

CHAPTER 5

# WORLD ECONOMY

- 5.1 WORLD ECONOMIC SITUATION
- 5.2 COMMODITY MARKET DEVELOPMENT
- 5.3 INDEXES UPDATED IN 2024

# 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.

# WORLD ECONOMIC SITUATION

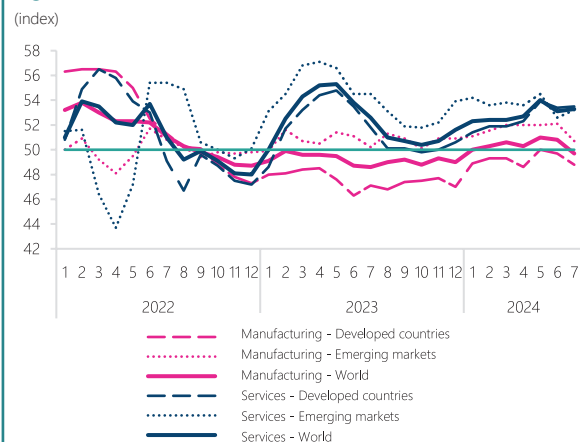
**76. The service sector activity maintained recovery momentum, while the industrial sector activity remains weak in developed countries.** The global Purchasing Managers' Index (PMI), a short-term indicator of the economy, shows that the activity in the service sector in both developed and developing 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.

# 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.**

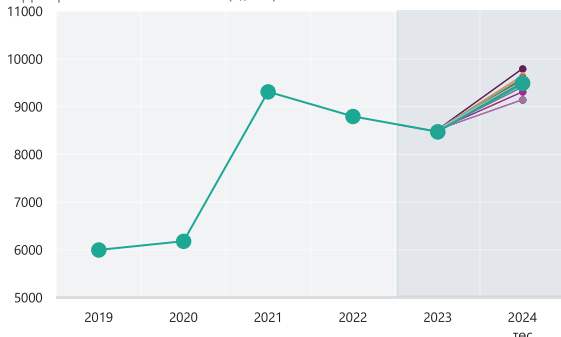
The ongoing weakness in China's property sector, increased development of new mines in Australia, and Brazil's announcement of a 6 percent annual supply increase have significantly contributed to the decline in prices. According to forecasts from experts, the average price of iron ore is expected to 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.**

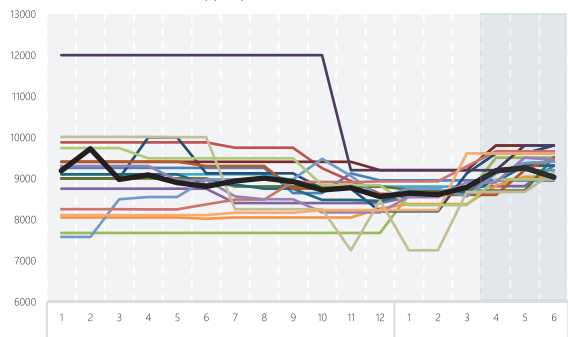
In June of 2023, OPEC countries decided to reduce oil production for 2024, and the ongoing conflict in the Middle East, which accounts for approximately 35 percent of global oil production, has created instability in supply and driven prices higher. Additionally, increased economic activity in India, 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

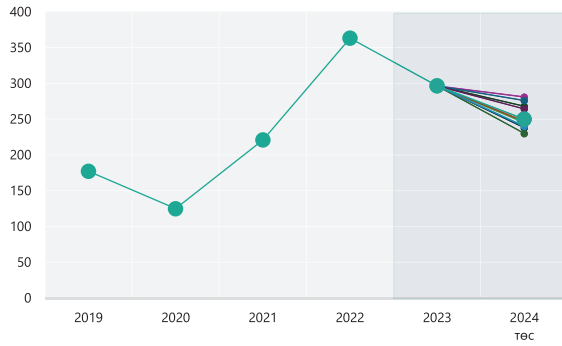
1. Copper price forecast on the LME( \$/ton)



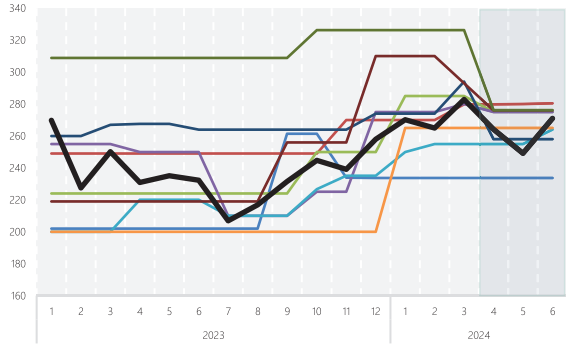
2. Forecast movements of copper prices in 2024 (\$/ton)



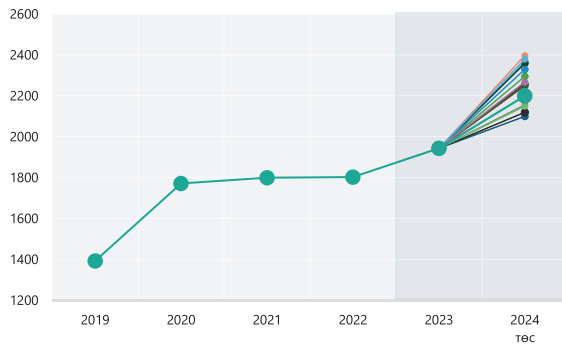
3. Australian high quality coking coal price forecast on the SXG (\$/ton)



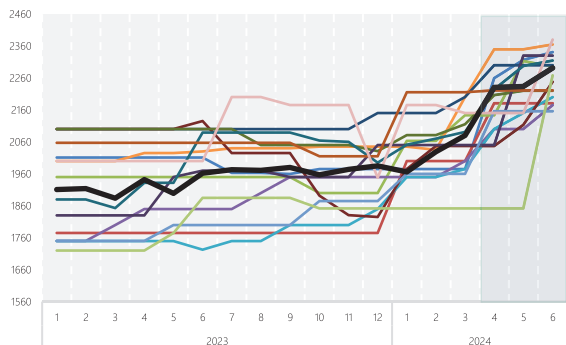
4. Forecast movements of Australian high quality coking coal prices in 2024 (\$/ton)



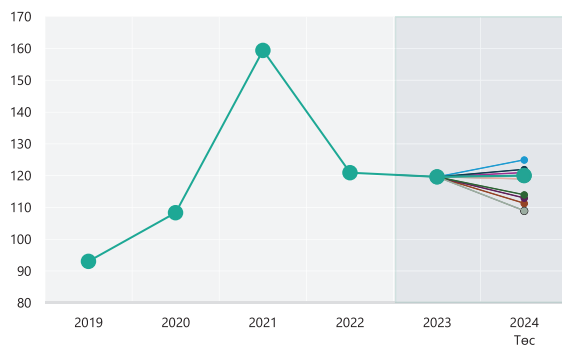
5. Gold price forecast on the LME (\$/ton)



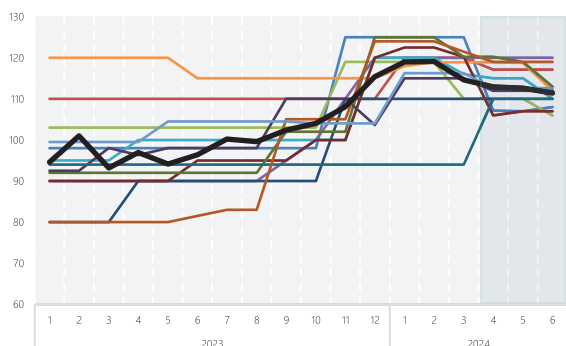
6. Forecast movements of gold prices in 2024 (\$/ton)



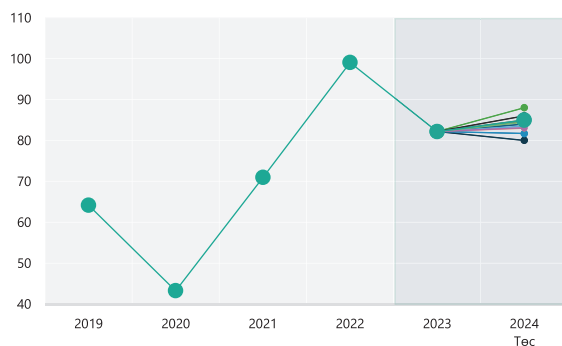
7. Price forecast of iron ore 62%, Northwest China (\$/ton)



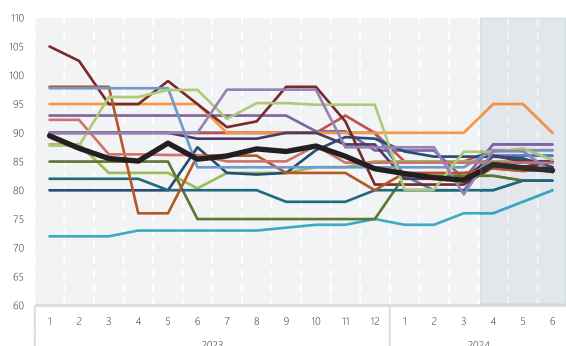
8. Forecast movements of iron ore 62%, Northwest China prices in 2024 (\$/ton)



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.

# 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<sup>12</sup> 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▲

<sup>12</sup> 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.

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<sup>13</sup> 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.

<sup>13</sup> 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<sup>14</sup>, 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▲
<b>Overall Index</b>	<b>61.7</b>	<b>#73</b>	<b>60.6▼</b>	<b>#76▼</b>

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.

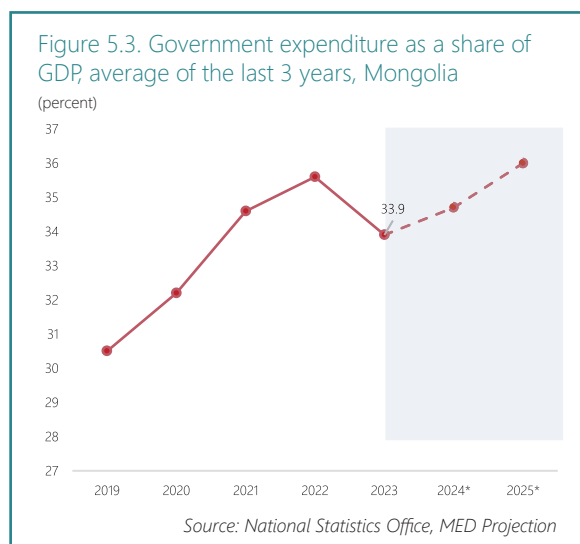
The index is evaluated using 12 indicators assigned equal weight, grouped into four pillars. These indicators are further divided into varying numbers of sub-indicators. Some are measured only by a single quantitative sub-indicator, while others are measured by multiple

<sup>14</sup> 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

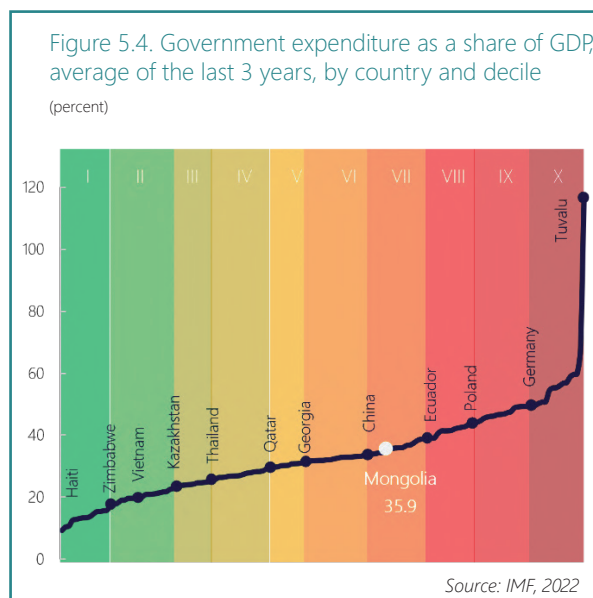
qualitative sub-indicators and may contain additional indices. Therefore, indicators comprised of fewer sub-indicators have a greater impact on the overall index. Namely, Government Expenditure, Budget Deficit, and Inflation collectively account for over 20% of the evaluation. In other words, improving 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).



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.



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<sup>15</sup> 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, accessible, 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.

<sup>15</sup> Only outcomes related to international indexes are included from the Government's Action Program target outcomes.