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).

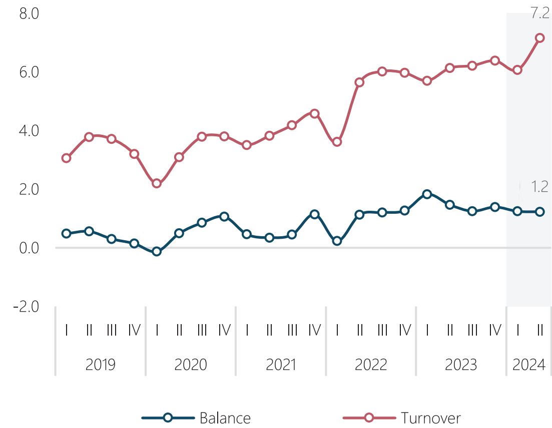
**52. The rise in the physical volume of main commodities positively impacted the overall export revenue growth.** In the first half of 2024, exports amounted to USD 7.9 billion, marking an increase of approximately 4 percent compared to the same period last year. This growth was primarily driven by 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

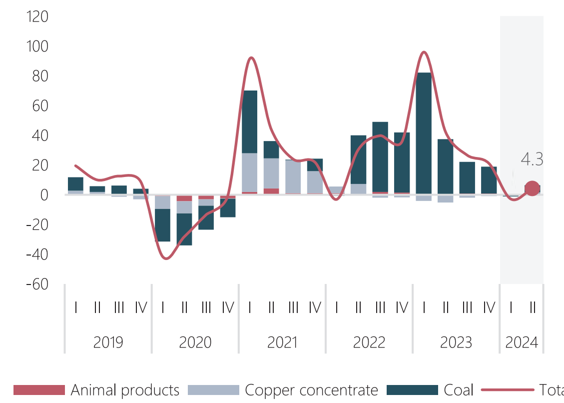
Figure 4.1. Foreign trade

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.

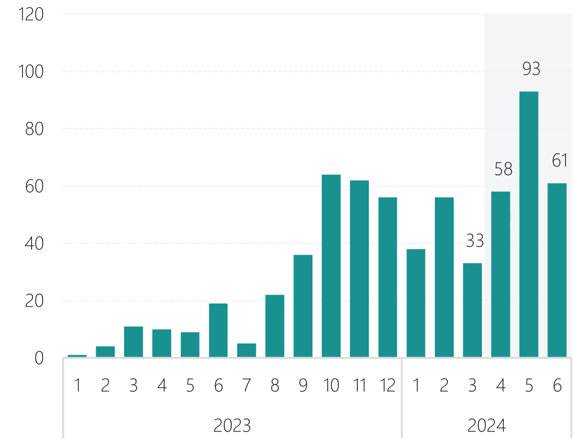
**56. Oil exports have declined compared to the same period last year.** As a result of a slowdown in oil production, exports totaled 2,065 thousand barrels, marking a 14 percent decrease from the the same period the previous year. In the second half of the year, no significant growth in the physical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

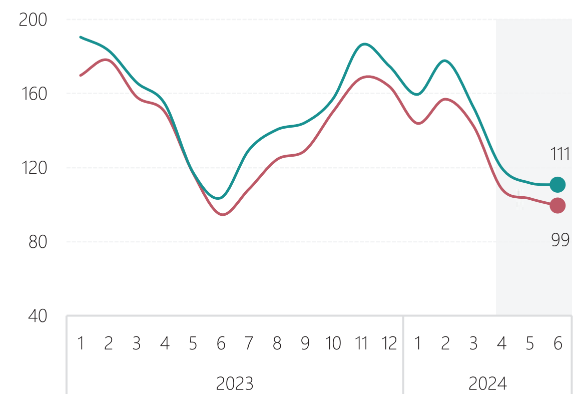
Figure 4.2. Mining commodity Exchange trade

1. Number of trades



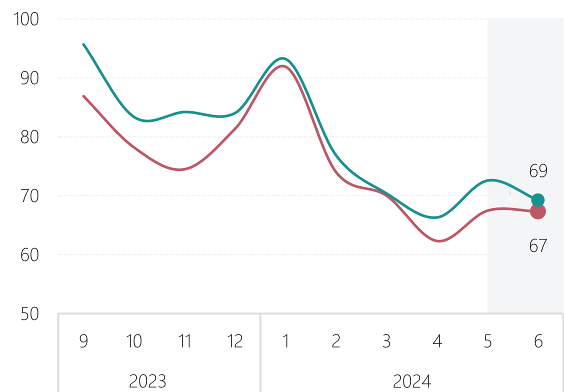

*Source: Stock Exchange of Mongolia.*

2. Average price of coal
(US dollars/tonn)




*Source: Stock Exchange of Mongolia.*

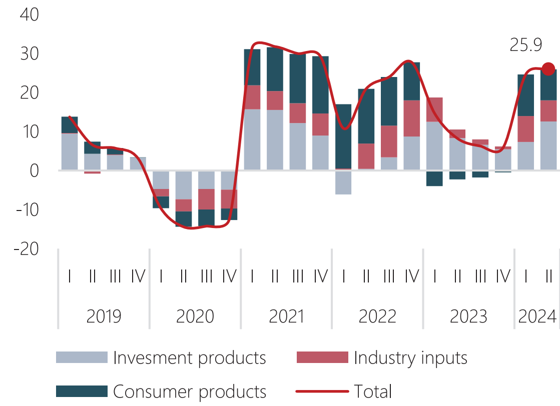
3. Average price of Iron ore
(US dollars/tonn)




*Source: Stock Exchange of Mongolia.*

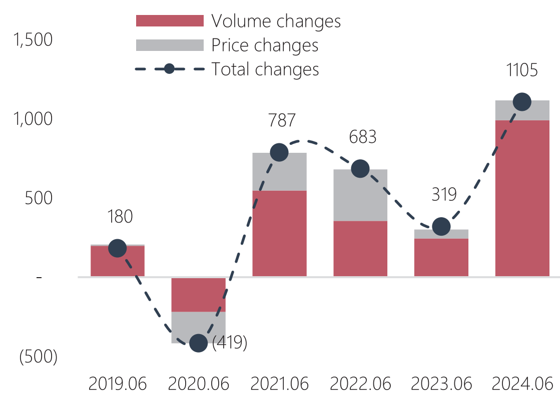
Figure 4.3. Import

1. Annual growth of imports
(percent)




*Source: MCGA*

2. Change of imports
(USD million)




*Source: MCGA*

**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.

**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.

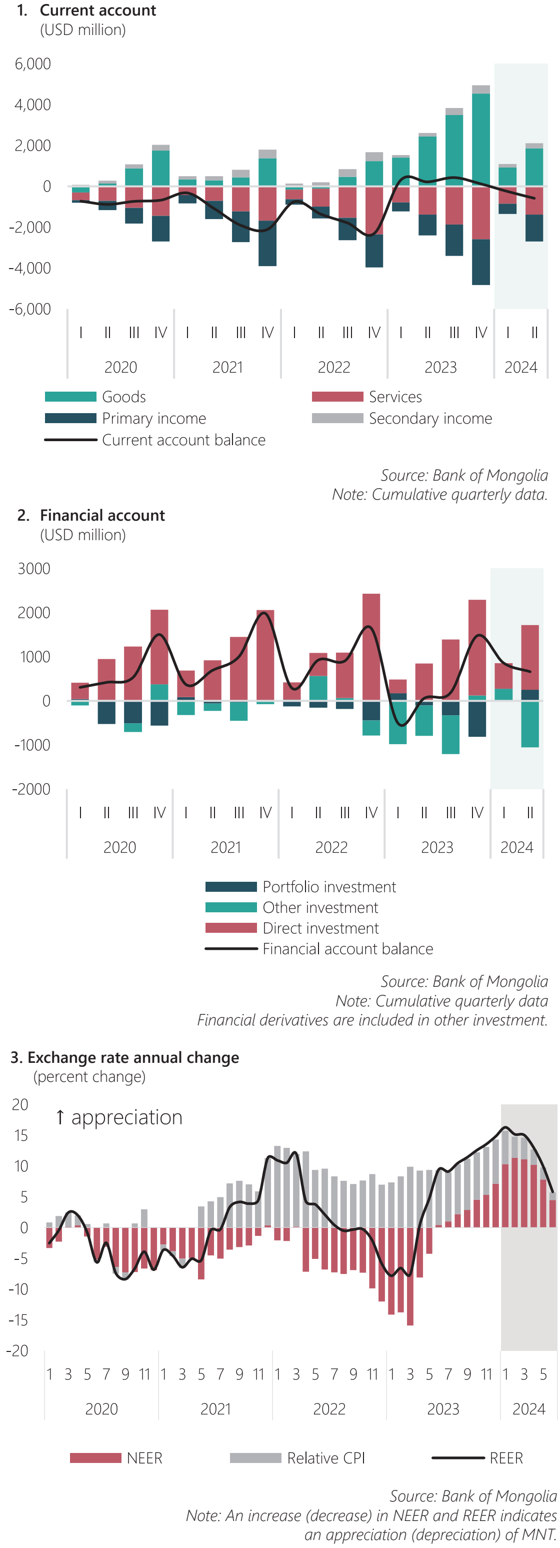
**64. Construction materials import increased due to an increase in mortgage loans and the reduction of customs duties on cement.** The construction sector grew by 19.5 percent in the first half of this year, leading to an increase in the import of construction materials to USD 599 million, marking an 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

Figure 4.4. Balance of payments, exchange rate




**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

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.

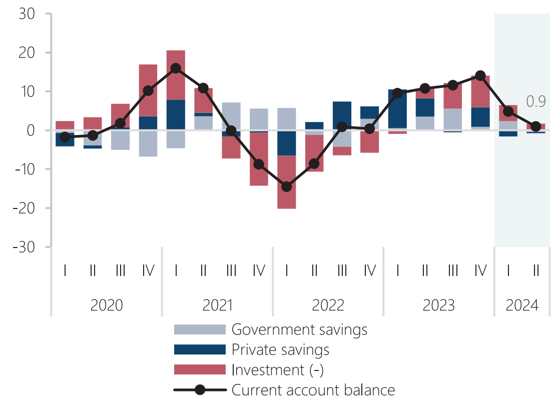
**69. The current account balance deterioration reflects a slower savings growth and higher investment.** From a savings-investment perspective, the current account deficit narrowed during the pandemic in 2020-2021 due to weak economic activity weighing on investment. The improvement in the current balance 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.

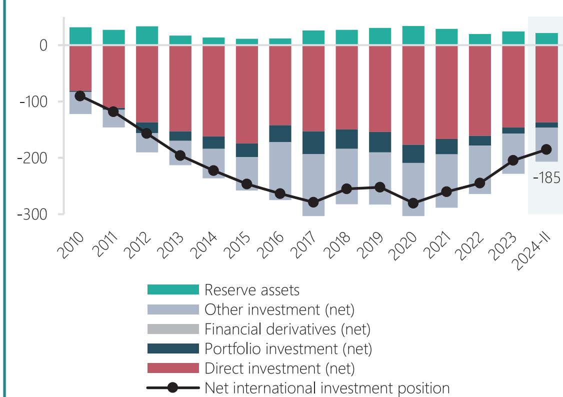
Figure 4.5. Current account balance, net international investment position

**1. Annual changes in current account balance**
(in percent of GDP)




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

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




*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).

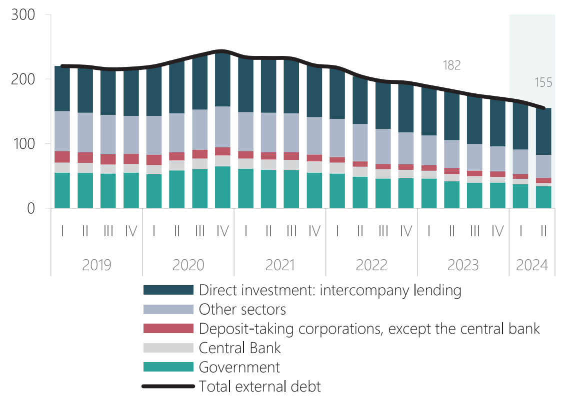
**73. The external debt of public sector fell, while the private sector's external debt increased.** The external debt of the central bank declined by USD 869 million or 47 percent from a year earlier due to the repayments of CNY 4.5 billion of the currency swap facility with the PBOC, while the government's 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

**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).

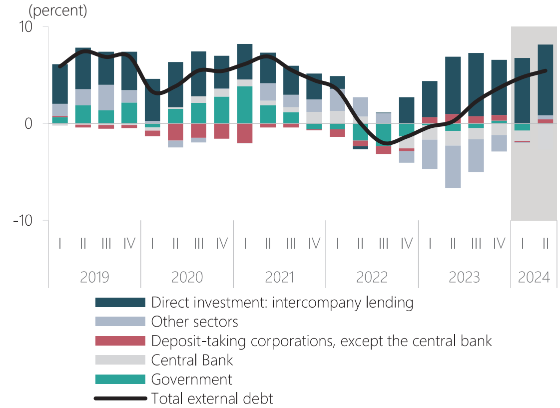
Figure 4.6. External debt

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*

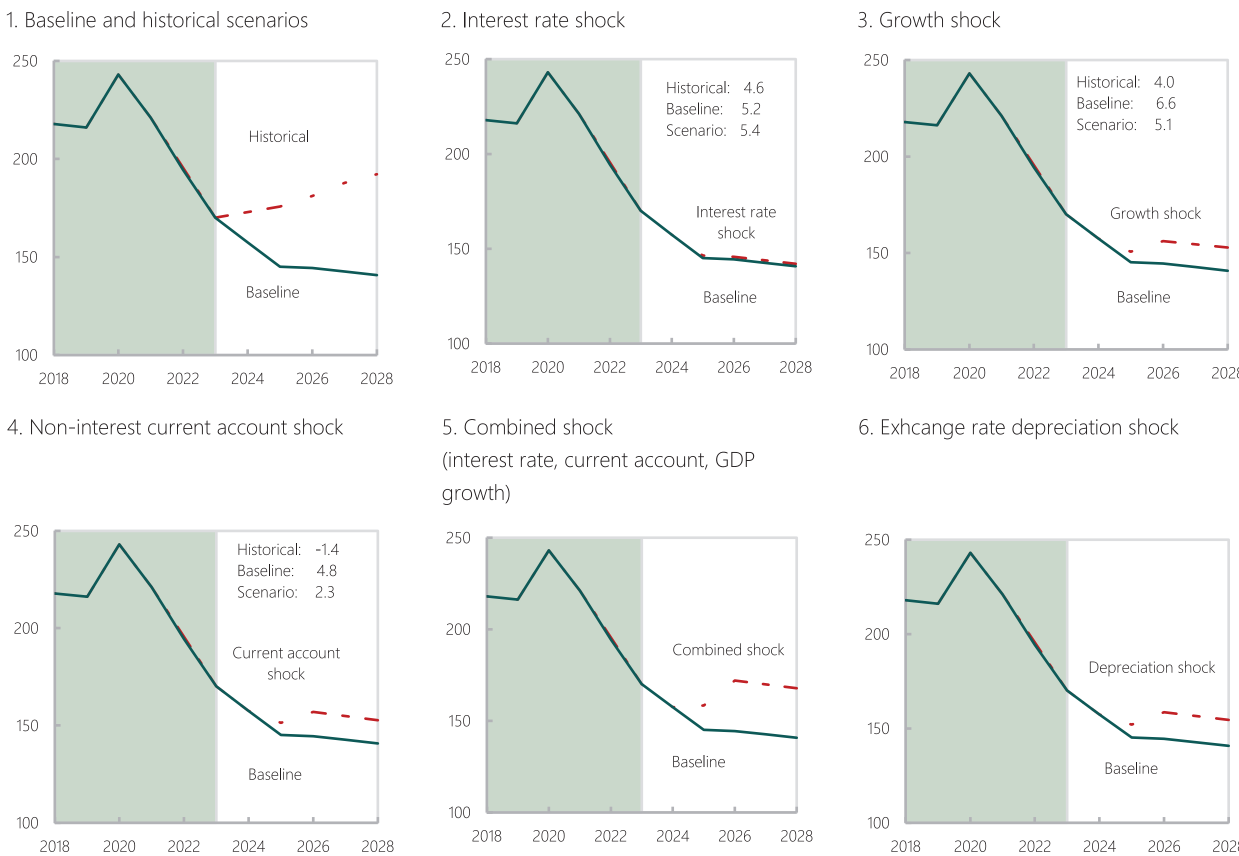
## Figure 4.7. External debt sustainbility

**External debt**

(in percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | | Projections | | | | | Debt-stabilizing |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | | | 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 |
| | | | | | | | historical average | standard deviation | | | | | | |
| 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.




*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..*