GOVERNMENT OF MONGOLIA

MINISTRY OF ECONOMY AND DEVELOPMENT

MACROECONOMIC REPORT

2024 Q2

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MACROECONOMIC REPORT 2024 Q2

AUGUST 2024

CONTENT

LIST OF FIGURE, TABLE, BOX

ABBREVIATIONS

EU	European Union
FDI	Foreign direct investment
FED	Federal Reserve
GDP	Gross domestic product
IMD	International Institute for Management Development
MED	Ministry of Economy and Development
NEER	Nominal effective exchange rate
NSO	National Statistical Office
OECD	Organisation for Economic Co-operation and Development
PBOC	The People's Bank of China
PMI	Purchasing Managers' Index
REER	Real effective exchange rate
R&D	Research and Development
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

The economy expanded by 5.6 percent in the first half of 2024, supported by the mining sector growth and solid domestic demand. The transportation sector was the second-largest contributor to growth, following robust mining sector growth of 15.4 percent, driven by higher production of coal, iron ore, and copper concentrate. Growth was also supported by the construction and manufacturing sectors, primarily due to new road construction and increased beverage production. Trade and service activities remained strong, with robust domestic demand. However, agricultural output shrank by 25 percent due to significant livestock losses from severe weather events.

On the demand side, growth is fueled by the expansion of consumption and inventory. Private consumption was the main growth driver, supported by an increase in consumer credit and higher household incomes related to public sector wage hikes. In addition, large inventory accumulation—boosted by a rapid increase in imports and an expanding corporate credit supply—played a significant role in overall growth.

The fiscal surplus narrowed to MNT 57.9 billion at the end of the first half of 2024. The fiscal surplus narrowed to MNT 57.9 billion at the end of the first half of 2024. Government revenue amounted to MNT 6.4 trillion as coal exports reached 40.6 million tons due to increased external demand. While the overall fiscal balance was in surplus, the seasonally adjusted fiscal balance was estimated at a deficit of MNT 40.4 billion. The growth in the public sector wage bill—aimed at supporting civil servants, encouraging regional development, and creating a favorable living environment in rural areas—stimulated domestic demand. Although government debt dynamics remain sustainable, it is expected to rise in the medium term due to pending issuances of new external and domestic bonds by Ulaanbaatar City.

Inflation remained at the lower end of the central bank's target range at 5.1 percent, and credit growth accelerated with further policy cuts. Deposit growth was supported by rising household real incomes, as real interest rates increased with disinflation and the exchange rate remained stable. While foreign currency deposits and current accounts fell, domestic currency deposits and current accounts rose. Additionally, credit growth accelerated, and the share of non-performing loans in total loans fell to 5.9 percent, hitting an eight-year low.

Export growth is attributed to an increase in the export volume of key commodities. Export growth is attributed to an increase in the export volume of key commodities. Exports rose by 4 percent in the first half of 2024, primarily driven by increases in the export volumes of coal, copper concentrate, and iron ore. Imports surged due to strong domestic economic activity and robust credit growth, contributing to an increase in trade turnover. The balance of payments recorded a deficit, reflecting import growth and the central bank's partial repayment of its swap line. Gross international reserves declined and the exchange rate depreciated compared to the end of the first quarter of 2024.

Policies aimed at ensuring macroeconomic stability are critical for improving the sovereign credit rating and enhancing economic resilience. Recent changes to the fiscal rules outlined in the Law on Fiscal Stability, which are crucial for ensuring macroeconomic stability, could pose several risks to the economy. First, introduction of a new fiscal rule based on a budget 'core' balance—which excludes expenditures financed by securities and external loans—could lead to a rapid expansion in capital expenditure, a deterioration in budget accountability, constrained private sector activity, and increased public sector intervention in the economy. Furthermore, this rule change could substantially incentivize new issues of securities to finance the excessive capital spending demands of central and local governments, potentially leading to financial sector imbalances and macroeconomic instability. Second, allowing current expenditure to expand up to 30 percent of nominal GDP could result in a procyclical fiscal policy in response to commodity price fluctuations, raising risks of macroeconomic instability and potential downgrades in sovereign credit ratings.

NEAR-TERM OUTLOOK

Economic growth is expected to be around 5.6 percent at the end of 2024[1]. Continued production from the Oyutolgoi underground mine—which holds over 80 percent of total reserves and has higher copper and gold content—along with increased output of coal, gold, and iron ore, is expected to support growth in the mining and transportation sectors. However, with livestock losses surpassing 2023 levels, the contraction in the agriculture sector is expected to negatively impact overall growth. Additionally, domestic demand is likely to strengthen due to increased household consumption, driven by wage and pension increases as well as fiscal expansion. With a rise in the number of enterprises, employees, and newly issued loans, growth in the service sector is expected to be sustained in the second half of the year.

At the end of 2024, trade turnover is expected to reach USD 28.5 billion, with trade balance is estimated to record a surplus of USD 4.9 billion. Copper concentrate exports are projected to increase to 1,560 thousand tons with increased output of Oyutolgoi underground mine. Total exports is set to reach USD 16.7 billion with the continuation of policy measures aimed at improving border port infrastructure, export transportation, and operation of the Mining commodity exchange. Particularly, Mongolia expects to export 78 million tons of coal, 8,400 thousand tons of iron ore, and 4,210 thousand barrels of crude oil. Imports of mining machinery, manufacturing equipment, and construction materials are expected to increase due to robust economic activity and credit growth for enterprises. Moreover, the increase in consumer credit, combined with higher household income, is expected to boost imports of consumer goods such as food and fuel. Subsequently, total imports are projected to reach USD 11.8 billion by the end of the year.

Inflation is expected to be around the upper end of the central bank's target range of 6±2 at the end of 2024. Harsh winter and spring conditions could negatively impact meat supply and add supply-driven inflationary pressure. Additionally, the anticipated expansion of public expenditures for 2025 poses a risk of encouraging demand-side inflation. Additionally, there are ongoing risks of increased inflationary pressures due to the prolonged congestion of containers at Tianjin Port, which could raise transportation costs. Rising geopolitical tensions could put upward pressure on global prices of fuel, grain, food, and energy, which could also add to domestic inflationary pressures.

[1] The growth projection for 2024 was reduced from the previous estimate following the announcement of official 2023 economic growth at 7.4 percent in August 2024.

CHAPTER 1

REAL SECTOR

1. REAL SECTOR

OVERVIEW

The economy grew by 5.6 percent in the first half of 2024, reflecting robust economic activity. Growth in the transportation sector was driven by higher mining output and exports, while strong growth in the construction sector was fueled by engineering projects. As a result of government measures to support manufacturing through import tax exemptions on machinery and equipment, the manufacturing sector maintained growth for five consecutive quarters. Additionally, the retail, wholesale trade, and service sectors strengthened due to expanding domestic demand. The public sector wage hike had a spillover effect on the private sector, positively impacting employment and strengthening household purchasing power. Unfortunately, families with little or no labor income continue to struggle, and livelihoods in the countryside remain stagnant as the decline in the agricultural sector persists. With increasing production and employment, the economy's potential output is rising.

CHAPTER 1

1.1 AGGREGATE SUPPLY

1. Growth has decelerated compared to the previous quarter, due to the worsening downturn in agriculture. The nominal GDP increased by 21 percent to MNT 37 trillion, and the real GDP by 5.6 percent to MNT 14.4 trillion in the first half of 2024. Growth decelerated from the previous quarter, mainly due to the agricultural contraction. Except agriculture, all economic sectors contributed positively to the growth. Despite the downward pressure from the contraction in agriculture, economic growth is expected to be around 5.6 percent in 2024, supported by an increase in service sectors' activities fueled by increased household consumption.

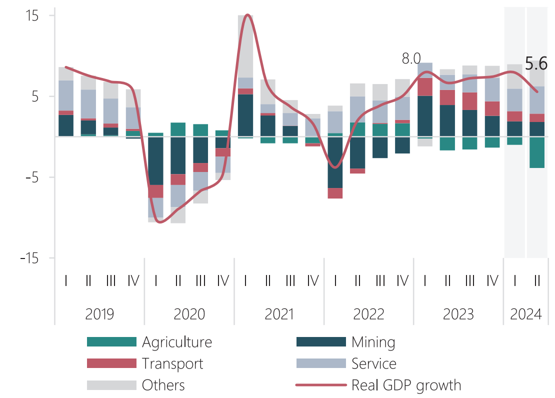
2. The mining output was pulled up by a continued increase in coal and iron ore production. The mining sector expanded by 15.4 percent year-on-year, contributing 1.8 percentage points to overall growth. Coal production reached 47.8 million tons, increased by 36 percent and iron ore production amounted to 4.6 million tons, which rose significantly by 47 percent from the same period the previous year. Meanwhile, copper concentrate production grew by 4.3 percent in the first half of the year, from a slight decline of 0.5 percent in the first quarter of 2024, largely due to increased production at Oyu Tolgoi. On the other hand, crude oil and gold production declined by 13 and 18 percent, respectively. Overall, the mining sector's performance in the first half of 2024 was in line with our projection.

3. Non-mining sectors grew by 4.2 percent in the first half of 2024, accounting for two-thirds of the total growth. This was driven by increased production in transportation, wholesale and retail trade, manufacturing, construction, and other services.

4. Higher coal exports have been supporting the transportation sector. The transportation sector expanded by 25 percent, contributing 1.0 percentage points to the growth, as the carried freight volume

Figure 1.1 Real GDP growth

1. **Real GDP growth contribution**
(percentage points)

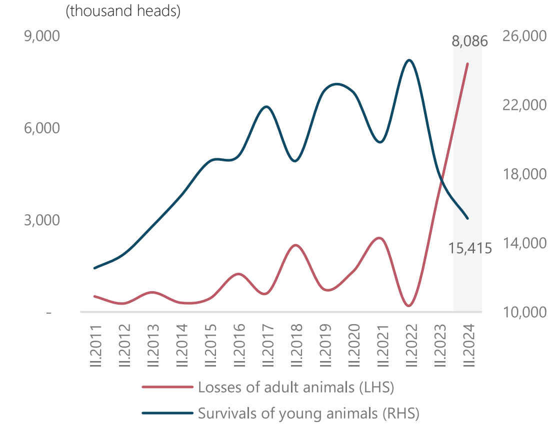


Source: National Statistics Office
Note: Contributions of sectors to the cumulative growth of real GDP.

2. **Real GDP growth by sectors**
(percent)

Source: National Statistics Office
Note: Cumulative growth of real GDP.

3. **Animal losses and survival**
(thousand heads)



Source: National Statistics Office
Note: Animal losses and survivals of the first half of each year.

reached 55.6 million tons, reflecting coal export volume rose by 27 percent compared to the previous year. Furthermore, respective increases of 13.2 percent and 8.9 percent in imports through railway and transit transportation are boosting the sector's growth and the sector's performance was similar to its projection.

5. The manufacturing sector sustained its growth momentum, supported by beverage production. In the first half of 2024, the manufacturing sector expanded by 6.3 percent year-on-year, adding 0.4 percentage points to economic growth. This growth was largely driven by beverage production, which makes up about 25% of the sector. Particularly, water and soft drinks production grew by 15 percent, alcohol production by 59 percent, and juice production by 55 percent. However, meat production, which constitutes about 10-15% of the manufacturing sector, saw a 25% decline from the same period the previous year due to livestock losses from adverse weather conditions in 2023-2024.

6. The construction growth accelerated as general engineering construction increased. Construction output increased consistent with projection, by 19.5 percent compared to the same period last year, contributing 0.3 percentage points to the growth. This expansion was primarily driven by the construction of railways and dams, ditches, cables, and networks in Ulaanbaatar.

7. The service sector expanded faster than expected and was the biggest contributor to the growth. The wholesale and retail trade is the largest activity in the service sector and expanded by 6.8 percent, exceeding expectations in the first half of 2024. The sales growth of non-food goods was the key driver, which made up 79 percent[2] of overall sector's revenue due to a rise in wholesale trade of motor vehicle parts and petrol, as well as higher household non-food consumption and imports of goods. Additionally, the information and communication activities grew substantially, recording 17.4 percent, while other services expanded by 7.1 percent. With more enterprises, employees, and increased newly issued loans in the service sector, growth is expected to be sustained in the second half of the year.

8. Agricultural output shrunk sharply due to a significant loss of adult livestock. The losses of adult livestock and lower survival of young livestock resulted in an agriculture contraction of 26.7 percent, decreasing overall growth by 3.9 percentage points. The loss of adult livestock reached 8.1 million heads, an increase of 4.2 million heads from the same period last year. Meanwhile, the number of survivals of young livestock fell to 15.4 million heads, a decrease of 2.6 million heads compared to the previous year. The loss of adult livestock is equal to 12.5 percent of the total number of livestock at the beginning of the year. Between 2023 and the first half of 2024, a total of 13 million heads of livestock were lost, which is expected to impede the recovery of the agricultural sector.

[2] As of 2024H1, the trade sector's sales revenue was composed of 21 percent from food products and 79 percent from non-food products. Source: NSO.

CHAPTER 1

1.2 AGGREGATE DEMAND

9. The stronger than expected domestic demand fueled the economic growth. The growth accounted for 5.7 percent, led largely by final consumption, supported by an uptick in wages. The largest positive contributors to growth were private, public consumption and changes in inventories, which accumulated 12.1, 9.7, and 6.0 percentage points, respectively, while net exports contributed to lowering growth by 21.9 percentage points. Particularly, private consumption increased by 16.9 percent, and public consumption[3] grew by 46.9 percent. Net export declined by MNT 176.8 billion, reflecting a 29.4 percent increase in goods import as rising consumption and domestic activation. Domestic demand is expected to remain strong and to support the growth further, as upcoming holiday and tourism season.

10. In the first half-year, household real income improved by 17.3 percent, yet the growth pace is expected to slow in the second half-year. Household income reached MNT 2.5 million, rose by MNT 486 thousand as household labor income increased by MNT 371 thousand, and social welfare and pension benefits grew by MNT 70 thousand over the same period. The government of Mongolia once again raised civil servants' wages by an average of 10 to 40 percent starting in April 2024. Moreover, household income was supported by 5.3 percent increase in number of workers, which amounted to 1,347 thousand people in 2024H1, and the employment rate improved to 58.6 percent, increased by 2.3 percentage points. Household income growth is expected to decelerate by the second half of the year due to the high base effect.

11. Rising personal loans are injecting household consumption. Credits to households, including salary, pension, and savings-backed loans, surged, leading to a significant 40.8 percent rise in personal outstanding loans, which has expanded household consumption. Household expenditure on non-food items expanded by 28.1 percent, while food expenditure remained unchanged. Particularly, in the first half year, expenditures on transportation, durables, and utilities increased notably by 43.4 percent, 45.1 percent, and 17.9 percent, respectively. Combined effects of the personal saving increase of 22.3 percent in the first half-year and the Bank of Mongolia's decision[4] to ease loan requirement on consumer credits, are expected to promote private consumption further.

12. In Ulaanbaatar, household real income has grown by 21.3 percent, while in rural areas, it has increased only by 1.4 percent. Around 47 percent of overall registered households are living in Ulaanbaatar, 21 percent are in other urban areas, and the remaining 32 percent live in the countryside. In Ulaanbaatar, the average income was estimated at MNT 2.9 million, while the household average income in the countryside reached just MNT 2.0 million. Moreover, labor income made up 60 percent of household income in urban areas, whereas around half of herder family's income comes from livestock production. In the first half year, income flow from livestock dropped by 10.9 percent due to a huge agricultural production loss, leading to 3.6 times slower growth in herder's income relative to the national average.

[3] Household consumption includes non-profit organizations' consumption.

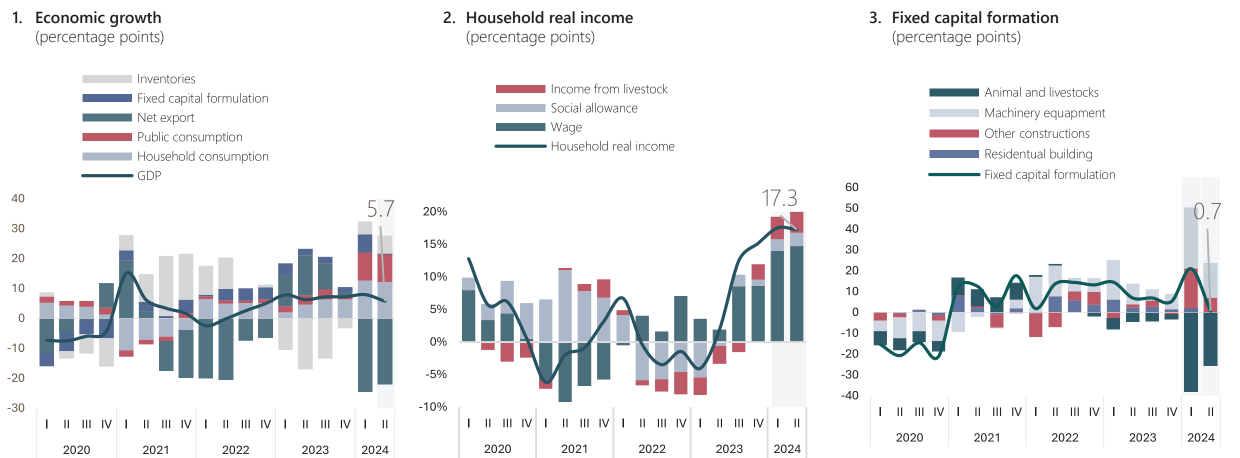
[4] By Monetary Policy Committee meeting on June 25 and July 2, 2024, the of the Bank of Mongolia decided not to impose debt-to-income ratio (ROI) restrictions on new credit card loans with an amount lower than the minimum subsistence level; and not to apply the IOC and time limits to higher education tuition loans that meet certain conditions.

13. Low-income families are still struggling. According to NSO, 36.5 percent of households are earning less than MNT 1.6 million, and their average income is estimated around MNT 1 million. At the same time, households' average income, which earns more than MNT 1.6 million, accounted for MNT 3.2 million. Moreover, labor income comprises 62.1 percent of total income for households with higher income than MNT 1.6 million; meanwhile, it comprises only 23.5 percent for households with income lower than MNT 1.6 million. Also, the labor income of households with income lower than MNT 1.6 million decreased by MNT 34.7-105.6 thousand, indicating that the wage rise has been effectless for them.

14. Inventory accumulation was substantial. Gross capital formation consists of two components, namely fixed capital formation and changes in inventory. Annual growth of gross capital formation was 17.6 percent, largely driven by 1.6-folded inventories, which reached MNT 1.4 trillion. A huge contraction in biological assets due to a large number of adult animal losses, offset the 30.6 percent increase in machienary equipment and the 29.4 percent increase in engineering construction, subsequently, the fixed capital formation grew only by 0.7 percent. Financing was good as credits to corporations rose by 50.7 percent, FDI increased by 70.7 percent, and fiscal investment increased by 59.0 percent.

15. Net export contracted due to the significant increase in goods and service imports. National currency strengthening is attributed to the moderation of import prices, coupled with economic activation, which increased imports for consumption and investment.

Figure 1.2 Growth contribution



Sources: NSO, MED estimates

Sources: NSO, MED estimates

Sources: NSO, MED estimates

CHAPTER 1

1.3

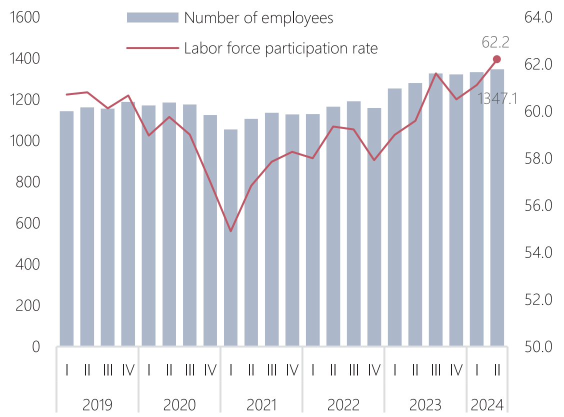
LABOR MARKET AND BUSINESS

16. The labor market has not only recovered but also exceeded pre-pandemic levels. In the second quarter of 2024, the number of employed individuals grew by 68 thousand compared to the same period last year and by 72[5] thousand compared to pre-pandemic figures, reaching a total of 1 million 347 thousand. This marks a 16 percent increase over the projected 1 million 200 thousand employees, continuing the post-COVID-19 upward trend. Excluding seasonal effects[6], the number of employees increased by 46 thousand compared to the same period last year. Growth in the trade and service sectors played a significant role, with increases of 47 thousand and 41 thousand employees, respectively. However, the agricultural sector experienced a decline, losing 42 thousand workers, which slowed the overall growth rate. In terms of location, urban employment rose to 617.4 thousand, an increase of 71.2 thousand from the previous year, while rural areas, accounting for 54 percent of total employment, saw a slight decline to 729.7 thousand, down by 3.1 thousand from the same period last year.

17. Unemployment among women has risen. The number of unemployed individuals increased by 6 thousand compared to the same period last year, reaching 82.3 thousand. Consequently, the unemployment rate grew by 0.1 percentage points, bringing it to 5.8 percent. In terms of gender distribution, 58 percent of the unemployed are men, and 42 percent are women. The number of unemployed men increased by 1 thousand from the same period last year to 47.6 thousand, while the number of unemployed women saw a more significant rise, increasing by 5.1 thousand to 35 thousand.

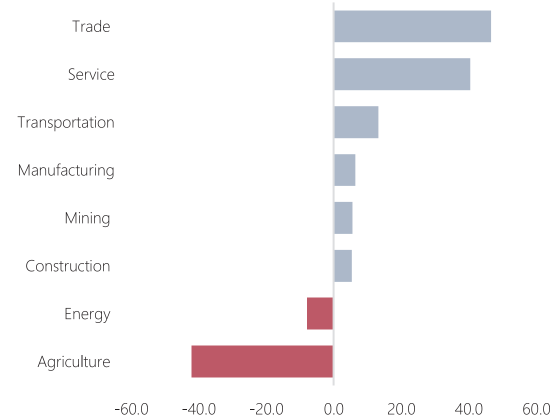
Figure 1.3. Labor market

1. **Number of employees and its change**
(thousands, percentage)



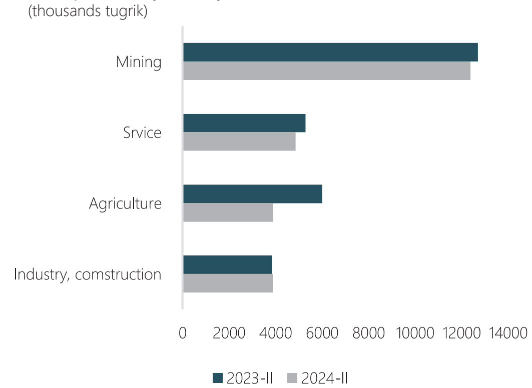
Source: National Statistics Office

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



Source: National Statistics Office

3. **Labor productivity level, by sector**
(thousands tugrik)



Source: National Statistics Office

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5 Due to adjustments in the calculation methodology for the Labor Force Survey weights, the updated figures have been applied.

6 Seasonal detrending is a statistical method that removes recurring seasonal patterns from time series data. These patterns often arise from factors such as weather changes, holidays, school schedules, and agricultural cycles. By eliminating these regular fluctuations, it becomes easier to identify underlying trends and cyclical movements, enabling more accurate comparisons between different time periods.

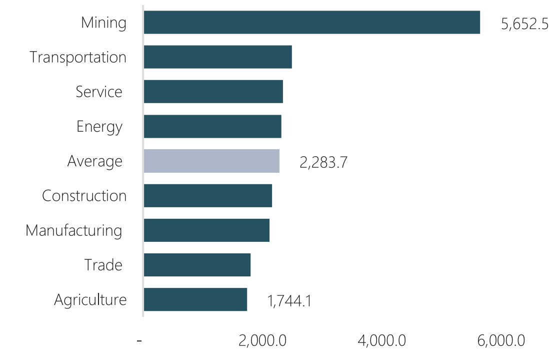
18. People's tendency to work has been increasing. As both the number of employed and unemployed individuals has risen, the labor force, measured by the sum of these groups, grew by 74 thousand compared to the same period last year, reaching 1 million 429 thousand. This expansion in the labor force led to a 2.6 percentage point increase in the labor force participation rate, bringing it to 62.2 percent. After adjusting for seasonal variations, the participation rate stood at 60.2 percent, which is 0.8 percentage points higher than the same period last year. Meanwhile, the number of people outside the labor force, representing 38 percent of the working-age population, decreased by 49 thousand, bringing the total to 869 thousand. This suggests that a portion of the population previously outside the labor force has become more active, joining the ranks of either employed or unemployed citizens. Among the reasons for this shift, the number of pregnant women and those caring for children decreased by 19 thousand, while those caring for the elderly or sick, unable to find jobs, or disinterested in working, each decreased by 6 thousand. This trend largely reflects the growing participation of women in the labor market.

19. The decline in agricultural productivity has had a negative impact on overall labor productivity. Labor productivity dropped by 10 percent compared to the same period last year, falling to 5 million 936 thousand. By sector, productivity in the industry and construction sectors increased by 1 percent, reaching 3 million 882 thousand. However, the sharp decline in the agricultural sector led to a 35 percent decrease in labor productivity per worker, bringing it down to 3 million 902 thousand. Additionally, productivity in the mining and service sectors fell by 2.5 percent and 8 percent, respectively, with the impact of the rising number of workers in these sectors.

20. Despite rising wages, more than half of all workers earn below the average wage. In the second quarter of 2024, the nominal average wage increased by 452.9 thousand MNT compared to the same period last year, reaching 2.3 million MNT. The median wage[7], however, increased by 445.9 thousand MNT to 1.8 million MNT, indicating that half of the workforce earns less than 1.8 million MNT, while the other half earns more. This highlights the disparity, as although the average wage exceeds 2 million MNT, more than half of employees actually earn less than this figure. Looking at average wages by sector, the mining industry leads with the highest average wage at 5.7 million MNT, which is 2.5

Figure 1.4 Wage

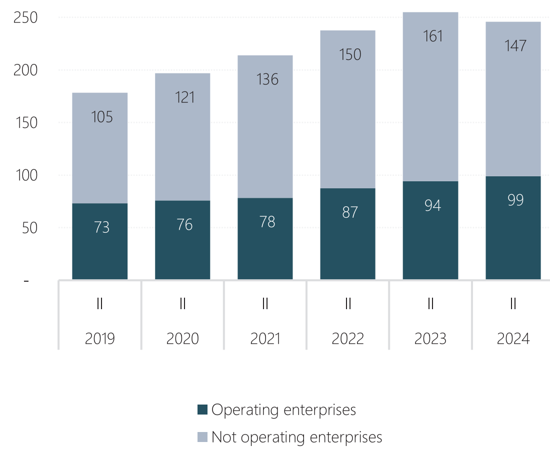
1. Average wages in enterprises, by sector
(thousands tugrik)



Source: National Statistics Office

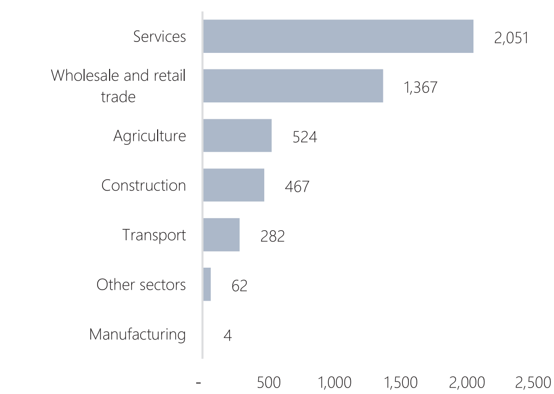
Figure 1.5. Business register

1. Total number of registered enterprises by operating status
(thousands)



Source: National Statistics Office

1. The change in the number of enterprises operating by sector
(the number of enterprises)



Source: National Statistics Office

[7] The median wage represents the middle value in a list of employee salaries arranged in either ascending or descending order. It is the point at which half the employees earn more, and half earn less.

times higher than the national average. In contrast, the hotel, accommodation, and catering industry has one of the lowest average wages, at 1.4 million MNT, which is 1.6 times lower than the national average.

21. The growth in domestic economic activity and foreign demand has intensified enterprise operations. As of the second quarter of 2024, the number of enterprises operating has reached 99.1 thousand, marking a 5.5 percent increase from the same period last year. With increased domestic economic activity and purchasing power, the number of enterprises operating in the service sector increased by 2.4 thousand, including 1.1 thousand from the wholesale and retail trade sector, which accounts for 76 percent of the service sector. The growth in the wholesale and retail trade sector was driven by small enterprises (1-9 employees), while medium and large enterprises in the sector are on the contrary decreasing. Mining exports increased the number of enterprises operating by 282 in transport and 47 in mining. In the mining sector, 34 new enterprises employ 1-9 people, 6 employ 10-19, 3 employ 20-49, and 4 employ more than 50. In the transport sector, medium and large enterprises declined, while those with 1-9 employees increased. In agriculture, the number of enterprises operating increased by 551, with 201 in crop farming, 7 in animal husbandry, and 306 in forestry. The number of enterprises operating increased by 407 in manufacturing and 467 in construction, with the construction sector experiencing the highest growth in medium and large enterprises (Figure 1.5).

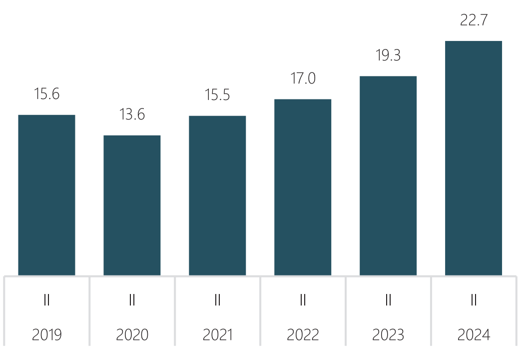
Table 1. Change in the number of enterprises operating by employee count

Number of employees	Number of enterprises	Percentage change	Note
1-9	84.4	6.1%	The service sector accounted for two-thirds of the growth.
10-19	7.1	3.9%	Agriculture contributed 1.4 percent, services 1.3 percent, and construction 0.8 percent of the growth.
20-49	4.9	0.5%	Of the 22 newly started enterprises, 17 are in construction.
50+	2.8	2.0%	Of the 54 new enterprises, 38 are in services, 8 in construction, 4 in mining, and 3 in manufacturing.
Total	99.1	5.9%	

22. The majority of the increase in enterprise sales revenue was driven by the service sector. As of the second quarter of 2024, the real sales revenue of enterprises rose by 17.6 percent year-on-year, reaching 22.7 trillion MNT (Figure 1.6). The service sector contributed 15.7 percentage points to the increase, with growth primarily from the wholesale and retail trade sector, which form the largest part of the sector.

Figure 1.6. Sales revenue of enterprises in real value

(trillions, 2015=100)



Source: General Authority of Taxation

BOX 1. LABOR FORCE PARTICIPATION RATE

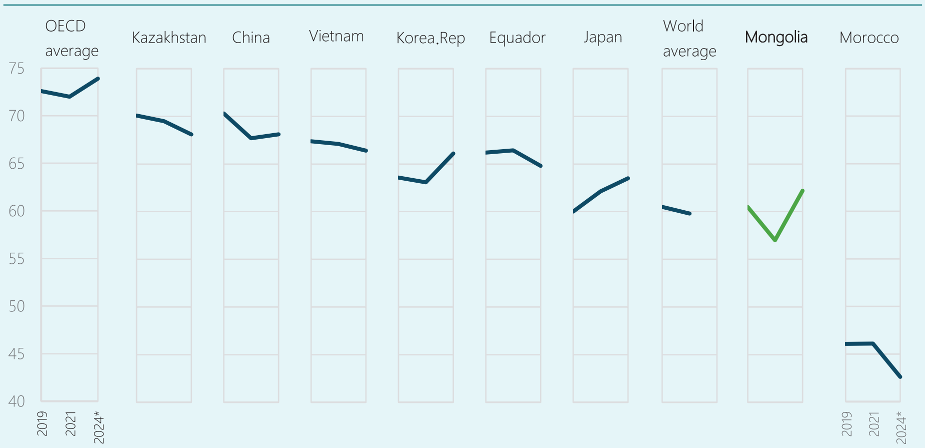
Figure 1.7 illustrates how the labor force participation rate has evolved in various countries worldwide due to the impact of the pandemic, focusing on representative nations with available quantitative data. It presents the levels from 2019 (pre-pandemic), 2021 (during the pandemic), and 2024 (post-pandemic). As shown in the figure, labor force participation generally declined across countries during the pandemic, irrespective of their development status. However, by 2024, labor force participation in some countries, particularly developed ones, has rebounded, while in others, it has continued to decline, even after the pandemic.

Countries experiencing consistent economic growth, such as Vietnam, Kazakhstan, China, and South Korea, have maintained labor force participation rates between 63 percent and 70 percent. In the case of Mongolia, labor force participation stood at 61 percent before the pandemic but dropped to 57 percent during the pandemic. However, with the successful recovery and revitalization of the economy following the pandemic, employment has increased, and as of the second quarter of 2024, the labor force participation rate has reached 62.2%, marking the highest level since 2015.

With the expectation that the labor force participation rate will rise by 1 percentage point each year, reaching 65 percent by 2028 (assuming the unemployment rate will maintain its trend), the number of employed individuals will need to rise by an average of 47 thousand per year over the next four years. This means a corresponding number of new jobs must be created annually to accommodate the growing workforce and sustain the employment rate.

Figure 1.7. Labor force participation rate

(pre-pandemic, pandemic, post-pandemic, by countries)



Source: ILO, OECD, NSO

** The labor force participation rate for 2024 has been updated using the most recent available data for the country.*

As of the second quarter of this year, 1,347 thousand people are employed in our country. To increase the labor force participation rate to 65 percent within the next 4 years, an additional 190 thousand workers will be required. This workforce will comprise 80 thousand graduates from universities, vocational and technical educational institutions, and 110 thousand individuals from other groups currently outside the labor force. To achieve this:

- To support the employment of those outside the labor force - such as the elderly, students, people with disabilities, caregivers, and those lacking professional or practical experience - measures in the Government Action Program includes training the elderly in new skills, reserving 2 percent of jobs for the elderly, and 4 percent for people with disabilities, improving the legal framework for students and young people to work during their free time, supporting start-up businesses, and creating a legal environment for childcare and daycare services, supporting the care economy, providing opportunities for remote and short-term work, targeting the social welfare, assistance and services provided by the government, diversifying vocational and technical education institutions in the provinces to meet labor market demands and on introducing KOSEN training colleges to enhance skill development in line with workforce needs.

In our country, approximately 30 thousand people are expected to retire per year between 2025 and 2028, while 50 thousand students will graduate and enter the labor market. Assuming 30,000 of these graduates will fill existing vacancies, the remaining 20 thousand will require new jobs. Additionally, as more individuals from outside the labor force join the workforce, an average of 47 thousand new jobs will need to be created annually. This aligns with the – Barometr Survey on Labor Market Demand[8], which has shown an average of 48 thousand new job openings per year over the past four years. Therefore:

- Along with supporting economic growth and investment, the plan includes implementing development projects and programs, the "Productivity Revolution" initiative will be introduced to expand electronic and remote jobs that support intellectual work, creating 1,000 high-tech jobs, tax and economic policy incentives will be provided for small, medium-sized, and self-employed businesses that create stable jobs, etc.

[8] An annual survey conducted by the Training, Assessment and Research Institute for Labor and Social Protection

CHAPTER 1

1.4 BUSINESS CYCLES

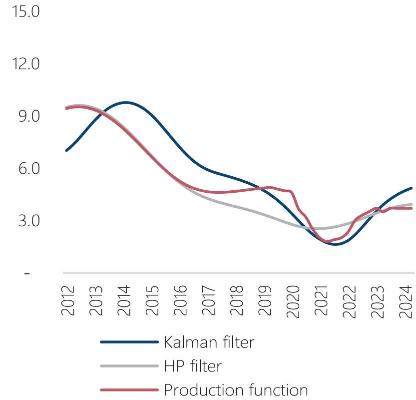
23. Potential output growth was maintained by the recovery of the labor market. In the first quarter of 2024, the gross fixed capital formation decreased due to the loss of 8.1 million heads of adult livestock, but the growth of potential production was maintained at about 4 percent due to the rebound of the labor market. For instance, machinery and equipment positively impacted gross fixed capital formulation for 2 consecutive quarters but cultivated biological assets and buildings at a constant price decreased by 387 billion MNT and 90 billion MNT, respectively, resulting in an overall decrease of 349 billion MNT in gross fixed capital formation in the reporting quarter. Conversely, the number of employees increased by 46,000 from the same period last year and by 12,000 people from the previous quarter.

24. The contraction in the agricultural sector widened the negative output gap. In the reporting quarter, the tendency to reach the production potential level was shifted from -0.5 to -1.0 due to the agricultural sector shrank. However, by the end of the year, the negative output gap is expected to be closed because the contraction impact of the agricultural sector on the GDP gradually diminishes while domestic economic activity maintains its growing inertia.

25. Domestic currency appreciation led to a decrease in prices of imported intermediate goods, is spurring business activities. A real marginal cost is the cost of using an additional unit of labor or the intermediate goods used in production. About 60 percent of total import is used in production, indicating the appreciation of tugrug contributes to cost reduction in production. In the reporting quarter, compared to the SPLY, tugrug appreciated by 2 percent, and the real marginal cost[9] decreased by 5 percent, led labor market recovery.

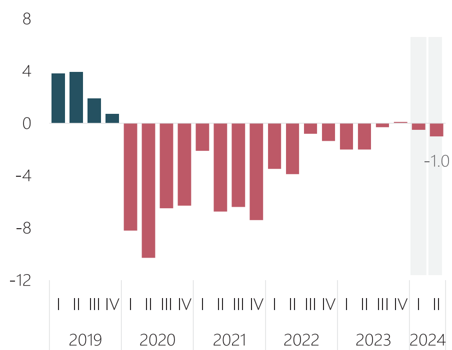
Figure 1.8. Output gap

1. **Potential output growth**
(percentage)



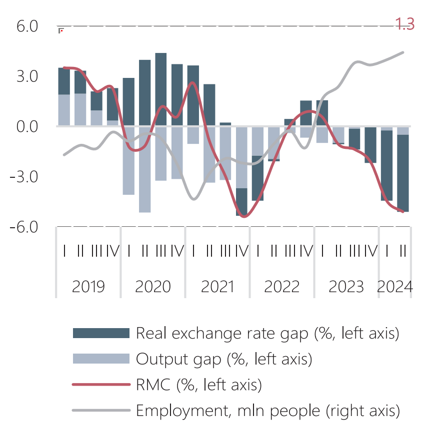
Source: Estimasion of the MED
Note: Potentiel output growth is calculated by 3 different approaches HP filter, Kalman filter and Prodcution function.

2. **Output gap[10]**
(percent of potential output)



Source: Estimasion of the MED
Note: Output gap is calculated by Production function.

3. **Employment[11] and RMC (real marginal cost)**
(left axis: mln people, right axis: percent)



Source: Estimation of the MED
Note: RMC is evaluated from the GAP model of Monetary Policy Analysis.

[9] Calculated from output gap and real exchange rate gap
[10] The difference between actual GDP or actual output and potential GDP
[11] Calculated by newly announced employment statistics from Labor Force Survey which adjusted by weight.

CHAPTER 2

FISCAL SECTOR

2. FISCAL SECTOR

OVERVIEW

Although the overall fiscal balance recorded a surplus of MNT 57.9 billion in the second quarter of 2024, driven by strong domestic economic activity and increased demand for coal, the seasonally adjusted balance was at a deficit of MNT 40.4 billion. The increase in salaries for public sector employees —aimed at supporting civil servants, encouraging regional development, and creating a favorable living environment in rural areas—positively impacted household real incomes, which grew by 17.3 percent in the first half of 2024. The government's debt-to-GDP ratio, expressed in nominal terms, fell to 38.3 percent in the first half of 2024. However, due to the issuance of securities in both domestic and international markets by the capital city, the government's debt is expected to rise in the medium term because of pending issuances of new external and domestic bonds by Ulaanbaatar City.

CHAPTER 2

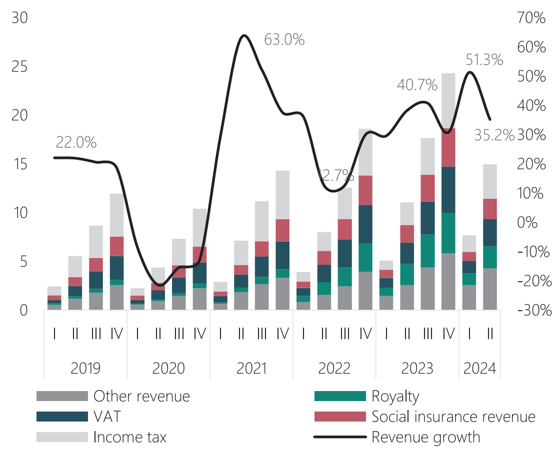
2.1 FISCAL POLICY

26. The growth of the budget income was mainly influenced by the high activity of the domestic economy and the increase in the volume of exports of mining products. Budget revenue reached MNT 14.9 trillion in the first half of 2024, an increase of 35.2 percent from the same period last year. The domestic demand of the economy has become active, and in the first half of 2024, government consumption has expanded by 46.9 percent and household consumption by 16.9 percent, respectively, compared to the same period last year. As a result, VAT revenue reached MNT 2.8 trillion in the first half of 2024, an increase of 27 percent from the same period last year (Figure 2.1). In addition, due to the decrease in China's coal production, the demand has increased and the volume of coal exports reached 40.6 million tons in the first half of 2024, which is a 27 percent increase from the same period last year. Consequently, CIT's income increased by 74.4 percent and royalty's income increased by 21.7 percent, respectively. (Figure 2.1)

27. The multiple increases in wages and pensions has had a positive effect on household income. Total budget expenditure in the first half of 2024 reached MNT 12.9 trillion, an increase of MNT 3.9 trillion, or 42.9 percent, compared to the same period last year. As part of the government's policy to reform the civil service and enhance social security for civil servants, which is indicated in the New Recovery Policy, the salaries of civil servants were increased by an average of 40 percent starting from July 1, 2023. Additionally, from April 1, 2024, salaries for general public service employees increased by 20 percent. The wage floor for civil servants of public service was also raised by 20 percent, while other civil servants' salaries increase by 10 percent. Furthermore, as part of the decentralization policy, the salaries of district civil servants in remote provinces and sums have been increased by 20-40 percent. These policies and actions contributed to a 17.3 percent increase in real household income. (Figure 2.2)

Figure 2.1. Budget revenue

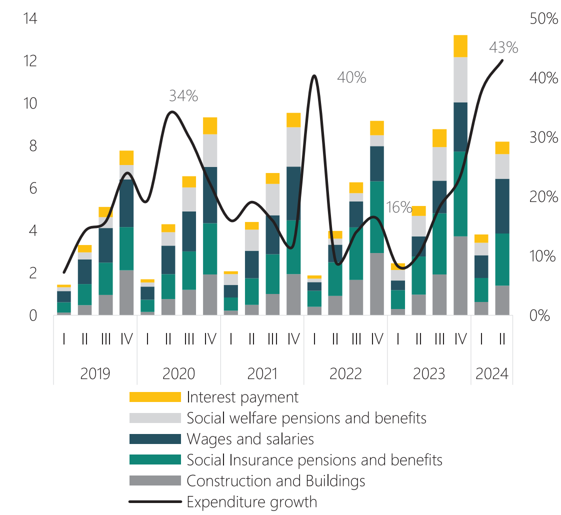
(in trillion MNT: left axis, percent: right axis)



Source: Ministry of Finance

Figure 2.2. Budget expenditure

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

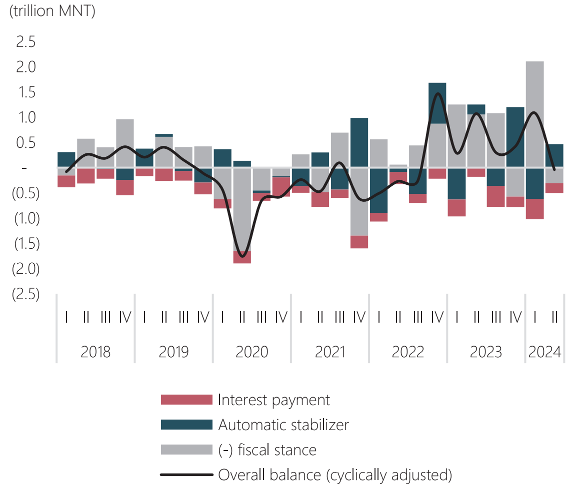


Source: Ministry of Finance

28. As of the first half of the year, the performance of public investment has been slow. As of the first half of 2024, the performance of investment financing is 15.5 percent. Due to this underperformance, capital adjustments have been made based on the progress of ongoing projects. Funding for stalled projects, which are no longer capable of receiving financing, is being reallocated to projects that are progressing well.

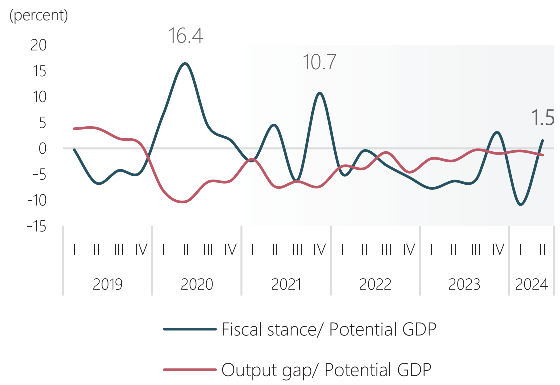
29. In the second quarter of 2024, the total budget balance showed a profit of MNT 57.9 billion, but if seasonal effects are removed, there is a deficit of MNT 40.4 billion. Although the effect of the automatic stabilizer, which represents the economic overall performance and economic cycle, was positive, cyclically adjusted budget balance resulted deficit due to the implementation of expansionary budget policy compared to the previous fiscal year. Figure 2.3 shows the contributions to the budget balance, the effects of the economic cycle which is fiscal policy as a fiscal stance, and the debt burden as interest costs. The impact of fiscal policy related to fiscal expansion on the seasonally adjusted gross balance deficit MNT -309.4 billion, the impact of interest expenses had a negative impact equivalent to MNT -193.3 billion, while the effect of the economic cycle related to internal economic activity had a positive impact of MNT 462.3 billion. As a result, fiscal impulse or the variance of the fiscal policy, calculated as the annual change in the fiscal stance, reached MNT 1.3 trillion, which is the highest change since the COVID-19 pandemic.

Figure 2.3. Overall balance, fiscal stance, automatic stabilizer



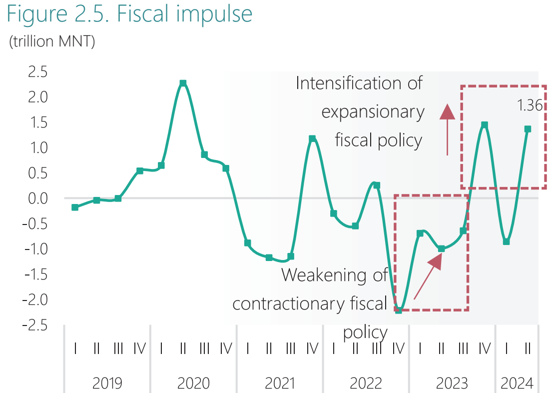
Source: Ministry of Economy and Development estimation
Note: All variables in the estimation are calculated on a non-cumulative basis

Figure 2.4. Fiscal stance



Source: Ministry of Economy and Development's estimation

Figure 2.5. Fiscal impulse



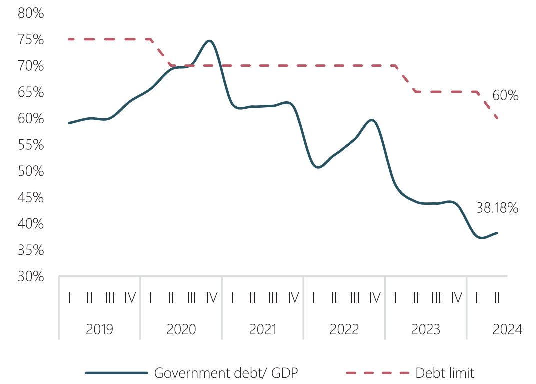
Source: Ministry of Economy and Development's estimation

CHAPTER 2

2.2 GOVERNMENT DEBT SUSTAINABILITY

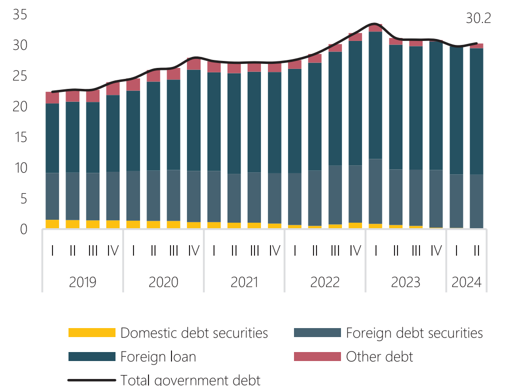
Figure 2.6 Government debt situation

1. **Government debt**
(percent)



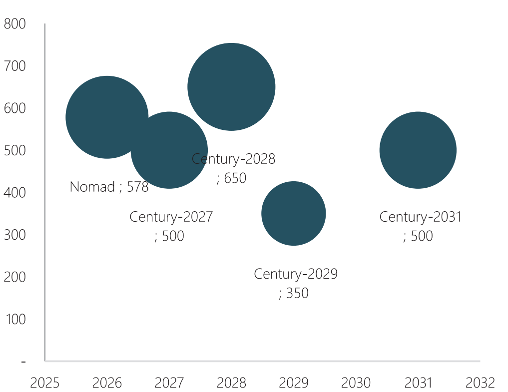
Source: Ministry of Finance

2. **Government debt structure**
(trillion MNT)



Source: Ministry of Finance

3. **Foreign bonds repayment schedule**
(USD million)



Source: Ministry of Finance

30. The government debt in nominal term decreased by 2.8 percent compared to the same period last year but increased by MNT 475.4 billion from the previous quarter. By the first half of 2024, the government's total debt stood at MNT 30.2 trillion, reflecting a decline of MNT 863 billion from the same period last year. This reduction was driven by a decrease in domestic debt by MNT 510 billion and contingent liabilities by MNT 490 billion. However, compared to the previous quarter, government debt increased by MNT 475.4 billion, primarily due to a rise in government-guaranteed debt by MNT 225.3 billion and an increase in local loans by MNT 500 billion.

31. In the short term, budgetary pressures from bond repayments remain low. As of the first half of 2024, the balance of the government's foreign securities stands at MNT 8,716 billion. The Nomad, Century-2027, Century-2028, Century-2029, and Century-2031 bonds, which were issued since 2020 and traded on international markets, were exclusively for debt refinancing purposes. Through the implementation of debt management measures, the the bonds maturing between 2022-2024, Chingis, Gerege, and Khuraldai, were succesfully paid under the Century program, totaling USD 2.2 billion, of which USD 281 million was covered by state funds. Although no foreign securities are due for repayment until 2026, a total repayment of USD 2.6 billion is planned over the next five years, starting from 2026.

32. The share of foreign debt in the government total debt is high. As of the first half of this year, foreign loans accounted for 70 percent of the government's external debt and 68 percent of its total debt. The balance of foreign loans increased by MNT 334 billion compared to the same period last year, totaling MNT 20,630.2 billion. Meanwhile, MNT 582.0 billion was paid for foreign loan servicing, or interest payments, with a total of MNT 2,719.5 billion expected to be paid this year. Over the past two years, a total of MNT 1,941.2 billion has been paid in foreign interest payments. In 2024, a total of 106 projects and initiatives are being financed through foreign loans, including 44 construction projects related to electricity and heat supply.

33. The primary balance has a significant impact on the medium-term outlook for government debt. Debt sustainability analysis can illustrate how sensitive the government's debt stability is to key macroeconomic indicators. For the purpose of this analysis, the following assumptions are made: 1) there are no policy or structural changes; 2) all variables except those affected by the shock remain constant; 3) the base level remains unchanged in all years except the year in which the shock occurs.

Based on the baseline projection from 2024 to 2027, GDP growth is forecasted at 5.6 percent, 8.0 percent, 6.5 percent, and 6.5 percent, while inflation is projected at 6.5 percent, 7.5 percent, 5.0 percent, and 4.0 percent. Currency depreciation is assumed to remain at the average level of the past 10 years, and other macroeconomic indicators are expected to remain stable at their 2023 levels.

By 2027, government debt is projected to equal 42.7 percent of GDP. The impact of shocks on key indicators is estimated at 1 standard deviation for the years 2025 and 2026. The analysis shows that if such shocks occur, there is a 25 percent probability that government debt in 2027 will increase from the baseline projection by 15.4 percent and 28.8 percent, respectively.

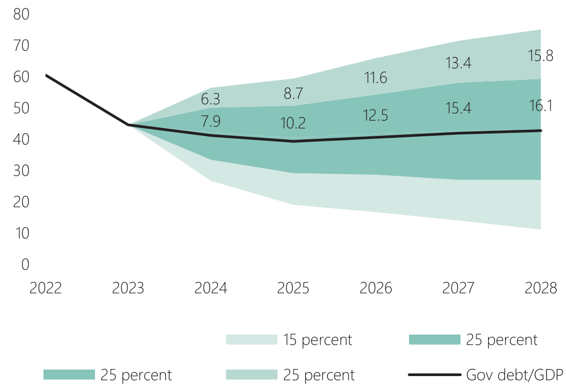
34. Maintaining the primary balance at a sustainable level is crucial for ensuring the stability of the public debt. The factors influencing government debt are assessed through debt dynamic analysis, as illustrated in Figure 2.7. In 2016, the nominal government debt-to-GDP ratio increased by 30.6 percent, with the primary balance deficit contributing 11.2 percentage points to this rise. In 2020, the primary balance deficit accounted for 6.9 percentage points of a 10.1 percent increase in public debt.

In 2023, the nominal government debt-to-GDP ratio decreased by 15.8 percent, with changes in real interest rates contributing 6.4 percentage points, and the primary balance surplus accounting for 4.3 percentage points of this decline. Looking ahead, real GDP growth and the primary balance are expected to have significant impacts on debt sustainability.

Figure 2.7. Stability of government debt

1. Effects of adverse shocks on government debt and nominal foreign interest rates and exchange rates

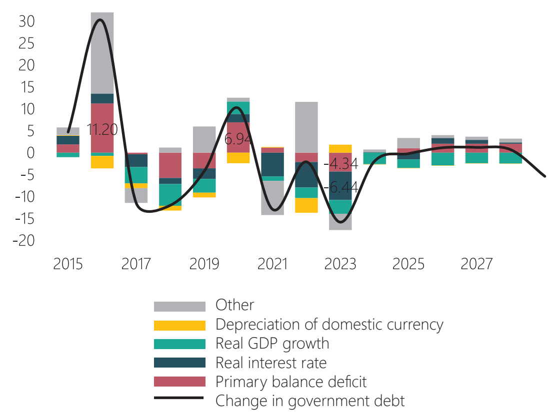
(in percent of GDP)



Source: Ministry of Economy and Development estimation

2. Factors affecting government debt

(in percent of change)



Source: Ministry of Economy and Development estimation

BOX 2. CHANGES TO THE LAW ON FISCAL STABILITY

The Law on Amendments to the Law on Budget Stability was approved at the special session of the National Assembly on August 29, 2024. The amendment has modified the following special fiscal requirements of the law.

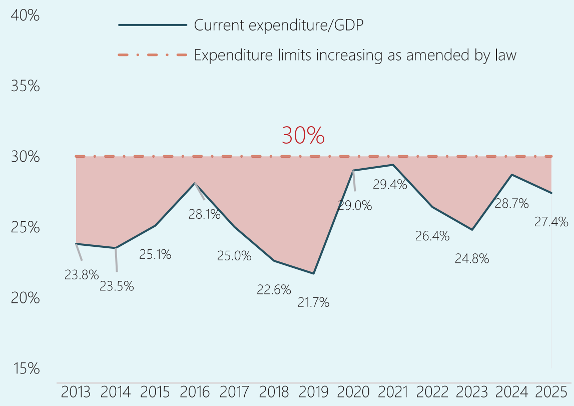
Table 2. Changes and amendments to the Special fiscal requirements

Special fiscal requirements	In accordance with the previous version of the law	Amendment on 5th of June, 2024	Amendments to the 2024 Budget Amendment
Budget revenue	To calculate the budget revenue, average price projections of the main mining products for the coming years calculated by the international organization should be used.	No changes	No changes
Budget expenditure	Not to exceed the previous year's growth of the non-mining sector and the average growth of the last 12 years	No changes	• Budget current expenditure should not exceed 30 percent of GDP. • The growth of total budget expenditure will not be restricted by the growth of the non-mining sector.
Budget Balance	Structural budget balance deficit should not exceed 2 percent of the gross domestic product of the current year, or a surplus	Starting from 2025, the budget deficit limit had been abolished.	• The structrual balance limit has not changed. • The base balance, which is new concept to the budgeting balance, is additionally calculated. • The base balance should be +2 percent of GDP or more.
Government debt	The amount of government debt should not exceed 60 percent of the gross domestic product, expressed in present value	The government debt should not exceed 60 percent of GDP starting from 2025	The government debt shall be calculated in nominal terms and the amount shall not exceed 60 percent of the GDP.

1. Repeal the provisions limiting the growth of total budget expenditures and ensure that current expenditures do not exceed 30 percent of GDP. The average current expenditures of consolidated budget of Mongolia over the past 10 years amount to 25.4 percent of GDP. According to the recent amendment, current budget expenditures are now capped at 30 percent of GDP. While this change increases the government involvement in the economy in the short term, it poses a potential risk of reducing the role of the private sector (as illustrated in Figure 2.8).

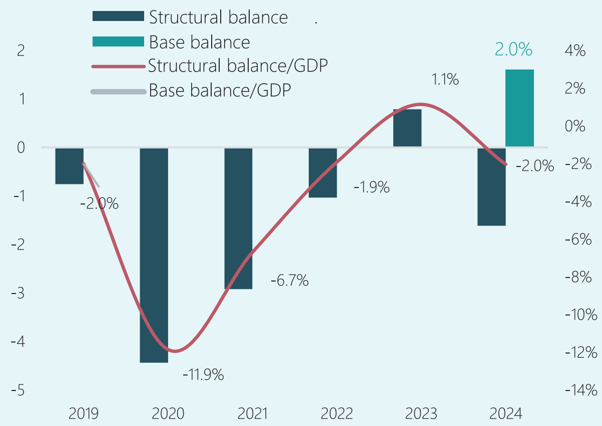
2. Calculate the base balance of the budget and maintain it at a surplus of 2 percent of GDP or more. Base balance is determined by subtracting the base expenditure from total revenue. Base expenditures are defined as the total expenditure minus "expenses financed by securities and foreign loans." This approach risks leading to fiscal instability, increased government intervention in the market, a rise in debt, weakened fiscal discipline, a potential downgrade of the country's credit rating, and excessive issuance of securities by government and local budget managers to fund capital expenditures. Such imbalances in the financial market could result in a loss of macroeconomic stability.

Figure 2.8. Current expenditure
(in percent of GDP)



Source: Ministry of Finance

Figure 2.9. Fiscal balane
(percent: right axis, trillion MNT: left axis)



Source: Ministry of Finance

3. The government's debt should not exceed 60 percent of the gross domestic product, calculated as a nominal amount.

According to the "Fiscal Discipline" indicator of the Economic Freedom Index announced by the World Heritage Foundation, the country's debt-to-GDP ratio is calculated as the average of the last 3 years. For Mongolia, the above-mentioned indicator is 71.9 percent as of 2023, or ranks 125th out of 195 countries in the world. According to this assessment, in order to be in the first half of the world, our country should limit the share of government debt to GDP to no more than 50 percent and take measures to gradually reduce the share of debt to GDP.

Table 3. Public debt

Indicator	2019	2020	2021	2022	2023	2024.II
Government debt, in nominal value, in trillion ₮	24.1	27.9	26.9	32.0	30.7	30.2
Share of GDP	65.3%	75.5%	62.6%	60.5%	44.6%	38.3 %
Government debt, in present value, in trillion ₮	20.5	23.0	21.8	27.7	26.5	26.2
Share of GDP	55.6%	62.3%	50.8%	52.4%	38.5%	33.2%

Source: Ministry of Finance

BOX 3. THE IMPACT OF DIGITIZATION ON FISCAL REVENUE

Over the past two years, several initiatives have been implemented to enhance budget revenues by broadening the tax base and improving budget expenditure control through digitization and technological advancements. These measures include:

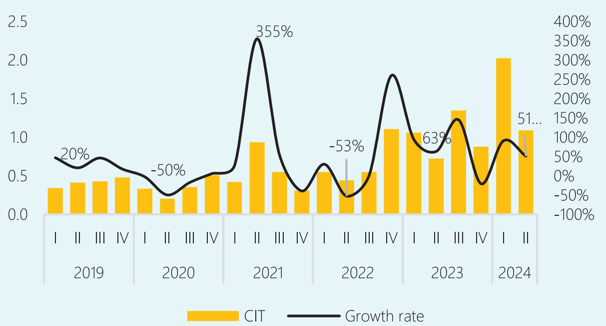
- **Enhancement of VAT Reporting:** By integrating goods, services, and works funded by budget investments into the tax registration information system, and shifting all budget-related cash flows to an e-payment receipt system, the efficiency of budget revenue collection has improved significantly. (Figure 2.10)

- **Improvement in Budget Expenditure Control:** A systematic requirement was introduced for enterprises financed by the budget to be connected to the tax registration information system, increasing the flow of tax income. As a result, in the first half of 2023, 51,199 entrepreneurs working with 4,939 budget-financed organizations reported sales income totaling MNT 2.3 billion. In the first half of 2024, this figure rose to 56,946 enterprises reporting sales income of MNT 3.1 billion. (Figure 2.10)

- **Excise Duty Control on Alcoholic Beverages and Tobacco:** Under the scope of the Law on Controlling Excise Goods, the collection of excise duties on domestic and imported goods has been streamlined. Agencies such as the General Department of Taxation, MOF, Customs and other relevant ministries exchange information to determine the origin of goods. Approval certificates for each commodity are now issued electronically, customs clearance has been simplified, and tax reporting has been automated. (Figure 2.10)

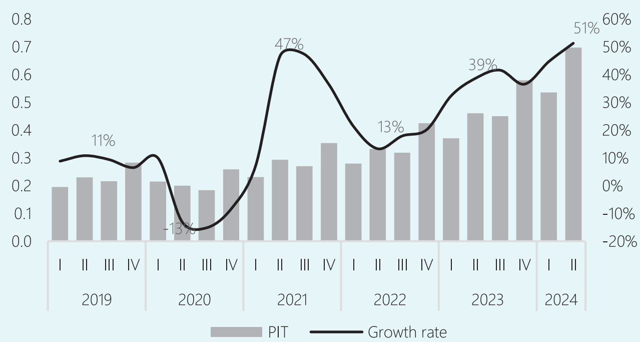
Figure 2.10. Tax revenue

1. Corporate income tax
(no-cumulative basis,trillion MNT:left axis, percent: right axis)

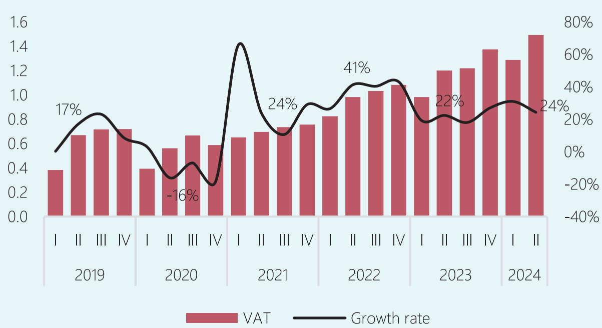


Source: Ministry of Finance

2. Personal income tax
(no-cumulative basis,trillion MNT:left axis,
percent: right axis)



Source: Ministry of Finance



Source: Ministry of Finance

Source: Ministry of Finance

CHAPTER 3

MONETARY SECTOR

3. MONETARY SECTOR

OVERVIEW

Inflation declined from 10.6 percent in June 2023 to 5.1 percent in June 2024. This disinflation is attributed to lower import prices resulting from a slowdown in international prices and the stabilization of the exchange rate. The Bank of Mongolia cut the policy rate twice in the first half of 2024, bringing it down to 11 percent. Broad money recorded substantial growth, reflecting the effects of the lower policy rate and fiscal expansion, along with credit growth. Deposit growth was supported by rising household real incomes, as real interest rates increased with disinflation and the exchange rate remained stable. Additionally, credit growth accelerated, and the share of non-performing loans in total loans fell to 5.9 percent, reaching an eight-year low.

CHAPTER 3

3.1

INFLATION AND MONETARY POLICY

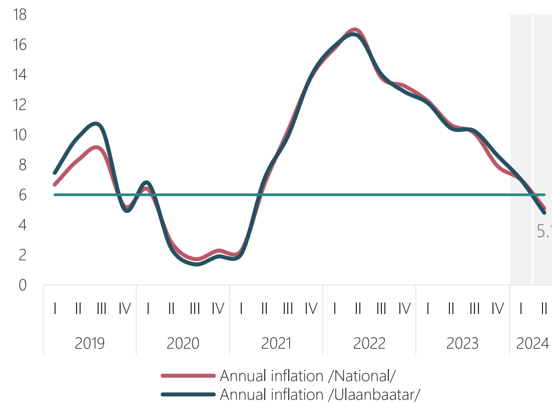
35. In the second quarter of 2024, the downward trend of inflation continued and reached 5.1 percent nationwide, indicating a decrease of 5.6 percentage points from the same period last year. Price increases in food, educational services, clothing, footwear, cloth and health, and medical care services contributed to the inflation rate by 1.4 percentage points, 0.7 percentage points, 0.6 percentage points, and 0.5 percentage points. The decline in inflation was attributed to the following group of goods and services by percentage points: 3.7 to food and non-alcoholic beverages, 0.7 to clothing, footwear, and cloth, 0.3 to furnishings, household equipment and tools, and 0.3 to transport.

36. Inflation trend from imported goods continued to decline, and inflation from domestic goods and services stabilized. Inflation from imported goods reached 3.9 percent, falling by 4.4 percentage points from the same period last year. It made up 35.3 percent of the total inflation. The price of some imported goods in the consumer basket decreased in the global market, and the exchange rate remained stable, mainly contributing to lower inflation from imported goods. Inflation from domestic goods and services decreased by 6.5 percentage points to 6.1 percent, compared to 12.6 percent in the same period last year in the second quarter of 2024. The slowdown in inflation from domestic goods and services was mainly due to a decline in food and services prices.

37. In the second quarter of 2024, the downward trend of food and non-food inflation was maintained. Food inflation, which was 18.2 percent in the same period last year, decreased to 4.8 percent and accounted for 28 percent of the inflation. The increase in prices of bread, flour, rice, dairy products, eggs, and vegetables explains 93 percent of the food inflation. Since May 1, 2024, the import of wheat flour has been exempt from customs duties. Despite the increased imported flour supply, domestic flour prices have risen by 0.3 to 2.5 percent each month. Conversely, the price of

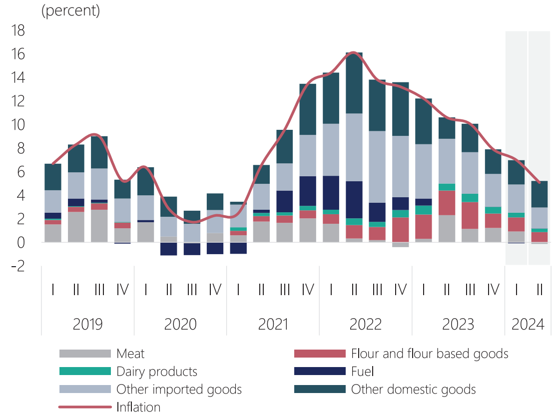
Figure 3.1. Inflation

1. Annual inflation and target rate
(percent)



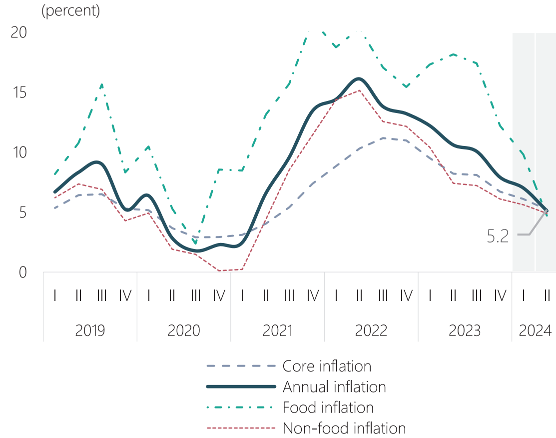
Source: National Statistics Office
Note: Quarterly inflation rates are calculated from the last months of the quarter.

2. Inflation components
(percent)



Source: National Statistics Office
Note: The components of annual inflation are shown by goods and groups with high contributions to inflation.

3. Core inflation
(percent)



Source: National Statistics Office
Note: Core inflation is calculated by subtracting food, fuel, and solid fuel from total inflation.

meat and meat products fell by 1.4 percent compared to the same period last year, influenced by the effect of the base period of high growth in 2023. Inflation of non-goods and services hit 5.2 percent, indicating 2.2 percentage points compared to the same period last year. It accounted for 72 percent of the annual inflation. Non-food inflation was driven by price increases in clothing, footwear, and cloth by 5.4 percent, housing, water, electricity, and fuel by 4.7 percent, and health, medical care, and services by 6.6 percent.

38. Demand-driven inflation accounted for 68 percent of the annual inflation, while supply-driven inflation comprised 32 percent. Demand-driven (core) inflation reached 5.2 percent, dropping by 3.0 percentage points from 8.2 percent in the same period last year. Although the increase in wages of civil servants, pensions, and social benefits had a smaller-than-expected impact on inflation from the demand side, it accounted for about 68 percent of the total inflation. Additionally, the effect of last year's high growth period has diminished, and the stable exchange rate of MNT against foreign currencies has contributed to reducing demand-driven inflation. Supply-driven inflation decreased by 10.6 percentage points compared to the same period last year, reaching 4.8 percent.

39. The decline in food prices mainly contributed to the slowdown in the inflation rate in Ulaanbaatar. Inflation in Ulaanbaatar has reached 4.8 percent, reflecting a decrease of 5.6 percentage points compared to the same period last year. This decline can be attributed to several factors: food products at 3.5 percentage points, clothing, footwear, and cloth at 0.8 percentage points, and transportation at 0.5 percentage points. The reduction in food price growth is primarily linked to the base effects from the previous year, during which prices for certain domestic food items surged. Specifically, the impact of meat on inflation decreased by 2.8 percentage points, while the contributions of bread, flour, and rice declined by 1.0 percentage points. Conversely, education services experienced a notable price increase of 21.1 percent in August 2023, resulting in a 0.5 percentage point rise in overall inflation for Ulaanbaatar.

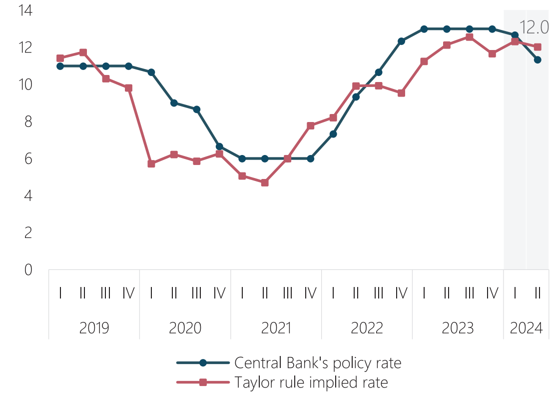
40. Global container shipping prices remain elevated, while the food price index has declined. Since February 2024, the World Container Index (WCI) has been rising rapidly; however, it decreased to $5,428 per 40-ft container in August. This represents a 196 percent increase compared to the same period last year and is 282 percent higher than the pre-pandemic average. The FAO Food Price Index (FFPI) reached 120.8, indicating a 3.1 percent decline from its corresponding value one year ago in July 2024. Price indices for vegetable oil, meat products, and sugar increased, and the price index for cereals decreased, while the dairy index was almost unchanged as of the last month. Last month, The inflation rate declined in Kyrgyzstan, the United States, Turkey, and Georgia. In contrast, the inflation rate rose in China, Russia, South Korea, Japan, Kazakhstan, the Eurozone, Sri Lanka, and the United Kingdom.

41. The monetary policy rate is at an appropriate level in line with the current state of the economy. On May 13, the Monetary Policy Committee reduced the policy rate by 1 percentage point, bringing it to 11 percent. The Taylor rule suggests how central banks should set the policy rate. In the second quarter of 2024, the Taylor rule was estimated at 12.0 percentage points, slightly higher than the central bank's average policy rate of 11.3 percentage points. While the amount of newly issued loans by banks is anticipated to increase compared to the previous year, there are concerns regarding potential disruptions in the supply of imported goods due to container congestion at the Tianjin port. This situation poses a risk of rising inflation, suggesting that it is prudent to maintain the current policy rate in the short term.

42. Money supply growth has exceeded the short-run money growth objective for the last year. The monetary overhang, which determines whether the money supply in the market is at an appropriate level, was estimated at 3.2 percent in the second quarter of 2024. This indicates that the short-run money growth objective is higher than the long-run money growth objective. Although the monetary overhang has decreased for two consecutive quarters, it remains positive, representing that the money supply is above the equilibrium level.

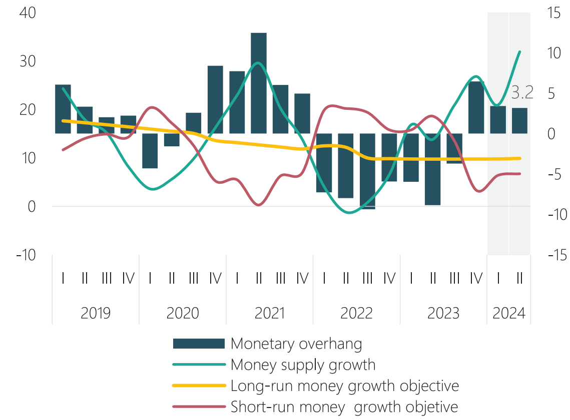
Figure 3.2. Policy rate

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



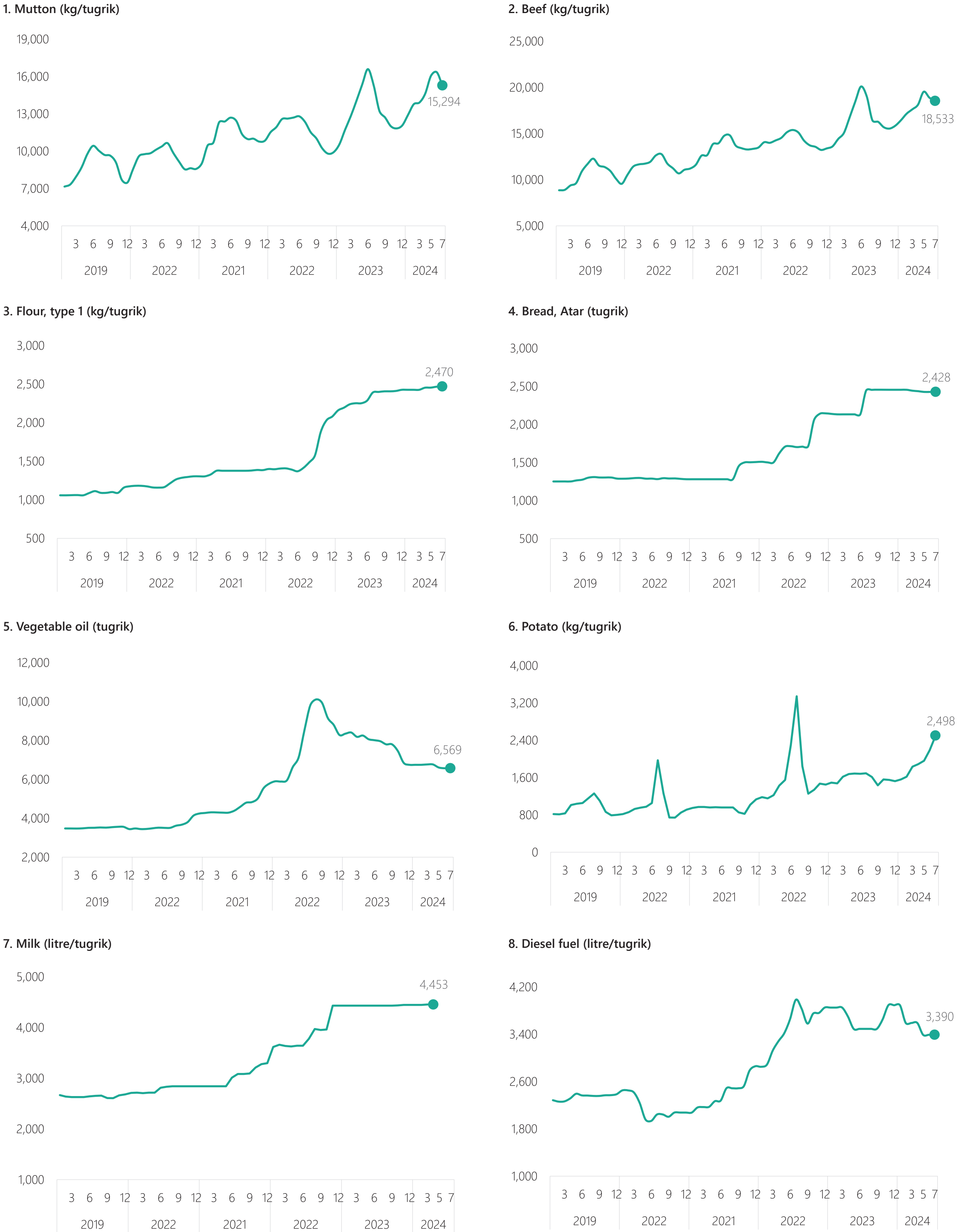
Source: National Statistics Office, MED estimation
Note: The implied rate calculated by Taylor's rule represents the appropriate value of the central bank's policy rate. It is an equation containing variables such as the policy rate set in the previous quarter, inflation, expected inflation, nominal interest rate, and a fixed coefficient.

2. **Money growth objectives**
(percent)



Source: Bank of Mongolia, MED estimation
Note: The long-run money growth objective is calculated by the sum of the targeted inflation rate and the difference between the GDP growth trend and the money velocity. The difference between the long-run money growth objective and the monetary overhang determines the short-run money growth objective. Monetary overhang determines whether the money supply in the market is at an appropriate level, and a value greater than 0, in this case, 3.2 percent, indicates the need to reduce the money supply.

Figure 3.3. Prices of selected items



Source: National Statistics Office

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

BOX 4. ENERGY SECTOR REFORM

Current situation

In 2023, Mongolia generated 8.5 billion kWh of energy, reflecting a 6.1 percent increase compared to the previous year. However, the country imported 22 percent of its energy supply, amounting to 2.4 billion kWh. Over the past five years, electricity consumption has grown at an average annual rate of 6 percent. It is projected to continue increasing at a rate of 5 to 6 percent in the coming years, intensifying domestic energy demand. Currently, approximately 80 percent of the total distributed electricity is utilized by households and businesses, while 11 percent is attributed to losses and 9 percent is consumed for the internal operations of power plants.

According to the preliminary plan for 2024, Mongolia's total electricity consumption is projected to reach 7.6 billion kWh. Of this total, 92 percent is expected to be consumed in the Central region, while the Eastern region accounts for 4 percent, the Western region for 2.8 percent, and the Altai-Uliastai region for 1.4 percent.

Table 4. Electricity costs and tariffs by region

	Central region	Eastern region	Western region	Altai-Uliastai region
1 kWh electricity cost	256 tugrik	260 tugrik	358 tugrik	277 tugrik
1 kWh electricity average tariff	216 tugrik	200 tugrik	169 tugrik	174 tugrik
Unit loss (percentage)	40 tugrik (-18.5%)	60 tugrik (-30%)	189 tugrik (-112%)	103 tugrik (-59%)

Source: Ministry of Energy, 2024

In 2024, the projected cost of electricity in the Central region is 256 MNT per kWh, while the average tariff is set at 216 MNT, resulting in a 40 MNT per unit loss. Additionally, the actual cost of 1 Gcal of heat is 63,000 MNT; however, the average price is only 33,800 MNT, indicating a loss of 46 percent per unit. If tariffs remain unchanged, the Energy Regulatory Commission estimates that losses for energy-producing companies will amount to 274 billion MNT in 2024, with short-term liabilities projected to reach 559 billion MNT. To address these challenges, it is imperative to pursue the liberalization of the energy sector, reduce government involvement, and transition the sector to a market-oriented framework.

As of the first quarter of 2024, the average monthly expenditure for a household in Mongolia is 2.5 million MNT, with 2 to 3 percent allocated to electricity and heating. According to a 2024 study conducted by the World Bank, Mongolia's current energy tariffs and subsidies increase inequality by providing more favorable conditions for wealthier households. Many low-income families reside in areas without access to central heating, resulting in minimal or no consumption of heating resources.

However, wealthier households exhibit significantly higher electricity consumption than other groups due to their occupancy of larger apartments and private residences. As a result, these affluent households disproportionately benefit from energy subsidies, contributing to the widening inequality gap within the energy sector.

Economic impact of tariff increase

According to current tariffs, household expenditures on electricity and heating represent approximately 3% of total expenses. Even with the anticipated tariff increases proposed by the Energy Regulatory Commission, the share of electricity and heating costs in household budgets is expected to rise to around 5 percent. Therefore, the overall impact of these tariff reforms on household livelihoods will likely be relatively modest. Additionally, energy costs for enterprises are low, comprising about 1.0 percent of total operational expenses.

Table 5 Share of electricity and heat cost in total expenditure

Sectors	Number of taxpayers	Total expenditure /billion tugrik/	Electricity and heat costs /billion tugrik/	Share of electricity and heat cost in total expenditure
Trade	37,521	56,040	**298**	0.5%
Service	5,497	1,663	**90**	5.4%
Mining	702	21,759	**42**	0.2%
Processing industry	2,561	3,998	**39**	1.0%
Agriculture	7,642	4,508	**31**	0.7%
Communication	2,224	2,444	**19**	0.8%
Construction	1,317	2,808	**17**	0.6%
Transportation	2,709	4,669	**16**	0.3%
Health	1,535	1,281	**7**	0.6%
Education	565	390	**4**	1.0%
Total	**62,273**			**1.1%**

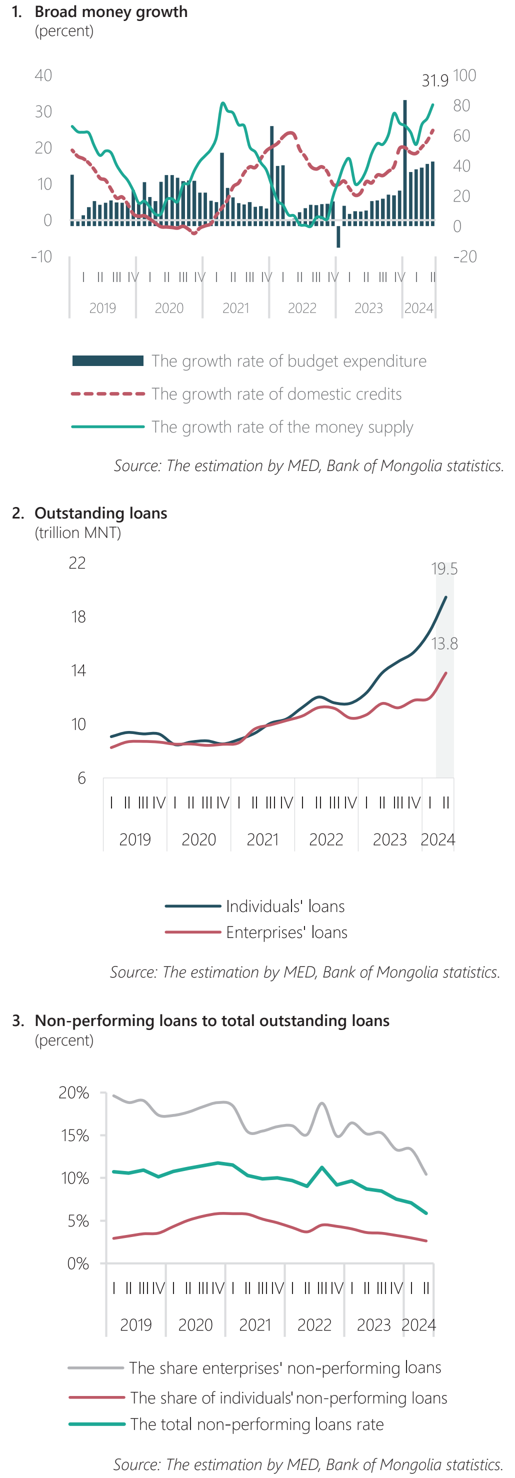
Source: E-barimt database, 2023

Tariff reform will impact inflation directly through increases in energy sector prices and indirectly by raising energy costs in other production sectors. As a result of higher electricity and heating prices, inflation is projected to increase by approximately 2.5 percentage points. Additionally, the limited production capacity within the energy sector will restrict electricity availability for industrial use, negatively affecting economic growth. Without new investments in installed capacity, or if equipment degrades at 2 percent per year, economic growth could decline to as low as 0.2 percent by 2028.

CHAPTER 3

3.2 FINANCIAL SECTOR

Figure 3.4. Broad money and credit indicators



43. Broad money increased, as fiscal stimulus and rising credit. In the first half of 2024, the money supply reached MNT 41.5 trillion, increased by 31.9 percent from the same period last year. The growth driven, in part, MNT denominated deposits and current accounts, and foreign currency denominated current accounts grew by 16.7 percent, 10.5 percent and 5.8 percent a year over, respectively. Also, currency outside depository corporations saw a modest increase of 0.7 percent, increased the base money. Meanwhile foreign currency denominated deposits declined by 1.9 percent.

44. Increased lending to real estate, trade, and mining sectors, coupled with the growth of salary and pension-backed loans added to total outstanding loans. Total outstanding loan amounted to MNT 33.3 trillion, marking an increase of 31.2 percent from the same period of last year. Corporate loans accounted for MNT 13.8 trillion, increased by 19.7 percent. Provision of loans to mining, trade, and manufacturing sectors rose by 44.2 percent, 13.2 percent, and 19.1 percent, respectively. Combined, these sectors account for about 59 percent of overall corporate loans. On the other hand, the stock of outstanding personal loans reached MNT 19.5 trillion, grew by 40.8 percent. Top contributors were salary and pension-backed loans, surged by 50.5 percent to MNT 6.9 trillion, and consumption and savings backed loans rose by 25.6 percent to MNT 1.8 trillion, while mortgage increased by 50.8 percent to MNT 4.9 trillion.

45. Loan issuance has seen a surge, while the lending rate lowered. By the second quarter of 2024, newly issued loans reached 16.3 trillion MNT, surged by 52.4 percent (or MNT 5.6 trillion) a year over. For instance, loan issuance to corporates enterprises increased remarkably by 55.8 percent, whereas loans to individuals increased by 39.1 percent. While the weighted average lending rate of banks estimated 15.9 percent decreased by 0.3 percentage points from a year ago.

46. The non-performing loan ratio fell to the lowest level in the last 8 years due to a higher repayment rate. By the second quarter of 2024, non-performing loans accounted for MNT 2.0 trillion, decreased by 2.5 percent from a year earlier. Its share of outstanding loans declined to 5.9 percent, dropping to the lowest level in eight years. Overall loan repayments reached MNT 3.3 trillion, increased by 37.7 percent a year over, which sized up the capital adequacy. In loan repayments growth, enterprises loan repayment contributed 21.7 percentage points, while individuals contributed 16.0 percentage points.

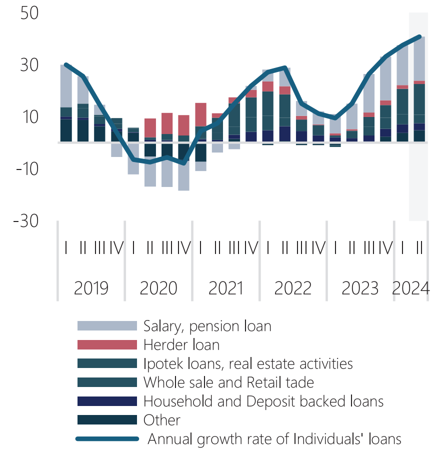
47. National currency denominated saving accelerated. In the second quarter of 2024, overall saving reached MNT 24.0 trillion, increased by 23.8 percent year-on-year. The weighted average interest rate on deposits reached 11.6 percent, up by 0.7 percentage points from the same period last year. As MNT appreciated, people transferred their foreign currency denominated deposits to MNT denominated deposits. Despite interest rate hike and MNT appreciation, improvement in household real income supported the saving growth further.

48. The interbank rate declined. In the second quarter of 2024, the interbank rate reached 11.0 percent, which is 1.6 percentage points lower than the previous quarter and 2.0 percentage points lower than the same period last year. However, deposit rates did not drop in correspondingly, which indicates the high financing need of that commercial bank. While the real effective lending rate was 17.2 percent, unchanged since last year. The narrowing spread indicates increased competition in the banking sector, suggesting that banks are implementing strategies to retain more deposits. A further reduction in interest rate differences, due to cuts in policy rates, is expected to improve economic activity and support credit growth.

49. Stock market is also growing. In the second quarter of 2024, the market capitalization reached MNT 11.3 trillion, expanded by 2.8 percent and accounted for 16.5 percent of GDP. The size of capital market and trading activity have experienced significant improvements in recent years, primarily driven by introduction of bank IPO on the primary market. During the reporting quarter, the total volume of securities trading reached MNT 645.8 billion, increased by 1.4 times over the same period.

Figure 3.5. Growth contribution

1. **Individuals' loans growth**
(percentage)



Source: Bank of Mongolia statistics

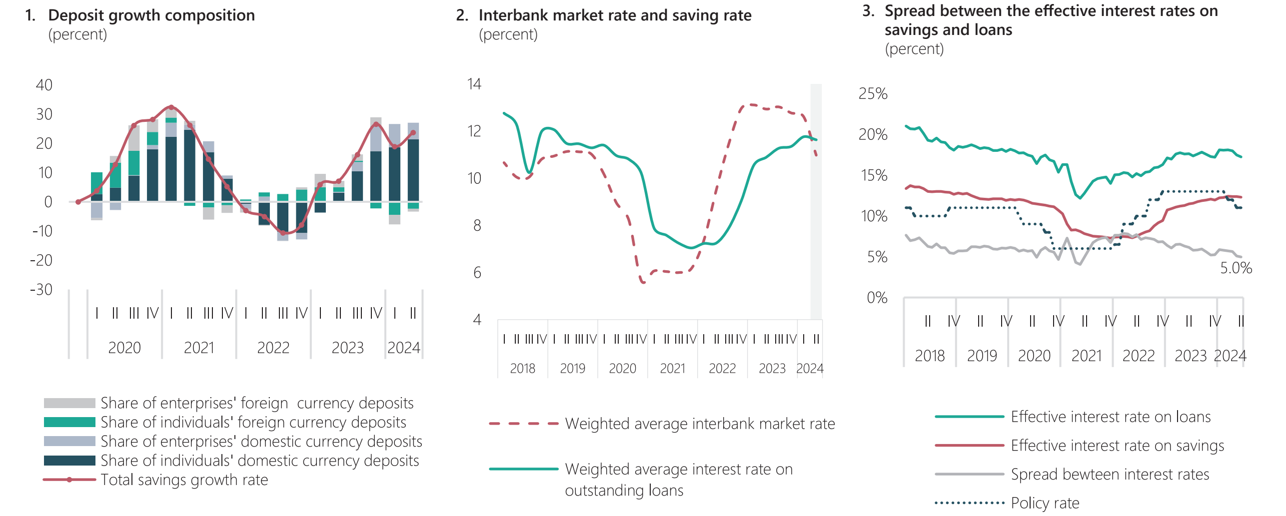
2. **Corporate loans growth**
(percentage)

Source: Bank of Mongolia statistics

3. **Weighted average lending rate**
(percentage)

Source: Bank of Mongolia statistics

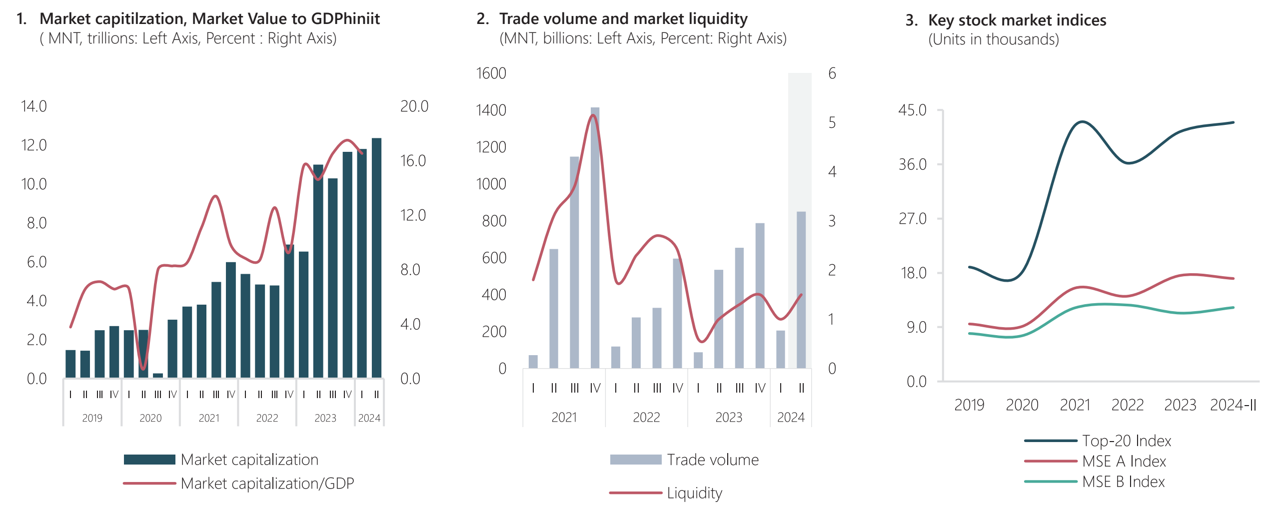
Figure 3.6. Components of annual growth in total deposits and indicators of deposit interest rates



Source: The estimation by MED, Bank of Mongolia statistics
Notes: Effective interest rate=(1+nominal annual interest rate/number of compounding periods per year))^(Number of compounding periods per year)-1
Project and program loans granted at interest rates lower than the market rate are included.

50. Liquidity in the stock market has improved, with an increase in trading of primary market debt instruments. In the second quarter of 2024, a total value of MNT 57.1 billion stock traded across 63 trades. In primary market, MNT 15.2 billion of stock were traded, whereas 41.9 billion MNT of transaction was made in the secondary market. Trading of shares in the primary market increased by 1.7 times compared to the previous quarter, while trading in the secondary market decreased by 64.7 percent. Additionally, company debt instruments totaled MNT 522.5 billion in trading, with MNT 520.0 billion in primary market and MNT 2.5 billion in secondary market. During this period, the TOP-20 index rose by 20.3 over the year. The liquidity ratio of the securities market reached 1.4 percent, representing an improvement of 0.4 percentage points year-on-year.

Figure 3.7. Stock market



Source: Stock Exchange and Financial Regulatory Commission.
Note: Stock market capitalization is compared to gross domestic product (GDP)

CHAPTER 4

EXTERNAL SECTOR

4. EXTERNAL SECTOR

OVERVIEW

Exports in the first half of 2024 increased by about 4 percent compared to the same period last year, supported by higher volumes of coal and iron ore exports, as well as rising global prices for gold and copper. In the second half of the year, the expected growth in coal and copper concentrate volumes, along with elevated prices for copper and gold on the global market, is likely to support further export growth. Due to increased activity in mining exports, imports of equipment and large machinery surged, along with an increase in lending, which improved household incomes. As a result, total imports rose by 26 percent compared to the same period last year. The growth in imports, coupled with the central bank's repayment of half of the swap agreements, led to a deficit in the balance of payments. Compared to the previous quarter, foreign exchange reserves recorded a slight decline, and the exchange rate depreciated.

CHAPTER 4

4.1

FOREIGN TRADE

51. Although the foreign trade balance remained positive, it declined compared to the same period last year. In the first half of 2024, the trade balance had a surplus of USD 2.4 billion, marking a decrease of USD 800 million from the the same period the previous year. This reduction was driven by a 26 percent rise in imports and a 4 percent increase in exports. Despite this, the overall trade volume grew by 11 percent, or USD 1.4 billion, compared to the same period last year (Figure 4.1).

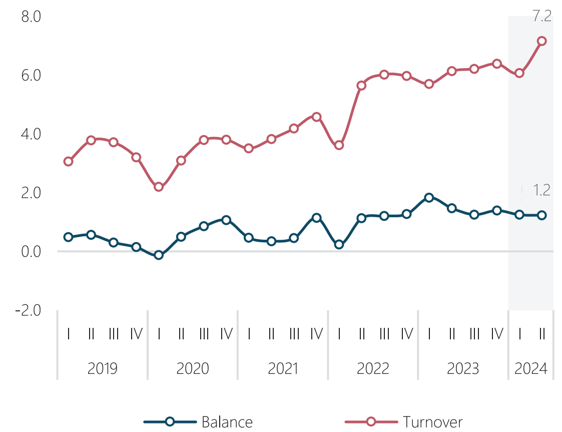
52. The rise in the physical volume of main commodities positively impacted the overall export revenue growth. In the first half of 2024, exports amounted to USD 7.9 billion, marking an increase of approximately 4 percent compared to the same period last year. This growth was primarily driven by higher export volumes of coal, copper concentrate, and iron ore. In the second half of the year, continued growth in coal and copper concentrate exports, along with higher global prices for pure copper and gold, will further support the expansion of export.

53. Despite an increase in the physical volume of coal exports, the border price has declined. In the first half of 2024, coal exports reached 40.6 million tons, a 27 percent rise compared to the same period last year, but the border price fell by 28 percent. This decline was primarily due to a lower coking coal prices at Ganqimaodu port, driven by the ongoing challenges in China's real estate sector. In the second half of the year, while the growth in coal export volumes is expected to continue, border prices are not anticipated to rise.

54. Trading activity on the mining products exchange has slowed. In the first half of 2024, 14.5 million tons of coal were traded at 119 USD per ton, and 980,000 tons of iron ore were traded at 73 USD per ton. The instability in China's real estate sector, along with the introduction of new regulations in the rebar industry

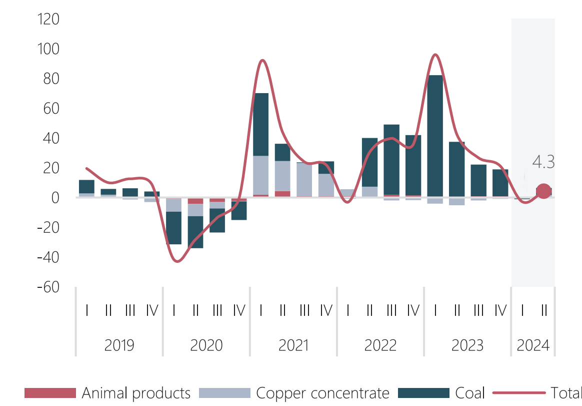
Figure 4.1. Foreign trade

1. Total turnover, balance
(USD billion)



Source: MCGA

2. Export growth
(growth rate)



Source: MCGA

3. Physical volume of main export products

Product name	2023.06	2024.06	Growth
Copper concentrate /thou.tonn/	764	785	2.7 %
Coal /mill.tonn/	29.5	40.6	27.3 %
Gold /kg/	5,398	5,048	-6.9 %
Iron ore /thou.tonn/	2,681	3,596	25.4 %
Brent oil /thou.barrel/	2,356	2,056	-14.3 %

Source: MCGA

set to take effect in September, has caused short-term disruptions in the steel smelting industry, which drives demand for coal and iron ore. The new regulations primarily introduce more detailed standards for rebar melting and testing methods, increasing the cost of steel production. As a result, successful trades on the mining exchange decreased in June, and transaction prices for coal and iron ore also declined.

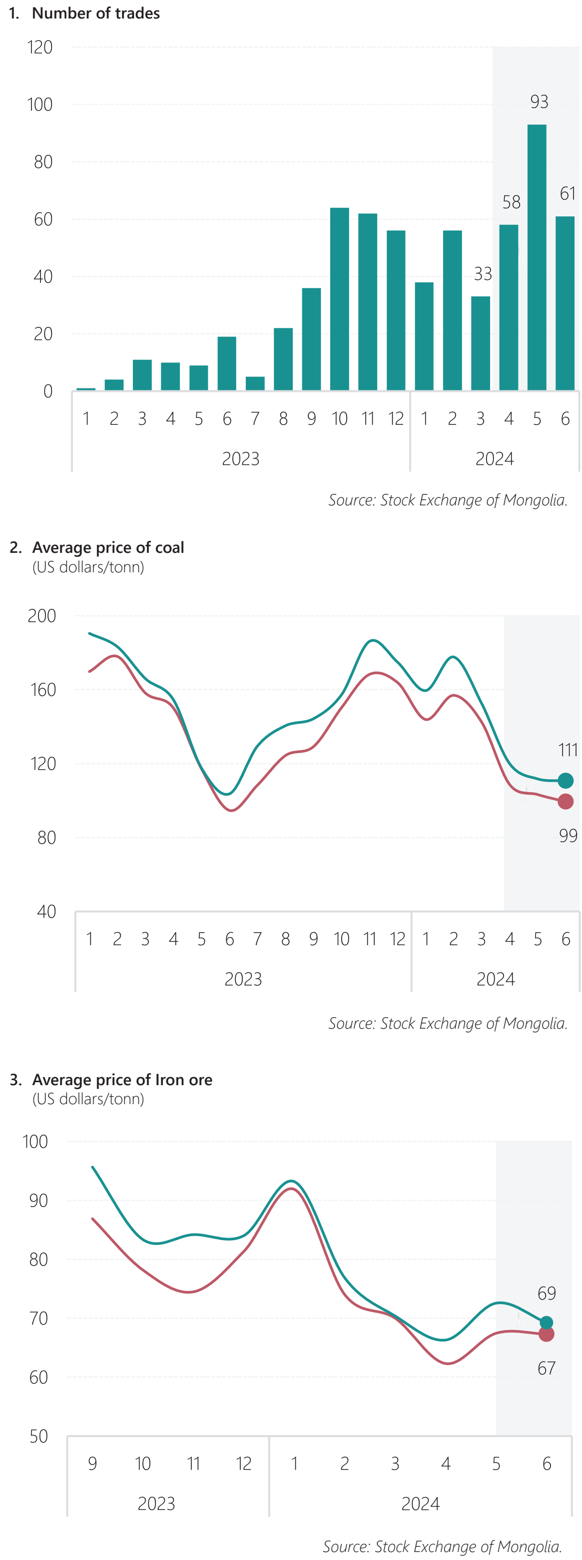
55. Exports of copper concentrate and iron ore have risen. In March 2023, mining at the Oyutolgoi mine commenced, leading to an increase in the copper content of the company's copper concentrate. As a result, export revenue from copper concentrate in the first half of 2024 rose by 9 percent compared to the same period last year. Additionally, due to increased production, the physical volume of iron ore exports reached 3,569 thousand tons, reflecting a 25 percent increase from the same period last year. In the second half of the year, production of copper concentrate and iron ore is expected to grow steadily, along with rising global prices for pure copper.

56. Oil exports have declined compared to the same period last year. As a result of a slowdown in oil production, exports totaled 2,065 thousand barrels, marking a 14 percent decrease from the the same period the previous year. In the second half of the year, no significant growth in the physical volume of oil exports is anticipated.

57. Due to the conditions in Dzud, the export of non-mining products decreased compared to the same period last year. The revenue from non-mining product exports fell by 23 percent from the previous year. This decline was primarily influenced by difficult winter and spring conditions across most of the country, leading to a 57 percent decrease in meat exports, a 45 percent decrease in wool exports, and a 31 percent decrease in leather exports in the first half of 2024 compared to the same period last year.

58. Imports of goods have increased due to sustained economic growth. In the Input-Output table, published by the National Statistics Committee, total imports are divided into three categories; intermediate consumption, final consumption, and capital accumulation. Approximately 60 percent of imported goods are used for intermediate consumption in domestic production. As the economy grew for the ninth consecutive quarter, imports reached USD 5.4 billion in the second quarter of 2024, marking a 25.9 percent increase from last year (figure 4.3).

Figure 4.2. Mining commodity Exchange trade



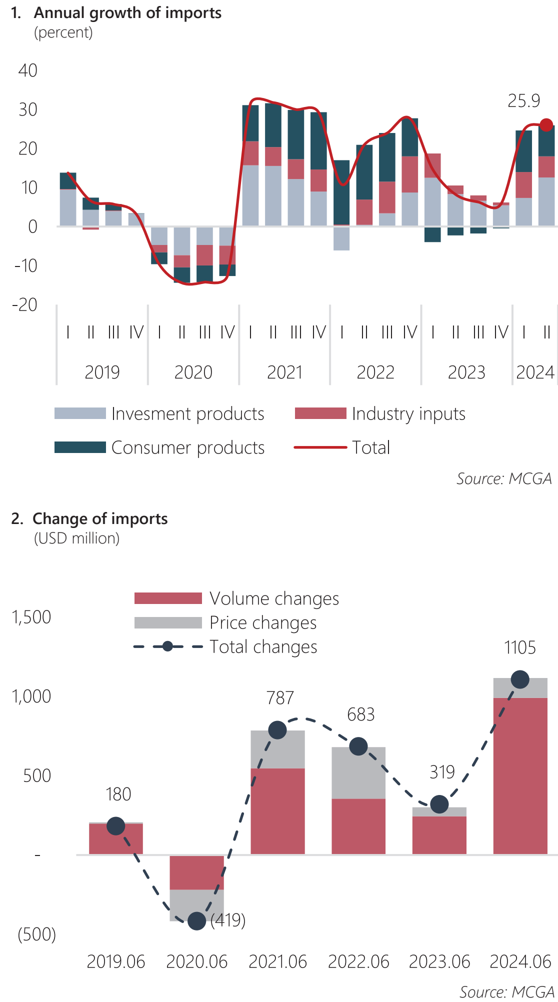
59. The increase in the price of imported goods was at a low level due to a slowdown in the price growth of goods from trading partner countries. In the second quarter of 2024, imports increased by USD 1.1 billion from the same period of the previous year, with approximately 90 percent of this increase accounting for volume and 10 percent for price changes (Figure 4.3). Our country's imported goods are purchased 40 percent from China, 26 percent from Russia, and 10 percent from Japan. Most goods imported from China are equipment, food, and consumption products, and the country's inflation was 0.2 percent in the second quarter of 2024. Also, the car and its spare parts were imported from Japan, and the Japanese yen's exchange rate against the USD has fallen to its lowest level since 1990, reducing the cost of goods purchased from that country.

60. Considering the growth of imports by commodity group, 12.6 percentage points of the total increase was attributed to consumer products, 7.9 percentage points to machinery and equipment, and 5.4 percentage points to industrial inputs (Figure 4.3).

61. Equipment import has increased by 42 percent in the same period as the previous year, reaching USD 1.0 billion due to sustained economic growth and improved financial resources of enterprises. As part of efforts to increase domestic production and diversify the economy, the government is implementing measures to exempt equipment used in food, agriculture, energy, and mineral processing plants from customs duties, which is increasing equipment's import growth; further, it will maintain the domestic economy. Additionally, heavy vehicle imports reached USD 337 million increase of 51 percent; excavator and bucket-loader imports reached USD 184 million, increasing by double, and diesel petrol imports reached 31.9 thousand tons, increasing by 13 percent, respectively same period of previous year due to the activity of the mining and transporting sector

62. The increase in real household income has the effect of increasing food imports. Real household income has grown for the last three consecutive quarters, leading to increased household consumption. As a result, the import of foods reached USD 517 million, marking a 17 percent increase from the same period last year. Additionally, to curb the rising price of flour and boost supply, wheat flour imports were exempted from customs duties starting May 1, 2024, without any set limits. As a result, flour imports reached 31.9 thousand tons, a 13-fold increase compared to the same period last year.

Figure 4.3. Import



63. Consumer credit has enhanced people's purchasing power and increased demand for durable consumer goods. As of the first half of this year, individual loans increased by 26.0 percent, thereby boosting the import of durable goods. In addition, due to the weakening Japanese yen, the average import price of passenger cars decreased by approximately 20.0 percent. As a result, the number of imported passenger cars reached 57,000 units in the first half of 2024, a 76 percent increase. Due to the rise in the import of passenger cars and heightened activity in anticipation of commemorative jubilee events in the province and Sumy, the import expenditure on automobile gasoline reached USD 167 million dollars, marking a 46 percent increase.

64. Construction materials import increased due to an increase in mortgage loans and the reduction of customs duties on cement. The construction sector grew by 19.5 percent in the first half of this year, leading to an increase in the import of construction materials to USD 599 million, marking an 18 percent rise compared to the same period last year. A total of MNT 500 billion was invested in mortgage loans from the Savings Fund. New mortgage loans reached MNT 1.4 trillion, an increase of 74.2 percent compared to the same period last year. As a result, the demand for housing rose, leading to increased import of construction materials. Therefore, to prevent the inflation of construction prices, it was decided not to restrict the timing and quantity of cement imports, and by Government Resolution No. 188 of 2024, the customs duty on cement was reduced from 20 percent to 5 percent. As a result, cement imports reached 86 thousand tons, an increase of 12 percent from the same period last year. Although the customs duty relief on cement will continue until October 1st this year, the import of construction materials is expected to increase in the last months of the year due to the construction of large projects included in the 2024 budget amendment

65. Import growth will be maintained in the last months of the year. About 80 percent of Mongolian's imports through Tianjin and are transported by rail to Zamiin-Uud port. Since the end of March 2024, the number of trains departing from Tianjin has decreased, causing the number of containers, typically around 3,000, to rise to about 6,000. However, despite this, import growth remained high during that period. As of June 2024, the number of trains departing from Tianjin Port has increased, leading to a decrease in the number of containers to about 5,000. Looking ahead, the growth of imports is expected to be sustained due to increased transportation activity and the impact of containers accumulated in the final months of the year.

CHAPTER 4

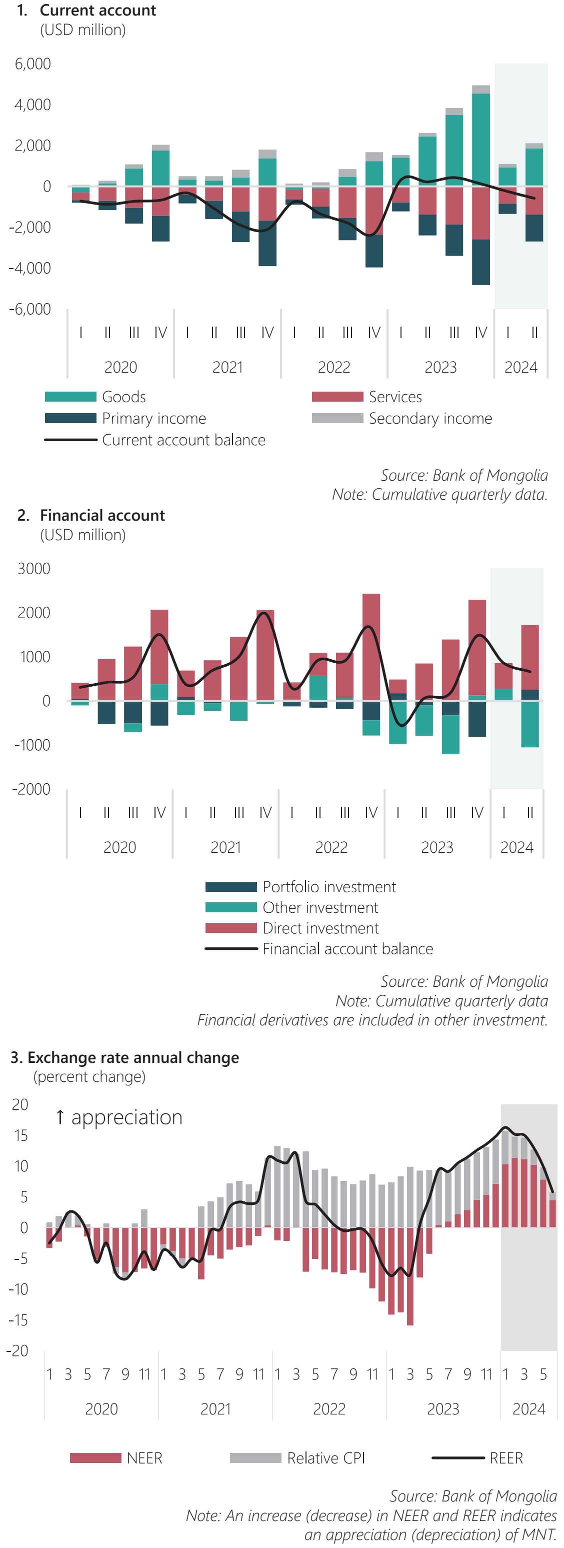
4.2 BALANCE OF PAYMENTS

66. The current account deficit widened, reflecting a surge in goods imports and investment income deficit. The balance of payments recorded a deficit of USD 57 million in the first half of 2024. The current account deficit widened to USD 0.6 billion as goods imports and dividend and interest payments of direct investment increased by USD 1.3 billion and USD 0.3 billion year-on-year, respectively. Meanwhile, the services trade deficit remained broadly unchanged from a year ago, owing to a reduction in transport service costs despite the increased activity in the transportation sector (Figure 4.4).

67. Even though the central bank repaid a large portion of its bilateral currency swap line, the financial account surplus increased, reflecting a surge in foreign direct investment and portfolio investment inflows. The central bank repaid CNY 4.5 billion (USD 0.6 billion) of its PBOC bilateral currency swap line in the second quarter of 2024, contributing to a decline in the gross international reserves. The outstanding balance of the swap line currently stands at USD 0.8 billion. Meanwhile, in the first half of 2024, net foreign direct investment inflow increased by USD 0.6 billion from a year earlier, and "Mongolian Mortgage Corporation HFC" LLC, Development Bank of Mongolia, and Golomt Bank issued new international bonds, contributing to an improvement of USD 0.6 billion in the financial account surplus.

68. Compared to the first quarter, gross international reserves declined, and the exchange rate depreciated in the second quarter of 2024. Gross international reserves fell from USD 5.2 billion at the end of the first quarter of 2024 to USD 4.8 billion at the end of the second quarter of 2024, equivalent to 3.9 months of imports, reflecting repayments of the central bank's swap line. The MNT/USD exchange rate was at 3,381 at the end of June 2024, with MNT depreciating by 5.1 or 0.1 percent from the end of March 2024. Real effective exchange rate appreciation moderated from

Figure 4.4. Balance of payments, exchange rate



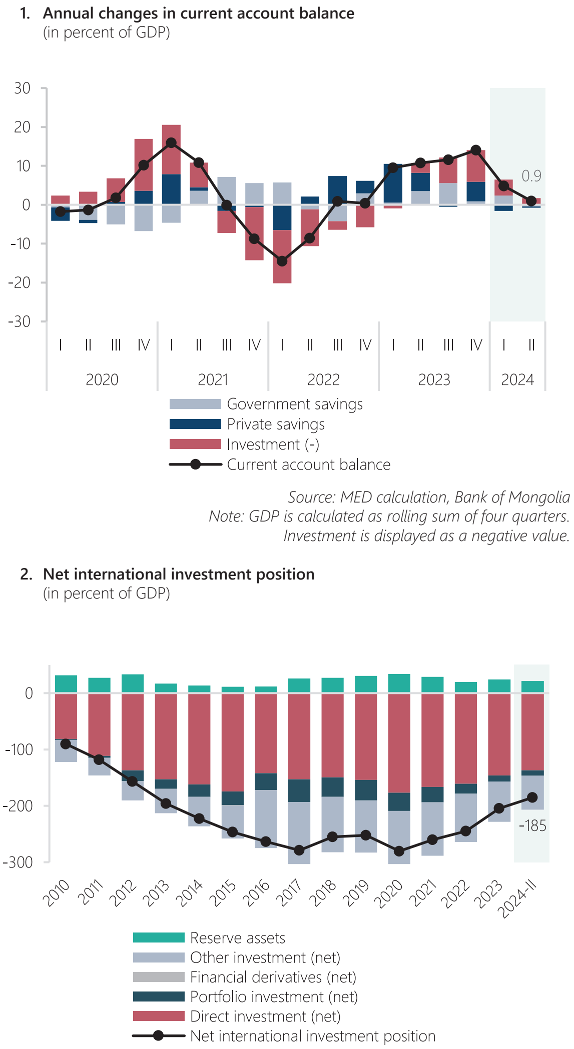
15.0 percent at the end of the first quarter of 2024 to 5.8 percent at the end of the second quarter of 2024.

69. The current account balance deterioration reflects a slower savings growth and higher investment. From a savings-investment perspective, the current account deficit narrowed during the pandemic in 2020-2021 due to weak economic activity weighing on investment. The improvement in the current balance in 2023, on the other hand, reflects higher government savings due to the increased budget revenues, and slower investment growth. However, the current account balance deteriorated in 2024 as government consumption grew and savings growth slowed.

70. Mongolia's net international investment position remains weak. The net international investment position measures the difference between a country's financial assets held abroad and its liabilities to other countries. At the end of the first half of 2024, the net international investment position stood at USD -41.6 billion, equivalent to -185 percent of GDP. The financial liabilities reached USD 50.6 billion, while the financial assets held abroad stood at USD 9.0 billion. It is important for Mongolia to improve its net international investment position and reduce vulnerability to adverse external shocks by improving its current account balance and building up international reserves.

71. Public expenditure growth could raise imports and widen the current account deficit. A sharp increase in capital expenditure could raise imports and reduce the current account balance, potentially leading to further drains of international reserves. In particular, in coming years, annual imports growth is expected to reach USD 1.8 billion and the government's annual debt service cost (interest and principal of external loan) is expected to be around USD 0.5 billion.

Figure 4.5. Current account balance, net international investment position



Source: MED calculation, Bank of Mongolia
Note: GDP is calculated as rolling sum of four quarters.
Investment is displayed as a negative value.

Source: MED calculation, Bank of Mongolia

CHAPTER 4

4.3 EXTERNAL DEBT

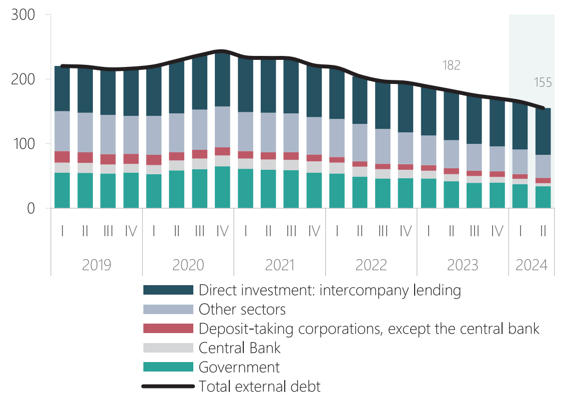
72. The gross external debt increased in nominal terms, but declined as a share of GDP. Mongolia's gross external debt totaled USD 34.9 billion at the end of the fist half of 2024, up by USD 1.8 billion from a year earlier. However, the external debt-to-GDP ratio fell to 155 percent, down by 26 percentage points from the same period last year, due to the growth of nominal GDP (Figure 4.6).

73. The external debt of public sector fell, while the private sector's external debt increased. The external debt of the central bank declined by USD 869 million or 47 percent from a year earlier due to the repayments of CNY 4.5 billion of the currency swap facility with the PBOC, while the government's external debt dropped only by US 26 million, reflecting an increase in external loan. On the other hand, the private sector's external debt surged by USD 2.7 billion from a year earlier, contributing to the increase in the total external debt of the economy. In particular, intercompany lending was up USD 2.4 billion compared to the same period last year, while external debt of the banking sector increased by USD 140 million.

74. The private sector constitutes the majority of total external debt. Specifically, the private sector accounts for 75 percent of the total external debt, while government and central bank debt constitutes 22 percent and 3 percent, respectively. Within the private sector, the mining sector holds the largest share, representing 77 percent, followed by the financial and trade sectors, which account for 10 percent and 4 percent, respectively. The remaining 9 percent belongs to 18 other sectors

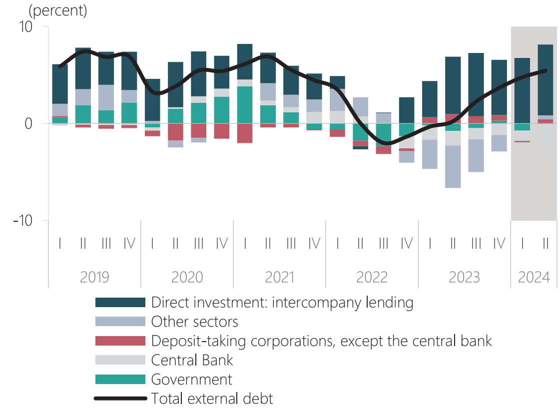
Figure 4.6. External debt

1. **Total external debt**
(in percent of GDP)



Source: MED calculation, Bank of Mongolia
Note: The ratio is calculated as rolling sum of four quarters.

2. **Annual changes in total external debt**
(percent)



Source: MED calculation, Bank of Mongolia

75. The medium-term external debt dynamics are expected to be sustainable but remain vulnerable to exchange rate and current account shocks. Under the baseline scenario, the external debt-to-GDP ratio is projected to steadily decline over the medium-term, facilitated by export and GDP growth. However, the ratio remains particularly sensitive to exchange rate depreciation and current account shocks. Compared to the baseline, the external debt-to-GDP ratio could be 11.9 percentage points higher when current account balance deteriorates by one standard deviation and 13.7 percentage points higher if exchange rate depreciates by 10 percent (Figure 4.7).

Figure 4.7. External debt sustainbility

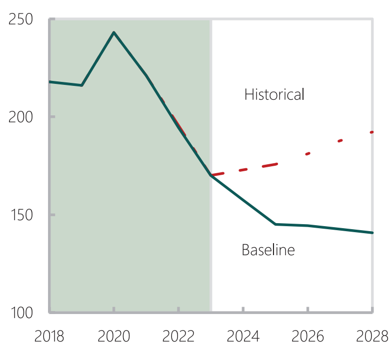
External debt

(in percent of GDP, unless otherwise indicated)

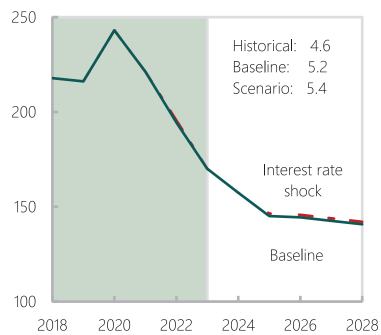
	Actual								Projections					Debt-stabilizing
	2018	2019	2020	2021	2022	2023	historical average	standard deviation	2024	2025	2026	2027	2028	non-interest current accoun
External debt: Baseline	217.9	216.1	243.1	221.1	194.4	170.1			157.5	145.1	144.5	142.6	140.8	-5.8
Change in external debt	-21.5	-1.7	26.9	-21.9	-26.7	-24.3			-12.6	-12.3	-0.6	-1.8	-1.9	
Identified net debt-creating flows	-20.9	-8.6	14.9	-25.3	-11.5	-32.4			-17.9	-17.1	-7.7	-10.0	-8.0	
Non-interest current account deficit	7.7	5.5	-4.9	5.6	4.9	-10.9			-4.0	-4.0	-6.7	-7.0	-2.1	
Net non-debt creating capital inflows	-6.8	-8.1	-4.6	-7.7	-0.9	-1.4			-1.4	-1.1	-1.0	-1.0	-1.0	
Automatic debt dynamics 1/	-21.8	-6.0	24.4	-23.2	-15.6	-20.1			-12.4	-12.0	0.0	-2.0	-4.9	
Contribution from nominal interest rate	9.0	9.7	10.0	8.2	8.5	10.3			9.9	7.6	6.9	6.5	5.4	
Contribution from real GDP growth	-16.2	-11.3	10.5	-3.5	-9.9	-12.2			-8.3	-11.1	-8.9	-8.8	-8.6	
Contribution from price and exchange rate changes	-14.7	-4.5	3.9	-27.9	-14.2	-18.2			-14.0	-8.6	2.1	0.3	-1.7	
Residual	-0.6	6.9	12.1	3.4	-15.2	8.1			5.2	4.8	7.0	8.1	6.1	
External debt-to-exports ratio (in percent)	374.5	364.8	423.3	377.7	303.4	223.0			218.5	198.3	184.7	178.8	183.6	
External debt: Scenario with key variables at their historical averages 2/									172.9	175.7	181.1	187.8	192.3	-4.5
Real GDP growth (in percent)	7.7	5.6	-4.6	1.6	5.0	7.4	4.0	3.9						
Nominal external interest rate (in percent)	4.3	4.8	4.3	3.9	4.3	6.3	4.6	0.6						
Growth of exports (USD, in percent)	12.8	9.7	-9.1	17.1	22.8	41.1	14.5	17.6						
Growth of imports (USD, in percent)	37.5	3.1	-20.6	26.1	30.9	11.8	7.0	21.9						
Non-interest current account balance	-7.7	-5.5	4.9	-5.6	-4.9	10.9	-1.4	6.2						
Net non-debt creating capital inflows	6.8	8.1	4.6	7.7	0.9	1.4	3.2	4.2						

1/Change in external debt driven by variables including GDP growth, external interest rate, and exchange rate
2/The key variables include non-interest current account balance, net non-debt creating capital inflows, real GDP growth, GDP deflator, nominal external interest rate.
Historical averages and standard deviations are calculated over the past 10 years.

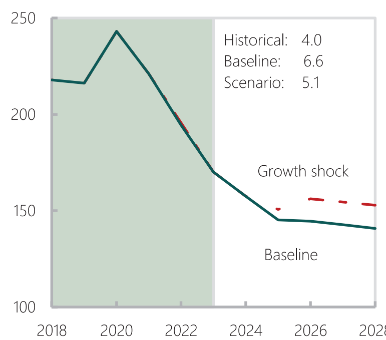
1. Baseline and historical scenarios



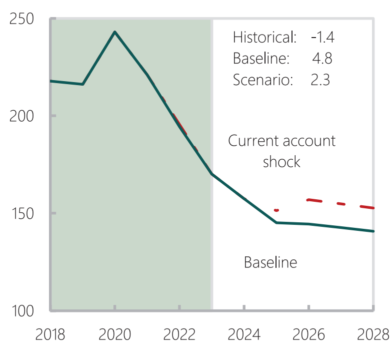
2. Interest rate shock



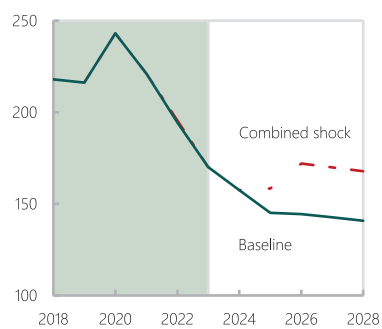
3. Growth shock



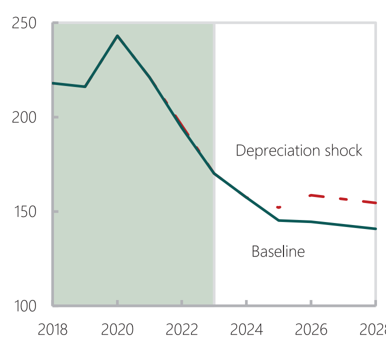
4. Non-interest current account shock



5. Combined shock (interest rate, current account, GDP growth)



6. Exhcange rate depreciation shock



Source: MED calculation
Note: Historical averages and standard deviations are calculated over the past 10 years.
Permanent ½ standard deviation shocks applied to current account balance, GDP growth rate, and combined shock assumes one standard deviations.
Permanent increase of 100 bps applied to interest rate and depreciation of 10 percent is applied to exchange rate..

CHAPTER 5

WORLD ECONOMY

5. WORLD ECONOMY

OVERVIEW

The service sector maintained its recovery momentum, while industrial sector activity remains weak in advanced countries. The disinflation process has raised expectations of policy rate cuts by major central banks. Chinese economic growth slowed in the second quarter of 2024, increasing the likelihood that growth will fall short of the government's target this year.

CHAPTER 5

5.1

WORLD ECONOMIC SITUATION

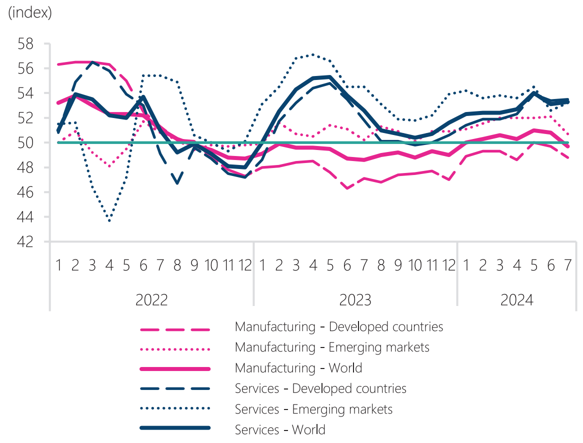
76. The service sector activity maintained recovery momentum, while the industrial sector activity remains weak in developed countries. The global Purchasing Managers' Index (PMI), a short-term indicator of the economy, shows that the activity in the service sector in both developed and developing countries maintained recovery momentum, while the manufacturing sector activity in developed countries remain weak. Manufacturing PMI of developed countries remained below the threshold of 50 since October 2022 (Figure 5.1).

77. Expectations for a FED rate cut have risen. The U.S. economic growth accelerated to 3.0 percent in the second quarter of 2024, and inflation reached 2.9 percent in July 2024, the lowest level since March 2021. With the disinflation, market expectations for a policy rate cut in September 2024 have increased.

78. The euro area economy maintained growth momentum. The euro area economy expanded by 0.3 percent in the second quarter of 2024, the same as in the previous quarter, and inflation was at 2.6 percent in July 2024, above the target level. However, the German economy, the largest of the area, contracted by 0.1 percent, reflecting lower investment. Expectations for further rate cuts by the European Central Bank remain elevated.

79. Japan's economic growth accelerated. Japan's GDP expanded by 0.8 percent in the second quarter of 2024 after shrinking by 0.6 percent in the previous quarter. The growth was mainly driven by wage growth supporting household income and personal consumption. However, inflation was at 2.8 percent in July 2024, raising the possibility of further rate hikes by the central bank, as the country ended its negative interest rate policy this year.

Figure 5.1. PMI



Source: S&P Global PMI, Bloomberg terminal
Note: A reading above (below) 50 suggests economic expansion (contraction).

80. China's economic growth slowed. With the prolonged weakness in the property sector and subdued domestic demand, China's growth decelerated to 4.7 percent in the second quarter of 2024, from 5.3 percent in previous quarter. As a result, the growth in the first half of 2024 reached 5.0 percent, and annual growth falling below the government's target of 5.0 percent if economic activity continues to weaken in the second half of the year.

81. Russian economy has shown a slowdown, while policy rate remains at the same level. GDP growth in the second quarter of 2024 stood at 4.0 percent, following 2.6 percent growth in the first quarter of the year. The growth was attributed from 1.4 percent year-over-year increase in exports, supported by price rebound of oil and natural gas. Contrary, imports declined by 8.2 percent due to ruble depreciation and logistic disruption. About inflation, it estimated 8.6 percent in the second quarter of 2024, marked a 5.3 percentage points year-over-year increase. However, inflation started to exceed target band since February 2023, Bank of Russia has continued to keep policy rate to 16 percent. Fiscal policy has been expansionary in last 3 years after the invasion of Ukraine. International experts stressed that to slowdown inflation, and facilitate the growth, Bank of Russia should move to a more accommodative monetary policy.

CHAPTER 5

5.2

COMMODITY MARKET DEVELOPMENTS

82. The average price of copper on the London Metal Exchange for the first half of 2024 was $9,094, an 8 percent increase from the end of the previous year. One of the world's largest open-pit copper mines, Cobre Panama in Chile, has been closed, and Anglo American, a multinational corporation with multiple copper mines, has announced plans to cut costs and reduce copper production. This has increased short-term supply uncertainty and driven prices higher. In the medium term, demand for copper is expected to rise due to the growth of renewable energy and electric vehicle production. According to forecasts from experts, the average price of copper is expected to reach $9,500 in 2024.

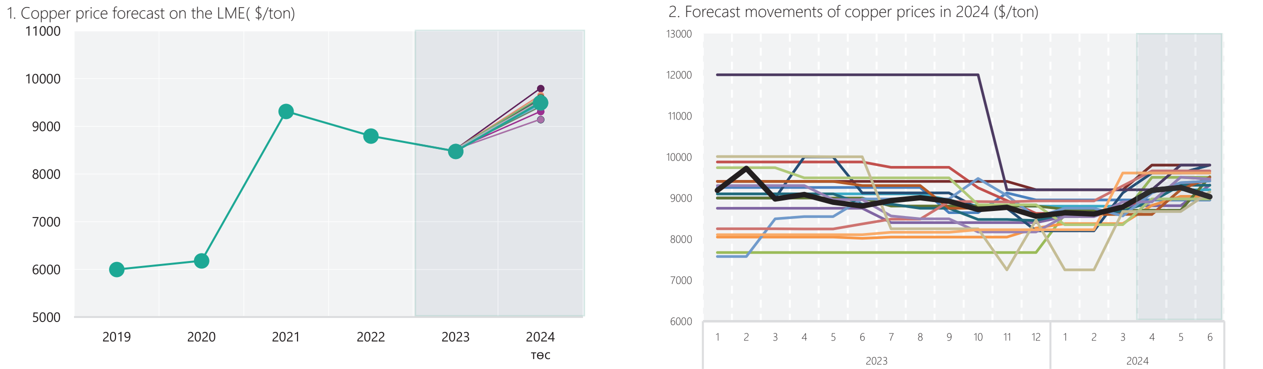
83. The average price of Australian high-quality coking coal on the Singapore Exchange for the first half of 2024 reached $278, a 19 percent decrease from the end of the previous year. Production of coking coal in Australia, which had been disrupted by natural disasters, has returned to normal, stabilizing supply and contributing significantly to the decline in prices. Additionally, the continued inability of China's real estate sector to recover is expected to reduce demand. According to forecasts from experts, the average price is expected to reach $250 in 2024.

84. The average price of gold in the first half of 2024 was $2,206, an 8 percent increase from the end of the previous year. Rising geopolitical tensions and growing global economic instability are driving increased demand and prices for gold. The World Bank anticipates that the global economy will stabilize, leading to a slight weakening in gold demand in the medium term. According to forecasts from experts, the average price of gold is expected to reach $2,200 in 2024.

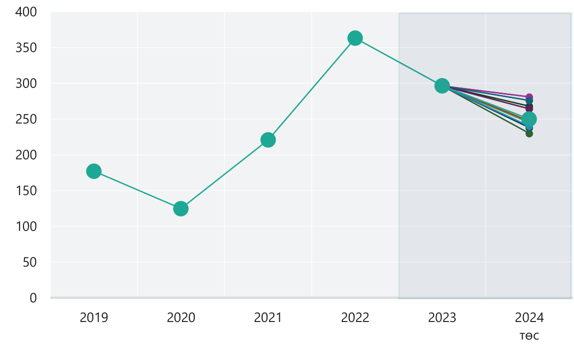
85. The average price of iron ore (with 62 percent content) in the first half of 2024 was $118, a 15 percent decrease from the end of the previous year. The ongoing weakness in China's property sector, increased development of new mines in Australia, and Brazil's announcement of a 6 percent annual supply increase have significantly contributed to the decline in prices. According to forecasts from experts, the average price of iron ore is expected to reach $120 in 2024.

86. The average price of Brent oil for the first half of 2024 reached $82, marking a 6 percent increase from the end of the previous year. In June of 2023, OPEC countries decided to reduce oil production for 2024, and the ongoing conflict in the Middle East, which accounts for approximately 35 percent of global oil production, has created instability in supply and driven prices higher. Additionally, increased economic activity in India, a major consumer of gold and oil, is expected to boost oil demand. According to forecasts from experts, the average price is expected to reach $85 in 2024.

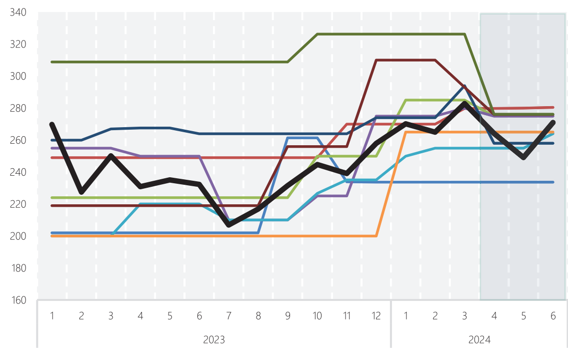
Figure 5.2. Commodity prices



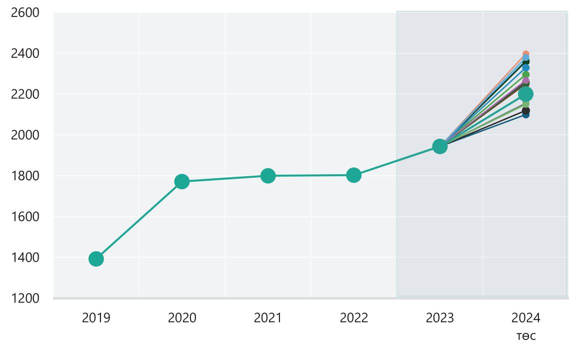
3. Australion high quality coking coal price forecast on the SXG ($/ton)



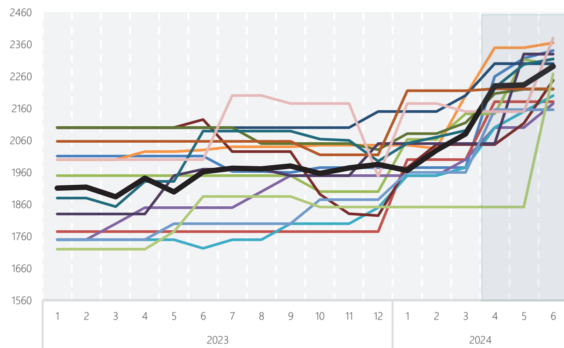
4. Forecast movements of Australion high quality coking coal prices in 2024 ($/ton)



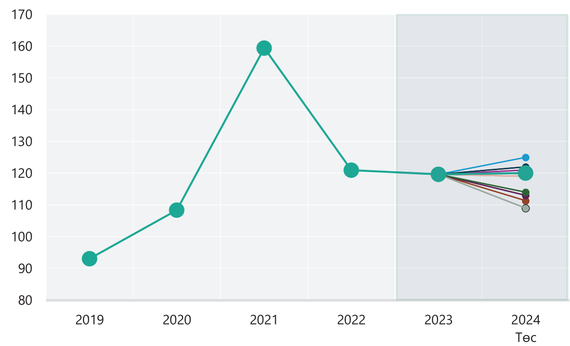
5. Gold price forecast on the LME ($/ton)



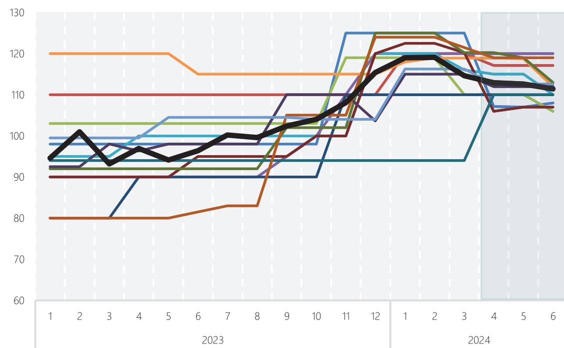
6. Forecast movements of gold prices in 2024 ($/ton)



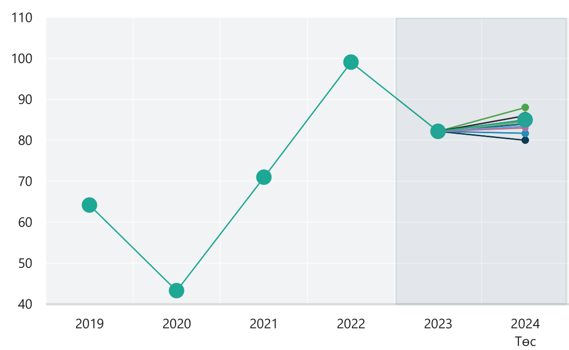
7. Price forecast of iron ore 62%, Northwest China ($/ton)



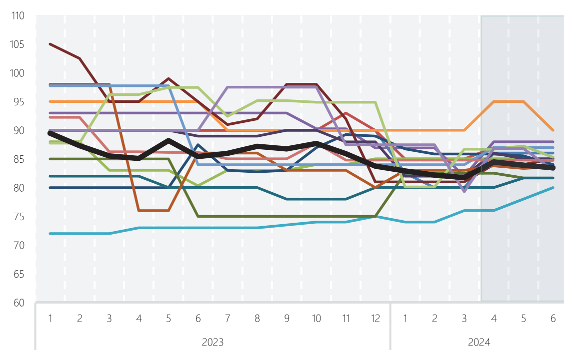
8. Forecast movements of iron ore 62%, Northwest China prices in 2024 ($/ton)



9. Price forecast of Brent oil ($/barrel)



10. Forecast movements of Brent oil prices in 2024 ($/ton)



Source: Bloomberg

Note: Average price levels for 2019-2023 are represented by dotted green lines, while the average price forecasts for 2024 from various institutions are displayed in different colors.

Note: The black line in the graph represents the average of the forecasts made during the period. The other colored bars indicate the median price forecasts for 2024 provided by analysts. For instance, the black line shows that analysts have been consistently increasing their gold price forecasts for 2024 since January of this year.

CHAPTER 5

5.3

INDEXES UPDATED IN 2024

87. As of the second quarter of 2024, the IMD World Competitiveness Ranking, Bertelsmann Transformation Index, and Index of Economic Freedom have been updated. Compared to previous evaluations, the country's rating improved in economic indicators but decreased in governance. Economic performance improved with mining sector growth, and fiscal stability improved with reduced budget deficit and government debt, positively affecting index evaluations. However, governance ratings declined due to high corruption, weak policy implementation, and inadequate regulation. Read more about each index in the following sections.

88. IMD World Competitiveness Ranking:
Improved domestic economy positively impacted Mongolia's competitiveness.

In 2024, Mongolia ranked 61st out of 67 countries in the World Competitiveness Ranking[12] with a score of 46.3, moving up 1 place.

Table 6. Score and ranking of Mongolia in the World Competitiveness Ranking

Factors	2023		2024	
	Score	Rank	Score	Rank
Economic Performance	37.6	#60	47.2▲	#42▲
Government Efficiency	28.3	#58	35.0▲	#53▲
Business Efficiency	10.3	#64	20.3▲	#62▲
Infrastructure	6.5	#63	14.4▲	#64▼
Overall Index	35.6	#62	46.3▲	#61▲

By sub-factor, Domestic Economy improved by 31 places, Public Finance by 16, and International Trade by 10. This growth was driven by improvements in economic performance and increased budget stability with a budget showing surplus. However, Scientific Infrastructure dropped by 3 places, and Health & Environment by 2, due to low R&D spending, weak intellectual property protection, and limited healthcare access.

In the 2024 rankings, countries under the EU and Singapore retained leading positions. Countries under the EU are characterized by strong institutional, governance, and regulatory frameworks aimed at supporting businesses. Singapore's favorable business environment, transparent and efficient regulations, and developed transport logistics and infrastructure attract foreign investments and international trade and bolster the country's competitiveness. On the other end, Venezuela, Argentina, Peru, and Niger rank at the bottom due to unstable economies, dependency on exports, high inflation, and public debt.

89. Bertelsmann Transformation Index:
Fiscal stability and improved economic performance boosted the Bertelsmann Transformation Index[13] rating.

In 2024, Mongolia ranked 30th out of 137 countries in the Status Index, up 5 places, but fell 3 places to 26th in the Governance Index.

[12] The World Competitiveness Ranking, published annually by IMD, analyzes and ranks the capacity of countries to create and maintain an environment that sustains the competitiveness of enterprises. The index is measured by 336 indicators across four factors: Economic Performance, Governance Efficiency, Business Efficiency, and Infrastructure. The index ranges from 0 to 100, with higher values indicating greater competitiveness. Two-thirds of the rating is based on statistical data, while the remaining third is derived from Executive Opinion Survey.

[13] The Bertelsmann Foundation (Bertelsmann Stiftung)'s Transformation Index is a biannual assessment of whether and how developing countries and countries in transition are steering social change toward democracy and a market economy. The index consists of two sub-indices: the Status Index and the Governance Index. The Status Index covers two groups, Economic Transformation and Political Transformation, with 32 indicators scored from 1 to 10. The Governance Index uses 20 indicators, also scored from 1 to 10. A score closer to 10 reflects better transformation; a score near 1 indicates poor transformation.

Table 7. Mongolia's Score and Ranking in the Bertelsmann Transformation Index

Sub-Indexes	2022		2024	
	Score	Rank	Score	Rank
Status Index	6.45	#35	6.55▲	#30▲
Political Transformation	7.25	#26	7.25 ●	#25▲
Economic Transformation	5.64	#62	5.86▲	#49▲
Governance Index	5.90	#26	5.83▼	#29▼

The Status Index reached 6.6 points, 1.3 points above the global average, 1.2 points above the regional average, and 0.2 points higher than in 2022. The Economic Transformation ranking, in particular, improved by 13 places to 49th place. This growth was driven by improved economic performance with mining sector growth and improved fiscal stability with reduced budget deficit and debt-to-GDP ratio. While the Political Transformation score remained the same, the Governance Index fell by 0.7 points, attributed to ineffective policy implementation.

The 2024 evaluation reflects 2021-2022 performance; therefore, Mongolia's rankings are further expected to improve with the next report in 2026 reflecting improvements from 2023-2024.

Globally, 83 percent of countries show limited or poor transformation levels, with the average Status Index score reaching its lowest level since 2006 at 5.3 points, and the Governance Index at 4.6 points. By sub-index, Economic Transformation is evaluated at 5.3 points, while Political Transformation is at 5.2 points. Six of the top 10 countries in the Status Index are Eastern European countries, with the region leading globally with an average score of 7.8 points. This reflects strengths in state independence, political participation, fiscal and monetary stability, and property rights. In contrast, the Middle East and North Africa are at the bottom with an average score of 4.2 points, while other regions score between 4.9 and 5.3 points.

90. Index of Economic Freedom:
High corruption, bribery, and inadequate government regulation have contributed to the decline in Mongolia's Economic Freedom Index.

In the annual Index of Economic Freedom[14], by The Heritage Foundation, Mongolia ranks 76th out of 176 countries in 2024, down 3 places from the previous year.

Table 8. Mongolia's Score and Ranking in the Index of Economic Freedom

Pillars	2023		2024	
	Score	Rank	Score	Rank
Rule of Law	47.2	#85	46.2▼	#87▼
Government Size	72.2	#75	70.1▼	#73▲
Regulatory Efficiency	69.3	#59	67.8▼	#61▼
Open Markets	58:1	#92	58.1 ●	#89▲
Overall Index	**61.7**	**#73**	**60.6▼**	**#76▼**

Mongolia scored 60.6 points in 2024, 2 points above the global average of 58.6. By index factors, Investment Freedom rose by 9 places, while Financial Freedom, Fiscal Health, and Trade Freedom each improved by 4 places. The growth of the mining industry, increased trade turnover, improved economic indicators, and strengthened fiscal discipline have directly enhanced Mongolia's overall rating, as well as its ratings for trade and investment freedom. However, high corruption, bribery, and poor government regulation led to declines in the Rule of Law and Monetary Freedom rankings, which fell by 12 and 10 places, respectively, which in turn caused a decrease in the overall index ranking.

The index is evaluated using 12 indicators assigned equal weight, grouped into four pillars. These indicators are further divided into varying numbers of sub-indicators. Some are measured only by a single quantitative sub-indicator, while others are measured by multiple

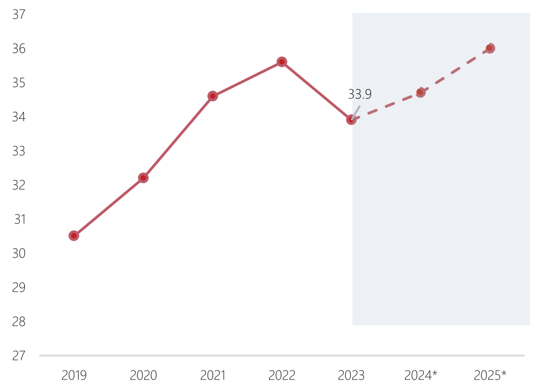
[14] The Index of Economic Freedom is measured with 12 quantitative and qualitative factors, grouped into four broad categories, or pillars: Rule of Law, Government Size, Regulatory Efficiency, and Market Openness. Each of the twelve economic freedoms within these categories is graded on a scale of 0 to 100, with a higher score indicating greater economic freedom, and a lower score reflecting weaker economic freedom

qualitative sub-indicators and may contain additional indices. Therefore, indicators comprised of fewer sub-indicators have a greater impact on the overall index. Namely, Government Expenditure, Budget Deficit, and Inflation collectively account for over 20% of the evaluation. In other words, improving these indicators makes it possible to improve the assessment of the Index of Economic Freedom most easily.

Let's take Government Expenditure as an example, which is the sub-indicator with the highest weight in the index. Government Expenditure is measured by the average of the last three years of government spending as a percentage of GDP, with lower values indicating better performance and higher values indicating worse performance (Figure 5.3).

Figure 5.3. Government expenditure as a share of GDP, average of the last 3 years, Mongolia

(percent)



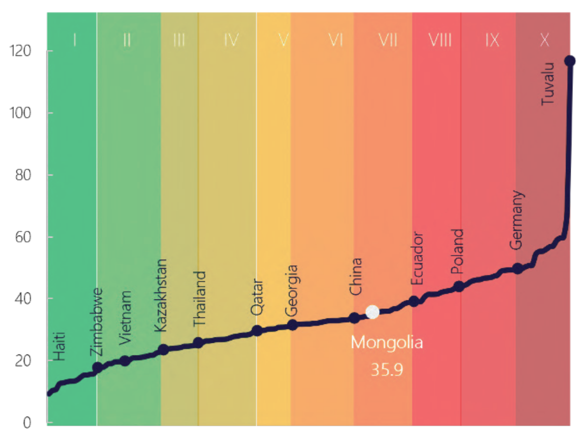
Source: National Statistics Office, MED Projection

As illustrated in the figure, government spending has increased consecutively over the last three years, 2020-2022 (the evaluation of the Index of Economic Freedom for 2024 is calculated based on the numbers and data of 2022), contributing to a lower rating in the Index of Economic Freedom. The evaluation is expected to improve next year as the share of government expenditure in GDP decreased in 2023. In the following two years, 2024 and 2025, the share of government expenditure in GDP is projected to rise to 38.5% and 37.7%, respectively, suggesting a declining trend in the sub-indicator's rating.

Suppose countries are divided into 10 groups, or deciles, each containing a similar number of countries based on the share of government spending in GDP. In that case, Mongolia is positioned in the 7th decile, indicating its placement in the lower half globally (Figure 5.4). To improve the rating by one decile, or 15-20 places, the share of government expenditure in GDP should be reduced from 35.9 percent to 30 percent. Assuming other indicators and the progress of other countries remain constant, this adjustment could potentially advance Mongolia's ranking in the Index of Economic Freedom by 1-2 places based solely on the Government Expenditure sub-indicator.

Figure 5.4. Government expenditure as a share of GDP, average of the last 3 years, by country and decile

(percent)



Source: IMF, 2022

At the international level, the 2024 Index of Economic Freedom revealed that the global average score dropped to its lowest point since 2001, primarily due to declining fiscal stability, widening budget deficits, and increasing national debt. In terms of economic freedom, the countries of the European Union and Singapore still maintain their leading positions. EU countries benefit from highly developed transparency in government activities, while Singapore excels in property rights protection, anti-corruption laws implementation, and transparent, pro-competitive regulations, along with a notably straightforward and efficient process for starting a business. At the bottom of the ranking are North Korea, Cuba, Venezuela, and Sudan.

BOX 5. THE GOVERNMENT'S 2024-2028 ACTION PROGRAM TARGET OUTCOMES

One of the major events in Mongolia during the second quarter of 2024 was the parliamentary election. The Mongolian People's Party, which won the majority in the election, invited the Democratic Party and the People's Party to form a joint government. The joint government developed the Government's 2024-2028 Action Program, which was approved by the Parliament on August 27, 2024. With its implementation, Mongolia's ranking in several international indexes will improve as outlined in the program's target outcomes[15] below (Table 10).

Table 9. Criteria for Monitoring and Evaluation of Target Outcomes of the Government's Action Program

Target Outcomes	Criteria	Unit of Measurement	Baseline		Source
			Year	Level	
Human Development Index will improve by 10 places.	Human Development Index	Rank	2022	96/193	UNDP
Credit Rating will be maintained at a stable level.	Credit Rating	Rating	2024	B3	Moody's
Index of Economic Freedom will improve by 10 places.	Index of Economic Freedom	Rank	2024	76/176	The Heritage Foundation
General Business Environment Assessment will improve to 3.5 points.	General Business Environment Assessment	Score	2023	2.71	Mongolian National Chamber of Commerce and Industry
Global Innovation Index will improve by 10 places.	Global Innovation Index	Rank	2023	68/132	World Intellectual Property Organization
Average of the Worldwide Governance Indicators will improve by 10 places.	Worldwide Governance Indicator	Rank	2022	113/215	World Bank
Good Country Index will improve by 10 places.	Good Country Index	Rank	2022	106/169	Good Country Index
Corruption Perceptions Index will improve by 30 places.	Corruption Perceptions Index	Rank	2023	121/180	Transparency International
World Talent Rankings will improve by 8 places.	World Competitiveness Ranking	Rank	2023	64/64	IMD

To achieve these outcomes, the Government's Action Program is structured around four main policy directions, encompassing four goals and a total of around 600 activities.

If we look into the program activities, in the second chapter, "Human Development Policy," planned activities to improve livelihoods, increase the quality and accessibility of health and education, and renew resources and infrastructure leading to improved Human Development Index, Global Innovation Index, and World Talent Rankings. Similarly, in the first chapter, "Regional Development Policy," and the third chapter, "Economic Policy," activities are planned to reduce state participation in the market, improve the business and investment environment, and create a multi-pillar, acessible, export-oriented economy, leading to a stable credit rating and better business environment indicators. Lastly, in the fourth chapter, "Governance Policy that Respects Human Rights," planned activities to digitize public services, improve their efficiency, accessibility, and transparency, and strengthen the legal framework for fighting corruption, which will result in higher rankings for governance and corruption indicators. As the Index of Economic Freedom and the Good Country Index encompass a wide range of factors, the comprehensive measures planned under each chapter - such as supporting the business environment, enhancing governance quality, promoting human development, advancing regional development, and fostering economic diversification - are directed to improve their rankings.

[15] Only outcomes related to international indexes are included from the Government's Action Program target outcomes.

APPENDIX

TABLE 10. SELECTED ECONOMIC INDICATORS

SELECTED ECONOMIC INDICATORS	2020	2021	2022	2023	2024Q1	2024Q2
REAL SECTOR						
Nominal GDP (in MNT billion)	37,453	43,555	53,852	70,442	16,663	37,420
Real GDP growth - production approach (percent change)	-4.6	1.6	5.0	7.4	7.9	5.6
Real GDP growth - expenditure approach (percent change)	-4.4	1.6	5.0	7.2	8.0	5.7
Domestic demand (percentage points)	-12.6	17.6	11.4	5.4	32.5	27.7
Exports of goods and services (percentage points)	-2.7	-7.5	13.9	18.0	-7.2	-1.5
Imports of goods and services (percentage points)	11.0	-8.5	-20.3	-16.2	-17.3	-20.5
Contribution to real GDP growth (percentage points)						
Final consumption	3.6	-2.3	6.5	7.0	22.0	21.5
Private	1.3	-4.0	5.1	6.3	12.7	12.1
Public	2.2	1.7	1.4	0.7	9.3	9.3
Gross capital formation	-16.2	19.9	4.9	-1.6	10.5	6.2
Net exports of goods and services	8.2	-16.0	-6.4	1.8	-24.5	-21.9
PRICES						
Consumer prices (eop, percent change)	2.3	13.8	13.2	7.9	7.0	5.1
Copper prices* ($/ton)	6,178	9,315	8,815	8,479	8,443	9,094
Gold prices* ($/troy ounce)	1,772	1,799	1,802	1,943	2,074	2,206
Oil prices* ($/barrel, Brent)	43	71	99	82	82	83
GDP deflator (percent change)	3.7	14.4	17.7	21.8	10.5	14.4
			(in MNT billion)			
GENERAL GOVERNMENT ACCOUNTS						
Total revenue and grants	10,444	14,306	18,522	24,387	7,673	14,947
Structural revenue and grants	9,464	12,711	17,127	23,295	7,322	14,199
Total expenditure and net lending	13,904	15,630	18,160	22,509	5,695	12,911
Overall balance	-3,460	-1,324	362	1,878	1,978	2,036
Overall primary balance	-2,521	-488	1,160	3,028	2,380	2,631
Structural balance	-4,440	-2,919	-1,033	786	1,627	1,287
Structural primary balance	-3,501	-2,083	-235	1,936	2,028	1,883
General government debt (NPV, in percent of GDP)	62.3	50.8	52.4	38.6	33.7	33.2
General government debt (nominal)	27,899	26,918	31,965	30,778	29,772	30,247
MONETARY SECTOR						
Broad money growth (percent change)	16.2	13.8	6.5	26.8	20.9	31.9
Reserve money growth (percent change)	-12.7	6.5	39.9	7.4	11.7	29.6
Velocity of money	1.5	1.6	1.8	1.9	2.0	1.9
Money multiplier	5.4	5.8	4.4	5.2	6.1	5.5
Credit growth** (percent change)	-4.0	18.5	7.5	22.7	22.3	27.3
			(in USD million)			
BALANCE OF PAYMENTS						
Balance of payments	787	-222	-727	1,457	373	-57
Current account balance	-675	-2,108	-2,303	121	-251	-583
Gross official reserves (in USD million)	4,534	4,366	3,400	4,921	5,250	4,839
in months of imports of G&S	7.4	5.7	3.4	4.4	4.4	3.9
Exchange rate						
MNT/USD (average)	2,813	2,849	3,140	3,466	3,392	3,386
MNT/USD (eop)	2,850	2,849	3,445	3,411	3,376	3,381
Nominal effective exchange rate (average)	43.0	41.3	38.8	37.6	39.4	39.6
Real effective exchange rate (average)	102.9	102.8	105.7	111.1	117.6	118.9

*Bloomberg Terminal **Includes mortgage-backed securities

TABLE 11. REAL SECTOR

REAL SECTOR	2020	2021	2022	2023	2024Q1	2024Q2
Nominal GDP (production approach)	37,453	43,555	53,852	70,442	16,663	37,420
Real GDP (production approach)	26,655	27,092	28,455	30,567	6,077	14,419
			(percent change)			
Real GDP growth	-4.6	1.6	5.0	7.4	7.9	5.6
Mining	-9.9	0.8	-15.3	23.4	13.3	15.4
Non-mining	-3.7	1.8	8.2	5.4	7.0	4.2
Agriculture	5.8	-5.5	12.0	-8.9	-24.8	-26.7
Mining and quarrying	-9.9	0.8	-15.3	23.4	13.3	15.4
Manufacturing	3.4	-0.9	6.1	5.1	4.9	6.3
Electricity, gas, stream, air conditioning supply	1.8	9.4	3.3	5.0	7.7	5.3
Construction	-3.2	-22.8	8.2	3.1	27.7	19.5
Wholesale and retail trade	-12.5	5.8	10.1	6.8	6.0	6.8
Transportation and storage	-18.2	-7.3	9.2	39.6	26.9	24.7
Information and communication	5.2	20.7	6.6	17.0	27.5	17.4
Other service activities	-2.6	3.8	5.4	5.8	3.4	7.1
Taxes less subsidies on products	-9.4	12.2	11.5	6.6	13.1	15.0
Deflator	3.7	14.4	17.7	21.8	10.5	14.4
			(percentage points)			
Contributions to real GDP growth						
Agriculture	0.8	-0.8	1.7	-1.3	-1.0	-3.9
Mining and quarrying	-1.4	0.1	-2.1	2.6	1.9	1.8
Manufacturing	0.3	-0.1	0.5	0.4	0.3	0.4
Electricity, gas, stream, air conditioning supply	0.0	0.2	0.1	0.1	0.3	0.2
Construction	-0.1	-0.9	0.2	0.1	0.2	0.3
Wholesale and retail trade	-1.4	0.6	1.1	0.8	0.7	0.7
Transportation and storage	-1.0	-0.3	0.4	1.8	1.3	1.0
Information and communication	0.1	0.5	0.2	0.5	0.9	0.6
Other service activities	-0.7	1.1	1.6	1.7	1.2	2.1
Taxes less subsidies on products	-1.1	1.3	1.4	0.8	2.1	2.3
			(in MNT billion)			
Nominal GDP (expenditure approach)	37,883	44,703	54,878	71,202	17,473	38,022
Primary income	-3,526	-6,359	-5,072	-7,738	-1,693	-4,465
Gross national income	34,357	38,344	49,806	63,463	15,780	33,558
Secondary income	769	1,223	1,363	1,378	592	857
Gross national disposable income	35,126	39,566	51,169	64,841	16,372	34,414
Domestic demand	36,953	45,574	58,219	64,404	17,098	36,042
National savings	6,556	9,985	15,746	24,317	4,001	8,357
Gross capital formation	8,383	15,993	22,796	23,880	4,727	9,985

TABLE 12. GENERAL GOVERNMENT ACCOUNTS

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

TABLE 13. GENERAL GOVERNMENT ACCOUNTS (IN PERCENT OF GDP)

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

TABLE 14. BALANCE OF PAYMENTS

BALANCE OF PAYMENTS	2020	2021	2022	2023	2024Q1	2024Q2
			(in USD million)			
I. CURRENT ACCOUNT	-675	-2,108	-2,303	121	-251	-583
Goods	1,756	1,370	1,233	4,549	920	1,865
Exports F.O.B (credit)	6,991	8,136	9,854	13,914	3,431	7,443
Imports F.O.B (debit)	5,235	6,766	8,622	9,366	2,511	5,578
Services	-1,450	-1,675	-2,355	-2,592	-846	-1,383
Credit	655	814	1,135	1,587	275	615
Debit	2,105	2,490	3,490	4,179	1,121	1,998
Primary income	-1,253	-2,232	-1,615	-2,233	-499	-1,319
Credit	341	292	344	455	132	279
Debit	1,595	2,524	1,959	2,687	631	1,598
Secondary income	273	429	434	398	175	253
II. CAPITAL ACCOUNT	103	114	154	135	32	78
Credit	105	116	166	149	36	87
Debit	2	2	12	14	4	9
III. FINANCIAL ACCOUNT: net lending (+) / net borrow	-1,504	-1,982	-1,644	-1,477	-857	-660
Direct investment (net)	-1,693	-2,060	-2,428	-2,172	-580	-1,464
Portfolio investment (net)	563	25	445	818	-16	-252
Financial derivatives (net)	-6	-8	-11	-2	8	0
Other investments (net)	-369	60	351	-121	-269	1,056
Of which: Currency and deposits	278	245	298	354	-245	894
Loans	-803	-501	67	-529	-86	-43
Trade credit and advances	156	413	-15	54	61	205
IV. Net errors and omissions	-146	-209	-222	-276	-265	-213
Overall balance	787	-222	-727	1,457	373	-57
V. Reserve assets	787	-222	-727	1,457	373	-57
Reserve	787	-225	-751	1,398	359	-96
IMF loan	0	-3	-24	-59	-14	-38
Exceptional financing	0	0	0	0	0	0
Memorandum items:						
Nominal GDP (in USD million)	13,314	15,286	17,150	20,325	4,912	11,052
Gross official reserves (in USD million)	4,534	4,366	3,400	4,921	5,250	4,839
in months of imports of G&S	7.4	5.7	3.4	4.4	4.4	3.9
MNT/USD exchange rate (average)	2,813	2,849	3,140	3,466	3,392	3,386
MNT/USD exchange rate (eop)	2,850	2,849	3,445	3,411	3,376	3,381

TABLE 15. BALANCE OF PAYMENTS (IN PERCENT OF GDP)

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

TABLE 16. MONETARY SECTOR

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

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