain stable and export volumes may continue to increase, border prices are not expected to recover.
- 66. Exports of copper concentrate and iron ore increased.** As a result of the underground mine development at Oyu Tolgoi, copper concentrate exports reached 1.695 million tons in 2024, increasing by 11 percent compared to the previous year. In addition, due to increased mining production, iron ore export volumes reached 7.511 million tons, up by 31 percent year-on-year. In the future, production of copper concentrate and iron ore is expected to continue increasing steadily, while global refined copper prices are projected to rise.
- 67. Trading activity on the Mining Products Exchange weakened in the final quarters of 2024.** Through the Mining Products Exchange, a total of 22.4 million tons of coal were traded in 2024 for USD 2.4 billion, while 2.419 million tons of iron ore and concentrates were traded for USD 167 million, 5.4 thousand tons of copper concentrate for USD 12 million, and 17.6 thousand tons of fluorspar ore and concentrates for USD 2.9 million. During the first half of 2024, a total of 339 transactions were successfully conducted through the Mining Products Exchange, whereas the number of transactions declined to 232 in the second half of the year. In particular, the number of coal trading transactions decreased from 55 in May 2024 to 15 in December 2024.

*Figure 4.1. Exports*

1. Export growth  
(percent)

2. Export volumes of main commodities

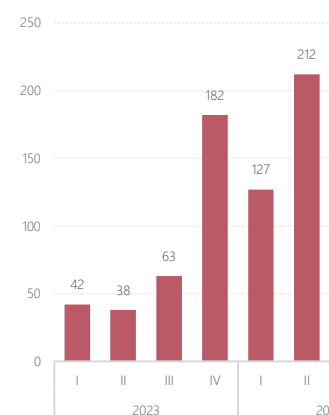
3. Coal trades at the Mining  
commodity exchange



Source: MCGA

Product	2020	2021	Growth
Copper concentrate /thousand d.ton/	1,525	1,695	11.2%
Coal /million ton/	69.6	83.8	20.3%
Gold /kg/	11.7	11.6	-0.8%
Iron ore /thousand d.ton/	5,713	7,511	31.5%
Crude oil /thousand d.bbl/	4,730	4,779	13.9%

Source: MCGA



Source: MCGA

- 68. Imports surged due to sustained economic growth.** As the economy grew for the eleventh consecutive quarter, imports reached USD 11.6 billion in 2024, marking a 25.5 percent increase compared to the last year (Figure 4.2). Imports increased by USD 2.4 billion from the previous year, with about 60 percent of them being goods that support the economy and production.
- 69. Considering the growth of imports by group,** of the total increase in imports, 11.6 percentage points were attributed to machinery and equipment for investment purposes and building materials, 10.6 percentage points to consumer products, and 3.3 percentage points to industrial inputs.
- 70. Imports of intermediate products for mining production increased.** in 2024, coal extraction rose by 23 percent, and export volumes increased by 20 percent, leading to a higher demand for intermediate products used in the mining sector. Imports of excavators and

backhoe loaders totaled USD 362 million, doubling from the previous year. Imports of heavy vehicles increased by 67 percent, reaching USD 722 million, while diesel fuel imports amounted to USD 1,296 million, marking a 17 percent rise compared to the same period last year.

- 71. The growth in passenger car imports was the main driver of the increase in consumer goods imports.** The growth in imports of durable goods, particularly passenger cars, was a major factor driving the increase in consumer goods imports. In 2024, consumer credit growth reached 34 percent, driving an increase in the import of durable goods. In particular, imports of passenger cars reached 123 thousand, a 67 percent increase compared to the previous year. Compared to last year, when imports of large passenger cars with engine capacities exceeding 3,501 cm<sup>3</sup> were prominent, this year has seen a significant increase in the import of medium and small passenger cars with engine capacities under 3,500 cm<sup>3</sup>. Driven by the high imports of passenger cars and the increased number of anniversary events in the provinces, gasoline imports totaled USD 643 million, marking a 23 percent increase.

**72. Imports of food products increased.** Real household incomes have increased for six consecutive quarters, resulting in higher household consumption. Food imports reached USD 1,169 million, reflecting a 20 percent rise compared to the previous year. Wheat flour imports reached 63.6 thousand tons, a six-fold increase compared to the previous year, following the decision to exempt wheat from customs duties starting May 1, 2024, and lift import limits.

**73. Imports of construction materials increased due to higher funding for mortgage loans and a reduction in customs duties on cement.** The construction sector expanded by 7.8 percent in 2024, while imports of construction materials reached USD 1,326 million, marking a 15 percent increase compared to the previous year. The Savings Fund allocated MNT 0.5 trillion to the mortgage concessional loan program, increasing the outstanding mortgage loan by MNT 1.8 trillion compared to the same period last year, which in turn boosted housing demand and increased imports of construction materials. To mitigate construction material price inflation, the government lifted restrictions on cement imports and reduced customs duty from 20 percent to 5 percent until October 1, 2024.

**74. The increased capacity and extended working hours at Zamyn-Uud Port enhanced the flow of imported goods.** With over 50 percent of total imported goods passing through Zamyn-Uud Port, the Government of Mongolia extended the operating hours of the Zamyn-Uud-Ereen border crossing to 24 hours a day from April 1 to September 30, 2024. As a result, the number of vehicles crossing the border

reached 135,300 between April and August 2024, marking a 44 percent increase compared to the same period last year. During this period of high economic activity, ensuring the continuous flow of imports is crucial to maintaining price stability.

**75. Due to a slowdown in the price growth of goods from trading partner countries, the increase in the price of imported goods remained relatively low.** In 2024, imports increased by USD 2.4 billion compared to the previous year, with approximately 90 percent of this increase attributed to volume and 10 percent to price changes (Figure 4.2). The slowdown in price growth from key trading partner countries kept the increase in import prices at a low level. Specifically, inflation in the People's Republic of China, which accounts for 40 percent of our total imports, averaged 0.2 percent in the first three quarters of 2024. Meanwhile, inflation in the Russian Federation, which makes up 25 percent of total imports, averaged 8.4 percent during the same period. However, 70 percent of the products imported from the Russian Federation consist of petroleum products, with 22 percent being AI-92 gasoline and 45 percent being diesel fuel. Under the agreement signed with Rosneft in 2022, AI-92 gasoline is being purchased at stable prices, and the decrease in the price of diesel fuel from Russia contributed to the low increase in the price of imported goods. Additionally, 10 percent of total imports come from Japan, mainly consisting of automobiles and spare parts, and the depreciation of the Japanese yen against the USD helped reduce the cost of goods purchased from Japan.

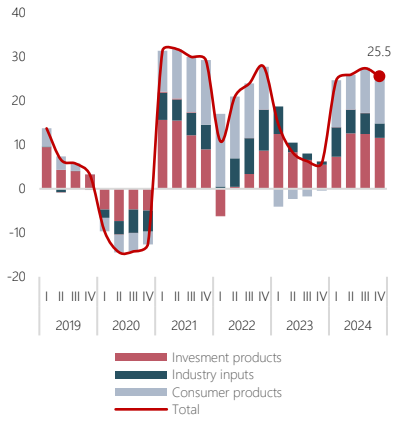
Figure 4.2. Imports

1. Annual growth in imports  
(percent)

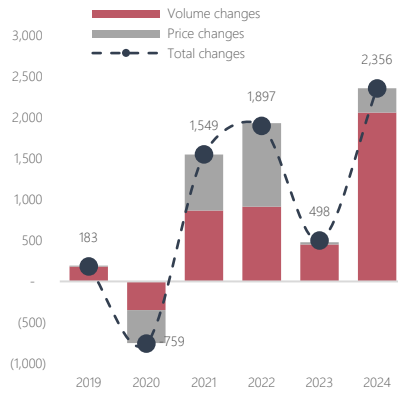
2. Annual change in imports  
(USD million)

3. Imports of main products  
(USD million)

# Macroeconomic report – 2024 Q4



Source: MCGA



Source: MED estimates

Products	2023	2024	Change
Food	977	1,169	19.7%
Passenger car	675	1,062	57.3%
Heavy truck	433	722	66.7%
Construction material	1,158	1,326	14.5%
Equipment	1,630	2,284	40.1%
Fuel	1,632	1,939	18.8%
<b>Total</b>	<b>9,256</b>	<b>11,612</b>	<b>25.5%</b>

Source: MCGA

## 4.2. Balance of payments

- 76. Although the current account balance recorded a deficit, the balance of payments remained in surplus in 2024 due to increased inflows from external bond issuances.** As the trade surplus in goods declined by USD 1.6 billion in 2024 due to rising imports, the current account balance recorded a deficit of USD 2.2 billion. On the other hand, increased inflows from newly issued bonds in international financial markets led to a USD 3.2 billion increase in the financial account surplus, resulting in an overall balance of payments surplus of USD 0.6 billion in 2024.
- 77. The reduction in freight transportation payments contributed to a slowdown in the growth of the service account deficit.** In 2024, Mongolia earned USD 1.6 billion from service exports and paid USD 4.6 billion for services abroad. The annual increase in service imports slowed from USD 1.0 billion in 2022 to USD 0.4 billion in 2024. This was largely driven by government measures aimed at selling mineral products at border prices, improving the organization of export transportation activities, and increasing efficiency, which reduced transportation costs for mineral exports. In particular, freight transportation costs related to mineral exports, which had increased by an average of USD 0.2 billion annually since 2015 except during the pandemic years, declined for two consecutive years and fell by USD 0.1 billion in 2024 compared to 2022.
- 78. Growth in education-related service payments remained high.** In 2024, Mongolia earned USD 0.6 billion from travel service exports and paid USD 1.6 billion for travel services abroad. Following the pandemic, travel service expenditures increased by an average of USD 0.2 billion annually during 2021–2023, while in 2024 they rose by USD 0.3 billion compared to the previous year. Although overall travel expenditures increased in 2024, the growth in education-related expenses was particularly high compared to the average increase in previous years. Specifically, personal travel expenditures in 2024 increased by USD 0.2 billion, or 48 percent above the average of the previous three years, while education-related payments rose by USD 0.1 billion, or 2.1 times higher than the average increase over the previous three years.
- 79. The majority of the increase in FDI was concentrated in the mining sector.** Foreign direct investment inflows into Mongolia reached USD 4.0 billion in 2024, increasing by USD 0.5 billion, or 13 percent, from the previous year. The number of foreign-invested limited liability companies registered in the state registry increased 1.8 times year-on-year, reaching 485 in 2024. By sector, foreign direct investment in mining increased by USD 0.4 billion compared to the previous year, while investment in non-mining sectors rose by only USD 41 million. Investment declined in administrative and support services, trade, and financial and insurance activities, while investment increased in household employment activities, energy, professional, scientific and technical activities, and manufacturing.
- 80. Mongolia actively issued bonds in international financial markets in 2024.** During the first half of 2024, “MIK OCCK” LLC issued USD 225 million in bonds, the Development Bank of Mongolia issued USD 200 million in bonds, and Golomt Bank issued USD 300 million in bonds. During the second half of 2024, Trade and Development Bank issued USD 350 million in bonds, while the capital city of Ulaanbaatar issued USD 500 million in bonds, supporting foreign currency inflows. In addition, the Government of Mongolia successfully repaid

the remaining balance of the USD 600 million Khuraldai bond issued in 2017 in March 2024.

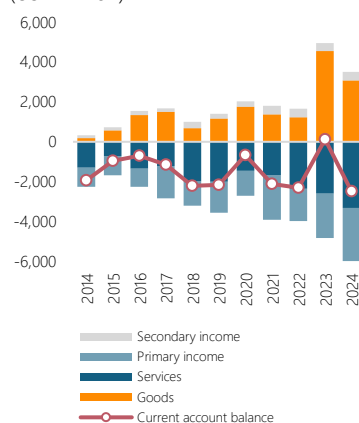
**81. Outlook for the central bank’s swap agreement repayments.** In the second quarter of 2024, the Bank of Mongolia repaid 4.5

billion yuan, equivalent to USD 0.6 billion, under its swap agreement with the People’s Bank of China, increasing foreign currency outflows. As a result, the outstanding balance under the swap agreement declined to 6.0 billion yuan, or USD 0.8 billion.

Figure 4.3. Current and financial account balances, exchange rate

1. Current account balance

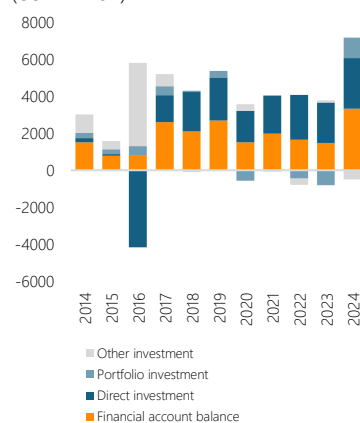
(USD million)



Source: MED calculation, Bank of Mongolia

2. Financial account balance

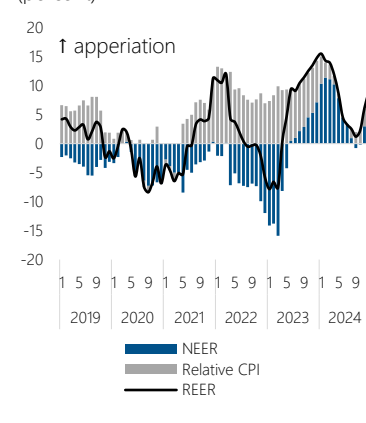
(USD million)



Source: MED calculation, Bank of Mongolia

3. Effective exchange rate

(percent)



Source: MED calculation, Bank of Mongolia

**82. Gross international reserves increased at the end of 2024, and the nominal effective exchange rate appreciated.** Gross international reserves reached USD 5.5 billion at the end of the third quarter of 2024, at the end of 2024, equivalent to 4.1 months of imports of goods and services. The increase in reserves at year-end was mainly driven by foreign currency inflows associated with the capital city’s new external bond issuance. In 2024, the Bank of Mongolia supplied USD 6.6 billion to the foreign exchange market through auctions, which was USD 2.7 billion, or 33.1 percent, higher than the previous year. The nominal exchange rate of the MNT against the USD reached MNT 3,420 at the end of 2024, depreciating by MNT 10 from the beginning of the year. However, the average exchange rate for 2024 appreciated by MNT 76, or 2.2 percent, compared to the previous year, reaching MNT 3,390. The nominal effective exchange rate index of the MNT, weighted by the currencies of Mongolia’s trading partner

countries, appreciated by 4.5 percent year-on-year at the end of 2024. Meanwhile, amid stronger domestic inflation, the real effective exchange rate appreciated by 9.8 percent compared to the previous year.

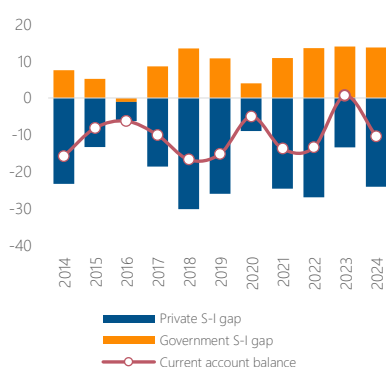
**83. The current account balance deteriorated due to a slowdown in savings growth and an increase in investment.** From a savings-investment perspective, the current account balance reflects a difference between national savings and investment. Over the past 10 years, Mongolia’s investment demand has exceeded its savings, and the current account recorded deficits in all years except 2023. In particular, the current account balance as a share of GDP declined by 9.9 percentage points in 2024, reaching negative 9.3 percent of GDP. This was mainly driven by a 9.1 percentage point increase in private consumption relative to GDP and an 8.9 percentage point decline in total savings compared to the previous year.

**84. Mongolia’s net international investment position remains weak.** Mongolia’s net international investment position, which reflects the difference between Mongolia’s financial assets held abroad and its liabilities owed to foreign countries, reached negative USD 43.4 billion at the end of 2024. Although it deteriorated in nominal terms compared to the previous year, it improved for the fifth consecutive year as a share of GDP, reaching negative 184 percent of GDP. As of 2024, foreign-owned financial assets in Mongolia amounted to USD 53.2 billion, which was 5.4 times larger than Mongolia’s financial assets held abroad. Of these foreign-owned financial assets, 62 percent, or USD 33.1 billion,

consisted of direct investment, while 26 percent, or USD 14.0 billion, consisted of loans. Meanwhile, of Mongolia’s financial assets held abroad, 56 percent, or USD 5.5 billion, consisted of reserve assets, while 22 percent, or USD 2.1 billion, consisted of currency and deposits. Excluding direct investment, Mongolia’s net international investment position improved to negative 49 percent of GDP at the end of 2024, an improvement of 55 percentage points from 2020. Going forward, it is necessary to limit the current account deficit and strengthen foreign exchange reserves in order to improve the net international investment position and reduce vulnerability to external shocks.

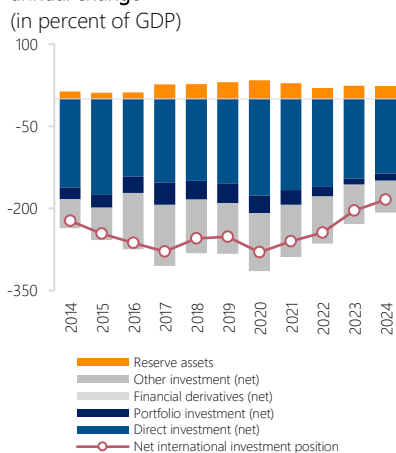
Figure 4.4. Current account balance and net international investment position

1. Current account balance annual change (in percent of GDP)



Source: MED calculation, Bank of Mongolia

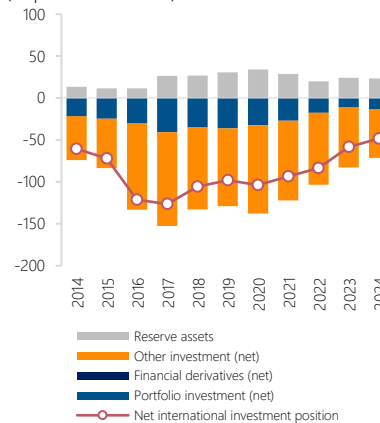
2. Net international investment position annual change (in percent of GDP)



Source: MED calculation, Bank of Mongolia

Note: Calculated as rolling sum of four quarters. Investment is displayed as a negative value. In the last figure, real GDP growth and inflation rates are assumed to be constant.

3. Net international investment position annual change (exclude FDI) (in percent of GDP)



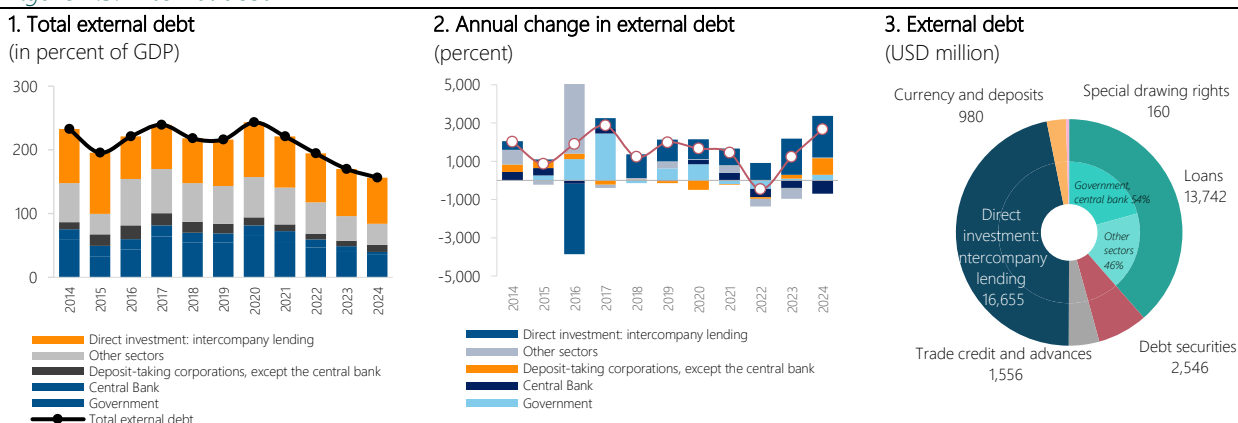
Source: MED calculation, Bank of Mongolia

### 4.3. External debt

85. The gross external debt increased in nominal terms, but declined as a share of GDP. Mongolia’s gross external debt totaled USD 37.1 billion at the end of 2024, up by USD 2.5 billion or 7.4 percent from a year earlier. On the other hand, the external debt-to-GDP ratio fell to 157.4 percent, down 12.7 percentage points from a year earlier. The increase in external debt was mainly driven by a USD 2.2 billion rise in the stock of direct investment liabilities.
86. The external debt stock of the private sector rose. The private sector’s external debt increased by USD 3.5 billion in 2024 compared to the previous year. By sector, external debt in the mining sector increased by USD 2.1 billion, in the financial and insurance sector by USD 1.3 billion, and in the transportation sector by USD 0.2 billion. The increase in external debt in the financial sector was mainly driven by commercial banks issuing new bonds in international financial markets during 2024.

87. The stabilization of international reserves enabled the central bank to repay its swap line debt. As foreign exchange reserves increased to USD 5.2 billion in the first quarter of 2024, the Bank of Mongolia was able to repay 4.5 billion yuan under its swap agreement with the People’s Bank of China in the second quarter of 2024. As a result, the central bank’s external debt declined by USD 0.7 billion, or 39 percent, compared to the previous year.
88. The majority of the external debt is comprised of foreign direct investment and loans. 46 percent of the total external debt, amounting to USD 17.3 billion, consists of intercompany lending, while 38 percent, or USD 14 billion, is in the form of loans. Of the total outstanding loan, 54 percent is held by the government and central bank, while 46 percent by the private sector. It is important to maintain macroeconomic stability and improve credit ratings to increase sources and reduce costs of external financing.

Figure 4.5. External debt



Source: MED calculation, Bank of Mongolia

Note: The ratio is calculated as rolling sum of four quarters.



## CHAPTER V

# WORLD ECONOMY

- 5.1. World economic situation
- 5.2. Commodity market development
- 5.3. Indexes updated in 2024

## 5. WORLD ECONOMY

### OVERVIEW

Global economic growth reached 3.3 percent in 2024; however, uncertainty remains elevated worldwide, driven by geopolitical instability and escalating trade tensions.

## 5.1. World economy

- 89. Global economic growth stabilized.** The effects of challenges experienced in recent years, including the pandemic, rising prices, and geopolitical instability, have diminished, and the global economy grew by 3.3 percent in 2024. However, economic growth remains below the pre-pandemic historical average of 3.7 percent observed during 2000–2019. Global trade in goods and services reached 3.8 percent growth last year, increasing by 2.8 percentage points from the previous year. Average inflation reached 5.7 percent in 2024, declining by 1 percentage point from the previous year.
- 90. Uncertainty in the global economy remains high.** Although signs of stabilization were observed in 2024, global uncertainty has increased since early 2025 due to intensifying geopolitical instability and trade war conditions. According to the World Uncertainty Index, global uncertainty has reached its highest level since the post-pandemic period. In this context, the IMF reduced its global growth projections. The IMF lowered its 2025 global growth forecast from 3.3 percent to 2.8 percent and its 2026 forecast from 3.3 percent to 3.0 percent. These represent downward revisions of 0.5 percentage points and 0.3 percentage points, respectively, from the projections released in January 2025. The potential expansion of trade wars increases the risk of constraining global economic activity and fueling inflation. Risks related to economic and geopolitical instability, including the downturn in China’s real estate sector, the Russia–Ukraine war, and instability in the Middle East, could further weaken the global economic outlook. **China’s economic growth moderated.** China’s economy grew by 5.0 percent in 2024, reaching the government’s target. However, the downturn in the real estate sector and weak domestic demand continue to constrain economic activity. The IMF announced in April 2025 that it projects China’s economic growth to be 4 percent in both 2025 and 2026. However, uncertainty related to the trade war remains elevated and continues to weigh on China’s economic outlook.
- 91. The euro area economy expanded by 0.8 percent in 2024.** Weak industrial sector activity in Germany, which accounts for around 30 percent of the region’s economy, continues to constrain economic growth. Due to trade war conditions, economic growth is expected to remain at 0.8 percent in 2025. Growth is projected by the IMF to accelerate to 1.2 percent in 2026, supported by real wage growth and fiscal expansion in Germany.
- 92. The U.S. economy expanded by 2.8 percent in 2024, supported by growth in consumption and investment.** In line with inflation developments and labor market conditions, the Federal Reserve reduced its policy rate three times in 2024. Due to trade tensions, policy uncertainty, and weakening demand prospects, the IMF lowered its U.S. growth projections. The IMF revised down the 2025 growth forecast to 1.8 percent and the 2026 forecast to 1.7 percent. These represent reductions of 0.9 percentage points and 0.4 percentage points, respectively, from previous projections. The expanding scope of trade tensions increases the risk of contraction in global trade and investment flows and rising inflation, affecting not only the United States but also the global economy.

## 5.2. Commodity market developments

- 93. Prices of major commodities, except copper and gold, declined in 2024.** In recent years, factors such as the COVID-19 pandemic, military operations in Ukraine, conflicts in the Middle East, and high inflation in foreign countries created instability in the global environment, leading to high volatility in commodity prices. However, in 2024, as the global economy stabilized and the supply of major commodities increased, prices of most key commodities other than copper and gold declined.
- 94. The average price of refined copper on the London Metal Exchange reached USD 9,145 per ton in 2024, increasing by 8.8 percent compared to the end of the previous year.** Major copper mines reduced production and began cutting costs, creating short-term supply instability that mainly contributed to the rise in copper prices. Going forward, demand for copper is expected to increase due to the growth of the electric vehicle and renewable energy sectors, which is likely to further raise prices.
- 95. The average price of premium Australian coking coal reached USD 243 per ton in 2024, decreasing by 26.3 percent compared to the end of the previous year.** Increased production by major coal-exporting countries such as Indonesia, Australia, and South Africa, along with the continuing downturn in China's real estate sector, were the main factors behind the decline in coking coal prices. Looking ahead, coking coal prices are expected to continue declining due to increasing global supply and the lack of recovery in China's real estate sector.
- 96. The average gold price on the London Metal Exchange reached USD 2,389 per ounce in 2024, increasing by 23.0 percent compared to the end of the previous year.** The Federal Reserve System reduced its policy interest rate several times in 2024, boosting gold demand and driving prices higher. Going forward, gold prices are expected to continue rising amid elevated geopolitical risks.
- 97. The average price of 62 percent-grade iron ore concentrate reached USD 110 per ton in 2024, decreasing by 8.0 percent compared to the end of the previous year.** Increased supply from countries such as Australia and Brazil, along with the continued weakness in China's real estate sector, were the main reasons for the decline in iron ore prices. Looking ahead, iron ore prices are expected to continue falling as China's real estate sector is unlikely to recover soon and production in Australia and Brazil is projected to steadily increase.
- 98. The average price of Brent crude oil reached USD 75 per barrel in 2024, decreasing by 1.3 percent compared to the end of the previous year.** Increased oil production in the United States, Canada, and Brazil, together with the slowdown in China's economic growth, were the key factors contributing to the decline in oil prices. Going forward, oil prices are expected to decline further due to the continued slowdown in China's economic growth.

### 5.3. Indexes updated in 2024

#### 99. Worldwide Governance Indicators:

Advancements in the indicators of Control of Corruption, Regulatory Quality, Political Stability and Absence of Violence/Terrorism enhanced Mongolia's Governance Indicators.

In the third quarter of 2024, the World Bank released its updated Worldwide Governance Indicators<sup>4</sup>, assessing governance performance across 213 countries. Mongolia achieved a score of -0.08 in 2024, ranking 111th globally. This represents an improvement of 0.11 points and an advancement of 2 positions compared to the previous year.

Breaking down Mongolia's score by indicators reveals the following details (Table 2).

*Table 2. Score and ranking of Mongolia in the Worldwide Governance Indicators*

Indicators	2023		2024	
	Score	Ranking	Score	Ranking
Rule of Law	-0.19	#116	-0.18▼	#120▼
Government Effectiveness	-0.42	#139	-0.47▼	#141▼
Regulatory Quality	-0.27	#123	-0.18▲	#116▲
Control of Corruption	-0.56	#143	-0.49▲	#138▲
Voice and Accountability	0.26	#92	0.25▼	#98▼
Political Stability and Absence of Violence/Terrorism	0.53	#79	0.59▲	#71▲
<b>Overall</b>	<b>-0.15</b>	<b>#113</b>	<b>-0.08▲</b>	<b>#111▲</b>

According to the table, the Rule of Law indicator score declined compared to the previous year, with Mongolia dropping 4 positions. This decline is attributed to weaknesses in the legal framework and the comparatively low quality of judicial operations. Similarly, the Government Effectiveness indicator score decreased by 0.05

points, resulting in a 2-position drop, which is linked to insufficient policy implementation. Additionally, the Voice and Accountability indicator, reflecting citizens' trust in the government, fell by 0.01 points and dropped 6 positions compared to the previous year.

On a positive note, comprehensive efforts to digitalize public administration improved government efficiency and transparency. These advancements led to higher rankings for Regulatory Quality and Control of Corruption, which rose by 7 and 5 positions, respectively, boosting the overall evaluation of the Governance Indicators. Furthermore, improved political stability contributed to a 0.06-point increase in the Political Stability and Absence of Violence/Terrorism sub-indicator, moving its rank up by 8 positions.

Mongolia's governance evaluation is based on the aggregation of data from 11 reports and studies. The 2024 assessment reflects performance during 2022–2023.

Globally in 2024, countries such as those in the European Union, New Zealand, Singapore, and Australia ranked highest in Governance Indicators. These leading nations excel in fostering transparent and accountable governance, maintaining political stability, upholding freedom of expression, and achieving high scores in the Rule of Law indicator. Conversely, South Sudan, Syria, Somalia, and Yemen ranked at the bottom of the governance indicators. These countries face significant challenges, including political instability, internal armed conflicts, civil wars, restricted civil liberties, widespread corruption, and poor governance quality and efficiency, leading to low

<sup>4</sup> The Worldwide Governance Indicators are calculated based on six indicators: Rule of Law, Government Effectiveness, Regulatory Quality, Control of Corruption, Voice and Accountability, and Political Stability and Absence of Violence/Terrorism. The index

employs a scale ranging from -2.5 to 2.5, with higher scores indicating stronger governance performance and lower scores signifying weaker governance.

public trust in government and placing them at the lowest end of the rankings.

**100. Economic Freedom of the World Index:** *The rise in inflation in 2022 primarily contributed to a decline in Mongolia's score on the Economic Freedom of the World Index.*

According to the Fraser Institute's annual Economic Freedom of the World Index, Mongolia ranked 69th out of 165 countries in 2024, dropping two places compared to the previous year.

Below is a breakdown of Mongolia's scores by category (Table 3).

*Table 3. Mongolia's Scores and Rankings in the Economic Freedom of the World Index*

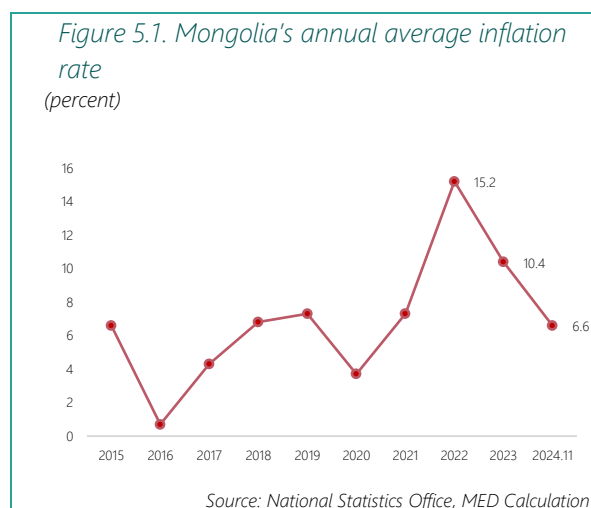
Indicators	2023		2024	
	Score	Rank	Score	Rank
Size of Government	6.55	#82	6.59▲	#84▼
Legal System & Property Rights	6.05	#49	6.05●	#49●
Sound Money	8.74	#80	7.51▼	#88▼
Freedom to trade internationally	7.09	#73	7.29▲	#80▼
Regulation	6.76	#70	6.85▲	#58▲
Overall	7.04	#67	6.86▼	#69▼

In 2024, Mongolia scored 6.86 on the Economic Freedom of the World Index, surpassing the global average by 0.2 points. A detailed breakdown reveals that a reduction in the share of government consumption in total consumption increased the score for the Government consumption indicator by 0.23 points, resulting in a one-rank improvement. This, in turn, contributed to a 0.04-point increase in the overall score for the Size of Government category. Additionally, the increase in the number of countries that can enter Mongolia without a visa improved the score for this indicator by 3.8 points, leading to a 0.2 point increase in the score for the Freedom to Trade Internationally category.

Furthermore, a decrease in the fiscal deficit, and improved regulation in labor relations with the revised Law on Labor in force, enhanced the Regulation category's score by 0.09 points and raised the rank by 12 positions. International reports also noted improvements in the evaluation of government impartiality and reduction in bureaucracy, contributing positively to this category. Despite these advancements, Mongolia's overall ranking did not significantly improve, as other countries also achieved higher scores.

The Economic Freedom of the World Index is calculated using five categories, each weighted equally, across 25 subcategories. These subcategories, in turn, are measured by a varying number of qualitative and quantitative indicators. For instance, the Sound Money category is assessed using only four numerical indicators, whereas the Regulation category is measured with 17 indicators, both qualitative and quantitative. Therefore, categories with fewer indicators have a greater impact on the overall score. For example, the inflation rate alone accounts for 10% of the index score, making it the most straightforward indicator to improve the country's ranking.

Inflation indicator is measured using the standard deviation of inflation over the past five years and the annual average inflation rate. Lower values are considered better, while higher values are rated poorly.

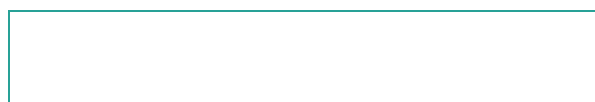


However, Mongolia's annual average inflation rate reached 15.2% in 2022 (the year on which the 2024 index results are based), which was a primary factor in reducing the country's score. However, with inflation rates declining in 2023–2024, the indicator's evaluation is expected to improve in the coming years (Figure 5.3).

At the international level, the *Economic Freedom of the World Index* reveals that the global average score in 2024 declined by 0.24 points from the pre-pandemic level of 2019, reaching 6.56. This decline is attributed to increased government intervention during the COVID-19 pandemic, which reduced economic freedom worldwide.

The top-ranking countries in the index include Hong Kong (Special Administrative Region of People's Republic of China), Singapore, Switzerland, New Zealand, the United States, and Denmark. The nations ranking high economic

freedom are characterized by minimal government regulation and well-established free-market systems. For instance, Hong Kong (Special Administrative Region of People's Republic of China) and Singapore, both highly competitive economies and major business hubs, maintain stable monetary policies and limited government intervention, fostering a favorable environment for business operations and investments. Conversely, Venezuela, Zimbabwe, Sudan, Syria, Algeria, and Myanmar occupy the lowest ranks on the index. These nations face high levels of corruption and bribery, weak enforcement of laws, poor regulatory quality, and excessive government intervention. Economic instability, inflation, and currency volatility in these countries negatively impact living standards and hinder domestic economic growth. Additionally, extensive restrictions and protective measures in domestic and international trade further suppress economic freedom in these nations.



# CHAPTER VI

## RISKS

## 6. RISKS

**ONE. DZUD** Due to extreme weather conditions, the agricultural sector suffered a 28 percent decline in the number of young surviving animals by the end of 2023, along with a loss of 8.1 million adult livestock by the third quarter of 2024. These disruptions could lead to a reduction in meat supply and contribute to further food inflation. Additionally, the decline in agricultural production and capital accumulation may negatively affect household income and consumption in rural areas, potentially hindering overall economic growth.

**TWO. COMMODITY PRICE VOLATILITY** The commodity price volatility risk stemming from uncertainty in global economy could weigh on the export revenues of Mongolia. A larger-than-expected slowdown of growth in China due to the ongoing real estate sector downturn could also weigh on the demand and prices of commodities.

**THREE. GEOPOLITICAL TENSIONS** Further escalation of Russia's invasion of Ukraine, conflict in the Middle East, and continued attacks in the Red Sea could add to inflationary pressures with upward pressure on global prices of fuel, grain, food, and energy.

**FOUR. ENERGY RELIABILITY** Energy security is vital for ensuring economic and social stability. However, about 20 percent of Mongolia's electricity consumption is imported from neighboring countries, and the majority of its energy is supplied by centralized sources that rely on aging plants and outdated distribution systems. Any disruptions in energy supplies could hinder overall economic activity and productivity.

**FIVE. SUPPLY DISRUPTION** The congestion of containers at Tianjin Port, which handles about 80 percent of Mongolia's total imports, could disrupt the supply of goods and increase the risk of further inflation.

## Appendix

Table 4. Selected economic indicators

SELECTED ECONOMIC INDICATORS							
	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
<b>REAL SECTOR</b>							
Nominal GDP (in MNT billion)	37,453	43,555	53,852	70,442	16,663	37,420	56,188
Real GDP growth - production approach (percent change)	-4.6	1.6	5.0	7.4	7.9	5.6	5.0
Real GDP growth - expenditure approach (percent change)	-4.4	1.6	5.0	7.2	8.0	5.7	4.9
Domestic demand (percentage points)	-12.6	17.6	11.4	5.4	32.5	27.7	25.7
Exports of goods and services (percentage points)	-2.7	-7.5	13.9	18.0	-7.2	-1.5	-2.1
Imports of goods and services (percentage points)	11.0	-8.5	-20.3	-16.2	-17.3	-20.5	-18.8
<b>Contribution to real GDP growth (percentage points)</b>							
Final consumption	3.6	-2.3	6.5	7.0	22.0	21.5	16.9
Private	1.3	-4.0	5.1	6.3	12.7	12.1	10.0
Public	2.2	1.7	1.4	0.7	9.3	9.3	6.9
Gross capital formation	-16.2	19.9	4.9	-1.6	10.5	6.2	8.8
Net exports of goods and services	8.2	-16.0	-6.4	1.8	-24.5	-21.9	-20.8
<b>PRICES</b>							
Consumer prices (eop, percent change)	2.3	13.8	13.2	7.9	7.0	5.1	6.7
Copper prices* (\$/ton)	6,178	9,315	8,815	8,479	8,443	9,094	9,132
Gold prices* (\$/troy ounce)	1,772	1,799	1,802	1,943	2,074	2,206	2,688
Oil prices* (\$/barrel, Brent)	51	60	78	76	77	79	78
GDP deflator (percent change)	3.7	14.4	17.7	21.8	10.5	14.4	13.0
(in MNT billion)							
<b>GENERAL GOVERNMENT ACCOUNTS</b>							
Total revenue and grants	10,444	14,306	18,522	24,387	7,673	14,947	22,350
Structural revenue and grants	9,464	12,711	17,127	23,295	7,322	14,199	21,290
Total expenditure and net lending	13,904	15,630	18,160	22,509	5,695	12,911	19,822
Overall balance	-3,460	-1,324	362	1,878	1,978	2,036	2,528
Overall primary balance	-2,521	-488	1,160	3,028	2,380	2,631	3,486
Structural balance	-4,440	-2,919	-1,033	786	1,627	1,287	1,469
General government debt (nominal, in percent of GDP)	75.5	62.6	60.5	44.7	37.7	38.3	38.9
General government debt (nominal)	27,899	26,918	31,965	30,774	29,772	30,247	30,814
<b>MONETARY SECTOR</b>							
Broad money growth (percent change)	16.2	13.8	6.5	26.8	20.9	31.9	25.9
Reserve money growth (percent change)	-12.7	6.5	39.9	7.4	11.7	29.6	5.8
Velocity of money	1.5	1.6	1.8	1.9	2.0	1.9	1.9
Money multiplier	5.4	5.8	4.4	5.2	6.1	5.5	6.3
Credit growth** (percent change)	-4.0	18.5	7.5	22.7	22.3	27.3	31.3
(in USD million)							
<b>BALANCE OF PAYMENTS</b>							
Balance of payments	787	-222	-727	1,457	373	-57	-251
Current account balance	-675	-2,108	-2,304	121	-251	-583	-1,368
Gross official reserves (in USD million)	4,534	4,366	3,400	4,921	5,250	4,839	0
in months of imports of G&S	7.4	5.7	3.4	4.4	4.4	3.9	3.6
<b>Exchange rate</b>							
MNT/USD (average)	2,813	2,849	3,140	3,466	3,392	3,386	3,384
MNT/USD (eop)	2,850	2,849	3,445	3,411	3,376	3,381	3,381
Nominal effective exchange rate (average)	43.0	41.3	38.8	37.6	39.4	39.6	39.5
Real effective exchange rate (average)	102.9	102.8	105.7	111.1	117.6	119.2	119.4

\*Bloomberg Terminal

\*\*Includes mortgage-backed securities

Table 5. Real sector

REAL SECTOR							
	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
Nominal GDP (production approach)	37,453	43,555	53,852	70,442	16,663	37,420	56,188
Real GDP (production approach)	26,655	27,092	28,455	30,567	6,077	14,419	22,829
	(percent change)						
<b>Real GDP growth</b>	-4.6	1.6	5.0	7.4	7.9	5.6	5.0
<i>Mining</i>	-9.9	0.8	-15.3	23.4	13.3	15.4	11.4
<i>Non-mining</i>	-3.7	1.8	8.2	5.4	7.0	4.2	4.0
Agriculture	5.8	-5.5	12.0	-8.9	-24.8	-26.7	-25.0
Mining and quarrying	-9.9	0.8	-15.3	23.4	13.3	15.4	11.4
Manufacturing	3.4	-0.9	6.1	5.1	4.9	6.3	0.1
Electricity, gas, stream, air conditioning supply	1.8	9.4	3.3	5.0	7.7	5.3	5.2
Construction	-3.2	-22.8	8.2	3.1	27.7	19.5	7.8
Wholesale and retail trade	-12.5	5.8	10.1	6.8	6.0	6.8	7.9
Transportation and storage	-18.2	-7.3	9.2	39.6	26.9	24.7	15.7
Information and communication	5.2	20.7	6.6	17.0	27.5	17.4	14.4
Other service activities	-2.6	3.8	5.4	5.8	3.4	7.1	8.6
Taxes less subsidies on products	-9.4	12.2	11.5	6.6	13.1	15.0	14.6
Deflator	3.7	14.4	17.7	21.8	10.5	14.4	13.0
	(percentage points)						
<b>Contributions to real GDP growth</b>							
Agriculture	0.8	-0.8	1.7	-1.3	-1.0	-3.9	-3.5
Mining and quarrying	-1.4	0.1	-2.1	2.6	1.9	1.8	1.4
Manufacturing	0.3	-0.1	0.5	0.4	0.3	0.4	0.0
Electricity, gas, stream, air conditioning supply	0.0	0.2	0.1	0.1	0.3	0.2	0.1
Construction	-0.1	-0.9	0.2	0.1	0.2	0.3	0.1
Wholesale and retail trade	-1.4	0.6	1.1	0.8	0.7	0.7	0.9
Transportation and storage	-1.0	-0.3	0.4	1.8	1.3	1.0	0.9
Information and communication	0.1	0.5	0.2	0.5	0.9	0.6	0.5
Other service activities	-0.7	1.1	1.6	1.7	1.2	2.1	2.4
Taxes less subsidies on products	-1.1	1.3	1.4	0.8	2.1	2.3	2.1
	(in MNT billion)						
Nominal GDP (expenditure approach)	37,883	44,703	54,878	71,202	17,473	38,022	57,818
Primary income	-3,526	-6,359	-5,072	-7,738	-1,693	-4,465	-6,811
Gross national income	34,357	38,344	49,806	63,463	15,780	33,558	51,007
Secondary income	769	1,223	1,363	1,378	592	857	1,493
Gross national disposable income	35,126	39,566	51,169	64,842	16,372	34,414	52,501
Domestic demand	36,953	45,574	58,219	64,404	17,098	36,042	56,970
National savings	6,556	9,985	15,747	24,317	4,001	8,357	12,971
Gross capital formation	8,383	15,993	22,796	23,880	4,727	9,985	17,440

Table 6. General government accounts

GENERAL GOVERNMENT ACCOUNTS							
	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
	(in MNT billion)						
<b>TOTAL REVENUE AND GRANTS</b>	10,444	14,306	18,522	24,387	7,673	14,947	22,350
Future heritage fund	914	967	0	416	284	528	694
Stabilization fund	66	628	1,395	676	67	221	366
<b>STRUCTURAL REVENUE AND GRANTS</b>	9,464	12,711	17,127	23,295	7,322	14,199	21,290
<b>Tax revenue</b>	8,512	11,300	15,459	21,484	6,909	13,291	19,952
Income tax	2,227	3,326	3,827	5,703	2,557	4,266	6,402
Social security contributions	1,586	2,286	3,038	3,951	920	2,105	3,322
Property tax	155	201	238	395	109	240	335
Value added tax	2,209	2,838	3,946	4,777	1,286	2,777	4,313
Excise tax	777	827	848	790	280	515	819
Special tax revenue	17	17	19	22	6	13	19
Customs duties and export taxes	741	939	1,256	1,465	352	813	1,315
Other taxes, fees and charges	800	866	2,288	4,382	1,398	2,561	3,426
<b>Non-tax revenue</b>	952	1,412	1,668	1,811	413	908	1,338
General non-tax revenue	785	1,250	1,364	1,452	339	717	1,036
Capital revenue	1	2	4	8	1	2	5
Grant revenue	166	160	300	351	73	188	297
<b>TOTAL EXPENDITURE AND NET LENDING</b>	13,904	15,630	18,160	22,509	5,695	12,911	19,822
<b>Current expenditure</b>	10,829	12,804	14,229	17,091	4,698	10,376	15,551
Wages and salaries	2,649	2,532	1,666	2,327	1,081	2,585	3,706
Purchase of goods and services	2,202	2,170	2,140	2,758	687	1,660	2,432
Subsidies	375	454	537	580	134	367	649
Current transfers	4,663	6,813	9,088	10,276	2,394	5,170	7,807
Interest payments	939	836	798	1,150	402	595	958
Foreign	776	681	694	1,054	395	582	943
Domestic	163	155	104	96	6	13	15
<b>Capital expenditure and net lending</b>	3,075	2,826	3,930	5,418	997	2,535	4,271
Capital expenditure	3,034	2,982	3,803	5,188	843	2,296	3,967
Net lending	41	-156	127	229	154	239	304
<b>OVERALL BALANCE</b>	-3,460	-1,324	362	1,878	1,978	2,036	2,528
<b>PRIMARY BALANCE</b>	-2,521	-488	1,160	3,028	2,380	2,631	3,486
<b>STRUCTURAL BALANCE</b>	-4,440	-2,919	-1,033	786	1,627	1,287	1,469

Table 7. General government accounts (in percent of GDP)

GENERAL GOVERNMENT ACCOUNTS				
	2020	2021	2022	2023
	(in percent of GDP)			
<b>TOTAL REVENUE AND GRANTS</b>	27.9	32.8	34.4	34.6
Future heritage fund	2.4	2.2	0.0	0.6
Stabilization fund	0.2	1.4	2.6	1.0
<b>STRUCTURAL REVENUE AND GRANTS</b>	25.3	29.2	31.8	33.1
<b>Tax revenue</b>	22.7	25.9	28.7	30.5
Income tax	5.9	7.6	7.1	8.1
Social security contributions	4.2	5.2	5.6	5.6
Property tax	0.4	0.5	0.4	0.6
Value added tax	5.9	6.5	7.3	6.8
Excise tax	2.1	1.9	1.6	1.1
Special tax revenue	0.0	0.0	0.0	0.0
Customs duties and export taxes	2.0	2.2	2.3	2.1
Other taxes, fees and charges	2.1	2.0	4.2	6.2
<b>Non-tax revenue</b>	2.5	3.2	3.1	2.6
General non-tax revenue	2.1	2.9	2.5	2.1
Capital revenue	0.0	0.0	0.0	0.0
Grant revenue	0.4	0.4	0.6	0.5
<b>TOTAL EXPENDITURE AND NET LENDING</b>	37.1	35.9	33.7	32.0
<b>Current expenditure</b>	28.9	29.4	26.4	24.3
Wages and salaries	7.1	5.8	3.1	3.3
Purchase of goods and services	5.9	5.0	4.0	3.9
Subsidies	1.0	1.0	1.0	0.8
Current transfers	12.5	15.6	16.9	14.6
Interest payments	2.5	1.9	1.5	1.6
Foreign	2.1	1.6	1.3	1.5
Domestic	0.4	0.4	0.2	0.1
<b>Capital expenditure and net lending</b>	8.2	6.5	7.3	7.7
Capital expenditure	8.1	6.8	7.1	7.4
Net lending	0.1	-0.4	0.2	0.3
<b>OVERALL BALANCE</b>	-9.2	-3.0	0.7	2.7
<b>PRIMARY BALANCE</b>	-6.7	-1.1	2.2	4.3
<b>STRUCTURAL BALANCE</b>	-11.9	-6.7	-1.9	1.1

Table 8. Balance of payments

BALANCE OF PAYMENTS							
	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
	(in USD million)						
<b>I. CURRENT ACCOUNT</b>	-675	-2,108	-2,304	121	-251	-583	-1,368
Goods	1,756	1,370	1,233	4,549	920	1,865	2,223
Exports F.O.B (credit)	6,991	8,136	9,854	13,914	3,431	7,443	11,064
Imports F.O.B (debit)	5,235	6,766	8,622	9,366	2,511	5,578	8,841
Services	-1,450	-1,675	-2,355	-2,592	-846	-1,383	-2,019
Credit	655	814	1,135	1,587	275	615	1,190
Debit	2,105	2,490	3,490	4,179	1,121	1,998	3,209
Primary income	-1,253	-2,232	-1,615	-2,233	-499	-1,319	-2,012
Credit	341	292	344	455	132	279	430
Debit	1,595	2,524	1,959	2,687	631	1,598	2,442
Secondary income	273	429	434	398	175	253	441
<b>II. CAPITAL ACCOUNT</b>	103	114	154	135	32	78	120
Credit	105	116	166	149	36	87	130
Debit	2	2	12	14	4	9	10
<b>III. FINANCIAL ACCOUNT: net lending (+) / net borrow</b>	-1,504	-1,982	-1,644	-1,477	-857	-660	-1,307
Direct investment (net)	-1,693	-2,060	-2,428	-2,172	-580	-1,464	-1,975
Portfolio investment (net)	563	25	445	818	-16	-252	-277
Financial derivatives (net)	-6	-8	-11	-2	8	0	-8
Other investments (net)	-369	60	351	-121	-269	1,056	953
Of which: Currency and deposits	278	245	298	354	-245	894	755
Loans	-803	-501	67	-529	-86	-43	-157
Trade credit and advances	156	413	-15	54	61	205	356
<b>IV. Net errors and omissions</b>	-146	-209	-222	-276	-265	-213	-310
<i>Overall balance</i>	787	-222	-727	1,457	373	-57	-251
<b>V. Reserve assets</b>	787	-222	-727	1,457	373	-57	-251
Reserve	787	-225	-751	1,398	359	-96	-307
IMF loan	0	-3	-24	-59	-14	-38	-56
Exceptional financing	0	0	0	0	0	0	0
<b>Memorandum items:</b>							
Nominal GDP (in USD million)	13,314	15,286	17,150	20,325	4,912	11,052	16,603
Gross official reserves (in USD million)	4,534	4,366	3,400	4,921	5,250	4,839	4,663
in months of imports of G&S	7.4	5.7	3.4	4.4	4.4	3.9	3.6
MNT/USD exchange rate (average)	2,813	2,849	3,140	3,466	3,392	3,386	3,384
MNT/USD exchange rate (eop)	2,850	2,849	3,445	3,411	3,376	3,381	3,381

Table 9. Balance of payments (in percent of GDP)

BALANCE OF PAYMENTS				
	2020	2021	2022	2023
	(in percent of GDP)			
<b>I. CURRENT ACCOUNT</b>	-5.1	-13.8	-13.4	0.6
Goods	13.2	9.0	7.2	22.4
Exports F.O.B (credit)	52.5	53.2	57.5	68.5
Imports F.O.B (debit)	39.3	44.3	50.3	46.1
Services	-10.9	-11.0	-13.7	-12.8
Credit	4.9	5.3	6.6	7.8
Debit	15.8	16.3	20.4	20.6
Primary income	-9.4	-14.6	-9.4	-11.0
Credit	2.6	1.9	2.0	2.2
Debit	12.0	16.5	11.4	13.2
Secondary income	2.1	2.8	2.5	2.0
<b>II. CAPITAL ACCOUNT</b>	0.8	0.7	0.9	0.7
Credit	0.8	0.8	1.0	0.7
Debit	0.0	0.0	0.1	0.1
<b>III. FINANCIAL ACCOUNT: net lending (+) / net borrow</b>	-11.3	-13.0	-9.6	-7.3
Direct investment (net)	-12.7	-13.5	-14.2	-10.7
Portfolio investment (net)	4.2	0.2	2.6	4.0
Financial derivatives (net)	0.0	0.0	-0.1	0.0
Other investments (net)	-2.8	0.4	2.0	-0.6
Of which: Currency and deposits	2.1	1.6	1.7	1.7
Loans	-6.0	-3.3	0.4	-2.6
Trade credit and advances	1.2	2.7	-0.1	0.3
<b>IV. Net errors and omissions</b>	-1.1	-1.4	-1.3	-1.4
<i>Overall balance</i>	5.9	-1.4	-4.2	7.2
<b>V. Reserve assets</b>	5.9	-1.4	-4.2	7.2
Reserve	5.9	-1.5	-4.4	6.9
IMF loan	0.0	0.0	-0.1	-0.3
Exceptional financing	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>				
Nominal GDP (in USD million)	13,314	15,286	17,150	20,325
Gross official reserves (in USD million)	4,534	4,366	3,400	4,921
in months of imports of G&S	7.4	5.7	3.4	4.4
MNT/USD exchange rate (average)	2,813	2,849	3,140	3,466
MNT/USD exchange rate (eop)	2,850	2,849	3,445	3,411

Table 10. Monetary sector

MONETARY SECTOR							
	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
	(in MNT billion)						
<b>Net foreign assets</b>	<b>5,816</b>	<b>3,806</b>	<b>2,492</b>	<b>8,959</b>	<b>9,775</b>	<b>9,865</b>	<b>8,437</b>
<b>Net domestic assets</b>	<b>18,664</b>	<b>24,057</b>	<b>27,173</b>	<b>28,665</b>	<b>27,625</b>	<b>31,603</b>	<b>33,366</b>
Domestic claims (net)	19,136	24,298	25,648	29,106	28,477	32,296	34,091
Other items (net)	-472	-241	1,525	-441	-852	-694	-726
<b>Broad money</b>	<b>24,481</b>	<b>27,863</b>	<b>29,665</b>	<b>37,624</b>	<b>37,400</b>	<b>41,467</b>	<b>41,803</b>
Currency outside depository corporations	753	847	831	906	827	1,040	961
Currency and deposits	23,728	27,016	28,834	36,719	36,573	40,428	40,841
	(percent change)						
<b>Broad money</b>	<b>16.2</b>	<b>13.8</b>	<b>6.5</b>	<b>26.8</b>	<b>20.9</b>	<b>31.9</b>	<b>25.9</b>
Net foreign assets	80.9	-34.6	-34.5	259.6	148.4	146.7	27.7
Net domestic assets	4.6	28.9	13.0	5.5	2.3	15.1	25.4
Domestic claims (net)	2.3	27.0	5.6	13.5	12.4	20.2	28.2
Net claims on government	-29.6	-49.8	107.6	91.3	57.9	53.9	30.1
Net claims on other sectors	-2.2	19.2	9.9	19.8	18.5	24.8	28.5
Claims on public sector	1,492.6	25.0	-5.0	-16.7	-8.6	13.2	0.2
Claims on private sector	-7.2	18.8	10.8	21.7	19.8	25.2	29.6
	(percentage points)						
<b>Contributions to broad money growth</b>							
<b>Broad money</b>	<b>16.2</b>	<b>13.8</b>	<b>6.5</b>	<b>26.8</b>	<b>20.9</b>	<b>31.9</b>	<b>25.9</b>
Net foreign assets	12.4	-8.2	-4.7	21.8	18.9	18.7	5.5
Net domestic assets	3.9	22.0	11.2	5.0	2.0	13.2	20.4
<b>Memorandum items:</b>							
Velocity of money	1.5	1.6	1.8	1.9	2.0	1.9	1.9
Nominal GDP growth (percent change)	-1.0	16.3	23.6	30.8	19.3	20.8	18.6
Consumer prices (eop, percent change)	2.3	13.8	13.2	7.9	7.0	5.1	6.7

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