GOVERNMENT OF MONGOLIA

MINISTRY OF ECONOMY AND DEVELOPMENT

MACROECONOMIC REPORT

2023 Q4

For questions and comments, please contact via info@med.gov.mn or at Ministry of Economy and Development, Chingeltei district, J.Sambuu Street, Government Building 11, Ulaanbaatar 15141, Mongolia

GOVERNMENT OF MONGOLIA

MINISTRY OF ECONOMY AND DEVELOPMENT

германы хамтын ажиллагаа
DEUTSCHE ZUSAMMENARBEIT

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

EXPORT RECOVERY

MARCH 2024

CONTENTS

FIGURE LIST FIGURE LIST

TABLE LIST

BOX LIST

ABBREVIATIONS

ADB	Asian Development Bank
GDP	Gross Domestic Product
MNT	Mongolian Tugrik
VAT	Value Added Tax
IMF	International Monetary Fund
OPEC	Organization of the Petroleum Exporting Countries
PV	Present value
SOE	State-owned enterprise
UBRJSC	Ulaanbaatar Railway Joint Stock Company
MED	Ministry of Economy and Development
OECD	Organization for Economic Co-operation and Development

EXECUTIVE SUMMARY

Over the past three years, nations across the globe have faced many challenges — including persistent inflation and lower economic activities — stemming from the pandemic and geopolitical tensions. In 2023, the Government of Mongolia implemented comprehensive policy measures aimed at supporting the recovery and stabilization of the economy.

In 2023, real GDP grew by 7.0 percent, surpassing its pre-pandemic level, driven by robust external demand and policy measures aimed at boosting gross international reserves and stimulating economic activity. The economic growth was driven mainly by the mining and transportation sectors, with positive contributions from the manufacturing, wholesale, and retail trade, accommodation and food service activities, and information and communication sectors. However, the agricultural sector recorded a negative contribution, experiencing a record high loss of large livestock since 2010 due to harsh winter and spring.

The mining sector expanded by 23.4 percent in 2023, after contracting by 15.3 percent in 2022, largely on account of increased production of coal, copper concentrate, and crude oil. Coal production surged to 81.2 million tons, marking a 2.2-fold increase from the previous year and a 1.6-fold increase compared to the pre-pandemic level in 2019. Copper concentrate production grew at an annual rate of 17 percent to 1,395 thousand tons, reflecting the start of Oyutolgoi's underground mine. The transportation sector growth accelerated to 39.3 percent due to increased activity in the mining sector and improvements in operational efficiency. The manufacturing sector expanded by 5.1 percent in 2023 with a surge in meat processing activities.

Disinflation, the stabilization of the exchange rate, and wage and pension hikes boosted the real income of households, stimulating domestic demand. Inflation-adjusted household income rose by 14.1 percent, supported by the easing of inflationary pressures, gradual strengthening in the exchange rate, and favorable shifts in employment patterns. Real income gains supported domestic demand through private consumption. An upsurge in construction activities in the mining sector contributed to the gross capital formation growth of 7 percent.

Budget revenue increased significantly, reflecting improved transparency in the mining sector. As part of the government's efforts to reduce the shadow economy in the mining sector, an automated customs and tax filing system that registers contracts related to all stages of the mining process, from extraction to final sale, was introduced. The optimization of customs and tax management contributed to the 51 percent rise in mining sector revenue, up 6 percent from its target, leading to the first budget surplus in 5 years. The primary budget balance was in surplus, indicating that fiscal and monetary policies were coordinated toward containing inflation. The Government of Mongolia successfully repaid its international bonds maturing in 2023 and the government debt dynamic is projected to remain sustainable in the medium term.

The inflation rate declined to 7.9 percent in December 2023, falling within the Bank of Mongolia's target range, reflecting a drop in global shipping costs, stabilization of the exchange rate, and tight monetary and fiscal policies. Over the past three years, both external and domestic factors including higher global prices for food and fuel and the depreciation of the MNT drove import inflation higher. To reduce inflation, the Bank of Mongolia raised its policy rate by a total of 7 percentage points in 2022, maintaining it at 13 percent throughout 2023. Despite the steady policy rate, the money supply surged by 26.8 percent in 2023, largely on account of the growth in foreign assets held by commercial banks and increased domestic lending. Consequently, new bank loans surged at an annual rate of 33.1 percent to MNT 41.8 trillion in 2023.

Exports achieved a historic milestone in 2023, supported by the measures aimed at bolstering gross international reserves and exports. As part of the government's efforts to facilitate exports and boost international reserves, transport and export operations of minerals were improved, special administration regimes were established at state-owned enterprises, and the Mining Commodity Exchange commenced operation. Also, container transport terminals were established, and automated guided vehicles were introduced at the Gashuunsukhait and Shiveehuren border ports. As a result of these measures, the foreign trade balance recorded a surplus of USD 5.9 billion in 2023, with exports of goods increasing by 17 percent to USD 15.2 billion, and imports growing by 6 percent to USD 9.3 billion. Also, the current account balance recorded its first surplus since 2007, and gross international reserves soared to a historic high.

Agricultural exports increased. Meat exports surged to a historic high of USD 309 million, marking a 6-fold increase compared to 2022, reflecting the removal of domestic export quotas of animal meat as part of the government's efforts to support private-sector business activities and boost exports and as key priorities of the macroeconomic policy. The ban on the export of raw hides and skins, issued in 2013, was also lifted under Government Resolution No. 372 of October 2023. The decision led to a notable increase in the exports of hides and skins, also contributing to the growth of agricultural exports and overall economic performance.

POLICY MEASURES IMPLEMENTED IN 2023

The Government of Mongolia implemented policy measures outlined in the “New Recovery Policy” and the “Annual Development Plan for 2023” in parallel with the following key measures aimed at fostering economic growth:

Policy Priorities	Policy Priorities	Outcomes
One: Implementing countercyclical fiscal and monetary policies to ensure macroeconomic stability	To stabilize the economy by implementing contractionary fiscal and monetary policies	The structural budget balance recorded a surplus of MNT 0.8 trillion and the policy rate was maintained at 13 percent in 2023.
	To boost the gross international reserves through a comprehensive set of measures designed to enhance export income	The structural budget balance recorded a surplus of MNT 0.8 trillion and the policy rate was maintained at 13 percent in 2023.
Two: Bringing export volumes to pre-pandemic levels	To introduce a registration system for all stages of the mining process, from extraction to final sale	Introduced an automated customs and tax filing system that registers contracts related to sales and transportation of mineral products, thereby ensuring transparency throughout all stages from extraction to export.
	To cease the sale of minerals at “mine mouth” price (FCA incoterm) and instead use “border price” (DAP incoterm) and transfer authority to issue type "C" permits from the government to enterprises	Exporting companies adopted a new practice of using "border price" or DAP incoterms in sales contracts, instead of "mine mouth" or FCA incoterms. The authority to issue type "C" permits for transportation has been transferred to enterprises.
Three: Enhancing transparency in sales of mineral products and operation of the state-owned enterprises	To reduce the shadow economy by ensuring transparency in the sales and contracts of mineral commodities	All mineral exports are now being conducted based on the records maintained by the new automated customs and tax filing system.
	To enhance transparency in the operations and investments of mining companies and establish a robust governance framework	As per Government Resolution No. 449 of 2022, details about state secret contracts associated with "Erdenes Tavantolgoi" JSC were declassified, leading to the disclosure of information regarding the company's sales, stripping, and mining contracts to the public.
Four: Upgrading processing levels of mining and agricultural products	To build the oil refinery plant	The repayment of the loan from the Exim Bank of India for financing the primary construction of the plant has been deferred until 2030 and construction activities for 1-4 sections have commenced. Additionally, out of the total MNT 248 billion loan obtained from the Development Bank of Mongolia for the construction of infrastructure, MNT 171.6 billion has been disbursed.
	To continue to boost meat exports	The government removed domestic export quotas for animal meat. In 2023, meat exports surged to a historic high of USD 309 million, marking a remarkable 6-fold increase compared to the previous year.

Policy Directions	Implemented Measures	Outcomes
Five. Promoting liberalization in sectors that impede economic development.	To liberalize the energy sector	Electricity tariffs were increased and an 80MW capacity battery storage facility was installed and connected to the central line to ensure continuous supply and mitigate the risk of interruptions during peak hours.
	To liberalize the transportation sector (railway and air transport)	16 categories of domestic cargo transport and 2 categories of passenger transport's tariffs of UBRJSC were raised. Additionally, the transit freight tariff discount for container transportation between China and the Russian Federation has been reduced from 61 percent to 51 percent.
	To support reform and competition in the banking sector.	Some of the stringent requirements for the operations of foreign banks in Mongolia were eased with a revision of the procedures for establishing and implementing conditions and requirements for the operation of foreign bank branches and representative offices by the Bank of Mongolia.
Six. Supporting private sector and business operations	Diversification of the economy (food production, tourism, light manufacturing)	As per Government Resolution No. 107 of 2023, food and agriculture
	Investment promotion	The revised draft of the Investment Law, which incorporates regulations aimed at enhancing the investment and business environment and addresses procedures for resolving complaints and disputes, was submitted to the Parliament.
	Reduction of red tape in the public sector via integrating all state special permits into the digital permit platform.	Out of 252 special permits issued by the government, 93 permits have been fully transitioned to electronic format.
Seven. Expanding funding sources and options	Development of the stock market.	The stock market value rose by 1.7 times from the previous year in 2023.
	To strengthen the insurance system	Draft revisions of the Laws on Insurance, Insurance Intermediaries, and Driver's Insurance are currently under development.
Eight. Enhancement of port, transport, and logistics operations	To increase border port capacity	To enhance the utilization of the Tavantolgoi-Gashuunsuhait road, the introduction of a 4-lane road and an electronic system for verifying payments using vehicle license plates is underway.
	To construct a railway container terminal at the Gashuunsukhait border port	The construction of the railway container terminal at Gashuunsuhait border port is currently in progress. As of 2023, exports totaling 37.5 million tons passed through the port, which marked a significant increase of 102 percent compared to the previous year.
	To construct a container transport terminal at the Shiveehuren border port.	The container transport terminal and automated guided vehicle (AGV) of the Shiveehuren border port commenced operations in the second quarter of 2023. Consequently, by 2023, 19 million tons of goods were exported through this port, up 3.5 times compared to the previous year.

NEAR-TERM OUTLOOK

The economy is expected to sustain growth in 2024. Continued production of Oyutolgoi underground mine with higher copper and gold contents along with increased production of coal, gold, and iron ore are expected to support the mining sector. The transportation sector growth is expected to be stable reflecting positive spillovers from the mining sector while measures aimed at attracting tourists are projected to stimulate the tourism and service sectors in the latter half of 2024. The surge in imports of industrial machinery and equipment in 2023 is expected to bolster near-term production of the manufacturing sector. However, the agricultural sector could shrink in 2024 with losses of adult livestock potentially exceeding its 2023 level due to adverse weather conditions.

Household consumption is expected to grow from the second quarter of 2024 following the wage hike and pension increase. As domestic demand and household consumption strengthen, the trade and service sectors are poised to play a significant role in driving economic growth. Exports is set to sustain growth, with continuation of policy measures aimed at boosting exports along with robust foreign demand supported by the economic growth of the northern provinces of China. The global prices of copper concentrate and oil are expected to rise, while prices of coking coal and iron ore are anticipated to decline. However, the trading of coal and iron through the Mining Commodity Exchange is expected to support border prices. The risk of supply-side inflationary pressure remains elevated due to harsh winter and spring conditions.

Measures aimed at increasing exports in both mining and non-mining sectors will continue to be implemented in 2024 as part of policy priorities to expand and diversify the economy. In this regard, smart gates, coal testing laboratories, and X-ray inspection equipment will be installed at Gashuunsukhait, Zamyn-Uud, and Shiveehuren border ports, transport operations of minerals will be further optimized, and a special custom gate for minerals traded through the Mining Commodity Exchange will be built. The implementation of the projects under the New Recovery Policy including construction of border ports, expansions of railway and road networks, power stations, along with other new construction projects, is expected to support economic growth.

POLICY PRIORITIES FOR 2024

The National Development Plan for the year 2024 was ratified by Resolution No. 39 of the State Great Khural of Mongolia on May 30, 2023. Within the primary objective of enhancing the real income of households, the following eight policy priorities have been outlined:

One. Increase Exports. Enhance mining sector exports while simplifying foreign trade procedures, diversifying exports, and improving agricultural product processing.

Two. Boost Investment. Increase foreign direct investment by fostering a favorable investment environment and attracting investment into major projects.

Three. Enhance Human Development Indicators. Revamp specialized technology colleges (Koosen) across all provinces to meet regional needs and bolster skilled human resources. Enhance social security by improving health services, establishing a fair social insurance system, and enhancing pension benefits for targeted groups.

Four. Develop Tourism. Increase the number of inbound tourists and revenue by expanding services and products of the tourism industry, investing in infrastructure, liberalizing air transport, and increasing flight frequency.

Five. Enhance Food Supply and Security. Boost domestic production of staple food items, reduce import dependence, and establish a secure supply chain system.

Six. Reduce Traffic Congestion and Air Pollution in Ulaanbaatar. Optimize public transport funding, introduce economic incentives to reduce traffic congestion, implement "New Ring Road" and Selbe River Renovation projects, and accelerate decentralization through regional economic development.

Seven. Upgrade Governance Indicators. Enhance e-governance by expanding government e-services and improving communication infrastructure. Foster private sector productivity, streamline public service delivery, and reform state-owned enterprises into joint-stock companies. Intensify efforts to combat corruption.

Eight. Promote Green Development Indicators. Promote environmentally friendly products and services, implement food waste recycling projects in Ulaanbaatar, and construct wastewater recycling facilities.

CHAPTER I

REAL SECTOR

1.1 AGGREGATE SUPPLY
1.2 AGGREGATE DEMAND
1.3 LABOR MARKET AND BUSINESS

I. REAL SECTOR

OVERVIEW

The economic growth accelerated to 7 percent in 2023, with the easing of supply-side inflationary pressures, an increase in employment, and a record high coal production.

From the supply side, mining and transportation sectors were key drivers of the economic growth while other sectors such as manufacturing, wholesale and retail trade, accommodation and food services, information, and communications have also contributed positively to the growth. However, adverse weather conditions resulted in a decrease in agricultural production, thereby hampering overall growth.

On the demand side, increase in coal exports improved external balances. Moreover, rises in salaries, pensions, and social benefits, coupled with the stabilization of inflation and exchange rate, boosted households' real income and spurred domestic demand. The output gap gradually narrowed reflecting robust domestic demand, reduction in production costs, and increased employment.

CHAPTER I

1.1 AGGREGATE SUPPLY

1. The growth kept its momentum and the output surpassed its pre-pandemic level. The nominal GDP grew by 27.9 percent to MNT 68.9 trillion, and the real GDP reached MNT 30.5 trillion, expanding at 7.0 percent. All sectors, except for the agricultural sector, contributed positively to economic growth.

2. The recovery in the mining sector was the primary driver of economic growth. After contracting by 15.3 percent in 2022 due to China's "Zero-COVID" policy, border restrictions, and logistical disruptions, the mining sector rebounded significantly in 2023, expanding by 23.4 percent, reflecting increased production of coal, crude oil, and copper concentrate. Notably, coal production reached 81.2 million tons in 2023, marking a substantial increase of 2.2 times compared to the previous year and 1.6 times compared to pre-pandemic levels. Furthermore, copper concentrate production rose by 17 percent as underground production of the Oyutolgoi mine commenced in March 2023. Additionally, crude oil production, which was halted in the first half of 2022 due to border restrictions, resumed and surged to 4.9 million barrels, representing a remarkable 1.9-fold increase from the previous year. However, gold and iron ore production declined by 23 and 19 percent, respectively, and have not reached their pre-pandemic levels.

3. The transportation sector experienced strong expansion driven by a significant increase in coal export transportation. The transportation sector expanded by 39.3 percent compared to the previous year, contributing 1.8 percentage points to economic growth, with the volume of carried freight reaching 102 million tons in 2023. Mining products constituted the majority of carried freight, accounting for 85 percent of total volume. The freight carried by road grew by 2.1 times, while the freight carried by rail saw a 17 percent increase. Moreover, the rise in transit transportation supported the recovery of the transportation sector [See Box 1.3].

4. The trade and service sectors grew as household consumption increased and domestic economic activity picked up pace. The wholesale and retail trade sector expanded by 5.7 percent in 2023. This growth was primarily driven by increased sales of food and non-food products such as motor vehicle parts, and fuel. The services sector also expanded, with administrative and support service activities that include travel agency and tour operators, renting and leasing, and employment intermediatory services growing by 10.2 percent. This growth was fueled by a significant increase in the number of inbound tourists, which increased by 2.1 times compared to the previous year, [See Box 2.1]. Outputs in other service sectors, such as accommodation and food service, professional, scientific, and technical activities, and arts, entertainment, and recreation also expanded in 2023.

5. The manufacturing sector maintained its growth reflecting increased production of processed and canned meat. "Technical Regulation of Industry and Trade of Meat and Meat Products" and rules of importing countries require meat to be processed at meat factories for export. The government removed domestic export quotas of animal meat in February 2023 and introduced the "One Window Electronic Export Certificate" system on July 1, 2023, to facilitate exports, resulting in a record high meat export. Consequently, processed meat volume reached 57,000 tons, showing a 123 percent increase from the previous year, and the manufacturing sector expanded by 5.1 percent, contributing 0.4 percentage points to the overall economic growth. Moreover, the "Temporary Committee of the State Great Khural" was established to support food and agricultural production, and long-term loans with low interest rates are being offered to individuals and enterprises. Particularly, by December 2023, the Ministry of Food, Agriculture, and Light Industry issued loans of MNT 830 billion through 11 commercial banks. 73.2 percent of the loans were allocated to support manufacturing, of which 16.1 percent were issued to agriculture, 51.8 percent to food processing, and 5.4 percent to livestock industry. Additionally, 20.5 percent of the loans were for agricultural equipment, while 6.1 percent were for construction of warehouses, and 0.1 percent was for supporting honey exports. The funding support is expected to increase productivity and boost production and investment in the agricultural and manufacturing sectors.

6. Construction sector growth was hampered by the long-lasting costs and price hikes caused by adverse shocks in the supply of building materials due to the pandemic and the Russia-Ukraine conflict. The construction sector is categorized into residential, non-residential, engineering constructions, and maintenance. In 2023, the construction sector grew by 0.6 percent from the previous year driven by the increase in non-residential construction of commercial, hospital, school, and cultural buildings. However, engineering construction declined in 2023, due to the high base effect of the large-scale construction of railways and highways in 2022. Also, due to the increase in housing prices and the cost of construction, the number of completed residential buildings decreased by 4 percent from the previous year, slowing down the growth of the construction sector. Housing prices growth was at 0.6 percent on average in 2023, reaching 8 percent in December 2023. The real estate market experienced a slowdown in buying and selling activities, reflecting soaring housing prices.

Figure 1.1 Real GDP growth

Source: National Statistics Office
Note: Contributions of sectors to the cumulative growth of real GDP.

Source: National Statistics Office

Source: National Statistics Office

7. Following the growth of investments in the information and communication sector, the fixed broadband subscriptions in rural areas increased, fueling an expansion in the telecommunication sector. By the end of 2023, the number of active mobile users grew by 0.3 percent and reached 4.9 million and 4G/LTE data traffic surged by 1.2 times from the previous year, contributing to the 21.8 percent increase in industry revenue. Additionally, fixed broadband subscriptions soared by 21 percent, and the number of IPTV active users rose by 23 percent to reach 431,000. Consequently, the information and communication sector expanded by 16.4 percent, contributing 0.5 percentage points to overall economic growth. Notably, Selenge province saw a remarkable 267 percent increase in fixed broadband subscriptions, followed by a 200 percent increase in Dornogovi province, 182 percent in Orkhon province, 142 percent in Darkhan-Uul province, and 27 percent in Ulaanbaatar city.

Moreover, the economic sectors other than those mentioned above contributed positively to the growth. The electricity and water supply sectors sustained steady production, with slight growth compared to the previous year. Despite the excise duty exemption on imported gasoline and diesel fuel until January 1, 2025[1], net tax revenue remained stable in the last quarters of 2023, accounting for 0.9 percentage point of economic growth.

8. At the end of 2023, a severe dzud risk[2] was prevalent across 90 percent of the regions, posing significant challenges in livestock production, a major part of the agricultural sector, and negatively impacting overall growth. From the beginning of the year, harsh winter and spring conditions resulted in a 28 percent decrease in young livestock survival compared to the previous year, while losses of adult animals surged by 6.4 times, hitting the highest number since 2010. As a result, the livestock sector shrunk by 10.3 percent and reduced economic growth by 1.4 percentage points. However, crop production increased by 8 percent, contributing positively to overall growth. The total harvested area expanded by 4 percent, with a harvest growth of 9.7 percent in cereal, 40 percent in vegetables, 51 percent in fodder crops, and 0.5 percent in hay harvest in 2023. However, the harvested potatoes decreased by 16 percent compared to the previous year.

[1] Government Resolution No. 244 of June 21, 2023. https://legalinfo.mn/mn/detail?lawId=16759881857501

[2] Zhud's risk overview of December 20, 2023. http://w.tsag-agaar.gov.mn/

BOX 1.1. AGRICULTURAL SECTOR

CURRENT SITUATION

Agriculture is the second biggest economic sector in Mongolia after mining, which produces 13 percent[3] of the GDP. The sector consists of 91 percent from livestock and 9 from crops. However, this sector faces considerable challenges due to its vulnerability to natural disasters and climate change-related events, leading to fluctuations in production and income for herding households. Severe winter and spring conditions, droughts, and zhuds have historically impacted livestock mortality rates and agricultural output, as seen in 2000-2002, 2010, 2021, and 2023. Despite its importance, the agricultural sector is labor intensive, which employs 25 percent of the total labor force, but has low labor productivity, which is 48.3 percent lower than the national average. Additionally, a significant portion of herder households (84.3 percent) have livestock up to 500. This leads to high production costs and low-efficiency production.

There is a significant level of public intervention in the agricultural sector, particularly through output-based subsidies for various commodities like leather, wheat, meat, milk, wool, and cashmere, which is leading to market and trade distortions as well as environmental concerns[4]. Moreover, the complexity of the supply chain for agricultural products, coupled with the intermediary role often played by traders in meat preparation and distribution, contribute to significant price markups. Consequently, consumers are facing price markups ranging from 22 percent to 111 percent[5] for different meat products. This indicates a system where fixed prices are enforced on agricultural products, combined with underdeveloped supply chain channels, which in turn hinder the sector's growth and efficiency.

The rapid increase in the number of livestock in Mongolia has led to a deterioration in appropriate pasture usage. It has been recommended that the appropriate ratio of sheep to goats in the herd should be 3:1. However, due to the rising value of cashmere, the number of goats has surged, causing the average ratio of sheep to goats to become 1:1 over the past 15 years. This shift has resulted in the loss of herd structure and an imbalance in pasture utilization. Consequently, approximately 77 percent of Mongolia's total territory has suffered degradation due to overgrazing and pasture overuse.

In terms of animal health, animal four major infectious that are banned for international trade are recorded in Mongolia. As of 2022, the vaccination coverage rates for these diseases are as follows: 20.7 percent for foot-and-mouth disease, 22.8 percent for bovine skin distemper, 5.1 percent for small animal scabies, and 4.1 percent for sheep pox.

Only about 0.2 percent[6] of the total number of animals in Mongolia are raised in intensive farming for milk, meat, and wool production. Given the high prices and demand for hay and fodder, there is significant demand to increase crop production. Supporting the private sector in adopting combined animal husbandry practices based on traditional herding can help develop and establish a more efficient supply chain.

In the agricultural sector, crop yields are declining, and the availability of suitable sown areas is decreasing. This trend is exacerbated by the practice among many enterprises of alternating between fallow-wheat and fallow-potato cultivation, which accelerates soil degradation. Mongolia's low annual precipitation, with 80 percent occurring in summer, poses a risk of fluctuating harvests.

Moreover, there is a growing demand in the global market for environmentally friendly and traceable products back to their origin. As of 2023, 119 cooperatives have joined the "Responsible Nomad" system, which tracks the origin of animal raw materials and products. This initiative ensures the traceability of potential livestock products, meeting the demand for organic products in the global market.

[3] According to preliminary estimation in 2023, the agricultural sector accounts for 10.3 percent of the total GDP. Source: Estimation by the MoED.

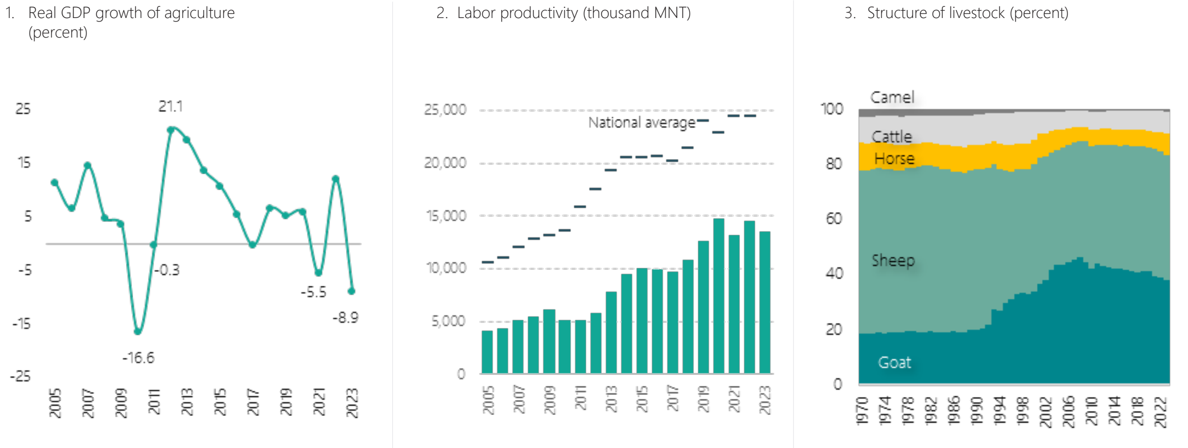
[4] United Nations Development Programme, 2023, Agricultural Support and Incentives Research Report.

[5] Mongolian Commodity Exchange LLC, 2023.

[6] MOFALI, 2021, General Sector Information.

[7] MOFALI, 2018, Traditional and improved crop rotation technology for grain cultivation in Mongolia

Figure 1.2 Indicators of the agricultural sector



Source: National Statistics Office

Source: National Statistics Office
Note: Growth of cumulative real GDP.

Source: National Statistics Office

IMPLEMENTED MEASURES:
GOVERNMENT RESOLUTION NO. 233 OF 2023

The Government of Mongolia enacted Government Resolution No. 233 on June 21, 2023, titled "On Certain Measures to Ensure Macroeconomic stability". This resolution outlines measures to foster competition within the agricultural sector and bolster the efficiency of goods and services distribution. The Ministry of Economy and Development has been overseeing the implementation of this resolution. Some of the measures assigned to corresponding authorities include digitalizing the processes of veterinary certifications, trading agricultural products and livestock through commodity exchange, facilitating direct transactions from herders to final consumers, rationalizing fees and inspections associated with meat inspection, and simplifying the issuance of product specifications traded on agricultural commodity exchange.

About the implementation of the Government Resolution No. 233:

- The MOFALI and the General Authority for Veterinary Service have brought into force the "Integrated Veterinary Service System" for operation, which allows the electronic issuance of veterinary certificates for animals, as well as animal-derived raw materials and products. This system streamlines the process of issuing and verifying certificates based on health information.

- Although assigned by resolution to commence livestock and meat exchange trading within the third quarter of 2023, there was no significant progress. Therefore, according to Minutes No. 50 of the Government meeting held on December 13, 2023, it was decided that livestock and meat trading should be facilitated through the platform of the Mongolian Stock Exchange by January 2024. This responsibility was once again entrusted to the Minister of Food, Agriculture, and Light Industry, along with the Stock Exchange of Mongolia. To ensure the implementation, a working group was established to explore the feasibility of conducting livestock trading via the Mongolian Commodity Exchange or the Mongolian Stock Exchange. As a result, "Mongolian Commodity Exchange" LLC initiated the electronic system for conducting livestock and meat auctions, and livestock and meat exchange trading commenced on January 17, 2024. As of February 28, 2024, in total 785 tons of meat were traded, amounting to MNT 6.6 billion in 277 transactions. Notably, 7.2 percent of the traded meat was allocated for the domestic market, while the remaining 92.8 percent was exported.

- To ensure effective implementation of the resolution, a "One-stop export digital system" has been implemented, reducing the time required for issuing export certificates. Additionally, with the dissolution of "The General Agency for Specialized Inspection" and the subsequent transfer of inspection functions to line ministries, the structure of state veterinary inspectors at provincial veterinary offices has been bolstered. Inspection activities at various inspection points have been systematically organized, effectively eliminating duplication in the process.

BOX 1.2. TOURISM INDUSTRY

CURRENT SITUATION

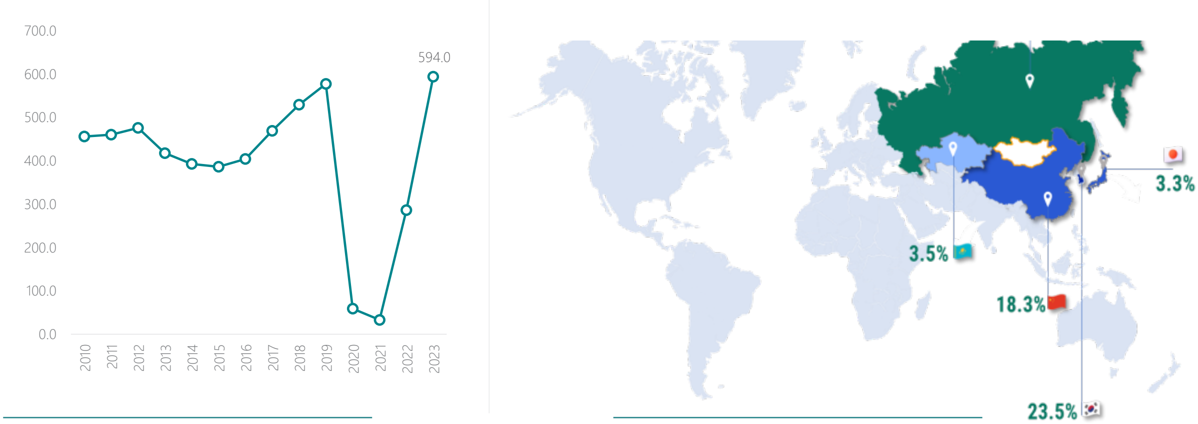
In 2023, Mongolia hosted the highest number of foreign tourists' influx, totaling 594,000 visitors. Most of these tourists came from several countries, with the highest proportions originating from Russia (35.7%), South Korea (23.5%), China (18.3%), Kazakhstan (3.5%), and Japan (3.3%). However, it's worth noting that despite the overall increase in tourist numbers, there was a decline in visitors' average spending during their stay compared to pre-pandemic levels in 2019.

The tourism industry in Mongolia comprises a diverse range of businesses, including 571 tour operator companies, 12 air carriers, 442 hotels, over 5,526 tourist camps and resorts, and 939 restaurants and other enterprises catering to tourists.

Figure 1.3. Tourists

1. Tourist number (thousands)

2. T ourist by origin (percent of total, 2023)



Source: National Statistics Office

Source: National Statistics Office

IMPLEMENTED MEASURES

Policy solutions aimed at boosting the tourism industry in 2023 were incorporated into the revised Law on Tourism. These solutions encompass: 1) Streamlining and exempting visa procedures. 2) Liberalizing air transportation. 3) Promoting cross-border tourism. 4) Increase the number of events and extend the tourism season. 5) Enhancing advertising and informational campaigns. 6) Upgrading infrastructure and standards. 7) Refunding VAT for tourists.

The liberalization of air transport policies facilitated flights to over 150 destinations across more than 40 countries in 2023. Since the resumption of domestic flights in July 2023, approximately 32,000 individuals, primarily foreign tourists, have been transported.

For the tourism sector expansion, 2023-2025 are declared as years for "Welcome to Mongolia." As part of this initiative, citizens from 34 countries have been granted temporary visa exemptions until the end of 2025.

Furthermore, the "Welcome to Mongolia" event was held in Japan, the Republic of China, and the Republic of Korea. Also, the Economic Forum-2023 was organized under this theme, attracting over 2,000 attendees, including more than 500 distinguished foreign delegations. Positive coverage about Mongolia was disseminated by renowned media outlets such as CNN, Financial Times, and The Washington Post, along with over 40 other major global publications.

Moreover, the presence of internationally renowned actors and influencers in Mongolia last year is anticipated to yield long-term benefits in the upcoming years.

These concerted efforts culminated in Mongolia being recognized as one of the most desirable travel destinations for 2024, by the esteemed travel information platform "Lonely Planet", in their 50th anniversary. The recognition highlighted Mongolia's appeal as a hospitable and tourist-friendly destination, offering experiences like traditional music, authentic cuisine (including steamed dumplings), national festivals, and horseback riding amidst breathtaking natural landscapes.

[8] Factors that contributed to the increase in the flow of tourists from Korea last year allowed Korean citizens to visit Mongolia without a visa for up to 90 days.

[9] Expenditure sample survey of foreign tourists traveling to Mongolia, Bank of Mongolia, National Tourism Center, 2015

BOX 1.3 LIBERALIZATION OF RAILWAY TRANSPORT

The existing pricing and tariff regulations in the railway sector have limited much-needed investment by undermining the sector's profitability. Mongolia has a total length of 1,996 kilometers of railway, including 1,120 kilometers of continuous wide-gauge railways running from the southern to the northern border. Ulaanbaatar Railway Joint Stock Company (UBRJSC LLC), jointly owned by the governments of the Russian Federation and Mongolia, controls over 90 percent of the country's railway network. However, low levels of investment persist in the railway sector due to challenges in achieving profitability amidst existing tariff regulations.

For instance, UBRJSC LLC has operational losses, with an average annual loss ranging from 10 percent to 45 percent in cargo transportation and from 45 percent to 65 percent in passenger transportation. In 2022 alone, the company suffered substantial losses, totaling MNT 51.3 billion from local cargo transportation and MNT 63.1 billion from passenger transportation.

Financial indicators (in billions of MNT)

	2018	2019	2020	2021	2022
Earning/Loss	3.6	57	11.3	49.5	(61.1)
Gross income	0.7	(4.4)	2.5	351.8	(23.4)

Source: Transportation Statistics, MRTD

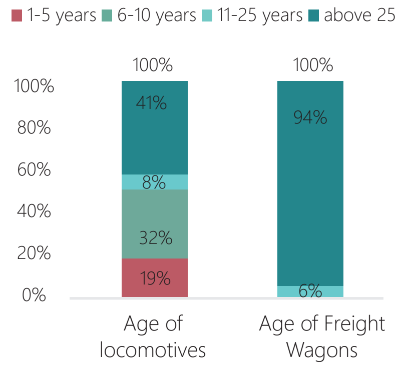
Due to inadequate investment, essential modernization of fixed assets and inventories such as locomotives and freight wagons has been lacking, leading to operations being conducted with insufficient capacity. For instance, within the Ulaanbaatar Railway Joint Stock Company (UBRJC), only 49 percent of the 1,537 kilometers of railways are of the P-65 type, which are modern, high-quality, load-bearing, standard railways. The remaining 51 percent are P-50 type roads, which are 30-50 years old and exhibit changes in their metal structure.

Moreover, a significant portion of locomotive cars (41 percent) and freight cars (94 percent) are over 25 years old, nearing the end of their service life. Additionally, by 2021, locomotive damage has accounted for 70 percent of the total losses amounting to MNT 164.3 million.

The demand for rail freight transportation has been increasing year by year. Prior to the pandemic, a total of 28 million tons of cargo were transported by rail, exceeding capacity by 3 million tons. However, this only fulfilled about 70 percent of the total orders for that year, resulting in a loss of 30 percent of all orders. Despite operating beyond capacity, rail transport continued to grow, with 32 million tons transported in 2021, 28 million tons in 2022, and 32 million tons in 2023. Therefore, policy reforms are imperative to enhance the capacity and efficiency of railway freight transportation to align with the size and growth of the economy.

The government has changed price and tariff enforcement, instructing an increase in tariffs until they reach a profitable level. Government Resolution No. 362 of 2022, aimed at bolstering the state's gross international reserves, prompted alterations to railway tariffs in 2022 and started liberalization in the sector. For instance, as part of the tariff adjustments, 16 categories of domestic freight tariffs and 2 categories of passenger transport tariff changes are made. In addition, the discount on the unified entry tariff for transit cargo transportation between China and Russia was reduced from 61 percent to 51 percent for container transportation.

Figure 1.4. Use of railway rolling stock (2021)



Source: Transport Statistics, Ministry of Road Transpot Development

Tariff changes

Types	Indexing
Chemical cargo	30.0%
Non-ferrous and ferrous metals	53.4%
Wood and wood products	68.2%
Copper zinc concentrate	30.0%
Iron ore	8.0%
Oil and petroleum products	No change
Fluorspar	
Jonsh	30.0%
Machinery	42.7%
Wool cashmere, leather	41.8%
Food products	No change
Coal /local/	No chang
Coal /Export/	30.0%
building materials	70.8%
Household appliances	34.4%
Container	32.3%
Other cargo	30.0%
Total	**22.5%**
Public passenger transport	50.0%
International passenger transport	50.0%
Overall	**50.0%**

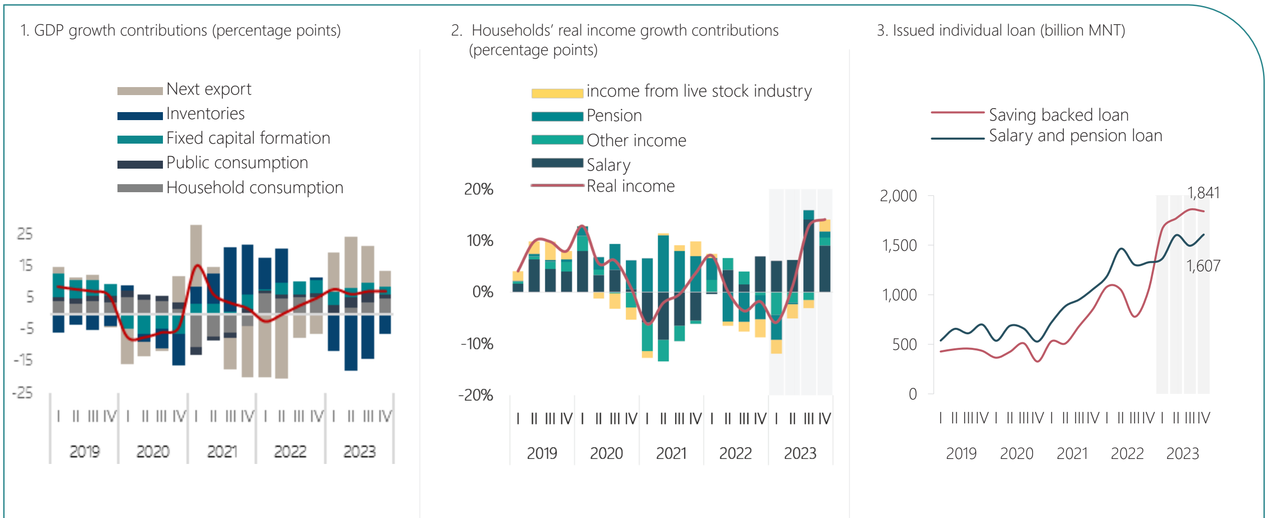
CHAPTER I

1.2 AGGREGATE DEMAND

9. Robust external demand fueled economic growth. The strong economic growth in the northern regions of China supported our coal demand. Coal exports reached 69.6 million tons in 2023, overall exports of goods and services surged by 42.9 percent, and the trade deficit, measured in real terms, narrowed by 16.6 percent from the previous year. Net exports contributed 5.2 percentage points to overall economic growth, reflecting improvements in external balance, while household consumption and fixed asset accumulation contributed 4.8 percentage points and 2.3 percentage points to the growth, respectively, further supporting the economic expansion.

10. Household real income growth triggered domestic demand and fostered economic growth. Household average real income declined by 1.8 percent at the end of 2022 and by 5.9 percent in the first quarter of 2023. The government's initiatives to increase salaries, pensions, and allowances accompanied by the gradual strengthening of the national currency and a slowdown in inflation, alleviated pressure on household income. By the end percent of 2023, the real income of households improved by 14.1 percent compared to the previous year, leading to an annual increase of 7.4 percent in private consumption which bolstered domestic demand.

Figure 1.5. GDP growth and household income



Source: National Statistics Office
Note: The estimations are in real term and made on a cumulative basis.

Source: National Statistics Office
Household Socio-Economic Survey
Note: Annual growth of household real income as of that quarter.

Source: Bank of Mongolia
Note: Disbursed loan amount during the specified quarter.

11. The increase in individual loans led to a expansion in consumer spending. The total loan issued to individuals amounted to MNT 22.1 trillion, marking a substantial increase of MNT 6.3 trillion (40 percent) from the previous year, reflecting improved loan accessibility due to technological advancements in financial services, and the commercial banks' willingness to provide more short-term, and low-risk loans. Mortgages, deposits-backed, salary, and pension loans, totaling 13.2 trillion MNT, comprised most individual loans.

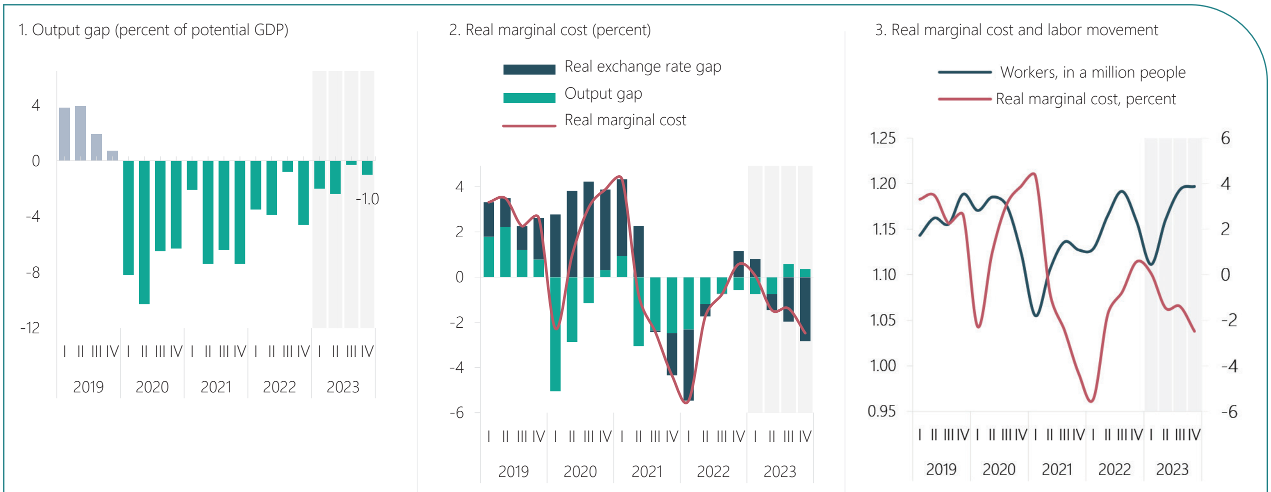
12. The fixed capital formation witnessed an increase. The expansion of construction activities related to mining operations was the main driver of the 7 percent growth of fixed capital accumulation in 2023. Specifically, non-residential buildings surged by 18.2 percent, while the acquisition of machinery and equipment grew by 6.5 percent, fueled by increased imports of heavy mining machinery. Moreover, the import of passenger cars with engines exceeding 3000 cm^3 rose by USD 73.5 million, and imports of public transport vehicles increased by USD 39.4 million. However, the losses of adult livestock increased by 7.4 times in 2023 due to severe winter conditions, offsetting the overall increase. Commercial banks issued loans totaling MNT 41.8 trillion in 2023, with MNT 19.7 trillion allocated to enterprises, marking a 26 percent surge from the previous year. Fiscal capital investment reached MNT 5.2 trillion, reflecting a significant uptick of 35.7 percent, while the net inflow of foreign direct investment totaled USD 1,570 million, marking a decline of 37.3 percent compared to the same period of last year.

13. The inventories shrank by 45.8 percent. This decrease was mainly due to heightened coal exports and the subsequent depletion of coal stockpiles, which had accumulated at elevated levels in the preceding year. Additionally, a notable decrease of 7.1 million heads (27.9 percent) in young livestock and a 29.8 percent decline in the net weight of gold sold to the Central Bank further contributed to the reduction in working capital.

14. The output gap is narrowing. In 2023, improvements in export transportation and solid external demand led to a narrowing of the negative output gap by the end of the year. However, adverse winter and spring conditions resulted in unforeseen losses of livestock at 4.9 million heads at the end of 2023, the highest level since 2010. As a result, economic performance was slightly below its potential level.

15. Drop in production costs, additional employee and increased financial opportunity supported production. The MNT strengthened against the USD by 34 percent at the end of 2023, and producer costs declined with the drop in the prices of imported raw materials. Employment rose by 38.6 thousand people or 3.3 percent in the fourth quarter compared to the same period last year and total production saw an annual increase of 7 percent. Moreover, the real interest rate, which had been negative for 6 consecutive quarters, turned positive in the last quarter of 2023, indicating a favorable trend in credit supply.

Figure 1.6. Output gap



Source: Estimation of the Ministry of Economy and Development
Note: Calculated by production function method.

Source: Estimation of the Ministry of Economy and Development
Note: Calculated by the Kalman filter method

Source: Estimation of the Ministry of Economy and Development

CHAPTER I

1.3 LABOR MARKET AND BUSINESS

16. Employment has risen across sectors, apart from agriculture. In the fourth quarter of 2023, the employment rate reached 55.4 percent, increasing by 0.5 percent compared to the same period the previous year, and the number of employees rose by 38.6 thousand to 1,196 thousand. However, the employment growth rate remains four times lower than pre-pandemic levels. Employment growth was observed in trade, manufacturing, transportation, services, mining, and energy sectors. However, the agricultural sector saw a decline in the number of workers by 30,000 individuals to 261,000 people during the reporting quarter due to the worsening drought conditions over the past two consecutive years.

17. The unemployment rate has declined. The unemployment rate decreased by 1.4 percent compared to the same period last year, reaching 3.9 percent. The number of unemployed people also decreased by 16 thousand compared to the previous year and by 2.2 times, or 56 thousand, from pre-pandemic levels, totaling 49 thousand. Considering the types of unemployment, structural unemployment increased by 0.5 thousand, while temporary unemployment decreased by 14 thousand, and cyclical unemployment decreased by 2.5 thousand. This reduction in cyclical and temporary unemployment reflects the recovery and increased activity of the economy.

18. The labor force participation among young adults is lower compared to other age groups. Eight percent of the labor force, seven percent of employees, and 32 percent of the population outside the labor force are young adults, aged 15-24. Analyzing the employment structure by age, the number of employees aged 25-54 increased by 29,000, and those over 55 increased by 18,000, while the number of employees aged 15-24 decreased by 8,000. Also, the unemployment rate among people aged 15-24 rose by 1 percent compared to the same period last year, reaching 10.4 percent, surpassing other age groups.

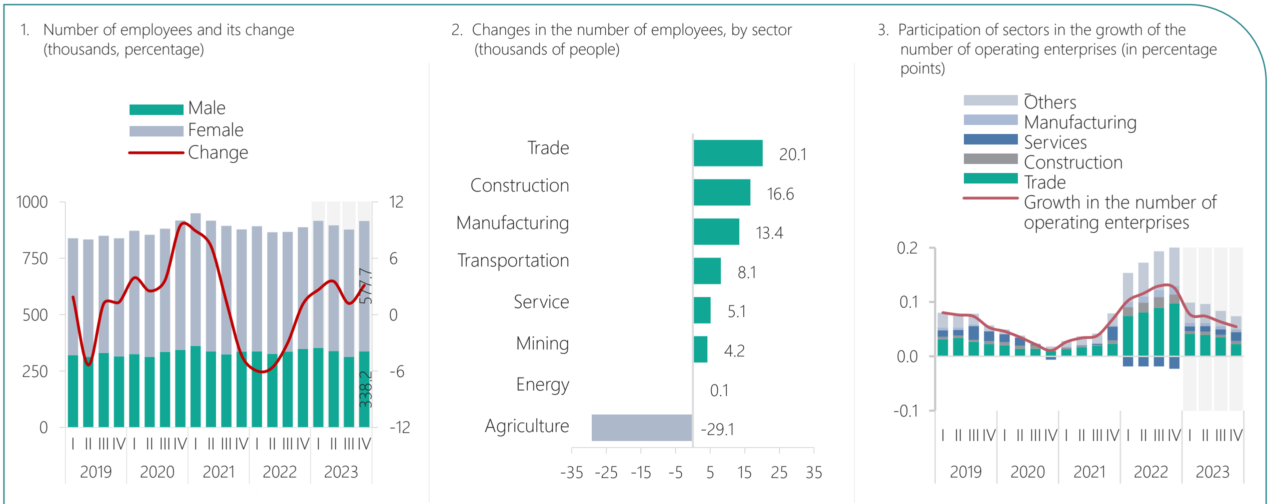
19. The population outside the labor force has expanded. In the reporting period, the number of people outside the labor force increased by 28,000 from the same period of the previous year and by 66,000 from the pre-pandemic period, reaching 916,000 individuals. In terms of reasons being outside the labor force, from seasonal work, with little interest in working, due to low wages, increased by 9 thousand from the same period last year, while the number of people who are out of the labor force for a long time, such as retirees and people with disabilities, increased by 19 thousand.

20. The agricultural sector experienced the highest growth in average wages and salaries. As of the third quarter of 2023, the average wages and salary increased by 28 percent compared to the same period last year, reaching MNT 2.0 million. Compared to other sectors, agriculture, mining, and transportation sectors witnessed more significant increases in average salary, with growth rates of 32 percent, 27 percent, and 27 percent, respectively, compared to the previous year. In the case of the mining and transportation sectors, wages have increased due to the recovery of industry production and productivity growth, while in the agricultural sector, average wages have likely increased due to a decrease in labor supply.

21. Businesses in the trade and service sectors exhibit higher activity than other sectors. In the reporting quarter, there was a 5 percent increase in the number of active enterprises compared to the same period of the previous year, reaching 96.8 thousand. Concurrently, the number of enterprises that temporarily and permanently stopped their activity decreased by 12 percent to 137.4 thousand. The growth was mainly driven by the rise of small enterprises with 1-9 employees in trade and services, accounting for 4 percentage points of the growth in active enterprises.

22. Business activities are concentrated in a single location. 75 percent of all registered enterprises and 71 percent of operating enterprises are in Ulaanbaatar. By sector, over 60 percent of enterprises operating in construction, mining, trade, services, transportation, and manufacturing sectors are based in the capital city, and this concentration shows an increasing trend year-over-year.

Figure 1.7. Labor Market and Business



Source: National Statistics Office

Source: National Statistics Office

Source: National Statistics Office
Note: Changes are compared to the same period last year

CHAPTER II

FISCAL SECTOR

II. FISCAL SECTOR

OVERVIEW

The mining expansion and subsequent growth in transportation and service sectors led to a budget revenue exceeding its target, and budget recorded a surplus for the first time in five years. The primary balance was in surplus, reflecting the coordination of fiscal and monetary polices to curb inflation.

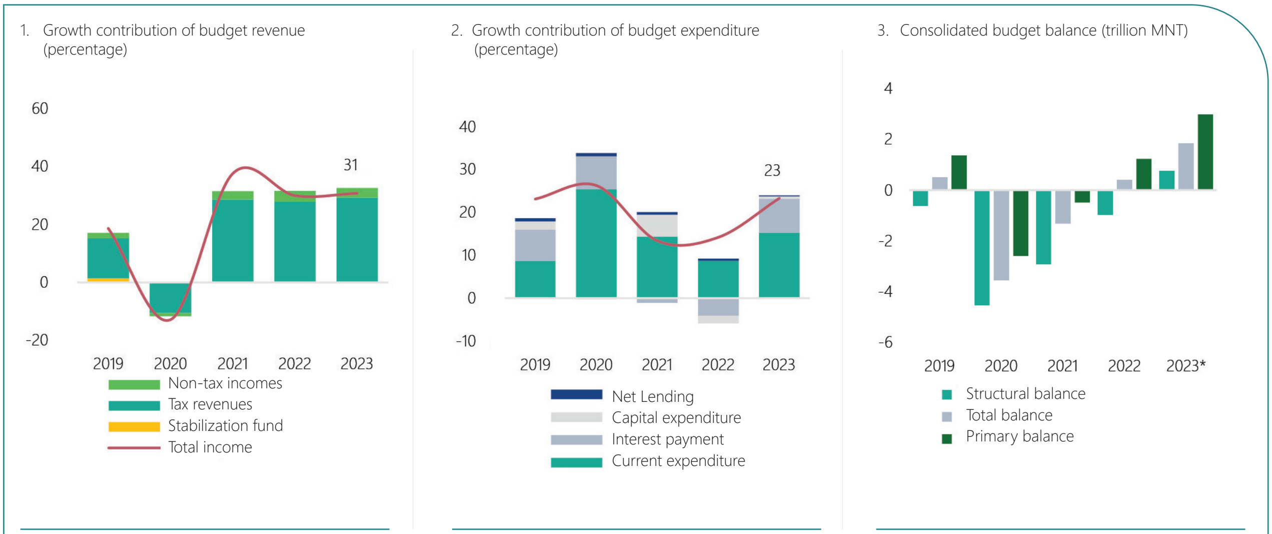
The Government of Mongolia successfully repaid its international bonds maturing in 2023 and the government debt dynamic is projected to remain sustainable in the medium term.

CHAPTER II

2.1 FISCAL POLICY

23. The budget recorded a surplus for the first time in five years. The economy faced a series of struggles, the budget recorded deficits of MNT 4.5 trillion in 2020, MNT 2.9 trillion in 2021, and MNT 0.9 trillion in 2022 due to shocks stemming from the pandemic and geopolitical tensions. To combat these difficulties, the government of Mongolia implemented comprehensive measures to stabilize the economy, follow budgetary discipline across all levels, expose the shadow mining activities, and rationalize the governance and efficient operation of state-owned enterprises. As a result, budget revenue reached MNT 24.3 trillion in 2023, marking a 31 percent increase from the previous year. Consequently, the total budget surplus amounted to MNT 1.9 trillion, with the structural balance at a surplus of MNT 763 billion.

Figure 2.1. Budget income, expenditure, and balance



Source: National Statistics Office

Source: National Statistics Office

Source: National Statistics Office
Note: The change is compared to the same period of the previous year

24. The mining sector significantly contributed to the growth of budget revenue. In the reporting year, coal exports hit a historic peak. With the commencement of underground production at the Oyutolgoi copper mine, the copper concentrate export surged. Various measures were implemented to streamline royalty formation, introduce electronic registration at all stages from extraction to export, and simplify tax calculation and reporting. As a result, revenue collected from mining increased by MNT 2.7 trillion or 51 percent compared to 2022, royalties rose by MNT 1.2 trillion or 43 percent, and corporate income tax soared by MNT 1.6 trillion or 78 percent. Moreover, net product taxes increased by MNT 971 billion, or 16 percent from the previous year. By structure, VAT income increased by 22 percent and foreign trade tax increased by 13 percent, which indicates the activation of the domestic economy and increase in mining production. Conversely, according to the decision to exempt excise tax on diesel imports until July 1, 2023 , the excise tax revenue decreased by 7 percent.

25. Fiscal policy aimed at supporting household income. Mainly due to the impact of external factors, inflation hit double digits and negatively affected the household's real income. The 2023 state budget law of Mongolia was amended to protect household income. The changes were the renovation of the basic salary coefficient, eliminating the pension gap, raising social benefits in line with price increases, and re-arrangement of the civil servant salary system, which launched on July 1, 2023. As a result, in 2023, budget expenses for the compensation of employees increased by MNT 665 billion or 40 percent, and the expenses for grants and social benefits increased by MNT 971 billion or 16 percent.

Table 2.1. Budget indicators

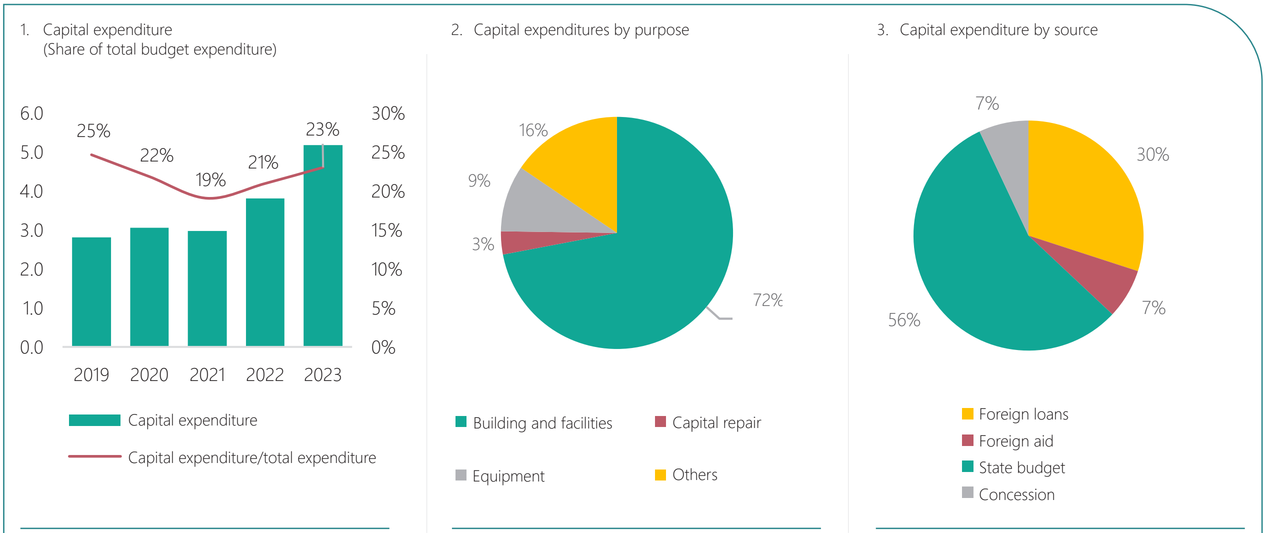
Budget indicators	Performance, billion MNT				Change in percentage	
	2021	2022	2023		2023 vs 2022	
			Planned	Actual	₮	%
Net tax on products	4,620	6,078	7,408	7,049	971	16%
VAT	2,838	3,919	4,772	4,773	854	22%
Foreign trade tax	939	1,292	1,644	1,464	172	13%
Excise tax	827	848	972	790	-58	-7%
Special tax	17	19	20	22	3	16%
Pension and benefit costs	4,484	5,392	6,339	6,122	730	14%
Social insurance	2,627	3,382	4,106	3,990	608	18%
Social welfare	520	522	699	612	90	17%
Children's money	1,337	1,488	1,534	1,520	32	2%
Capital expenditure	2,982	3,813	6,218	5,175	1,362	36%

Source: Ministry of Finance

26. Capital expenditure increased, reflecting the impact of higher prices on building materials. In 2023, the government did not finance new projects and focused on completion and intensification of the projects that started in previous years. Capital expenditure totaled MNT 5.2 trillion by year-end, representing 83.2 percent completion of the planned MNT 6.2 trillion for 2023. The amount was allocated as follows: MNT 3,727 billion for construction investment, MNT 480 billion for machinery and equipment, MNT 166 billion for maintenance, and MNT 803 billion for other assets. From the standpoint of financing, 56 percent of capital expenditure is covered by the state budget, 32 percent by foreign loans, 7 percent by foreign aid, and the remaining 7 percent by concessions.

[10] Government Resolution No. 161 of 2022 "On measures to be taken regarding customs and excise duties on certain petroleum products."

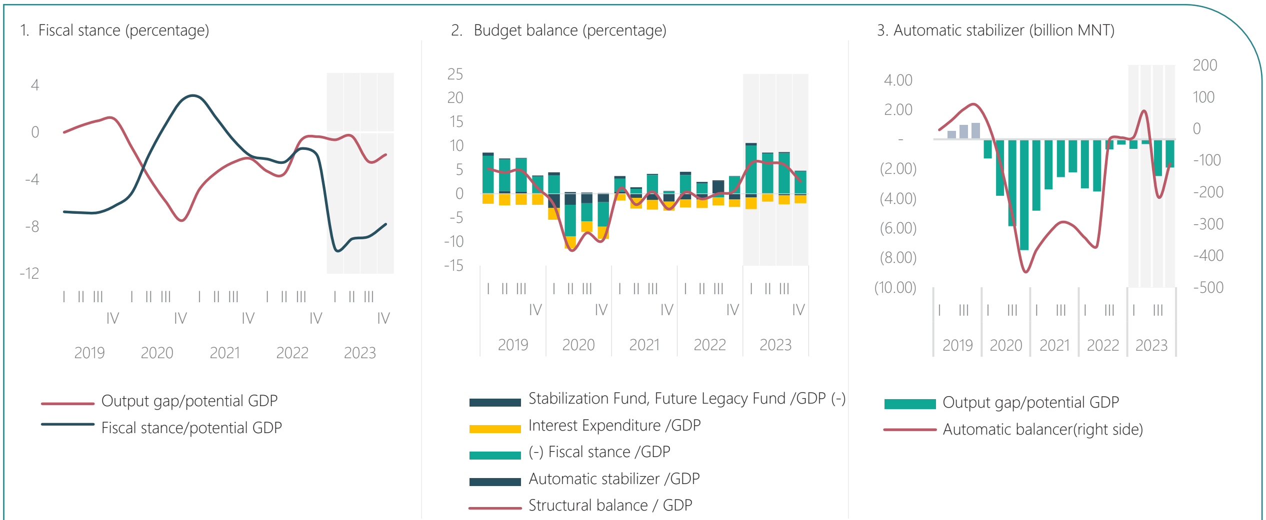
Figure 2.2. Budget capital expenditure



Source: Ministry of Finance
Note: The purpose and sources of capital expenditures are calculated as an average for 2019-2023.

27. The government aimed to implement the fiscal contractionary policy to curb the fiscal deficit. The fiscal policy and non-fiscal policy effects on budget balance are evaluated by the fiscal stance and the fiscal automatic stabilizer, respectively. The primary budget balance, which excludes the interest payment of MNT 1.1 trillion, recorded a surplus, indicating fiscal policy was contractionary. The fiscal revenue shortfall due to the impact of the economic cycles, measured by fiscal automatic stabilizer, reached MNT 110 billion by the end of 2023.

2.3. Fiscal stance, budget balance, fiscal automatic stabilizer



Source: Ministry of Finance
Note: Positive values of interest expenditure and budget outlook increase the budget deficit, so the values are multiplied by -1 for clarity.

[11] Irrespective of the government's fiscal policy, the automatic stabilizer of the budget balance suggests that changes occur in the budget balance to stabilize the economy.

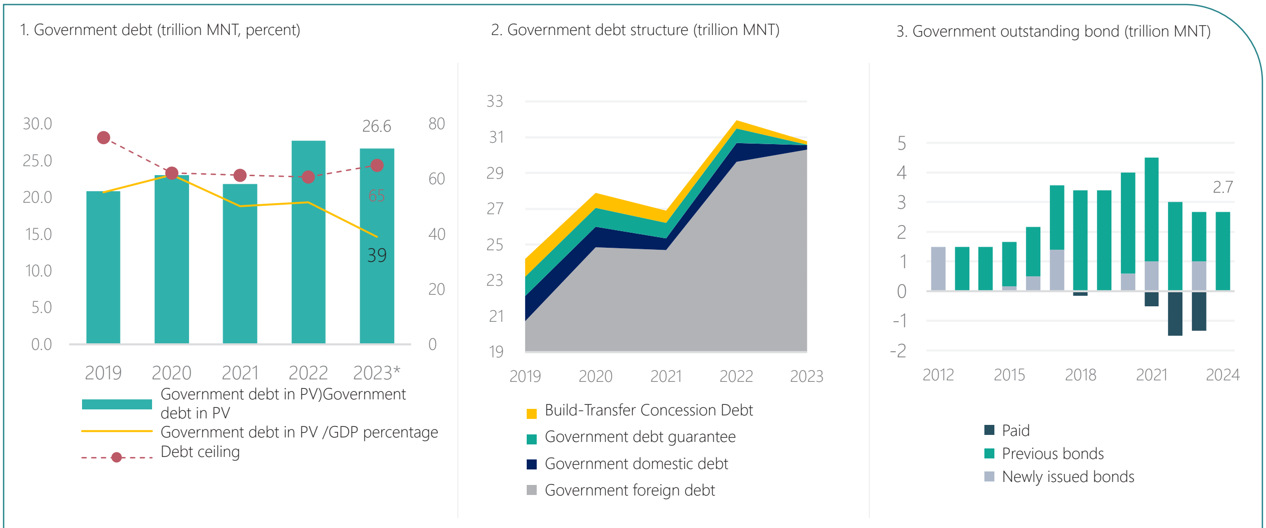
CHAPTER II

2.2 GOVERNMENT DEBT SUSTAINABILITY

28. The government debt has decreased. By the end of 2023, the nominal amount of the government's outstanding debt reached MNT 30.7 trillion, down by 3.7 percent from the previous year. The contributors to the decrease were government domestic debt reduced by MNT 801 billion, and government debt guarantees declined by MNT 1,065 billion. Contrary, government foreign debt increased by MNT 678 billion, due to a rise in foreign loans, while the government foreign debt securities (bonds) stayed stable.

29. Government bonds were paid off upon maturity, mitigating rollover risks. Over the past two years, the Government of Mongolia successfully repaid a total of USD 2.2 billion worth of government bonds. Notably, the government repaid the USD 1 billion outstanding Chingis Bond, issued in 2012, and the USD 369 million outstanding from the USD 800 million raised from the Gerege Bond issued in 2017. Furthermore, the Khuraldai bond repayment of USD 600 million will be repaid in full in March 2024. The medium-term debt burden is reduced with no bond payments due in 2025. The payments of Nomad, Century-1, and Century-2 bonds are scheduled for 2026-2028. The average coupon rate for bonds issued in the international market was 5.9 percent, comapred to 7 percent before 2020. This improvement positively impacts the macroeconomic environment and the stability of credit rating in recent years (see box 2.1).

Figure 2.4. Government debt and outstanding international bonds



Source: Ministry of Finance
Note: Government external debt securities (bonds) outstanding were calculated based on the assumption that the repayment schedule was fulfilled.

30. Impact of primary balance on the government debt is high. This section seeks to investigate how government debt is affected by other macroeconomic indicators such as GDP growth, inflation, real and nominal foreign as well as domestic interest rates, exchange rates, and the primary balance. In this estimation, we used the following assumptions: (1) All variables, except those affected by the shocks, are assumed to be constant, (2) the baseline variables are constant in all years without the shocks. The estimation suggests that the government debt will reach 48.2 percent of GDP in 2027 if the GDP grows by 7 percent, inflation is at the target level, the MNT depreciation and the primary balance remains at the average level of the last 10 years, and other variables keep their levels of 2023.

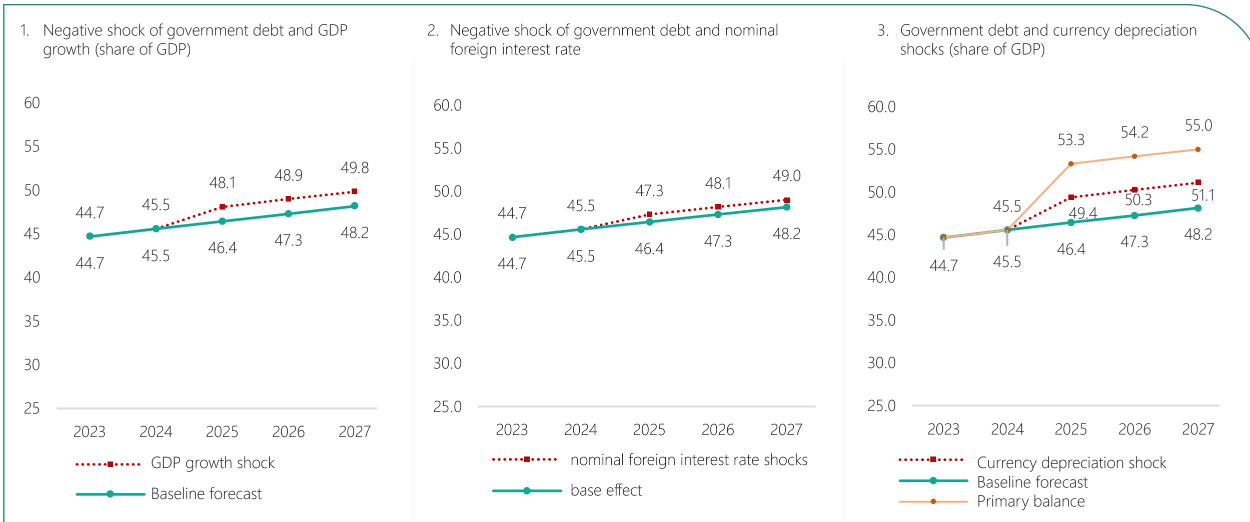
GDP growth shock: If real GDP declines by 1 standard deviation from the baseline in 2025, the government debt-to-GDP ratio is at 49.8 percent in 2027, up 1.6 percentage point than the baseline.

Nominal foreign interest rate shock: If the nominal foreign interest rate is higher by 2 percentage points in 2025 than the baseline, the government debt-to-GDP ratio is calculated to reach 49 percent in 2027, up 0.8 percentage point than the baseline.

Exchange rate shock: If the MNT weakens against the US dollar by 7.2 percent in 2025, the government debt-to-GDP ratio rises to 51.1 percent in 2027, up 3 percentage points than the baseline.

Primary balance shock: If the primary balance deteriorates by one standard deviation or 5.3 percentage points from the baseline in 2025, the government debt-to-GDP ratio reaches to 55 percent in 2027, representing a 6.8 percentage points increase from the baseline.

Figure 2.5. The government debt dynamics



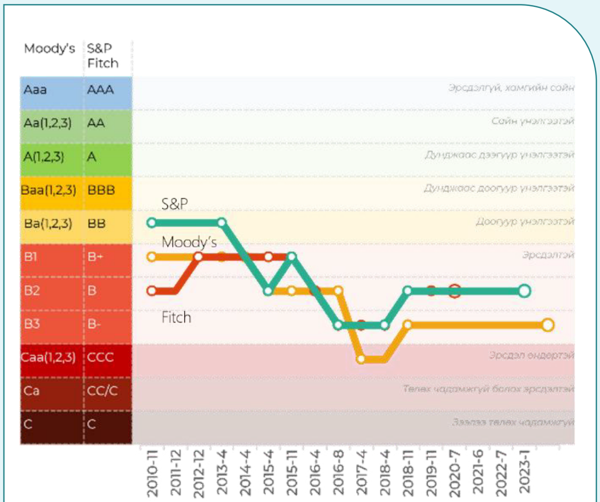
Source: Ministry of Economy and Development estimation
Note: Except for the shock, variables are assumed to be the same as the baseline.

The analysis above shows that the primary balance and the exchange rate shocks have the most impact on the government debt level, suggesting that strengthening fiscal discipline and reducing risk of primary balance shock is important for the sustainability of the government's debt.

BOX 2.1. CREDIT RATING

Mongolia has maintained a consistent credit rating. Over the past six years, despite facing challenging economic circumstances, including the Covid-19 pandemic, the Russia-Ukraine conflict, global inflationary pressures, and tight monetary policies implemented by central banks worldwide, Mongolia has preserved its economic stability and maintaining its credit rating without any downgrades.

Figure 2.6. The credit rating of Mongolia



Source: Moody's, Fitch, S&P

Credit ratings from international financial rating agencies such as Moody's, Fitch, and S&P are used globally and are assessed in over 130 countries each year.

A country's credit rating serves as an important metric for assessing its ability to repay both foreign and domestic loans and its credit risk. It encompasses various social-economic factors such as economic growth and structure, export earnings, solvency for foreign payments, gross international reserves, debt burden, foreign investment, as well as the flexibility of budget and monetary policies. Additionally, political, social, economic, financial, and budgetary indicators, including aspects of political stability and governance effectiveness, are also considered.

The rating agencies categorize credit ratings into 18 tiers, ranging from the highest without risk (AAA) to well-rated (Aa1, Aa2, Aa3, AA), and above average (A1, A2, A3, A), below average rating (Baa1, Baa2, Baa3, BBB), low rating (Ba1, Ba2, Ba3, BB), speculative (B1, B2, B3, B), high risk (Caa1, Caa2, Caa3, CCC), risk of default (Ca, CC), and in default (C). The expected state of the credit rating in the near term is considered in three categories: "Positive" (tending to improve), "Stable" (no change expected), and "Negative" (risk of decrease).

Mongolia's credit rating has been assessed since 1999. As of February 2024, Mongolia's rating stands at Moody's "B3 Stable," Fitch's "B Stable," and S&P's "B Stable." This marks the country's sixth year with a consistent credit rating. In its most recent assessment on 2 February 2024, Fitch noted that compared to other B-rated countries, Mongolia exhibits high economic growth and per capita income projections in the medium term, alongside positive governance indicators.

Despite this, Mongolia ranks 110th of the 130 countries evaluated, placing in the bottom half. Key factors affecting the country's rating are high dependence on commodity price fluctuations, exposure to foreign shocks, lack of diversification and volume of exports, fluctuations in gross international reserves, high foreign debt levels, budget instability, and inflation volatility.

CHAPTER III

MONETARY SECTOR

3.1 INFLATION
3.2 MONEY AND FINANCE

III.MONETARY SECTOR

OVERVIEW

The inflation rate declined to 7.9 percent in December 2023, falling within the Bank of Mongolia's target band. Growth of import prices moderated with the increase in gross international reserves, the stabilization of the MNT exchange rate, and the decline in global goods and transport prices.

The Central Bank kept the policy rate unchanged at 13 percent in 2023 after raising it 5 times in 2022 by a total of 7 percentage points. Money supply increased by 26.8 percent or MNT 8.0 trillion at the end of 2023 compared to the previous year, mainly due to the growth in domestic currency and deposits and the amount of new loans issued increased.

CHAPTER III

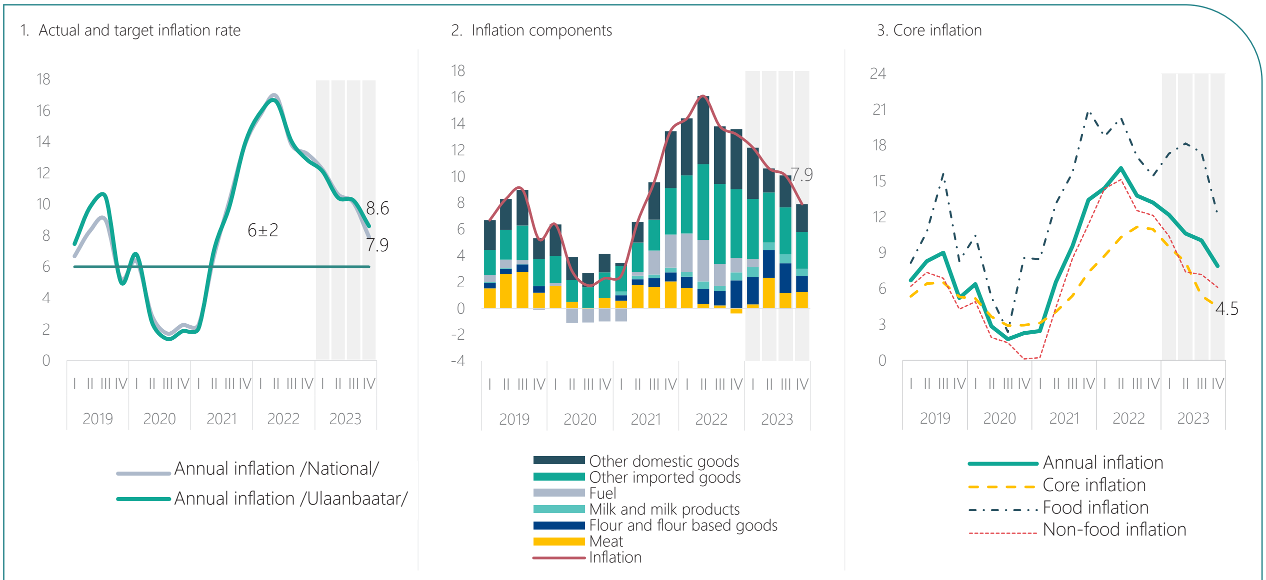
3.1 INFLATION

31. In 2023, in line with previous projections, the inflation rate decreased slowly and remained in single digits at the end of the year. Over the past four quarters, inflation averaged 10.4 percent, slightly above the target but notably lower than the 15.2 percent average observed in 2022.

32. In December 2023, annual inflation stood at 7.9 percent, marking a decrease of 5.3 percentage points compared to the same period last year. The gradual decline in inflation throughout 2023 is attributed to the stabilization of supply-driven price increases, the strengthening of the MNT against foreign currencies, the slowdown in the growth of international prices and transportation costs as well as active measures taken to stabilize the macroeconomy.

The decrease in inflation was attributed to the following group of goods and services by percentage point: 1.3 to food, 0.2 to clothing, footwear, and cloth, 0.1 to furnishings, household equipment and tools, 0.3 to miscellaneous goods and services, 0.1 to education services, and 0.1 to restaurant and hotels. This was influenced by the decrease in the growth rate of demand- and supply-based inflation and a moderation in price increases for food items due to the base effect of the past year.

Figure 3.1. Inflation



Source: National Statistics Office
Note: Quarterly inflation rates are calculated from the last months of the quarter.

33. The gradual decrease in the price of imported goods since June 2022 alleviated inflationary pressures. The decline in inflation among trading partner countries, improved trade turnover, reduced transportation costs, and the stable exchange rate of the MNT against foreign currencies have mainly contributed to the decrease in the price of imported goods. As a result, the import inflation, which was 13.7 percent in December 2022, decreased by 7.6 percentage points to 6.1 percent at the end of 2023. The increase in medicine prices slowed down from 30 percent a year during the pandemic to 9.1 percent by December 2023. This reduced the share of medicine price increases to inflation by 0.7 percentage points (see box 3.1).

34. The price increase of the main domestic food products remains high, negatively impacting inflation. Throughout 2023, the prices of agricultural food items experienced rapid escalation primarily due to supply-side factors. A decrease in meat and flour supply led to an increase in the cost of food production, resulting in a 10.1 percent rise in domestic food prices as of December 2023. Specifically, the price of meat and meat products increased by 16.2 percent, while flour and flour-based goods by 20.6 percent, and milk and dairy products by 16.6 percent year-on-year, accounting for 28 percent of total inflation.

35. With the slowing growth of food prices and the diminishing impact of gasoline and solid fuels, the annual inflation rate in Ulaanbaatar decreased. Inflation in the capital city dropped by 1.6 percentage points from the previous quarter, reaching 8.6 percent. Food inflation decreased by 1 percentage point, reaching 12.6 percent compared to previous months. Meanwhile, imported fuel and solid fuel inflation remained low due to the increase last year. The fuel inflation slowdown is primarily attributed to a stabilization of AI-92 gasoline prices. Additionally, the price growth of certain groups slowed, reducing their contribution to inflation. For instance, the share of inflation dropped by 0.2 percentage points for clothing, footwear, and cloth; 0.1 percentage points for communication equipment and postal services; 0.1 percentage points for restaurants and hotels; and 0.3 percentage points for other goods and services, collectively contributing to the reduction of the inflation rate in Ulaanbaatar.

36. Core inflation was expected to decline in 2023. In the fourth quarter of 2023, core inflation, which was 8.1 percent in the previous quarter, decreased by 1.8 percentage points to 6.3 percent. This decrease was caused by the elimination of the effect of the base year with high growth in 2022 and the stabilization of the exchange rate of the MNT against foreign currencies.

37. Tight fiscal and monetary policies are aligned towards limiting inflation. In 2022, the Central Bank increased the monetary policy rate 5 times by a total of 7 percentage points, and the policy rate was kept at 13 percent in 2023. It was also decided to keep the policy interest rate unchanged in the monetary policy statement dated December 14, 2023. The total balance of the consolidated budget in 2023 showed a surplus of MNT 1.9 trillion, indicating that the budget policy is also aligned with the direction of limiting inflation. Due to tight monetary policy, the loan interest rate reached 16.7 percent, an increase of 1.02 percentage points from the previous year, but the volume of newly issued loans continued to grow.

38. In 2023, inflation decreased in most trading partner countries. Annual inflation rates in countries such as the Eurozone, the United States, Japan, China, Korea, Kyrgyzstan, Kazakhstan, and Georgia decreased. However, the inflation rate increased in the United Kingdom, Sri Lanka, Turkey, and Russia while China experienced deflation during this period. As of January 2024, the FAO Food Price Index (FFPI) dropped by 10.4 percent compared to the same period of the previous year, with the price of grain and meat prices decreasing while the price of sugar rose in the world market. Global container shipping prices have risen 93 percent year-on-year in the wake of attacks on the Suez Canal in the Red Sea, adding to upward pressure on imported inflation. Despite declining inflation, some countries continue to raise interest rates. For example, in 2023, the Eurozone, Great Britain, Russia, Korea, Turkey, and the United States increased their interest rates, while Kyrgyzstan, China, Sri Lanka, Georgia, and Kazakhstan lowered their interest rates. Countries are increasing their interest rates due to high labor activity, with aggregate demand remaining high and declining inflation influenced by the base effect of the previous year.

[12] According to the agreement between the Ministry of Mining and Heavy Industry and Rosneft, starting from March 2023, it became possible to purchase AI-92 gasoline at a discounted price. Additionally, the customs duty percentage on 92 octane gasoline has been set at 0 percent until January 1, 2025.

[13] Core inflation is an important indicator of the underlying dynamics of an economy. It is calculated by excluding the short-term, supply-related price volatility from the consumer basket of goods and services.

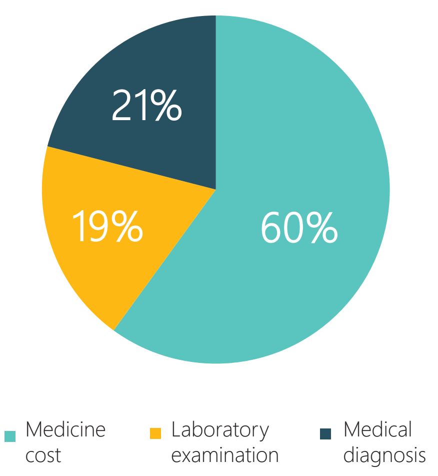
BOX 3.1. PRICE INCREASE, QUALITY AND SUPPLY OF MEDICINE

In recent years, medicine prices in Mongolia have skyrocketed, putting increasing pressure on household finances. This trend is attributed to several factors, including the decentralized procurement and supply system for medicines and medical devices, the absence of mechanisms to regulate maximum wholesale and retail prices, the lack of reference pricing, and the absence of exemptions for essential medicines from taxes. As a result, medicine prices in Mongolia are among the highest in Asia, surpassing international benchmark prices by 2-5 times.

The pharmaceutical market in Mongolia heavily relies on imported medicines, with domestic manufacturers catering to only about 30 percent of the market. This is because the capacity of the reference laboratory to objectively evaluate the quality, safety, and efficacy of medicines has not been strengthened. Additionally, proper practices for the production, storage, distribution, and sale of drugs have not been fully adopted, leading to weaknesses in ensuring the quality, safety, and efficacy of medicines. This leads to a tendency among the population to mistrust and doubt the quality and effectiveness of medicines. As of 2022, only 9 out of Mongolia's 26 pharmaceutical factories, or 35 percent, meet the requirements of Good Manufacturing Practices (GMP).

While the share of out-of-pocket medical expenses in total household consumption expenditure is comparable to other Asian and Pacific countries at 4-5 percent, low- and middle-income households in Mongolia bear a disproportionate burden. These households allocate 70-96 percent of their health expenditure towards purchasing medicines.

Figure 3.2. Household health costs



Source: MMDRA, Journal of Medicine Information, 2023

The pharmaceutical industry grapples with issues concerning medicine quality, misuse of low-quality medicine, and the overuse of unnecessary medications. While there has been a decline in the proportion of substandard, unregistered, or counterfeit drugs, the prevalence remains significant.

To address these challenges, the Mongolian government approved Resolution No. 233 of 2023, outlining measures to enhance the quality, supply, and oversight of medicines and medical devices. The Ministry of Health has undertaken several initiatives to implement these measures, including:

- Annulled provisions that restricted competition from Clause 3.1.3 "Registration of Import and Export of Medicines and Medical Devices," approved by Order No. A/48 of 2023 issued by the Director of the Medicine and Medical Devices Regulatory Agency.
- Adopted the procedure "On the approval of the procedure for the purchase of human medicines, medical devices, biological preparations, and vaccines that meet international quality standards from foreign manufacturers or international organizations directly or indirectly" through Government Resolution No. 42 on January 25, 2024.
- In the draft revision of the Law on Medicines and Medical Devices, several amendments have been proposed, including the digitalization of medicine prices to correct distortions in the medicine market, provisions for the procurement of medicines through negotiations, and the creation of tender regulations that combine quality and price to ensure the quality and safety of medicines.

With the approval of the revision of the Law on Medicines and Medical Devices, the functions of the parties implementing the regulation of medicines, biologics, health supplements, and medical devices are expected to become clearer. This revision is also anticipated to improve the regulation of medical quality and safety, decrease the price inflation of medicines and medical devices, and reduce the financial risk associated with receiving health care and services.

CHAPTER III

3.2 MONEY AND FINANCE

39. Money supply experienced a notable increase throughout 2023, reaching MNT 37.6 trillion with its growth rate accelerating to 26.8 percent at the end of 2023. On the assets side, the surge in money supply was primarily due to the increase in net foreign assets of banks, reflecting the surge in export earnings from mining products, and an increase in domestic lending activities. On the liabilities side, deposits and current accounts in domestic currency mainly supported the growth of the money supply.

40. Outstanding loans of banks experienced growth. In 2023, due to the increase in lending, the outstanding loans of commercial banks increased by 23.4 percent year-on-year to MNT 27.2 trillion. This growth was primarily attributed to consumer loans, which accounted for 4.8 percentage points of the increase, followed by the trade sector (3.1 percentage points), real estate (2.3 percentage points), capital sector (2.2 percentage points), and processing sector (1.1 percentage points). The remaining 9.5 percentage points of growth were contributed by other sectors.

41. Lending intensified in 2023, with newly issued loans reaching MNT 41.8 trillion, marking a 33.1 percent increase or MNT 1.7 trillion from the previous year. Salary loans contributed 7.0 percentage points to this growth, followed by trade sector loans (4.0 percentage points), manufacturing sector loans (3.1 percentage points), deposit-backed loans (2.5 percentage points), finance and insurance sector loans (2.4 percentage points), real estate loans (2.0 percentage points), construction loans (1.4 percentage points), and other loans (10.7 percent).

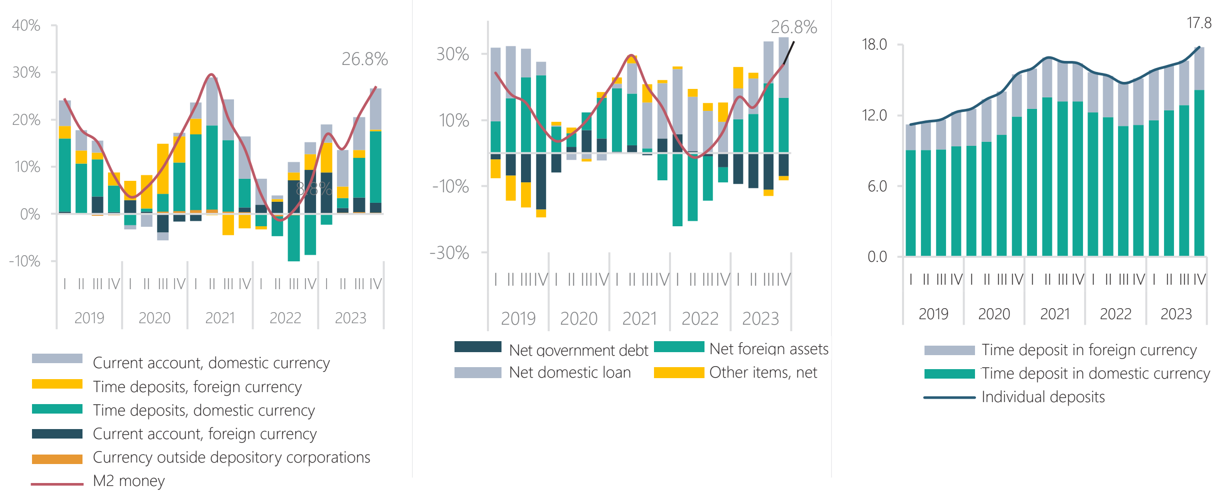
42. Among the sectors, demand for loans in the trade sector was notable, while deposit-backed loans were particularly sought after in consumer loans. In 2023, the volume of new loans extended to businesses increased by 26 percent compared to the previous year, totaling MNT 19.7 trillion. Of this amount, 52 percent (MNT 9.5 trillion) was allocated to the trade sector, and 13 percent (MNT 2.4 trillion) went to the manufacturing sector. On the other hand, the amount of newly granted loans to individuals saw a robust 40 percent increase from the previous year, reaching MNT 22.1 trillion. Among these loans, 27.5 percent (MNT 6.1 trillion) were backed by deposits, while 22.1 percent (MNT 4.9 trillion) were allocated to salary loans.

Figure 3.3. Monetary indicators

1. Money supply in liabilities side (percentage)

2. Money supply in asset side (percentage)

3. Time deposits of individuals (trillion MNT)



Source: Bank of Mongolia, Ministry of Economy, and Development estimation
Note: Money supply growth is shown as a contribution to the asset and liability components.

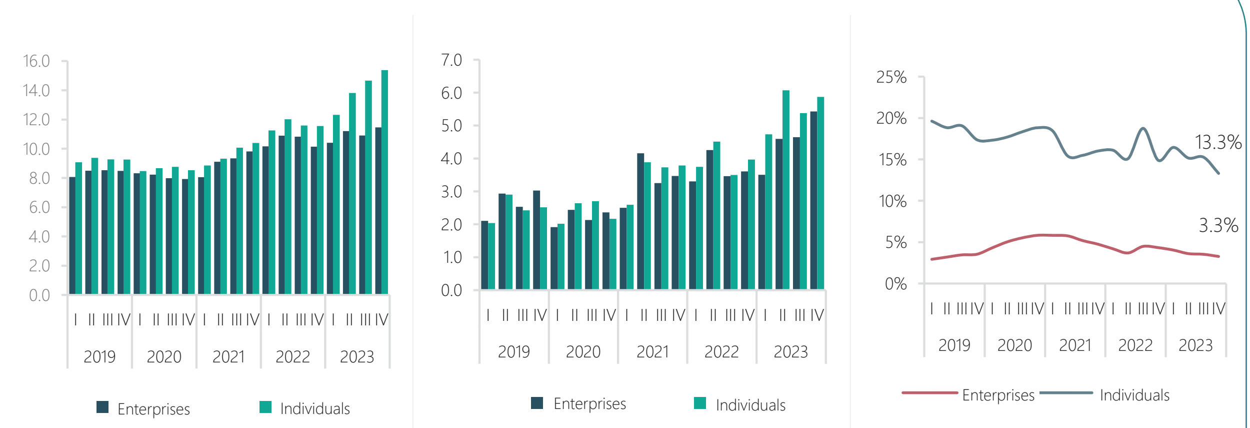
43. The percentage of non-performing loans decreased. By the end of 2023, the total amount of non-performing loans reached MNT 2.0 trillion, constituting 7.5 percent of the total loan balance. Although there was a nominal increase of MNT 20.4 billion from the previous year in the amount of non-performing loans, the share of total loans decreased by 1.7 percentage points from the previous year. The rate of non-performing loans to enterprises stands at 13.3 percent, while to individuals, it is 3.3 percent.

Figure 3.4. Loans

1. Total loans outstanding (trillion MNT)

2. New loans (trillion MNT)

3. Share of non-performing loans (percent)



Source: Bank of Mongolia

Source: Bank of Mongolia
Note: The amount of the newly issued loans is taken from the quarterly data.

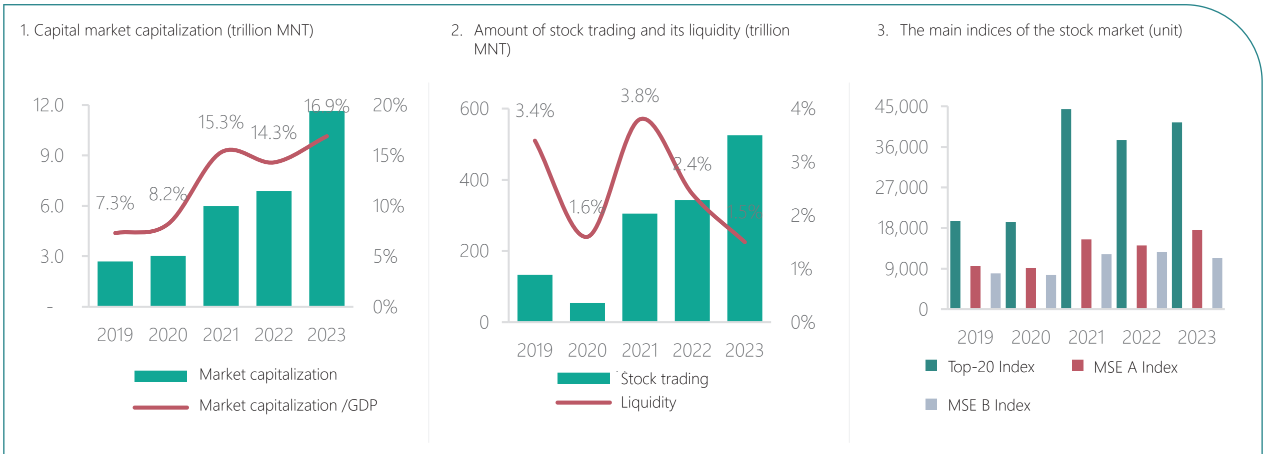
Source: Bank of Mongolia
Note: The percentage of non-performing loans was calculated by comparing the amount of non-performing loans of enterprises and citizens to the total amount of loans.

44. Stock market value increased. In 2023, the capital market capitalization surged to MNT 11.7 trillion, marking a remarkable 1.7-fold increase from the previous year. With stock market capitalization now accounting for 17.8 percent of GDP, both the capital market's overall value and trading activity have demonstrated notable improvements in recent years. Total securities trading in 2023 reached MNT 787 billion, up by 32.3 percent compared to the previous year. Broken down by trading type, stock trading comprised 66.7 percent, corporate bond trading 15.7 percent, asset-backed securities trading 8.1 percent, and investment fund unit trading 7.7 percent of the total trading volume.

45. Stock and bond markets experienced significant growth in 2023. A total of MNT 525 billion worth of shares were traded in the stock market in 2023, with 7 companies going public with IPOs and raising MNT 338 billion. Additionally, trading in corporate debt instruments increased by 3.0 percent, reaching MNT 138 billion, with newly issued bonds from 7 companies accounting for MNT 108 billion of the total. The TOP 20 index, which had declined by 15.4 percent in 2022, rebounded strongly with a 10.3 percent increase to 61,437 units in 2023. However, liquidity in the secondary stock market dipped to 1.5 percent, marking a decrease of 0.9 percentage points from the previous year.

46. Systemically important banks became open joint-stock companies. In January 2021, an amendment to the Banking Law mandated that influential banks in the system must operate as open joint-stock companies. Subsequently, five systemically influential banks—State Bank, Golomt Bank, Khaan Bank, Khas Bank, and Trade and Development Bank—offered their shares for trading, raising a total of MNT 303 billion from the public between 2021 and 2023. This move not only provides citizens with the opportunity to own shares in these banks but also contributes positively to the enhancement of stock market valuation and trading activity.

Figure 3.5. Stock market



Source: Financial Regulatory Commission
Note: Stock market capitalization is compared to gross domestic product

CHAPTER IV

EXTERNAL SECTOR

IV. EXTERNAL SECTOR

OVERVIEW

Over the past three years, the COVID-19 pandemic, geopolitical tensions, and disruptions in export income led to drains in gross international reserves, exchange rate depreciations, and rising import prices.

However, trade turnover has grown for three consecutive years, supported by an uptick in demand from major trading partners in 2021, stronger commodity prices in 2022 caused by global supply chain disruptions, followed by the implementation of comprehensive measures in 2023 aimed at bolstering gross international reserves and export income.

Coal export reached a record high, copper concentrate exports rose with the start of Oyutolgoi underground mine operations, and oil exports recovered in 2023. As a result, the current account balance was in surplus for the first time since 2007 and gross international reserves reached a historic high.

CHAPTER IV

4.1 FOREIGN TRADE

47. Trade turnover increased. Mongolia engaged in trade with 160 countries in 2023. The foreign trade balance surged by 23 percent compared to the previous year, resulting in a surplus of USD 5.9 billion, reflecting the acceleration in export volume and deceleration in the growth of import prices. Exports grew at an annual rate of 17 percent to USD 15.2 billion, while imports increased by 6 percent, reaching USD 9.3 billion.

48. Export volumes of main commodities reached their pre-pandemic levels. Bringing export volumes to the pre-pandemic level was one of the main macroeconomic policy priorities in 2023. In this regard, the government implemented a set of measures, including improving the organization of mineral transportation and export activities, establishing a special regime for state-owned entities, reforming the operational structure of the companies, and initiating the operation of the Mining Commodity Exchange. Moreover, the container transport terminals and automated guided vehicle (AGV) at Gashuunsukhait and Shiveehuren border ports commenced operations. Consequently, export volumes of main commodities reached their pre-pandemic levels.

49. China's coking coal imports reached a historic high. China's demand for coking coal surged following the pandemic, prompting the decision to eliminate import taxes on coking coal from the second quarter of 2022, which was subsequently extended until the end of 2023, to ensure stable supply. Additionally, the authorities implemented a policy to diversify coking coal supplier countries. These measures significantly boosted demand for Mongolian coking coal, which remains highly competitive in terms of price compared to other suppliers. As a result, Mongolia exported 69.6 million tons of coal in 2023.

50. The price of coal increased by up to 40 percent with the trade through the Mining Commodity Exchange. As part of efforts to promote openness, transparency, and competition in the price setting of mineral commodities, an electronic auction trading of coal commenced in January 2023, resulting in the sale of a total of 3.1 million tons of coal at an average price of 5.6 percent higher than the initial call price. The Law on Mining Commodity Exchange, which came into effect on June 30, 2023, facilitated further trading activities and by the end of 2023, a total of 15 million tons of coal had been sold on the mining products exchange at an average price of 10 percent above initial call price, and 677,000 tons of iron ore and concentrate were sold at an average price 7 percent above the initial call price. The introduction of the Mining Commodity Exchange has addressed inefficiencies such as selling products at undervalued "mine mouth" prices and transferring transportation responsibilities to the buyer.

51. The Oyutolgoi underground mine commenced operations. More than 80 percent of Oyutolgoi's total deposits are located underground, and the start of production of the underground mine, which has higher mineral content compared to open-pit mines, led to an increase in copper concentrate exports. In 2023, copper concentrate exports reached 1,525 thousand tons, the highest level since 2016. Copper concentrate exports are expected to further increase with underground production.

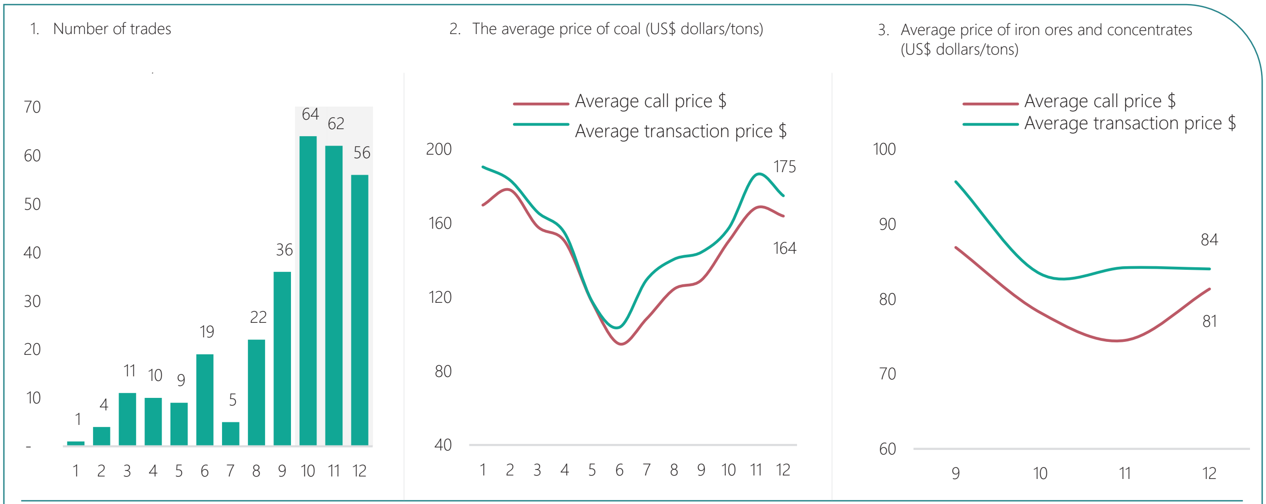
52. The operations of border ports stabilized. In the first half of 2022, operations of the border port in the eastern province were disrupted due to the pandemic, leading to a halt in oil exports. However, in 2023, the operations of the border ports stabilized, and oil exports reached 4.7 million barrels, doubling from the previous year. Moreover, improved organizational efficiency in railway transport facilitated an increase of iron ore exports to 5.6 million tons.

53. Meat exports reached a record high. As part of the government's efforts to support private-sector business activities and boost exports as key priorities of the macroeconomic policy, the government removed domestic export quotas of animal meat and introduced the "One-stop export digital system" to facilitate exports. As a result, meat exports reached a record high of USD 309 million in 2023, marking a 6-fold increase compared to the previous year.

54. Exports of raw hides and skins increased. Export income from raw hides and skins dropped by 10 times since 2013, due to the decision to ban the exports of raw hides and skins. The ban was lifted under Government Resolution No. 372 of October 2023 and export revenue from hides and skins reached USD 3.5 million in 2023. Mongolia also started exporting raw hides and skins to Russia, Turkey, Italy, and Uzbekistan.

55. Cashmere exports declined due to technical regulations. The technical regulations banning the exports of washed cashmere were approved in October 2022. Before the implementation of these regulations, an average of 700-1,400 tons of cashmere were exported monthly, with prices in the domestic market ranging between MNT 95,000 and MNT 100,000. However, following the implementation of the regulations, cashmere exports dropped to an average of 50-100 tons per month, and the average domestic market price declined to MNT 88,000. To boost export income and prevent price reductions in the domestic market, the entry into force date of the technical regulations banning the export of washed cashmere was postponed by Government Resolution No. 66 dated February 8, 2023.

Figure 4.1. The Mining Commodity Exchange trade, 2023



Source: Stock Exchange of Mongolia

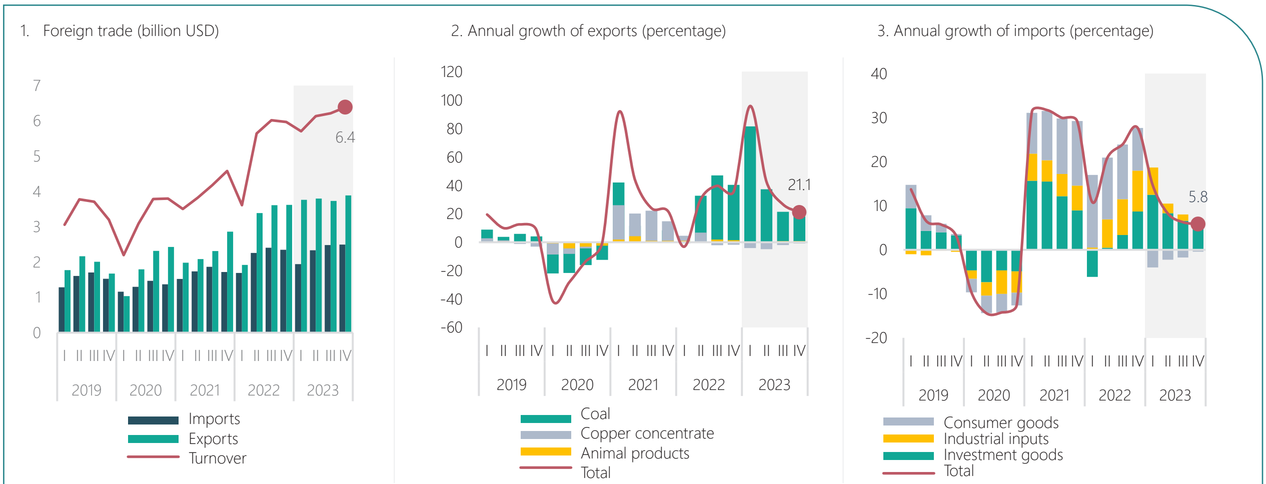
56. Price pressures of imported goods remained subdued, reflecting tight monetary policies pursued by central banks, and strengthening of the MNT in the latter half of the year. With the higher global prices due to the pandemic and geopolitical tensions, imports recorded an annual increase of USD 1.9 billion in 2022, and 54 percent of them were due to price increases. However, only 5 percent of the total import increase of USD 500 million in 2023, was due to price hikes. The low price pressure of imported goods was mainly due to price declines in China, the main trading partner, and a decrease in prices of fuel, fertilizers, and grains. Also, the stabilization of the exchange rate and appreciation of MNT reflecting an increase in gross international reserves, contributed to lower inflation of imported goods.

57. The flow of imports, once disrupted by transportation delays, returned to normal. In 2022, imports were delayed for up to 3 months with the accumulation of containers at the Tianjin port, China, the limited capacity of railways, and the temporary suspension of operations of border ports. However, in 2023, the border ports returned to normal operations.

58. Imports increased mainly due to increases in imports of equipment, machinery, and diesel fuel, supported by the growth in the mining, transportation, and processing industries. Imports of equipment, machinery, and construction materials contributed 5 percentage points to the 6 percent annual growth of total imports. Also, the imports of food and agricultural production equipment saw a notable rise, reaching USD 255 million in 2023, a 55.8 percent increase from the previous year, due to the exemption of customs duties. The increase in imports of production equipment is expected to further support the domestic manufacturing industry. Demand for diesel fuel increased by 39 percent to 1,090,000 tons in 2023, following a surge in coal export transportation, which tends to slow down toward the end of a year. The imports of electrical equipment rose at an annual rate of 46.8 percent to USD 340 million in 2023, reflecting the expansion of electric and thermal plants and installation of the 80MW storage facility. Additionally, the import of vehicles with a capacity of more than 10 persons increased following the implementation of public transport reform.

59. Food imports decreased. Imports of non-food consumer goods, mostly passenger cars, remained high in 2023 due to the acceleration in economic activity and an increase in real household income and expenditure in the latter half of the year. However, the import of food products decreased largely on account of the decrease in imports of alcoholic beverages as the Law on Control of the Circulation of Alcoholic Beverages and Combating Alcoholism came into force on January 1, 2023, and the excise tax on alcoholic beverages was increased.

Figure 4.2. Foreign trade



Source: Mongolian Customs
Note: Imported goods are classified for consumption purposes

BOX 4.1. GOVERNMENT RESOLUTION NO. 362 OF 2022

Contractual agreements involving advance payments and off-take contracts of coal sales led to a sharp decline in real monetary income from exports, resulting in a large depreciation of the MNT against the USD and a balance of payments deficit of USD 1.5 billion by the end of August 2022.

To ensure economic stability and enhance export earnings, the Government of Mongolia enacted Resolution No. 362 on October 5, 2022, titled "On Certain Measures to Increase Gross International Reserves" and the Ministry of Economy and Development is responsible for overseeing the implementation of the resolution.

Resolution No. 362 outlines several key measures, including establishing a mining commodity exchange platform, introducing an automated customs and tax filing system, ensuring transparency in mineral sales, investments, and purchases, adopting "border prices" for mineral sales, optimizing export and transportation operations, and transferring the authority to issue type "C" permits to relevant enterprises.

To facilitate the implementation of the resolution, the Government adopted three additional resolutions in 2022-2023 and during 17 government meetings, a total of 58 tasks were assigned to Government members and relevant organizations to ensure effective execution of the resolution.

Decisions made within the framework of implementing the resolution:
Government resolutions

Date	Resolution number	Resolutions
2022.10.26	385	Regarding measures for "Erdenes Tavantolgoi" JSC
2023.05.03	159	Regarding measures on exports of coal traded through electronic auction
2023.12.20	453	Regarding measures for mineral export activities

Minutes of Government Meetings

<table>
<tr><th>Date</th><th>Number</th><th>Some of the duties and tasks stated in the Government Meeting minutes</th></tr>
<tr><td>2022.10.05</td><td>48</td><td rowspan="15">• Increase coal loading, transportation, and export to boost foreign exchange inflow.
• Approval of a reference receipt for electronic transactions conducted in all mineral-related processes, including mining, processing, and transportation.
• Update the "Common procedures for customs control of goods and vehicles through customs border" to align with the electronic registration system.
• Connect smart gates and automatic scales in customs at mine sites and inspection areas to the electronic registration system.
• Develop temporary regulations for the electronic trading of mining products to establish an electronic system for the mining commodity exchange.
• Transfer the authority to issue "C" type permits to mining enterprises.
• Ensure a stable supply of diesel fuel necessary for mining and transportation operations.
• Optimize train capacity allocation of SOEs to support sustainable increase in export income.
• Adjust cargo and passenger transportation tariffs of UBRJSC under its mid-term tariff policies for 2020-2025.
• Address issues related to increasing export transport capacity and adjusting working hours at border ports.
• Register all types of transport, mediation, and transfer of rights contracts related to mineral transportation in the electronic registration system.
• Implement organizational measures to automate customs clearance and streamline border port procedures at borders with smart gates installed.
• Expand the range of products traded on the mining commodity exchange.
• Install smart gates, coal laboratories, and X-ray inspection equipment at the Gashuunsukhait, Zamyn-Uud, and Shiveehuren border ports.
• Streamline customs clearance processes by eliminating document duplication and enhancing digitization efforts.</td></tr>
<tr><td>2022.11.02</td><td>53</td></tr>
<tr><td>2022.11.09</td><td>54</td></tr>
<tr><td>2022.11.23</td><td>56</td></tr>
<tr><td>2022.12.07</td><td>58</td></tr>
<tr><td>2022.12.21</td><td>62</td></tr>
<tr><td>2023.01.04</td><td>1</td></tr>
<tr><td>2023.01.18</td><td>4</td></tr>
<tr><td>2023.03.07</td><td>11</td></tr>
<tr><td>2023.04.05</td><td>15</td></tr>
<tr><td>2023.05.03</td><td>19</td></tr>
<tr><td>2023.06.07</td><td>24</td></tr>
<tr><td>2023.09.06</td><td>36</td></tr>
<tr><td>2023.10.04</td><td>40</td></tr>
<tr><td>2023.12.13</td><td>50</td></tr>
</table>

WITHIN THE IMPLEMENTATION OF GOVERNMENT RESOLUTION NO. 362 OF 2022:

- **A special administration regime was established at "Erdenes Tavantolgoi" JSC to enhance operational efficiency and increase exports.** The objective of the regime was to boost the inflow of foreign currency as per Government Resolution No. 362 of 2022 and a government representative was appointed to oversee this special regime. Under the regime, advance sales of USD 582 million were settled the company sold 32.8 million tons of coal, and taxes and fees amounting to MNT 2.7 trillion were directed towards the budget in 2023. Through improved operational profitability, the company recorded a net profit of MNT 1.3 trillion in 2022 and is projected to have achieved a net profit of MNT 3.2 trillion in 2023.

- **Operations of the Mining Commodity Exchange commenced on June 20, 2023, following the approval of the Mining Products Law on December 23, 2022.** Electronic auction trading of coal began on January 12, 2023. By 2023, a total of 14.9 million tons of coal and 667,000 tons of iron concentrate and ore were traded, with transaction prices averaging 8.5 percent higher than the initial call price.

- **The introduction of an automated customs and tax filing system enhanced transparency in the mining sector.** The system facilitated customs and tax management and ensured transparency throughout all stages of mineral exports, from extraction to sales, by registering contracts related to the sales and transportation of mineral products. The registration of transport contracts commenced in June 2023 and 6,679 mineral export contracts of 551 enterprises and 1,324 transportation contracts of 538 enterprises were recorded in the system at the end of 2023. The system also significantly contributed to the increase in tax revenue, with an additional revenue of MNT 1 trillion for every 50 million tons of coal exports.

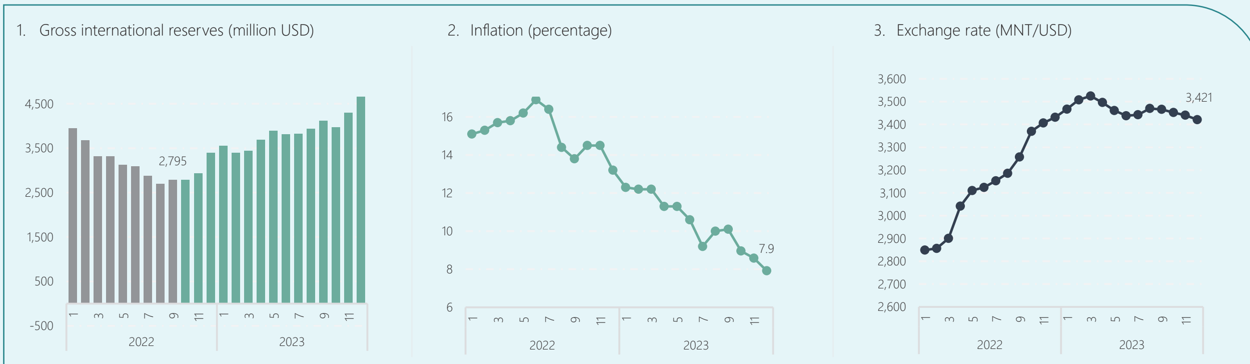
- **The disclosure of classified information:** In line with the Government Resolution No. 449 of 2022, aimed at ensuring transparency in the sale, investment, and purchase of minerals, "Erdenes Tavantolgoi" JSC declassified and made information about contracts previously classified as state secrets public. Information regarding the company's sales, stripping, and mining contracts was also made accessible to the public.

- **Transfer of the authority to issue type "C" permits to enterprises:** As part of efforts to enhance the operational efficiency of transportation and exports, the authority to issue type "C" permits for transportation was transferred from the "National Road Transport Center" to enterprises.

- **Adoption of "border price" (DAP incoterm):** Exporting companies adopted a new practice of using "border price" or DAP incoterms, instead of "mine mouth" or FCA incoterms in sales contracts. This decision improved efficiency in export transport and supported transport companies, resulting in a higher amount of taxes paid to the budget. Additionally, it boosted gross international reserve levels by reorienting coal export transportation toward domestic companies.

Supported by the implementation of the resolution, coal exports in 2023 doubled from the previous year, reaching 69.6 million tons. Consequently, gross international reserves reached USD 4,921 million, a historic high, contributing to the stabilization of the exchange rate. The inflation rate, which peaked at 16.9 percent in 2022, also declined to 7.9 percent in December 2023, falling within the Bank of Mongolia's target band.

Figure 4.3. Gross international reserves, inflation, and exchange rate



Source: Bank of Mongolia, National statistics office

The government remains committed to implementing comprehensive measures aimed at ensuring sustainable growth in exports and gross international reserves and efforts will be intensified to complete the cross-border railway connections, optimize and further improve the efficiency of export activities, and expand the operation of the Mining Commodity Exchange.

CHAPTER IV

4.2 BALANCE OF PAYMENTS

60. The current account and budget balances recorded a simultaneous surplus for the first time since 2007. The volume of coal exports soared to a historic high level and the balance of payments swung from a deficit of USD 0.7 billion in 2022 to a surplus of USD 1.5 billion in 2023, reflecting implementation of the comprehensive measures aimed at bolstering reserves. The gross international reserves surged to a historic high of USD 4,921 million in 2023, equivalent to 4.3 months of goods and services imports, and the Bank of Mongolia injected USD 3.9 billion into the market in 2023, down USD 1.0 billion from the previous year, indicating alleviation of foreign currency shortage. Consequently, the real effective exchange rate strengthened by 15 percent at the end of 2023, after weakening by 6 percent at the end of 2022.

61. The current account balance was in surplus for the first time since 2007. The growth in exports of goods outpaced the growth of imports and the growth of service account deficit decreased by 2.7 times compared to the previous year. Despite the increase in the number of tourists visiting Mongolia from abroad, the balance between the inflow and outflow of tourism service payments remained broadly unchanged compared to the previous year, reflecting the rise in outbound tourism from Mongolia. Moreover, despite the significant increase in coal export transportation in 2023, the transport services deficit remained largely unchanged from the previous year. However, an uptick in imports of technical, trade-related, and other business services contributed to the widening of services trade deficit.

62. Despite an increased inflow of loans, direct investment declined, leading to a deterioration in the financial account balance. The financial account surplus narrowed in 2023 reflecting a reduced inflow of direct investment and repayments on foreign bonds, despite an overall increase in private sector loan inflow. While the inflow of government and private sector loans exceeded their repayments, total direct investment amounted to USD 3.1 billion in 2023, marking a decrease of USD 334 million or 10 percent from the previous year. This direct investment in the mining sector dropped by USD 376 million or 13 percent. Investments in the construction, transportation, real estate, and finance sectors shrank, while investments in trade, professional, scientific, and technical activities witnessed an increase. Even though the number of foreign-invested limited liability companies registered increased to 265 in 2023, foreign direct investment declined.

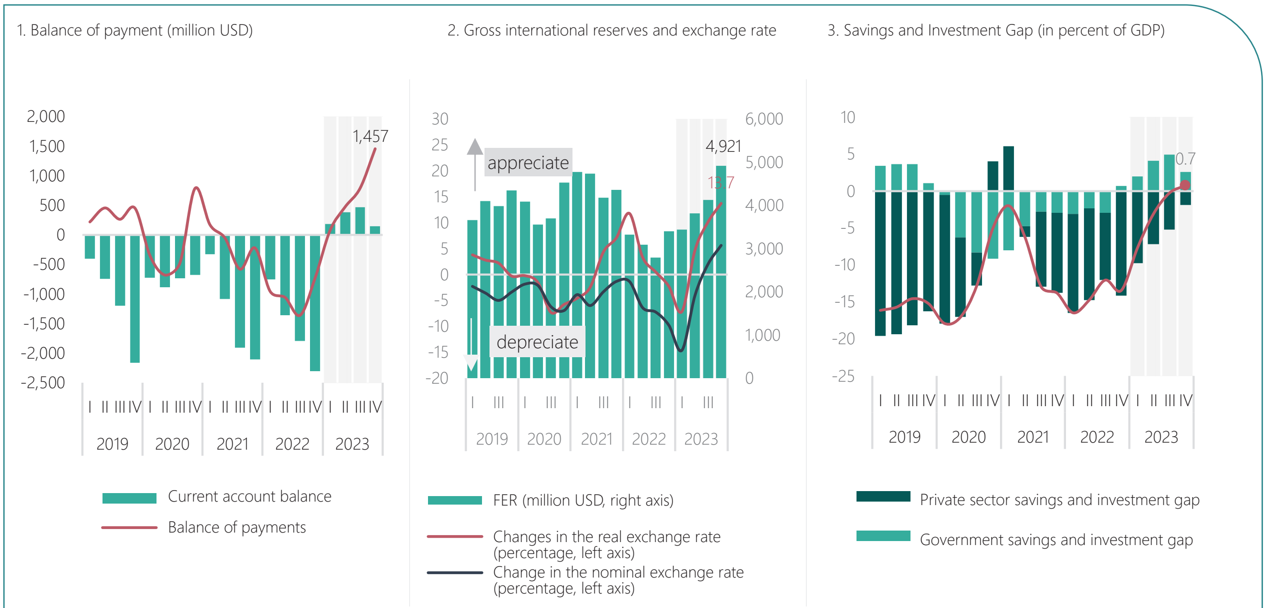
63. International bonds were repaid successfully. Over the past three years, amidst challenges such as the pandemic and geopolitical tensions, the Government of Mongolia implemented successful debt management strategies aimed at alleviating the debt burden on the budget and reserves, mitigating the risk of default, and upholding a stable credit rating. Notably, the syndicated loan of USD 60 million from Credit Suisse Bank secured in 2016 was fully repaid in March 2021, followed by the repayment of the remaining USD 133 million of the Mazaalai bond issued in 2016 in April 2021. Additionally, the remaining USD 137 million of the Chinggis bond, issued in 2012, was repaid in December 2022. The government issued a 5-year, USD 650 million bond in January 2023 under the Century-2 project, and a 5.5-

[14] Computed using the average monthly import of goods and services over the past year.

year bond was issued in November 2023 as part of the Century-3 project. The Government successfully repaid the remaining USD 369 million of the Gerege bond USD 800 million issued in 2017 and refinanced parts of the Khuraldai bond maturing in 2024 and the Nomad bond maturing in 2026. The sovereign spread of the bond issued under the Century-3 project was at a historic low of 2.3 percent. Furthermore, in 2023, the Development Bank of Mongolia successfully repaid the USD 500 million Eurobond issued in 2018 and the 30 billion yen Samurai bond issued in 2013, with the intensification of efforts to resolve its non-performing loans.

64. Total national savings increased while investment decreased. A current account deficit indicates that a country is investing more than its gross national savings. With the decline in national investment and increase in national savings due to a decrease in final consumption, the ratio of the current account balance to GDP was at 0.7 percent, an improvement of 14.2 percentage points compared to the previous year. The growth of the mining sector led to an increase in government revenue which boosted government savings and the savings and investment gap of the government widened. Despite the decrease in investment, the negative savings and investment gap of the private sector narrowed.

Figure 4.4. Balance of payments and current account balance



Source: Bank of Mongolia statistics, by the Estimation of Ministry of Economy and Development
Note: The share of GDP is calculated as an average of 4 quarters. The exchange rate index of MNT was taken as a quarterly average.

CHAPTER IV

4.3 EXTERNAL DEBT

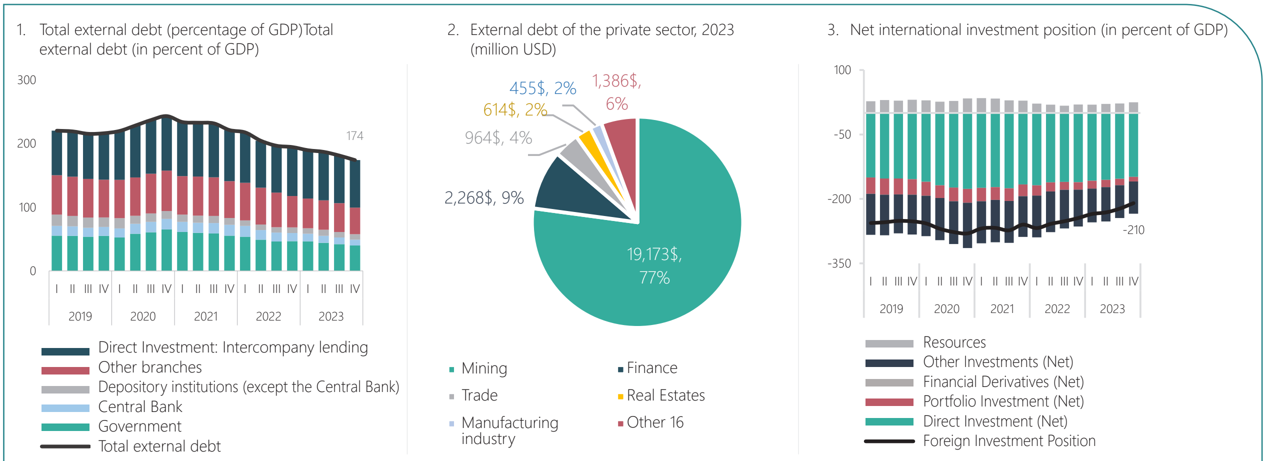
65. Mongolia's total external debt was at USD 34.6 billion. Mongolia's outstanding external debt totaled USD 34.6 billion at the end of 2023, up by USD 1.3 billion or 3.7 percent from the previous year. Despite the increase, the ratio of external debt to GDP decreased to 174 percent, down by 20 percentage points, reflecting GDP growth. Long-term debt comprises 93 percent of the total external debt, while short-term debt constitutes 7 percent.

66. The Government's outstanding external debt declined, while the private sector's external debt increased. The external debt of the government and central bank declined by USD 482 million from the previous year, reflecting repayments of foreign bonds and loans, while the intercompany loans of direct investment enterprises surged by USD 1.7 billion. Notably, the external debt of the mining sector increased by USD 2.0 billion, largely driven by the investments of Oyutolgoi. Conversely, the external debt stock of finance, insurance, processing, and trade sectors declined.

67. Mongolia's total external debt is predominantly comprised of private-sector debt. Specifically, 72 percent of total external debt belongs to the private sector, while government and central bank debt constitutes 23 percent and 5 percent, respectively. Within the private sector, the mining sector holds the largest portion, representing 77 percent, followed by the financial and trade sectors which account for 9 percent and 4 percent, respectively. The remaining 10 percent is distributed across 18 other sectors.

68. Mongolia's net international investment position remains weak, indicating a heightened risk of crisis stemming from external shocks. The net international investment position represents the difference between Mongolia's financial assets held abroad and its liabilities to other countries. As of 2023, the net international investment position stands at USD -41.8 billion, equivalent to -210 percent of GDP. The negative position decreased by USD 186 billion in monetary terms and by 35 percentage points as a share of GDP, a slight improvement from the previous year. Total financial assets were at USD 8.7 billion, while financial liabilities to other nations totaled USD 50.5 billion. A substantial share of the total foreign assets, 56 percent or USD 4.9 billion, consists of reserves, while the majority of foreign liabilities, 61 percent or USD 30.6 billion, is in the form of direct investments. The net negative position suggests that the economy is highly vulnerable to external shocks, given that the financial liabilities far exceed the financial assets held abroad. The government remains committed to improving the balance of payments and reducing the burden of external debt to improve the international investment position.

Figure 4.5. External debt and international investment position



Source: Bank of Mongolia statistics, by the Estimation of Ministry of Economy and Development. Note: The share of GDP is calculated as an average of 4 quarters.

69. The external debt dynamic is projected to remain sustainable in the medium term. The sensitivity analysis below examines how external debt levels respond to shocks in GDP growth, foreign interest rates, and exchange rates. In the baseline scenario, with real GDP growth at 7.0 percent, inflation within the target band, nominal foreign interest rates at 4.5 percent, and exchange rates, current account balance, net non-debt creating flows at a stable level, the ratio of external debt to GDP is anticipated to gradually decline to 168 percent in 2027.

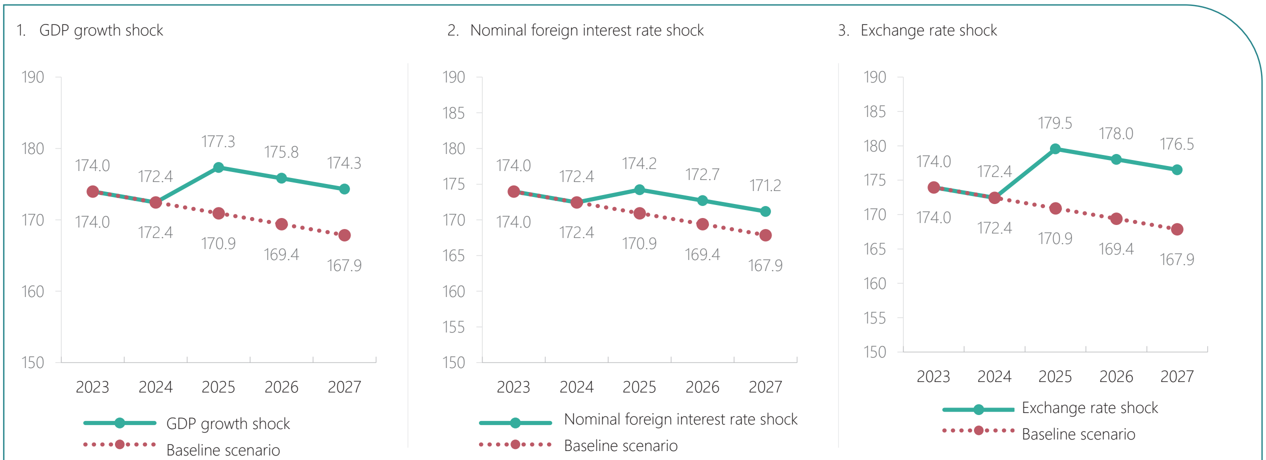
GDP growth shock: If the growth rate of real GDP declines by 3.8 percentage points in 2025, the ratio of external debt to GDP is projected to reach 174 percent, up 6 percentage points from the baseline.

Nominal foreign interest rate shock: If nominal foreign interest rates were to be 2 percentage points higher than in baseline in 2025, the ratio of external debt to GDP is projected to be at 171 percent in 2027, 3 percentage points higher than the baseline.

Exchange rate shock: If the MNT weakens further by 5.4 percentage points against the US dollar in 2025, the ratio of external debt to GDP is to reach 177 percent in 2027, an increase of 9 percentage points from the baseline.

To maintain external debt sustainability, it is important to ensure macroeconomic stability, mitigate the risk of credit rating downgrades, bolster gross international reserves to reduce pressures on exchange rates and conduct effective external debt management.

Figure 4.6. External debt dynamics



Source: Ministry of Economy and Development estimates.
Note: Except for the shock, parameters are assumed to be the same as the baseline.

CHAPTER V

WORLD ECONOMY

V. WORLD ECONOMY

OVERVIEW

In 2023, the global economy faced a multitude of challenges, including price escalations, monetary policy tightening, geopolitical tensions, and natural disasters. Despite the prolonged crisis in the real estate sector, China's economic growth surpassed the government's target level in 2023.

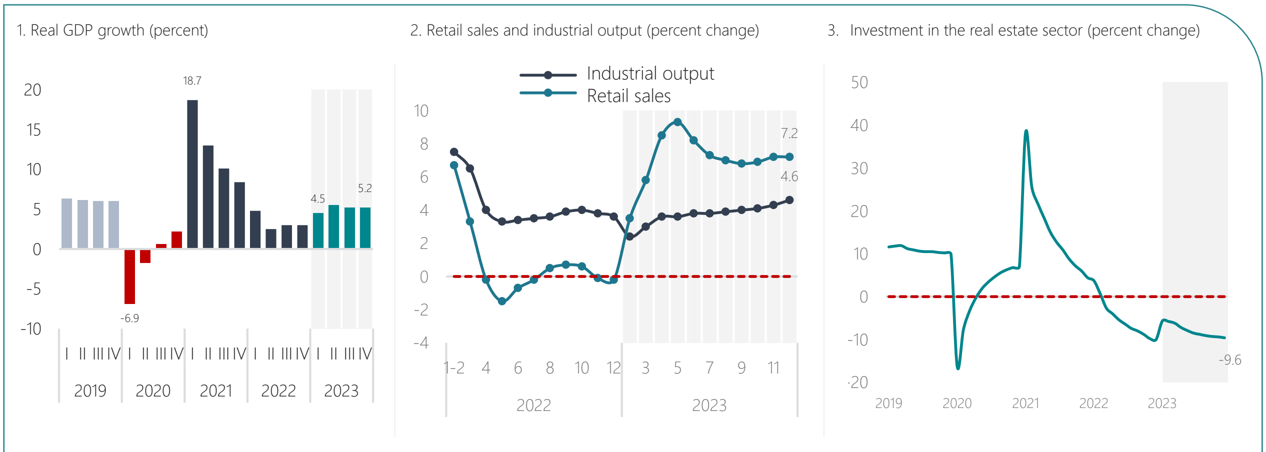
Throughout 2021 and 2022, global prices of key export commodities remained high driven by global factors, such as disruptions in global supply chain, energy crises, and high global prices. However, in 2023, the stabilization of the supply disruptions and slowdown in the global economy led to a downturn in the prices of major commodities.

CHAPTER V

5.1 WORLD ECONOMIC SITUATION

70. China's economic growth surpassed the government's targeted level in 2023. Despite declining domestic and foreign demand and a downturn in the real estate sector, China's economy expanded by 5.2 percent in 2023, exceeding the government's target of 5 percent. Consumption accounted for 82 percent of total economic growth, while investment and net exports accounted for 29 percent and -11 percent, respectively. Trade turnover declined, the youth unemployment rate rose, inflation declined, and industrial activity and consumption grew, contributing to overall economic expansion. Notably, in 2023, exports fell for the first time since 2016, and imports recorded the first decline since 2020. However, industrial output and retail sales expanded by 4.6 percent and 7.2 percent, respectively, bolstering economic growth. Investment in the real estate sector, which represents around 20 percent of GDP, approximately 30 percent of local budget revenue, and about 74 percent of household assets in China, declined by 9.6 percent compared to the previous year. The floor space of commercial buildings sold also fell by 8.5 percent. To stimulate economic growth in 2023, the Chinese authorities implemented expansionary fiscal and monetary policies by increasing the budget deficit, reducing policy interest rates, and lowering the required reserve ratio of banks. In the real estate sector, mortgage rates and down payments were reduced and financing support to property development companies was expanded.

Figure 5.1 Economic Indicators of China

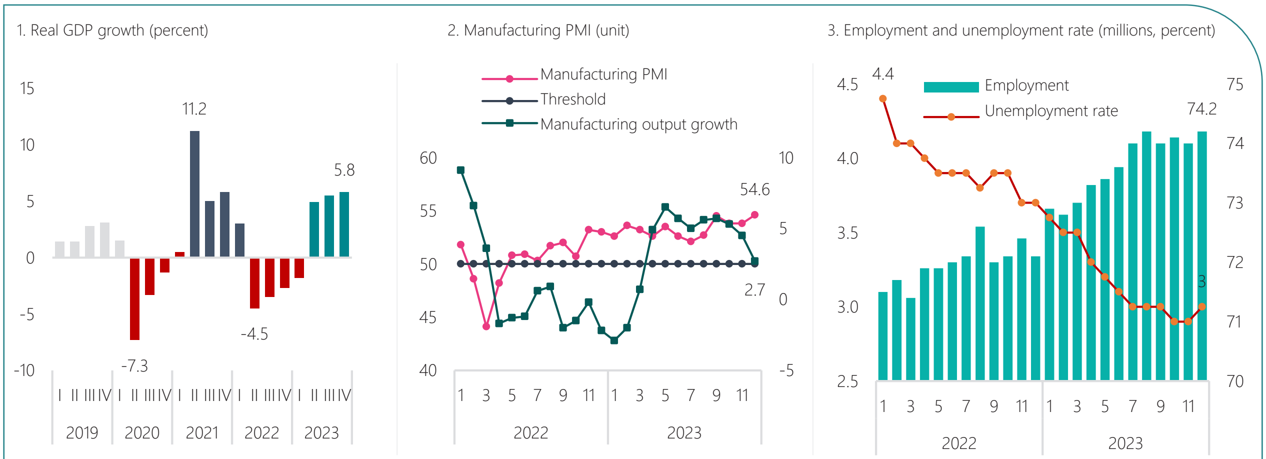


Source: National Bureau of Statistics of China

Financial institutions project the Chinese economy to grow by approximately 4.5 percent in 2024 and 4.0 percent in 2025, while the IMF expects the growth to be at 4.6 percent in 2024 and 4.1 percent in 2025. Analysts expect the Chinese government to maintain a high budget deficit to bolster economic activity and private consumption to remain a key driver of economic growth, while policy support for the real estate sector persists. The youth unemployment rate is expected to remain elevated due to labor market mismatches and short-term capital inflows are forecasted to increase, though foreign investors may remain cautious about long-term investments. Additionally, the global and domestic events related to technology, climate change, and geopolitical issues will continue to impact China's political and economic landscape. The robust economic growth in northern China, particularly in regions including Inner Mongolia, Gansu, Hebei, and Ningxia provinces, is expected to positively impact foreign demand in Mongolia.

71. Russian economic growth surpassed the global average. The economy expanded by 3.6 percent in 2023, despite the numerous economic sanctions imposed due to geopolitical tensions with Ukraine. The economic growth was primarily driven by increased government spending on military endeavors and elevated prices of commodities. In 2023, government consumption surged by 6.9 percent, but exports contracted by 28.4 percent compared to the previous year, while imports saw a notable rise of 10.1 percent. The Russian ruble depreciated by approximately 30 percent against the USD due to the decline in exports and the rise in imports. To combat inflationary pressures, the Central Bank of Russia raised the policy rate from 7.5 percent in January 2023 to 16 percent by December 2023. However, the inflation rate stood at 7.4 percent in December 2023, marking a 4.5 percentage point decrease from the previous year but still above the central bank's target level of 4 percent. The industrial sector experienced growth of 4.5 percent in December 2023 compared to the same period in the previous year.

Figure 5.2 Economic Indicators of Russia



Source: Federal State Statistics Service of Russia

The unemployment rate declined to 3.0 percent in December 2023 and employment rose, as industrial growth fueled job creation. On December 5, 2022, the European Union and G7 nations imposed a ban on crude oil exports from Russia via sea routes and set a price cap of 60 USD/barrel. Consequently, Russia halted oil shipments to countries adhering to the price cap and redirected its exports to Asian markets, including China and India, countries that did not participate in the price regulation. This shift caused Russian exports to European Union countries to plummet by 45 percent compared to the previous year. In the fourth quarter of 2023, Russia gradually lifted restrictions on the export of petroleum products. In September 2023, restrictions were eased, followed by the lifting of the ban on diesel fuel exports delivered via pipelines to seaports in October. Furthermore, the export ban on gasoline and diesel fuel was rescinded in November. However, interruptions in oil transshipment and transportation activities due to the Ukrainian conflict and limited port operations caused by Black Sea storms continued to hamper export activities.

BOX 5.1. EU SANCTIONS AGAINST RUSSIAN FEDERATION

The European Union has implemented a total of 13 packages of economic sanctions against Russia, targeting individuals and entities associated with the Russian government and its military-industrial complex. Over the past two years, these sanctions have affected 1,718 individuals and 419 enterprises. The most recent package of sanctions, imposed on February 23, 2024, added 194 additional individuals and entities to the listings.

The primary objective of these sanctions is to freeze and seize assets held by targeted individuals and companies within EU member states. Additionally, the sanctions aim to restrict these entities' access to financing from investment funds and other financial sources. The latest sanctions specifically target Russian military-industrial companies and individuals involved in the production of high-tech components for various military equipment, including missiles, drones, anti-aircraft systems, and military vehicles. Furthermore, entities from Belarus and North Korea have been included in the sanctions list due to their involvement in the transportation of North Korean weapons to Russia. In response to Russia's actions, China has also imposed sanctions, adding companies from Kazakhstan, India, Serbia, Thailand, Sri Lanka, and Turkey to its list.

The European Union reports that since February 2022, it has banned €43.9 billion worth of goods exported to Russia and €91.2 billion worth of goods imported from Russia. These economic sanctions have been extended until July 31, 2024, and they continue to target various sectors of the Russian economy, including finance, trade, energy, road transport, technology, and defense.

Financial Sector:

- SWIFT has banned transactions with 10 Russian banks.
- Access to EU capital and financial markets is restricted.
- Transactions with the Central Bank of the Russian Federation are prohibited.
- The supply of Euro banknotes in Russia is prohibited.
- Russian citizens are prohibited from transacting and investing in cryptocurrencies.

Energy Sector:

- Import of oil and coal from Russia is prohibited.
- A price cap has been set for maritime transportation of oil in Russia.
- Export of technological products to Russian oil refineries is prohibited.
- New investments in Russia's energy and mining sectors are prohibited.

Transport Sector:

- EU airspace is closed to all Russian-owned aircraft.
- Russian road transport operators are banned.
- Trailers and semi-trailers registered in Russia are prohibited.
- Russian vessels are banned from entering EU ports.
- Shipping of maritime transport of Russian oil to a third country is prohibited.
- Export of aviation, marine, and space technology products to Russia is prohibited.

Defense Sector:

- Export of military dual-use goods and technologies to Russia is prohibited.
- Prohibited items include semiconductor materials, electronic and optical components, navigation tools, drone engines and parts, weapons, civilian firearms and parts, ammunition, military vehicles, and paramilitary equipment.
- Export of other goods to increase the industrial capacity of Russia is prohibited.

Trade and Service Sector:

- Export of luxury goods to Russia is prohibited.
- Import of diamonds (cut, polished), diamond jewelry, gold and gold jewelry, steel iron, cast iron, cement, asphalt, copper and aluminum wires, foil, wood, paper, synthetic rubber, plastics, seafood, alcohol, cigarettes, and cosmetics from Russia is prohibited.
- Various services are prohibited for individuals and businesses in Russia, including IT consulting, legal consulting, advertising, market research, public opinion polling, technical assistance brokerage, intellectual property rights related to sanctioned goods or technology, and architectural and engineering services.

Source: Bloomberg, Council of the European Union

72. Eurozone growth fell short of expectations in 2023. Despite inflation induced by the energy price shock gradually decreasing and reaching 2.9 percent by the end of 2023, consumption failed to rebound, reflecting tight monetary policy implemented by central banks to curb inflation, which weakened investment and financial market activities in the region. As a result, the economic growth of the Eurozone was lower than expected at 0.4 percent, as Germany, one of the largest economies in the zone, experienced a contraction of 0.3 percent in 2023. The IMF forecasts a slow recovery for the region and expects the Eurozone to grow by 0.9 percent in 2024 and 1.7 percent in 2025, as the impact of the energy price shock gradually diminishes and the decline in inflation supports household consumption.

73. Growth in the United States accelerated in 2023. After expanding by 1.9 percent in 2022, the economy expanded by 2.5 percent in 2023, driven by increased household consumption and government spending, and robust exports. The Federal Reserve maintained the policy rate at 5.25 to 5.5 percent since July 2023 and inflation decreased to 3.4 percent at the end of 2023. The future trajectory of inflation and the labor market will play key roles in determining the timing for rate cuts. The IMF expects the country's economic growth to moderate to 2.1 percent in 2024 and 1.7 percent in 2025, with the lagged effects of tight monetary policy and a slowing demand.

74. Global growth is anticipated to remain relatively stable at around 3 percent, but uncertainty persists. Despite ongoing challenges such as price hikes, tight monetary policies, geopolitical tensions, and natural disasters, the global economy expanded by 3.1 percent in 2023. The IMF expects growth to stabilize in the coming years, at 3.1 percent in 2024 and 3.2 percent in 2025. Private contributors to the Bloomberg survey offer slightly lower estimates, foreseeing growth at 2.8 percent in 2024, 2.9 percent in 2025, and 3.1 percent in 2026. However, downside risks to global growth remain plausible. Downside risks further price increases triggered by geopolitical tensions and natural disasters, persistent high inflation, potential slowdown in China, and financial market instability due to monetary policy stance and debt accumulation.

Table 5.1. Global growth projections

	IMF		World Bank		ADB		OECD	
	2024.01		2024.01		2023.12		2024.02	
World	3.1%	3.2%	2.4%	2.7%	-	-	2.9%	3.0%
China	4.6%	4.1%	4.5%	4.3%	5.2%	4.5%	4.7%	4.2%

CHAPTER V

5.2 COMMODITY MARKET OUTLOOK

75. Commodity prices declined in 2023. Prices of key commodities rose in 2021 and 2022, driven by the pandemic, transport disruptions, the energy crisis in China, high global inflation, and operational disruptions in key mines due to accidents and strikes. In 2023, global commodity prices declined reflecting weaker demand and higher supply, triggered by the tightening of monetary policies, the slowdown in the Chinese economy, heightened geopolitical tensions, and production recovery in copper and coal mines in Chile, Peru, and Australia. The Bloomberg Commodity Index recorded an 8 percent drop in 2023, after increasing by 16 percent in 2022.

76. Risks of sluggish global growth and geopolitical tensions pose downward pressure on global commodity prices in 2024. Analysts expect the global economic growth to be steady and the Chinese economy to grow at 4.5-4.6 percent in 2024, the lowest rate since 1990, excluding 2020. Easing growth momentum could cause instability in commodity demand, putting downward pressure on prices.

77. Copper price on the London Metal Exchange stood at an average of USD 8,479 in 2023, down 4 percent from the previous year. The copper price surged in 2022 as water shortages and labor strikes disrupted production in Chile and Peru. In 2023, prices soared as operations of these mines stabilized and copper inventories of the London Metal Exchange surged. The copper price is expected to rise in 2024, with the closure of Cobre Panama, one of the world's largest open-pit mines, and demand uncertainties in China, which accounts for over half of the world's copper consumption.

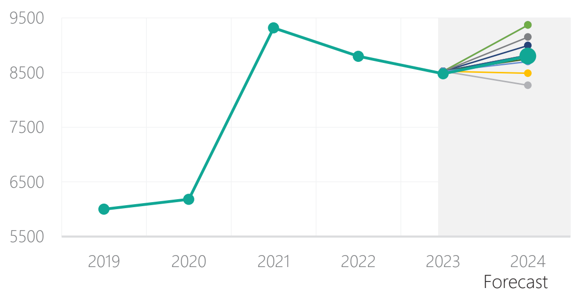
78. The average price for iron ore with 62 percent iron content was at USD 120 in 2023, increasing by 1 percent from the previous year. Despite the persistent weakness in the real estate sector, China's industrial output expanded by 4.6 percent in 2023, mainly on account of the growth in infrastructure investment. The strong industrial production bolstered the demand for iron ore and coking coal, driving up prices. The iron ore price is anticipated to decline in 2024. The supply is expected to increase with new mine projects in countries such as South Africa and Australia and Brazil's announcement of a 6 percent annual increase in production. However, a slowdown in economic growth in China is expected to weigh on demand.

79. The average price of Australian high-quality coking coal on the Singapore Exchange reached USD 296 in 2023, decreasing by 23 percent from the previous year. Australia's coking coal production returned to normal levels in 2023, following supply disruptions due to natural disasters, driving the decline in prices. China's domestic coal production is not expected to increase significantly due to ongoing mining inspections, which could put upward pressure on coking coal prices. However, downside risks arise from the increased Russia's supply of low-priced coal to China due to EU sanctions and lower demand in China reflecting the resumption of coking coal import tariffs.

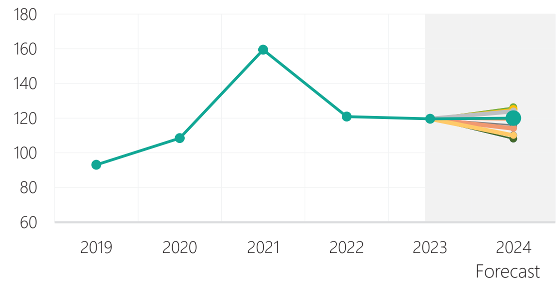
80. In 2023, the average price of Brent oil stood at USD 79, declining by 25 percent from the previous year. The oil price is expected to rise in 2024. The OPEC's decision to extend oil output cuts in 2024 and the conflict in the Middle East, which accounts for about 35 percent of total oil production, could result in supply fluctuations, while robust economic growth in India, a major consumer of gold and oil, could boost oil demand.

Figure 5.3. Commodity prices

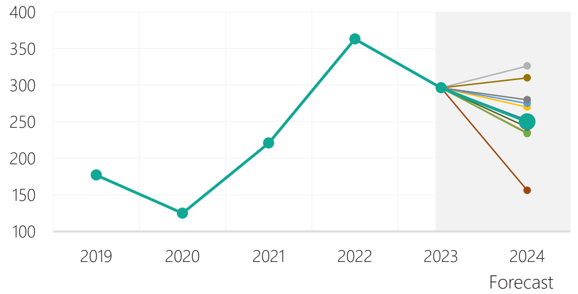
1. Copper price forecast on the London Metal Exchange ($/ton)



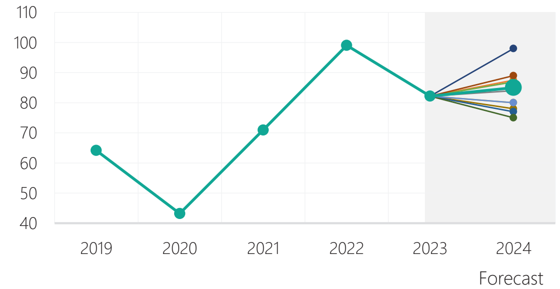
2. Price forecast of iron concentrate 62%, Northeast($/ton)



3. Australian high-quality coking coal price forecast on the Singapore Exchange ($/ton)



4. Price forecast of Brent oil ($/BBL)



Source: Bloomberg
Note: Average commodity price of 2019-2023 and price forecast of different organizations are shown.

CHAPTER VI

6

RISKS

ONE. COMMODITY PRICES AND DEMAND: Demand for Mongolian key commodities relies heavily on Chinese consumption and production of steel and iron. Analysts expect China's economic growth to slow in 2024 dragged by deepening property sector woes. A worse-than-expected slowdown in China, one of the major participants in the global commodity market, could weigh on the demand and prices of commodities, adversely affecting the export revenues of Mongolia.

TWO. INFLATION: An escalation of conflict in the Middle East which produces about 35 percent of world oil exports, continued attacks in the Red Sea which handles about 11 percent of global trade, and further escalation of Russia's invasion of Ukraine could increase food, fuel, and transportation costs, leading to further imported inflation challenges. Moreover, adverse effects of global warming and climate change could disrupt global food production and add to domestic inflationary pressures. Also, domestic factors, including hikes in wage and pension, distribution of dividends by "Erdenes Tavantolgoi" JSC in the second quarter of 2024, and high livestock losses due to adverse winter conditions could impede the disinflation trend.

THREE. ZHUD, DROUGHT, AND ANIMAL DISEASES: The agricultural output is highly vulnerable to adverse weather conditions, such as zhud (severe winter conditions) and droughts. In 2023, livestock losses reached the highest level since 2010, with harsh winter and spring conditions. As of February 29, 2024, losses of adult livestock reached 3 million heads reflecting heavy snowfall across many regions. Further weather shocks and an outbreak of infectious animal diseases could lead to a higher-than-expected contraction in the agricultural sector. As a result, inflationary pressures could intensify, negatively affecting household income, and exacerbating income inequality and rural-to-urban migration.

FOUR. ENERGY SUPPLY SECURITY: Energy security is one of the fundamental factors for ensuring economic and social stability. However, approximately 20 percent of our country's electricity consumption is imported from the neighboring countries. In December 2023, the operational issues at two power plants in Russia led to supply constraints in Mongolia, highlighting the elevated risks of power outages. Energy in Mongolia is also supplied by centralized sources, with aging plants and obsolete distribution systems. (See Box 1)

APPENDIX

- ADDITIONAL BOXES
- ECONOMIC INDICATORS

BOX 1. ENERGY

CURRENT SITUATION

In 2022, Mongolia experienced a 3.3 percent increase in electricity production from the previous year, producing 8.2 billion kWh of electricity. Despite this, 20 percent of domestic consumption, amounting to 2.1 billion kWh of electricity is imported. Electricity consumption has grown by an average of 7-8 percent in recent years and is expected to grow by 5–6 percent in the upcoming years.

In 2022, heat production successfully met domestic consumption, generating 15.6 million Gcal. However, during peak hours, the power consumption surpassed installed capacity, elevating the risk of supply interruptions. In 2023, electric power plants operated at 20 percent above their installed capacity while thermal power plants operated at 67 percent above their installed capacity, with over-utilization of capacity increasing year by year.

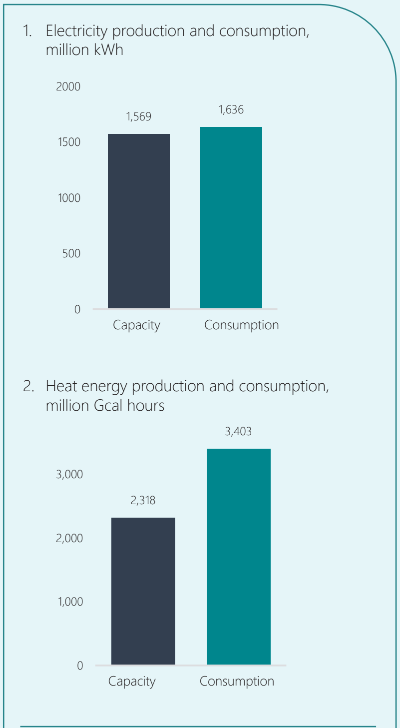
Mongolia's power supply operates within a centralized system and cannot meet the increasing demand for electricity and heat energy with thermal power plants aged between 35-60 years, distribution networks aged 32-62 years, approximately 30 percent of pipelines and substations aged 30 years, and equipment with no operational life left.

Furthermore, energy loss occurring during production, distribution, and through buildings remains high. Around 18-19 percent of heat energy is lost, and 13-15 percent of electricity is lost. Also, the electricity tariff is 11.5 percent lower than the production cost, so the industry runs at a loss with subsidies from the government. Because the tariff and pricing are not determined based on consumption volume, consumers have no incentive to save and effectively manage their consumption.

IMPLEMENTED MEASURES

As energy is a key input factor in the real sector, it is crucial to ensure a stable supply, reduce energy losses, reduce government involvement, and liberalize the sector.
The government started the liberalization of the sector in 2023, with gradual increases in tariffs, and expansion of capacity of power plants. An 80 MW capacity power storage facility which accumulates energy during low loads and supplies it back to the centerline during the peak load was installed to reduce the risk of power outages.

Figure 1. Energy production and peak load consumption



Source: Energy Regulatory Commission

BOX 2. POLICY PROPOSALS FOR THE AGRICULTURAL SECTOR

The agricultural sector faces various challenges that hinder its efficiency and competitiveness. To address these issues and foster the development of a productive and competitive industry, the following policies and measures should be implemented:

- To update and make amendments to the Law "On Agricultural Products and Commodity Exchange" along with a multifaceted competitive form. Creating additional channels for selling and distributing livestock and agricultural products, and regularization of open trading with simple solutions are essential to promote competitiveness.
- Gradual Reduction of Government Intervention: Ineffective subsidies and support should be phased out gradually, with a shift towards market diversity and a competitive form. Agricultural support should be provided based on certain goals and targets, particularly targeting final products and customers.
- Elimination of Price Controls: Control systems and supply channels for agricultural products should be eliminated to allow for market-driven pricing mechanisms.
- Removal of foreign trade restrictions and barriers: Trade barriers, bans, restrictions, and quotas on the export of agricultural products should be abolished, and foreign trade should be open to facilitate exports.
- Support for Mixed Livestock Farming: Supporting the private sector in establishing a combined animal husbandry based on a traditional herding system for product preparation and supply chain management.
- Adopting international standards for animal health monitoring and disease control services. Establishing and maintaining animal disease-free zones based on indicators from organizations like the World Animal Health Organization (WOAH).
- Domestic production of veterinary vaccines for highly infectious diseases following international standards. Both domestic production and importation of vaccines should be facilitated.
- Improving the efficiency of vaccination procedures and systems.
- Research and Development in Livestock Breeding: Research to improve the quality and breeds of livestock should be conducted, with a focus on meeting market demands and adhering to business principles.
- All ports should be enabled to facilitate the export of agricultural products, and efforts should be made to improve the level of product processing for export-oriented agriculture.
- Introduction of Responsible Nomad system: Implementing the "Responsible Nomad" system and standards for animal products, adapting them to foreign markets, and promoting them domestically among herders are crucial steps.
- Optimization of agricultural land use: Utilization of agricultural land should be improved to increase unit output and productivity.

These measures, when implemented effectively, can contribute to the development of a more efficient, competitive, and sustainable agricultural sector in Mongolia.

CASE: NEW ZEALAND AGRICULTURE POLICY REFORMS IN THE 1980S

In response to the global economic crises and rising oil prices, New Zealand implemented policies to stabilize inflation and support agricultural production. These policies included tax reductions, interest rate subsidies, low-interest loans, grants, and output-based subsidies. However, over time, it became evident that these policies were distorting the market and leading to inefficient production. Agricultural support caused high budget expenditures, uncompetitive products in the international market, and misallocation of resources within the sector.

In 1985, New Zealand's Government implemented agriculture policy reforms by eliminating production- and trade-distorting supports and discontinuing subsidies on agricultural products such as meat, wool, milk, dairy products, fertilizers, and irrigation. This reform aimed to address market distortions and promote more efficient and innovative agricultural production.

Additional reforms were implemented between 1988 and 1990 to support farmers impacted by the discontinuation of subsidies. The government provided support equivalent to unemployment benefits, changed loan terms, and offered debt write-offs. Furthermore, financial advice and support services were provided to businesses in both agricultural and non-agricultural sectors.

Despite initial concerns that 16 percent of farmers would fail due to the reforms, only 1.6 percent left the sector. The reforms led to a reduction in budget costs, increased productivity in the agricultural sector, and higher product prices in the global market. Additionally, the reforms contributed to the expansion of other sectors such as tourism and services, leading to economic diversification.

Following the policy reforms, New Zealand focuses on animal disease control, relief payments in response to natural disasters, and the agricultural knowledge and information system.

Overall, the experience of New Zealand highlights the importance of policy reforms in promoting efficiency, innovation, and market competitiveness in the agricultural sector. By adapting to changing market dynamics and implementing targeted policies, New Zealand was able to achieve positive outcomes and foster diversification in its economy.[15]

[15] OECD, 2021, Agricultural Policy Monitoring and Evaluation.

BOX 3. POLICIES FOR THE TOURISM INDUSTRY

Essential policies and measures to develop eco-friendly and sustainable tourism by addressing the challenges facing the tourism industry in Mongolia will also be useful in diversifying the economy:

I. External Advertising and Marketing:

- Use social media for targeting countries and traditional channels for Western countries.
- Develop tourism content.
- Advertise national characteristics and heritage through entertainment production internationally.

II. Development of Border Tourism:

- Identify and approve border tourism routes and establish infrastructure along these routes.
- Facilitate travel with a car around the border area.

III. Visa Issuance and Internet portal:

- Grant permanent visa exemptions to 32 developed European countries, Australia, and New Zealand, those temporarily exempt from visas until 2025.
- Free visa to countries with a higher GDP per capita than Mongolia, step by step.
- Develop a unified electronic portal for pre-booking and comprehensive information to arrange travel in Mongolia.
- Provide multilingual information about traveling to Mongolia.
- Implement e-transition in the tourism sector.

IV. Increase air transport accessibility and the number of seats in aircraft:

- Increase flight routes, especially to cities within 8 hours from Ulaanbaatar, which has a population of over 1 million.
- Upgrade some local airports to accommodate international flights.

V. Boost cross-border movement:

- Enhance port capacity to welcome tourists in line with the port recovery policy.

VI. Product development:

- Extend the tourism season by proposing new tourism products.
- Develop high-class tourism products based on nomadic culture and special protected areas.

VII. Improve Infrastructure:

- Construct highways and roadways in line with the port recovery policy.
- Encourage internationally well-known hotels and resorts' operations in Mongolia by attracting investment and promoting business incentives.
- Address sanitation issues along local roads and at service stations.
- Increase the number of rest areas and stops (every 200 km).
- Increase the number of camping spots throughout the country.
- Ensure reliable electricity sources in tourist areas.
- Adjust and adapt the national standards to align with the international standards of tourism products and enforce them in the tourism industry.

BOX 4. INVESTMENT ENVIRONMENT

Revised Investment Law Draft

The Ministry of Economy and Development has revised the Investment Law, along with its accompanying draft, with a comprehensive approach to soliciting public feedback and engaging stakeholders. Commencing April 14, 2023, two months were dedicated to receiving input from various entities, including international organizations, development partners, embassies, professional associations, business councils, chambers, government bodies, domestic and foreign enterprises, as well as individual citizens. Through this process, 695 proposals were collected, with 60 percent being integrated into the Investment Law draft revision.

The revised draft, informed by the received proposals, was deliberated upon during the Government meeting on June 21, 2023. Subsequently, it was presented to the National Assembly on June 23, 2023, for further consideration and enactment.
Key highlights of the proposed revisions include the elimination of regulations that hinder or restrict investment activities, alignment of investor guarantees with international best practices, and the establishment of a board for safeguarding investor rights and interests, in other words, an effective mechanism for resolving complaints. Additionally, provisions are made for the resolution of investment disputes between investors and the government through international arbitration. The draft also emphasizes the duty of all government agencies to protect and support investments, streamline inspection procedures, simplify criteria for issuing stabilization certificates, and facilitate electronic issuance processes.

Resolution of Foreign Investor Complaints

The Ministry of Economy and Development places utmost importance on safeguarding the legal interests of investors and promptly addresses their grievances. To this end, a structured mechanism is in place to receive and review complaints, which are then presented to the Cabinet for resolution. Continuous monitoring ensures the effective implementation of resolutions.
In line with this commitment, complaints submitted by 32 enterprises with foreign investment, operating in various sectors including renewable energy and mining, have been addressed as per Government Resolution No. 413 adopted in 2022. Similarly, complaints from entities in the mining, oil, civil aviation, and construction sectors, as outlined in Resolution No. 160 adopted in 2023, have been diligently investigated and resolved by the relevant authorities.

Investor's Guide

In collaboration with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Ministry of Economy and Development renewed the Investor's Guide which was unveiled during the "2023 Mongolian Economic Forum." This comprehensive guide serves as a valuable resource for investors, offering insight into Mongolia's economic landscape, investment opportunities, business environment, regulatory framework, workforce, taxation, company registration procedures, government policies, and avenues for business support. Spanning twelve chapters, the guide covers all aspects pertinent to investors, from inception of operations to cessation.

BOX 5. LAW ON PUBLIC-PRIVATE PARTNERSHIP

The law on Public-Private Partnership was ratified during the session of the State Great Khural of Mongolia on December 9, 2022, and will come into effect on December 31, 2023. This legislation is designed to facilitate the implementation of public-private partnership (PPP) projects within the realm of public infrastructure and services. Its primary objectives include fostering private sector involvement and investment, establishing a framework for long-term collaboration between the public and private sectors with optimal risk management, and ensuring sound financial and budgetary management practices while creating a favorable legal environment.

Scope of Application:
The law governs all aspects related to the planning, development, evaluation, and analysis of projects jointly undertaken by the state and private entities. It encompasses project selection, identification of private sector partners, and the negotiation and execution of partnership agreements.

Principles of Partnership:

1. Public Interest: PPP projects are to be implemented in sectors such as public infrastructure and services, serving the public interest, and enhancing the quality and accessibility of public services.
2. Quality and Accessibility: Projects must strive to improve the quality and accessibility of public services.
3. Budget and Financial Management: Maintain a balance in control and regulation of budgetary and financial matters.
4. Economic Growth: PPP initiatives are geared towards supporting economic growth through private sector involvement.
5. Rights and Responsibilities: The law delineates the rights and obligations of both the government and private sector entities involved in PPP projects.
6. Risk Allocation: PPP agreements should entail a rational distribution of risks between the public and private sectors.
7. Good Governance: Projects are to be conducted by principles of good governance.
8. Performance-Based Expenditure: Budget allocations are to be based on quality, results, and long-term performance.
9. Economic Efficiency: PPP projects aim to enhance economic efficiency by leveraging additional financial resources to deliver public services.

Effectively, the Law on Public-Private Partnership sets out a comprehensive framework to facilitate collaboration between the public and private sectors in Mongolia, ensuring the efficient delivery of public infrastructure and services while promoting economic growth and sustainability.

Types of Partnership:
The law outlines three types of partnership arrangements: 1. Funding through User Fees, Charges, and Project Revenue: Project costs are covered by user fees, charges, and revenue generated by the project itself. 2. Funding from the Budget: Project costs are financed from the national budget as stipulated in the partnership agreement. 3. Mixed Type: A combination of funding sources, including user fees, charges, project revenue, and budget allocations.

Types of Partnership Agreements:
1. Development, Construction, Use, and Transfer: Involves the design, construction, utilization, and eventual transfer of the project; 2. Hold, Use, and Transfer: Ownership is held by one party while another party utilizes the project, followed by eventual transfer; 3. Build, Transfer, and Use: The project is constructed, transferred to another party, and then utilized; 4. Build, Lease, Use, and Transfer: Similar to Build, Transfer, and Use, but with leasing arrangements before eventual transfer; 5. Build, Own, Use, and Transfer: The constructing entity retains ownership during the utilization period before eventual transfer; 6. Renting and Providing Public Services: Involves renting out the project for public service provision; 7. Implementation of Operation and Maintenance: Focuses on the operation and maintenance aspects of the project. 8. Refurbishment, Possession, Use, and Transfer: Involves refurbishing existing infrastructure, followed by possession, use, and eventual transfer. 9. Implementation of administration: Concerned with the management of the project. 10. Other Types: Additional partnership agreements are determined through a thorough full analysis of the project.
Prohibition of Build-to-Transfer Contracts with Immediate Transfer: Contracts with direct transfer after construction, implemented within a short timeframe, or indistinguishable from budget investments are prohibited.

Establishment of Partnership Center:
A dedicated center will be established to facilitate project calculation, research, development, technical and economic assessments, and risk assessment of partnership projects, and promotion to potential investors.

Creation of Partnership Project Development Fund: A fund will be created up to finance project implementation, preparation, research, selection and employment of consulting services, and operational expenses of the partnership center.

Projects in the Pipeline Under the Law on PPP:

- "Tuul River Road," the front component of the "New 'Toirog' Road" project.
- Capacity enhancement projects for Khuvsgul, Hovd, Dornod, and Umnogovi provincial airports.
- Construction projects for the expansion of road lanes in "Rashaant-Khushigiin Valley-Hoolt Zurlug" (four lanes) and "Nalaikh-Bagakhangai-Choir-Saishand-Zamyn-Uud" (two lanes).
- Project to expand the "Darkhan-Altanbulag" highway to four lanes.

BOX 6. POLICY CHANGES REGARDING ENVIRONMENTAL IMPACT ASSESSMENT

Almost all businesses are obliged to prompt environmental potential impact assessment, regardless of their business types as Article 7.3 of the Law on Environmental Impact Assessment states "... businesses listed in the appendix of this law have to conduct the environmental impact assessment". The appendix outlines categories for general environmental impact assessment, as follows:

- Mining
- Energy
- Agriculture
- Manufacturing
- Tourism
- Services
- Biodiversity
- Infrastructure Development
- Food production
- Light Industry
- Heavy Industry
- Other Sectors

According to estimation, do general environmental impact assessment requires approximately a minimum of 90 days (about 3 months) and costs ranging from 3 to MNT 8 million, while an environmental impact-specific assessment requires at least 200 days (about 6 and a half months) and it costs between MNT 4 to 20 million. Once the assessment is held, businesses must execute an Environmental management plan. In addition to this, 50 percent of funds devoted to financing the implementation of the Environmental Management Plan must be deposited in a dedicated account of the associated administrative unit or relevant state environmental administration, for environmental protection and restoration. Also, businesses must submit the implementation report annually.

Moreover, businesses encounter a lot of time-consuming as well as costly procedures such as inspections, implementation monitoring, and various assessments (general, detailed, re-evaluations, cumulative impact assessments).

To enhance a favorable business and investment environment, the Ministry of Economy and Development is pioneering to reduce the number of businesses subject to that assessment, minimizing government intervention, and simplifying assessment procedures by converting the whole procedure into an electronic version. To achieve these results, the ministry ratified Government Resolution No. 233 of 2023, which included desired measures to streamline the environmental impact assessment process.

In this regard, the Ministry of Environment and Tourism drafted the amendment law on Environmental Impact Assessment and prepared the following regulation changes. The law amendment is expected to reduce assessment duration by 60-70 days.

Moreover, the Ministry of Economy and Development is actively working on following policy changes. One is to categorize and limit the number of businesses subject to the environmental impact assessment based on their scale and capacity criteria, in other words, only a few large-scale activities with significant environmental impact are required to undergo assessment, while all others are exempt. Second, to ensure transparency, all assessment activities, from receiving requests to confirmation, must be converted into electronic versions. Third, all documents should be available in the online system, and the digital version must have the same effect as an original copy.

BOX 7. CONCEPT OF REGIONAL DEVELOPMENT

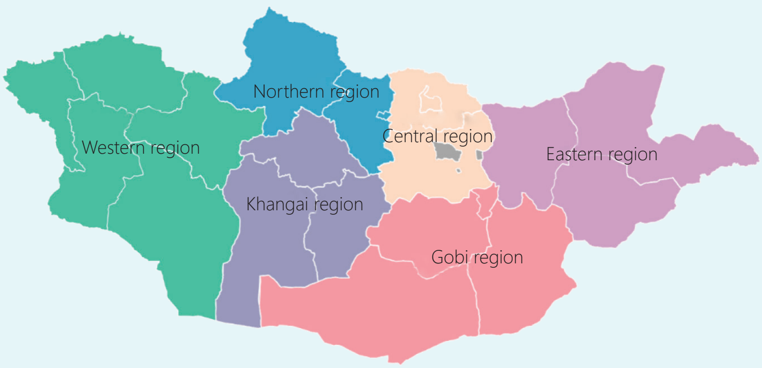
"2024 was declared as the Year of Regional Development Support" by Resolution No. 481 of the Government of Mongolia dated December 27, 2023. In this context, the concept of regional development is being developed.

It has been 22 years since the "Regional Development Concept of Mongolia" was approved by Resolution No. 57 of 2001 of the State Great Khural of Mongolia. The core principle of this policy document is the optimal utilization of Mongolia's abundant land and natural resources, alongside harnessing the intellectual capacity of its population, to address production clusters, urban-rural development gaps, and disparities among provinces and regions. The overarching goal is to bridge the development divide and align regional progress with national economic and social advancement.

Currently, 46.9 percent of Mongolia's total population resides in Ulaanbaatar, where 70.8 percent of enterprises operate, contributing to 63 percent of the GDP /Gross Domestic Product/. Conversely, local areas accommodate 53.1 percent of the population, with 29.2 percent of enterprises, contributing to only 37 percent of the GDP. These disparities underscore the existing differences and imbalances in regional development.

While some positive strides have been made in the past two decades toward implementing the regional development concept, the ultimate goal remains unrealized. Thus, optimizing economically limited resources, including labor, capital, and natural assets, and ensuring an optimal allocation of investments through strategic zoning development, and regional development is important to accelerate development.

Figure 2. Economic development regions



With the shift towards a regional system, state budget investments in projects and programs are strategically distributed, aiming to maximize spatial efficiency, while also fostering greater economic prosperity through private sector engagement. It also encourages the establishment of local industries, services, and private enterprises, fostering an environment conducive to migration. Consequently, unemployment rates in regions and communities are expected to decrease, leading to a reduction in poverty levels and an increase in both employment opportunities and household incomes.
Within the framework of regional development, functional regions have been identified by environmental, economic, and social indicators, ensuring a holistic approach to sustainable development.

These functional areas or zones:

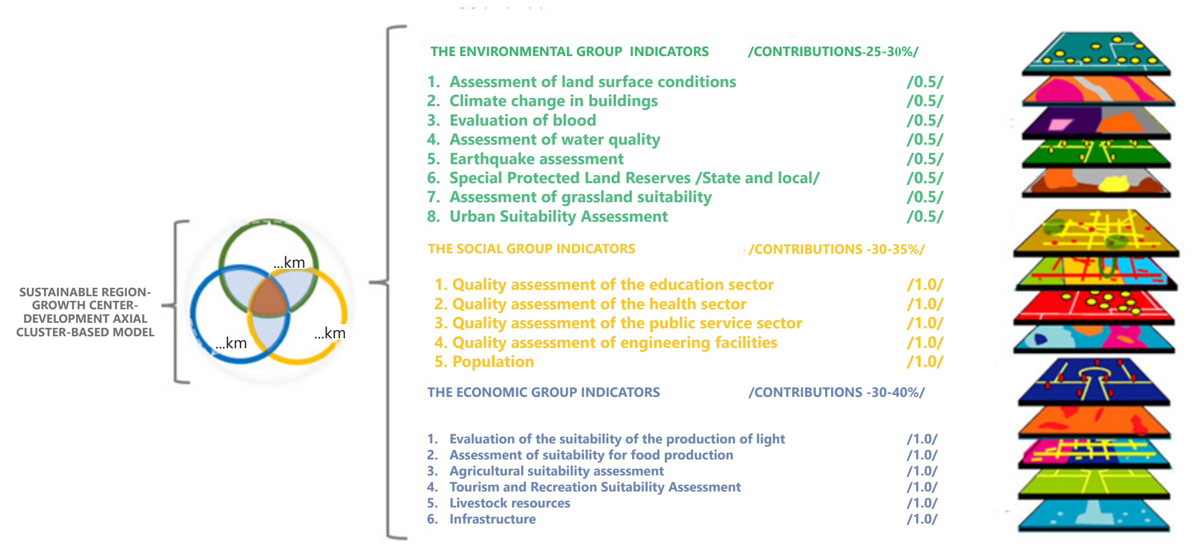
- Regions suitable for heavy industry development,
- Regions suitable for light manufacturing development

Regions suitable for travel and tourism by delineating these functional areas, the aim is to foster interconnectivity, convergence, and diversification across regions, while promoting regional economic cooperation and supporting balanced territorial growth.

Moreover, this approach seeks to leverage natural resources and economic potential to stimulate growth, enhance value chains, foster innovation, and establish industrial zones. It also prioritizes the development of a comprehensive national infrastructure network to facilitate efficient transport and logistics, thereby increasing employment opportunities and ensuring the delivery of essential social services.

In renewing the regional development concept, international trends, theories, models, and investment criteria are considered. Utilizing methods such as the matrix approach and criteria such as environmental sustainability, economic viability, and social equity, efforts are made to achieve optimal distribution of resources and promote balanced development across diverse regions.

Figure 3. Key selection criteria for defining the economic regional centers

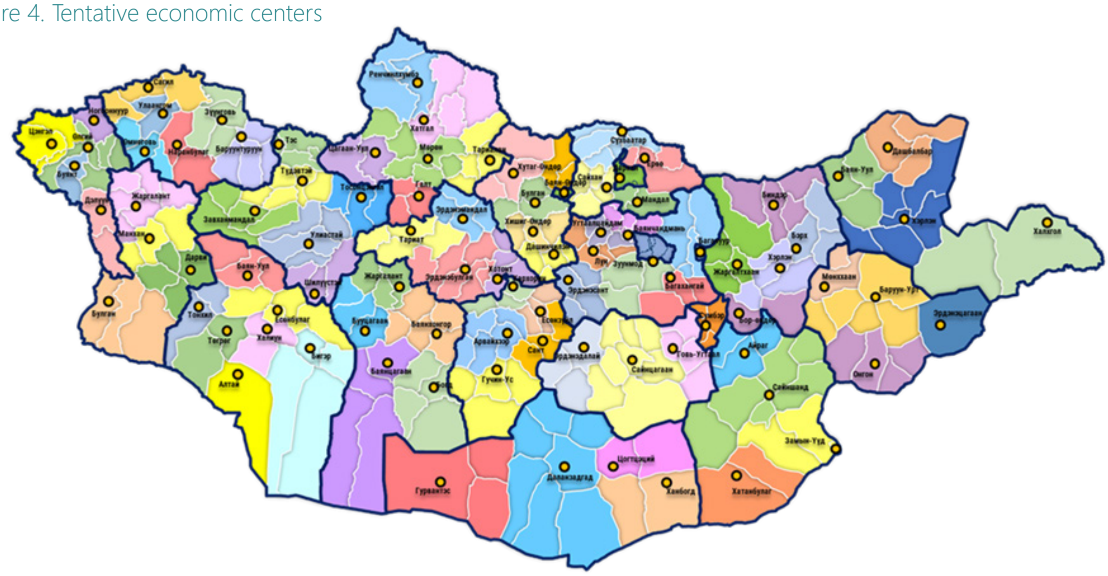


In the identification and revision of common economic zoning criteria, a set of 20 indicators has been delineated, and categorized into three groups: environmental, economic, and social. These indicators have been carefully selected to provide a comprehensive assessment from an investment perspective. Under the weighted assessment model (AHP), the distribution of percentages is determined with the aim of achieving balance across the three groups. Specifically:

1. The environmental group comprises 8 indicators, accounting for 30 percent of the total evaluation.
2. The economic group consists of 7 indicators, contributing 40 percent to the overall evaluation.
3. The social group encompasses 5 indicators, representing 30 percent of the total evaluation.

This approach ensures that each aspect - environmental sustainability, economic viability, and social equity - is given consideration in the zoning process, facilitating informed decision-making, and promoting holistic development strategies.

Figure 4. Tentative economic centers

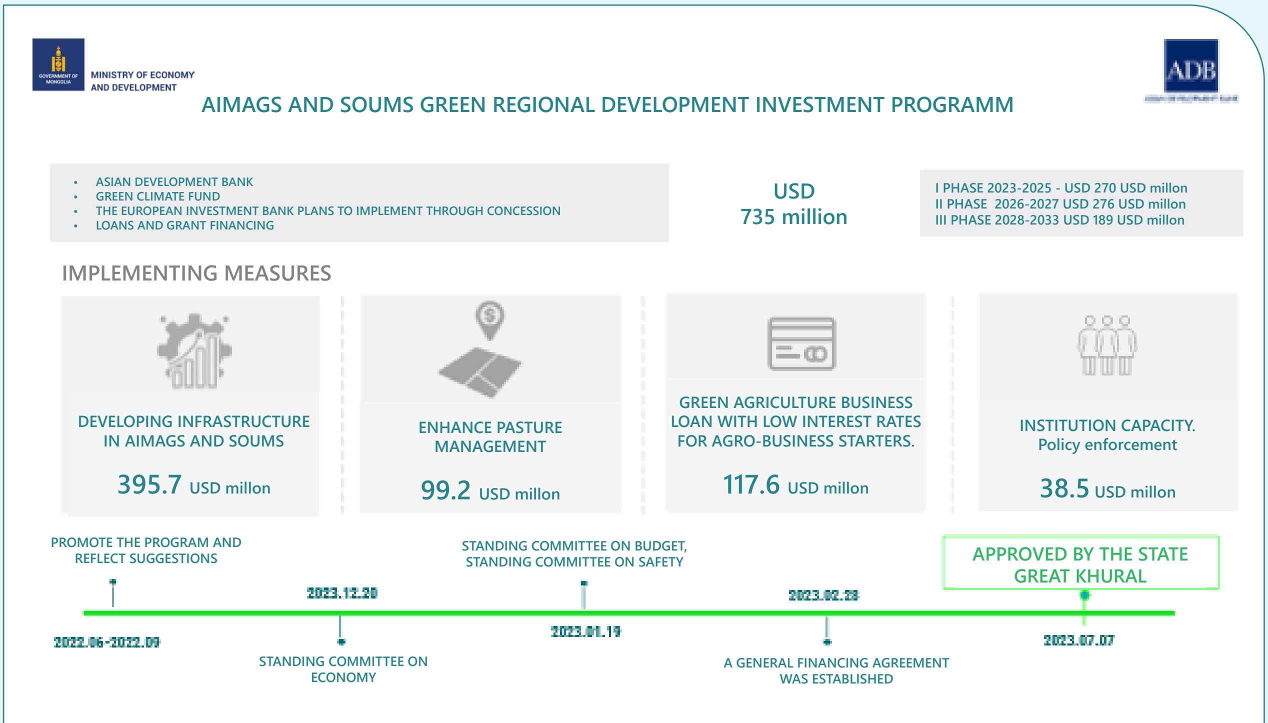


By pinpointing these hubs of economic advancement, we aim to foster intersectoral coordination, bolster regional cohesion, and promote diversification. This support entails enhancing regional economic collaboration and harnessing natural resources and economic potential to foster balanced territorial development. It involves establishing value chains, clusters, innovation hubs, and industrial zones while integrating them into a comprehensive transport logistics network linked to the primary infrastructure axis. This comprehensive approach is geared towards curbing unemployment and poverty, meeting government-set standards for social services, regulating population migration, and ensuring the effective allocation of investments across territories.

BOX 8. AIMAGS AND SOUMS GREEN REGIONAL DEVELOPMENT INVESTMENT PROGRAM

The proposed "Aimags and Soums Green Regional Development Investment Program," to be jointly executed with the Asian Development Bank, saw considerable progress in its development. Following inspection and approval, the draft of the overarching financing agreement garnered support at key governmental levels, including the Cabinet meeting, the Standing Committee on the Economy, and the Standing Committee on the Budget. Subsequently, it received further backing at the meeting of the Standing Committee on Security and Foreign Policy. On July 6, 2023, the Government formally submitted the agreement for ratification by the State Great Khural.

The ensuing day, July 7, 2023, marked the momentous approval of the Framework Financing Agreement for the "Aimags and Soums Green Regional Development Investment Program" by the State Great Khural.



The program aligns with the objectives outlined in the "New Revival Policy" document, which aims to strengthen Mongolia's economic independence while mitigating the adverse effects of the "Covid-19" pandemic and addressing developmental constraints. The program aligns with the objectives outlined in the "New Recovery Policy" document, which aims to strengthen Mongolia's economic independence while mitigating the adverse effects of the "Covid-19" pandemic and addressing developmental constraints. It is also in line with the national movement on "Food Supply and Security," as endorsed by Resolution No. 36 of the State Great Khural on May 17, 2022.

Focusing on food supply chains and systems, the program aims to ensure food security, foster urban-rural integration, and create conducive environments in provincial and rural centers for sustainable living. It seeks to bolster staple food production, enhance exports, reduce import reliance, and promote green and rural household businesses.

The investment program entails the development of food and agriculture engineering infrastructure, transportation support for production, the establishment of logistic centers, and the integration of green finance mechanisms such as green loans, small grants, and discounted loans for medium-sized businesses. Additionally, it emphasizes improving agricultural management and implementing control systems.

This program covers 52 districts across 17 provinces over 10 years, the program is strategically designed to be implemented in the medium term. Its objectives are fully consistent with existing policy documents and serve as a foundational framework for implementing long-term policy measures.

BOX 9. CORRUPTION PERCEPTIONS INDEX

In 2023, Mongolia ranked 121st out of 180 countries in the Corruption Perceptions Index, dropping 5 places compared to the previous year. This decline was attributed to countries like the Dominican Republic, Egypt, Zambia, Algeria, and Ukraine improving their rankings and surpassing Mongolia in addressing corruption, as these countries showed an average rating increase of 3.6 points.

The Corruption Perceptions Index, compiled by Transparency International, combines research and reports from 13 sources, including indicators such as budget spending, abuse of power, and accountability systems for corruption crimes in countries around the world. The index is evaluated on a scale of 0 (highly corrupt) to 100 (very clean).

Mongolia scored 33 points on the Corruption Perceptions Index in 2023, which is 10 points lower than the global average and 12 points lower than the regional average. Compared to the 2015 assessment, Mongolia's index evaluation has dropped 6 points, while the ranking dropped 49 places. The perception of corruption in Mongolia is based on assessments from seven sources of research and reports. The evaluation of Mongolia's Corruption Perceptions Index was developed based on research and reports from a total of 7 sources. Of this, the prevalence of corruption and bribery in the IMD Global Competitiveness Report and political corruption in the PRS Group's International Country Risk Guide improved. However, according to the V-Dem Democracy Index, corruption in civil service and the executive branch, and corruption in the courts and law enforcement agencies according to the Justice Project's Rule of Law Index, have experienced declines.

Figure 5. The Corruption Perception Index score, rank

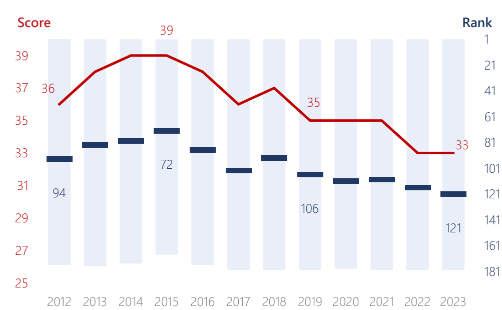
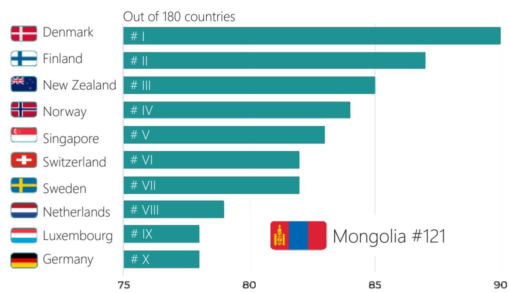


Figure 6. The corruption perception index rank



Source: Transparency International

Two-thirds of the countries assessed in the index evaluated below 50, underscoring the pervasive nature of corruption on a global scale. While Western Europe and European Union nations have traditionally fared well in corruption assessments, with a regional average score of 65 in 2023, there was a slight decrease compared to previous years. Conversely, sub-Saharan African countries received the lowest rating, with an average score of 33 points, indicating significant challenges in combating corruption.

In the Americas (43 points), Asia Pacific (45 points), Eastern Europe and Central Asia (35 points), the Middle East and North Africa (38 points), corruption indicators have also shown limited improvement, with regional averages showing downwards trend.

Despite these challenges, the countries of the European Union and Singapore retain the leading position in the world in terms of corruption. In the countries of the European Union, there is a greater emphasis the transparency of government activities and public scrutiny in public affairs. Singapore, on the other hand, employs strict sentencing policies and stringent measures to combat corruption, often relying on deterrence tactics. However, countries embroiled in armed conflict, such as Somalia, Venezuela, Syria, South Sudan, and Yemen, lag behind in the Corruption Perceptions Index.

To effectively prevent and combat corruption, Transparency International has called on the world to hold the corrupt individuals accountable, uphold the independence and transparency of the judiciary, and involve citizens in decision-making processes.

BOX 10. DEMOCRACY INDEX

According to the Democracy Index compiled by the Economic Intelligence Unit, Mongolia is ranked 59th out of 167 countries in the world in 2023, moving up 7 places from the previous year.

The index assesses countries' democratic rights in five categories: electoral processes and pluralism, functioning of government, political participation, political culture, and civil liberties, scored on a 0 to 10 scale. Based on its scores on a range of indicators within these categories, each country is classified as one of four types of regimes: full democracy (more than 8 points), flawed democracy (6-8 points), hybrid regime (4-6 points), and authoritarian regime (up to 4)[16].

Globally, only 15 percent of countries are considered full democracies, while 30 percent are flawed democracies, 20 percent have hybrid regimes, and 35 percent have authoritarian regimes. There is a concerning trend of countries regressing from democracy towards authoritarianism, with the 2023 global average Democracy Index score reaching 5.23, the lowest level since its inception in 2006. Compared to index groups, countries are rated the weakest in the functioning of government (4.67 points), while the best in the electoral process and pluralism (5.49 points).

In 2023, the political situation caused by the wars in Africa, Europe, and the Middle East had a significant negative impact on democracy. In addition, the struggle for global supremacy of the United States and China, as well as emerging large economies such as Saudi Arabia and Turkey, are bringing changes to the international order.

The top 10 countries in the democracy index are predominantly Western European nations. Western Europe (8.37 points) and North America (8.27 points) lead by their regional average, scoring particularly high on electoral processes pluralism and civil liberties. However, countries in the Middle East and North Africa (3.23 points) and Sub-Saharan Africa (4.04 points) are at the bottom of the democracy index, and the rating is decreasing year by year. In particular, these regions were evaluated weakly in the functioning of the government, the election process and pluralism, and civil liberties. Regional average scores for Asia Pacific (5.41 points), Eastern Europe and Central Asia (5.37 points), and Latin America and the Caribbean (5.68 points) also trend downward.

Mongolia scored 6.5 points in the 2023 Democracy Index, which is 1.3 points higher than the world average. Among the 5 categories of the index, the electoral process and pluralism (8.8 points) were well evaluated, while civil liberties (6.2 points), political participation (6.1 points), functioning of the government (5.7 points), and political culture (5.6 points) were evaluated above average. Compared to the previous year, the functioning of the government and civil liberties categories improved, mainly contributing to the increase in the overall rating.

Figure 7. Democracy index score

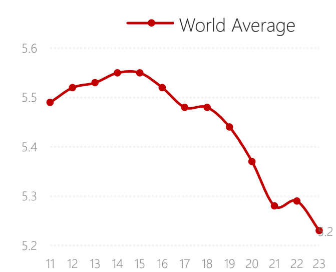


Figure 8. Democracy Index rank

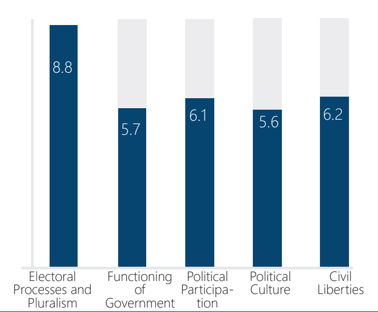
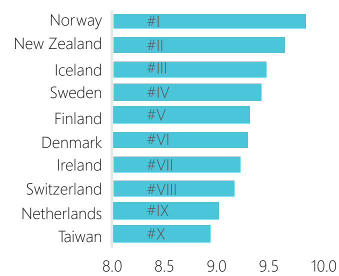


Figure 9. Democracy index scores, by top countries in the world



Source: Economist Intelligence Unit

16 * Full Democraticies: Fundamental political freedoms and civil liberties are upheld, fostering a flourishing democracy where media is diverse and independent.
* Flawed Democracies: Despite holding free and fair elections, weaknesses such as underdeveloped political culture and low political participation persist
* Hybrid Regime: Elections face obstruction, opposition parties exert pressure on candidates, and political participation is weak.
* Authoritarian Regimes: Characterized by limited or no political pluralism, these regimes exhibit authoritarian control over political processes and freedoms.

TABLE 1. SELECTED ECONOMIC INDICATORS

SELECTED ECONOMIC INDICATORS	2019	2020	2021	2022	2023
REAL SECTOR					
Nominal GDP (in MNT billion)	37,839	37,453	43,555	53,852	68,872
Real GDP growth - production approach (percent change)	5.6	-4.6	1.6	5.0	7.0
Real GDP growth - expenditure approach (percent change)	5.5	-4.4	1.6	5.0	7.1
Contributions to real GDP (percentage points)					
Domestic demand	5.6	-12.6	17.6	11.4	1.9
Exports of goods and services	5.8	-2.7	-7.5	13.9	23.3
Imports of goods and services	-5.9	11.0	-8.5	-20.3	-18.0
Contribution to real GDP growth (percentage points)					
Final consumption	5.5	3.6	-2.3	6.5	6.1
Private	3.7	1.3	-4.0	5.1	4.8
Public	1.8	2.2	1.7	1.4	1.3
Gross capital formation	0.1	-16.2	19.9	4.9	-4.3
Net exports of goods and services	-0.1	8.2	-16.0	-6.4	5.2
		(in percent of GDP)			
Savings and investment					
Gross national savings	20.3	17.3	22.3	28.7	32.3
Gross capital formation	35.6	22.1	35.8	41.5	31.7
Private	27.6	14.1	29.1	34.6	24.3
Public	8.0	8.0	6.7	6.9	7.3
PRICES					
Consumer prices (eop, percent change)	5.2	2.3	13.8	13.2	7.9
Copper prices* ($/ton)	6,004	6,178	9,315	8,815	8,479
Gold prices* ($/troy ounce)	1,393	1,772	1,799	1,802	1,943
Oil prices* ($/barrel, Brent)	59	50	61	82	79
GDP deflator (percent change)	10.0	3.7	14.4	17.7	19.5
		(in percent of GDP, unless otherwise indicated)			
GENERAL GOVERNMENT ACCOUNTS					
Total revenue and grants	31.8	27.9	32.8	34.4	35.3
Structural revenue and grants	28.8	25.3	29.2	31.8	33.7
Total expenditure and net lending	30.8	37.1	35.9	33.7	32.6
Primary expenditure and net lending	28.5	34.6	34.0	32.2	31.0
Overall balance	1.0	-9.2	-3.0	0.7	2.7
Structural balance	-2.0	-11.9	-6.7	-1.9	1.1
Structural primary balance	0.3	-9.3	-4.8	-0.4	2.8
General government debt (NPV)	55.6	62.3	50.1	51.0	39.0
General government debt (nominal, in MNT billion)	23,915	27,895	27,116	31,945	30,765
External	20,444	24,848	24,645	29,619	30,320
Domestic	1,400	1,137	921	1,036	234
Guarantee, concession	2,072	1,911	1,550	1,291	211
MONETARY SECTOR					
Broad money growth (percent change)	8.2	16.2	13.8	6.5	26.8
Reserve money growth (percent change)	5.4	-12.7	6.5	39.9	7.4
Velocity of money	1.8	1.5	1.6	1.8	1.8
Money multiplier	4.1	5.4	5.8	4.4	5.2
Credit growth** (percent change)	4.5	-4.0	18.5	7.5	22.7
		(in percent of GDP, unless otherwise indicated)			
BALANCE OF PAYMENTS					
Balance of payments	3.2	5.9	-1.4	-4.2	7.3
Current account balance	-15.2	-5.1	-13.8	-13.4	0.7
Gross official reserves (in USD million)	4,349	4,534	4,366	3,400	4,921
in months of imports of G&S	5.6	7.4	5.7	3.4	4.3
Exchange rate					
MNT/USD (average)	2,664	2,813	2,849	3,140	3,466
MNT/USD (eop)	2,734	2,850	2,849	3,445	3,411
Nominal effective exchange rate (average)	44.8	43.0	41.3	38.8	37.6
Real effective exchange rate (average)	106.5	102.9	103.6	106.9	112.4

*Bloomberg Terminal **Includes mortgage-backed securities

TABLE 2. REAL SECTOR

REAL SECTOR	2019	2020	2021	2022	2023
Nominal GDP (production approach)	37,839	37,453	43,555	53,852	68,872
Real GDP (production approach)	27,928	26,655	27,092	28,455	30,454
			(percent change)		
Real GDP growth	5.6	-4.6	1.6	5.0	7.0
Mining	-1.6	-9.9	0.8	-15.3	23.4
Non-mining	6.9	-3.7	1.8	8.2	5.0
Agriculture	5.2	5.8	-5.5	12.0	-8.9
Mining and quarrying	-1.6	-9.9	0.8	-15.3	23.4
Manufacturing	3.8	3.4	-0.9	6.1	5.1
Electricity, gas, stream, air conditioning supply	6.3	1.8	9.4	3.3	5.0
Construction	20.3	-3.2	-22.8	8.2	0.6
Wholesale and retail trade	10.9	-12.5	5.8	10.1	5.7
Transportation and storage	4.4	-18.2	-7.3	9.2	39.3
Information and communication	12.1	5.2	20.7	6.6	16.4
Other service activities	4.6	-2.6	3.8	5.4	5.2
Taxes less subsidies on products	9.6	-9.4	12.2	11.5	6.8
Deflator	10.0	3.7	14.4	17.7	19.5
			(percentage points)		
Contributions to real GDP growth					
Agriculture	0.7	0.8	-0.8	1.7	-1.3
Mining and quarrying	-0.3	-1.4	0.1	-2.1	2.6
Manufacturing	0.3	0.3	-0.1	0.5	0.4
Electricity, gas, stream, air conditioning supply	0.1	0.0	0.2	0.1	0.1
Construction	0.7	-0.1	-0.9	0.2	0.0
Wholesale and retail trade	1.2	-1.4	0.6	1.1	0.7
Transportation and storage	0.2	-1.0	-0.3	0.4	1.8
Information and communication	0.2	0.1	0.5	0.2	0.5
Other service activities	1.3	-0.7	1.1	1.6	1.5
Taxes less subsidies on products	1.0	-1.1	1.3	1.4	0.9
			(in MNT billion)		
Nominal GDP (expenditure approach)	37,839	37,883	44,703	54,878	70,444
Primary income	-4,179	-3,526	-6,359	-5,072	-6,970
Gross national income	33,660	34,357	38,344	49,806	63,474
Secondary income	641	769	1,223	1,363	1,375
Gross national disposable income	34,301	35,126	39,566	51,169	64,850
Domestic demand	40,095	36,953	45,574	58,219	64,392
National savings	7,674	6,556	9,985	15,747	22,763
Gross capital formation	13,468	8,383	15,993	22,796	22,305
Saving - Investment balance	-5,794	-1,827	-6,008	-7,050	457
			(in percent of GDP)		
Domestic demand	106.0	97.5	101.9	106.1	91.4
Final consumption	70.4	75.4	66.2	64.5	59.7
Private	57.3	59.8	51.6	50.9	46.8
Public	13.1	15.6	14.5	13.7	13.0
Gross capital formation	35.6	22.1	35.8	41.5	31.7
Gross fixed capital formation	28.0	23.3	26.1	29.3	26.8
Changes in inventories	7.6	-1.2	9.6	12.3	4.9
Net exports of goods and services	-6.0	2.5	-1.9	-6.1	8.6
Exports of goods and services	59.2	57.0	57.0	63.8	76.3
Imports of goods and services	65.2	54.6	59.0	69.9	67.7
Statistical discrepancy (in MNT billion)	0	-430	-1,147	-1,026	-1,573

TABLE 3. GENERAL GOVERNMENT ACCOUNTS

GENERAL GOVERNMENT ACCOUNTS	2019	2020	2021	2022	2023
	(in billions of MNT)				
TOTAL REVENUE AND GRANTS	12,040	10,444	14,306	18,522	24,310
Future heritage fund	1,040	914	967	0	416
Stabilization fund	95	66	628	1,395	676
STRUCTURAL REVENUE AND GRANTS	10,906	9,464	12,711	17,127	23,218
Tax revenue	9,813	864	11,300	15,459	21,451
Income tax	2,556	2,227	3,326	3,827	5,800
Social secutiry contributions	2,031	1,586	2,286	3,038	3,943
Property tax	154	155	201	238	397
Value added tax	2,486	2,209	2,838	3,946	4,773
Excise tax	863	777	827	848	790
Special tax revenue	16	17	17	19	22
Customs duties and export taxes	790	741	939	1,256	1,464
Other taxes, fees and charges	916	800	866	2,288	4,262
Non-tax revenue	1,092	952	1,412	1,668	1,767
General non-tax revenue	1,003	785	1,250	1,364	1,430
Capital revenue	1	1	2	4	8
Grant revenue	88	166	160	300	330
TOTAL EXPENDITURE AND NET LENDING	11,662	13,904	15,630	18,160	22,454
Current expenditure	8,229	10,829	12,804	14,229	17,047
Wages and salaries	2,257	2,649	2,532	1,666	2,322
Purchase of goods and services	1,743	2,202	2,170	2,140	2,740
Subsidies	299	375	454	537	580
Current transfers	3,068	4,663	6,813	9,088	10,273
Interest payments	861	939	836	798	1,132
Foreign	675	776	681	694	1,042
Domestic	186	163	155	104	90
Capital expenditure and net lending	3,433	3,075	2,826	3,930	5,408
Capital expenditure	3,017	3,034	2,982	3,803	5,175
Net lending	416	41	-156	127	233
OVERALL BALANCE	379	-3,460	-1,324	362	1,856
OVERALL PRIMARY BALANCE	1,240	-2,521	-488	1,160	2,987
STRUCTURAL BALANCE	-756	-4,440	-2,919	-1,033	763
STRUCTURAL PRIMARY BALANCE	105	-3,501	-2,083	-235	1,895
FINANCING	756	4,440	2,919	1,033	-763
External	1,185	2,675	487	583	1,126
Government bonds*	0	14	-176	-521	99
Government loans*	1,185	2,661	663	1,104	1,027
Project loan	-429	1,765	2,432	450	-1,889
Program and non-project loan	-1,103	1,868	1,919	-682	-1,090
Domestic	-165	-263	-216	378	-801
Net change in cash balance	466	0	0	0	0
Government bonds*	1	21	1	2	3
Government loans*	50	0	0	0	0
Privatization	322	139	729	752	0
Heritage fund transfers	0	0	0	0	0

*Net

TABLE 4. CONSOLIDATED BUDGET INDICATORS (IN PERCENT OF GDP)

CONSOLIDATED BUDGET INDICATORS (in percent of GDP)	2019	2020	2021	2022	2023
			(in percent of GDP)		
TOTAL REVENUE AND GRANTS	31.8	27.9	32.8	34.4	35.3
Future heritage fund	2.7	2.4	2.2	0.0	0.6
Stabilization fund	0.2	0.2	1.4	2.6	1.0
STRUCTURAL REVENUE AND GRANTS	28.8	25.3	29.2	31.8	33.7
Tax revenue	25.9	2.3	25.9	28.7	31.1
Income tax	6.8	5.9	7.6	7.1	8.4
Social secutiry contributions	5.4	4.2	5.2	5.6	5.7
Property tax	0.4	0.4	0.5	0.4	0.6
Value added tax	6.6	5.9	6.5	7.3	6.9
Excise tax	2.3	2.1	1.9	1.6	1.1
Special tax revenue	0.0	0.0	0.0	0.0	0.0
Customs duties and export taxes	2.1	2.0	2.2	2.3	2.1
Other taxes, fees and charges	2.4	2.1	2.0	4.2	6.2
Non-tax revenue	2.9	2.5	3.2	3.1	2.6
General non-tax revenue	2.7	2.1	2.9	2.5	2.1
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grant revenue	0.2	0.4	0.4	0.6	0.5
TOTAL EXPENDITURE AND NET LENDING	30.8	37.1	35.9	33.7	32.6
Current expenditure	21.7	28.9	29.4	26.4	24.8
Wages and salaries	6.0	7.1	5.8	3.1	3.4
Purchase of goods and services	4.6	5.9	5.0	4.0	4.0
Subsidies	0.8	1.0	1.0	1.0	0.8
Current transfers	8.1	12.5	15.6	16.9	14.9
Interest payments	2.3	2.5	1.9	1.5	1.6
Foreign	1.8	2.1	1.6	1.3	1.5
Domestic	0.5	0.4	0.4	0.2	0.1
Capital expenditure and net lending	9.1	8.2	6.5	7.3	7.9
Capital expenditure	8.0	8.1	6.8	7.1	7.5
Net lending	1.1	0.1	-0.4	0.2	0.3
OVERALL BALANCE	1.0	-9.2	-3.0	0.7	2.7
OVERALL PRIMARY BALANCE	0.3	-9.3	-4.8	-0.4	2.8
STRUCTURAL BALANCE	-2.0	-11.9	-6.7	-1.9	1.1
STRUCTURAL PRIMARY BALANCE	0.3	-9.3	-4.8	-0.4	2.8
FINANCING	2.0	11.9	6.7	1.9	-1.1
External	3.1	7.1	1.1	1.1	1.6
Government bonds*	0.0	0.0	-0.4	-1.0	0.1
Government loans*	3.1	7.1	1.5	2.1	1.5
Project loan	2.1	1.8	0.9	1.3	0.5
Program and non-project loan	1.1	5.3	0.7	0.8	1.0
Domestic	-1.1	4.7	5.6	0.8	-2.7
Net change in cash balance	-2.9	5.0	4.4	-1.3	-1.6
Government bonds*	-0.4	-0.7	-0.5	0.7	-1.2
Government loans*	1.2	0.0	0.0	0.0	0.0
Privatization	0.0	0.1	0.0	0.0	0.0
Heritage fund transfers	0.1	0.0	0.0	0.0	0.0
Outstanding balance of the Stabilization Fund	0.9	0.4	1.7	1.4	0.0
Other	0.0	0.0	0.0	0.0	0.0
Memorandum item:					
Nominal GDP (in MNT billion)	37,839	37,453	43,555	53,852	68,872

TABLE 5. BALANCE OF PAYMENTS

BALANCE OF PAYMENTS	2019	2020	2021	2022	2023
			(in USD million)		
I. CURRENT ACCOUNT	-2,162	-675	-2,108	-2,304	147
Goods	1,158	1,756	1,370	1,233	4,369
Exports F.O.B (credit)	7,183	6,991	8,136	9,854	13,891
Imports F.O.B (debit)	6,025	5,235	6,766	8,622	9,523
Services	-1,992	-1,450	-1,675	-2,355	-2,607
Credit	1,233	655	814	1,135	1,599
Debit	3,224	2,105	2,490	3,490	4,206
Primary income	-1,569	-1,253	-2,232	-1,615	-2,011
Credit	394	341	292	344	447
Debit	1,963	1,595	2,524	1,959	2,458
Secondary income	241	273	429	434	397
II. CAPITAL ACCOUNT	161	103	114	154	137
Credit	162	105	116	166	151
Debit	1	2	2	12	14
III. FINANCIAL ACCOUNT: net lending (+) / net borrowing (-)	-2,678	-1,504	-1,982	-1,644	-1,459
Direct investment (net)	-2,316	-1,693	-2,060	-2,428	-1,683
Portfolio investment (net)	-372	563	25	445	767
Financial derivatives (net)	6	-6	-8	-11	0
Other investments (net)	5	-369	60	351	-543
Of which: Currency and deposits	90	278	245	298	199
Loans	-168	-803	-501	67	-718
Trade credit and advances	83	156	413	-15	-23
IV. Net errors and omissions	-224	-146	-209	-222	-286
Overall balance	453	787	-222	-727	1,457
V. Reserve assets	453	787	-222	-727	1,457
Reserve	453	787	-225	-751	1,398
IMF loan	0	0	-3	-24	-59
Exceptional financing	0	0	0	0	0
Memorandum items:					
Nominal GDP (in USD million)	14,205	13,314	15,286	17,150	19,872
Current account balance (in percent of GDP)	-15.2	-5.1	-13.8	-13.4	0.7
Capital account balance (in percent of GDP)	1.1	0.8	0.7	0.9	0.7
Financial account balance (in percent of GDP)	-18.9	-11.3	-13.0	-9.6	-7.3
Gross official reserves (in USD million)	4,349	4,534	4,366	3,400	4,921
in months of imports of G&S	5.6	7.4	5.7	3.4	4.3
MNT/USD exchange rate (average)	2,664	2,813	2,849	3,140	3,466
MNT/USD exchange rate (eop)	2,734	2,850	2,849	3,445	3,411
Exports of goods and services (in percent of GDP)	59.2	57.4	58.6	64.1	78.0
Imports of goods and services (in percent of GDP)	65.1	55.1	60.6	70.6	69.1
Trade turnover (in percent of GDP)	124.4	112.6	119.1	134.7	147.0

TABLE 6. BALANCE OF PAYMENTS (IN PERCENT OF GDP)

BALANCE OF PAYMENTS (in percent of GDP)	2019	2020	2021	2022	2023
			(in percent of GDP)		
I. CURRENT ACCOUNT	-15.2	-5.1	-13.8	-13.4	0.7
Goods	8.2	13.2	9.0	7.2	22.0
Exports F.O.B (credit)	50.6	52.5	53.2	57.5	69.9
Imports F.O.B (debit)	42.4	39.3	44.3	50.3	47.9
Services	-14.0	-10.9	-11.0	-13.7	-13.1
Credit	8.7	4.9	5.3	6.6	8.0
Debit	22.7	15.8	16.3	20.4	21.2
Primary income	-11.0	-9.4	-14.6	-9.4	-10.1
Credit	2.8	2.6	1.9	2.0	2.2
Debit	13.8	12.0	16.5	11.4	12.4
Secondary income	1.7	2.1	2.8	2.5	2.0
II. CAPITAL ACCOUNT	1.1	0.8	0.7	0.9	0.7
Credit	1.1	0.8	0.8	1.0	0.8
Debit	0.0	0.0	0.0	0.1	0.1
III. FINANCIAL ACCOUNT: net lending (+) / net borrowing (-)	-18.9	-11.3	-13.0	-9.6	-7.3
Direct investment (net)	-16.3	-12.7	-13.5	-14.2	-8.5
Portfolio investment (net)	-2.6	4.2	0.2	2.6	3.9
Financial derivatives (net)	0.0	0.0	0.0	-0.1	0.0
Other investments (net)	0.0	-2.8	0.4	2.0	-2.7
Of which: Currency and deposits	0.6	2.1	1.6	1.7	1.0
Loans	-1.2	-6.0	-3.3	0.4	-3.6
Trade credit and advances	0.6	1.2	2.7	-0.1	-0.1
IV. Net errors and omissions	-1.6	-1.1	-1.4	-1.3	-1.4
Overall balance	3.2	5.9	-1.4	-4.2	7.3
V. Reserve assets	3.2	5.9	-1.4	-4.2	7.3
Reserve	3.2	5.9	-1.5	-4.4	7.0
IMF loan	0.0	0.0	0.0	-0.1	-0.3
Exceptional financing	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Nominal GDP (in USD million)	14,205	13,314	15,286	17,150	19,872
Current account balance (in percent of GDP)	-15.2	-5.1	-13.8	-13.4	0.7
Capital account balance (in percent of GDP)	1.1	0.8	0.7	0.9	0.7
Financial account balance (in percent of GDP)	-18.9	-11.3	-13.0	-9.6	-7.3
Gross official reserves (in USD million)	4,349	4,534	4,366	3,400	4,921
in months of imports of G&S	5.6	7.4	5.7	3.4	4.3
MNT/USD exchange rate (average)	2,664	2,813	2,849	3,140	3,466
MNT/USD exchange rate (eop)	2,734	2,850	2,849	3,445	3,411
Exports of goods and services (in percent of GDP)	59.2	57.4	58.6	64.1	78.0
Imports of goods and services (in percent of GDP)	65.1	55.1	60.6	70.6	69.1
Trade turnover (in percent of GDP)	124.4	112.6	119.1	134.7	147.0

TABLE 7. MONETARY SECTOR

MONETARY SECTOR	2019	2020	2021	2022	2023
			(in MNT billion)		
Net foreign assets	3,215	5,816	3,806	2,503	8,944
Net domestic assets	17,849	18,664	24,057	27,162	28,680
Domestic claims (net)	18,699	19,136	24,298	25,648	29,098
Other items (net)	-850	-472	-241	1,514	-418
Broad money	21,064	24,481	27,863	29,665	37,624
Currency outside depository corporations	614	753	847	831	906
Currency and deposits	20,449	23,728	27,016	28,834	36,719
			(percent change)		
Broad money	8.2	16.2	13.8	6.5	26.8
Net foreign assets	1,191.3	80.9	-34.6	-34.2	257.4
Net domestic assets	-7.2	4.6	28.9	12.9	5.6
Domestic claims (net)	-6.8	2.3	27.0	5.6	13.5
Net claims on government	128.8	-29.6	-49.8	107.6	91.3
Net claims on other sectors	1.7	-2.2	19.2	9.9	19.8
Claims on public sector	-38.5	1,492.6	25.0	-5.0	-16.7
Claims on private sector	1.9	-7.2	18.8	10.8	21.7
			(percentage points)		
Contributions to broad money growth					
Broad money	8.2	16.2	13.8	6.5	26.8
Net foreign assets	15.2	12.4	-8.2	-4.7	21.7
Net domestic assets	-7.1	3.9	22.0	11.1	5.1
Memorandum items:					
Velocity of money	1.8	1.5	1.6	1.8	1.8
Nominal GDP growth (percent change)	16.1	-1.0	16.3	23.6	27.9
Consumer prices (eop, percent change)	5.2	2.3	13.8	13.2	7.9

CONTACT:
Phone: +976-51-263333
Fax: +976-51-263333
E-mail: info@med.gov.mn
Website: med.gov.mn
Facebook: medgovMN

ADDRESS:
Ministry of Economy and Development
Chingeltei district, J.Sambuu Street,
Government Building 11, Ulaanbaatar 15141, Mongolia