GOVERNMENT OF MONGOLIA

MINISTRY OF ECONOMY AND DEVELOPMENT

MACROECONOMIC REPORT

2024 Q3

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MACROECONOMIC REPORT 2024 Q3

DECEMBER 2024

Content

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ABBREVIATIONS

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

EXECUTIVE SUMMARY

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

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

Inflation remained within the central bank's target band. Inflation stood at 6.7 percent in September 2024, remaining within the central bank target range. Inflation for domestic goods and services exhibited an upward trend, whereas import inflation remained stable. Demand-driven inflation rose reflecting resilient economic activity, while supply-driven inflation accelerated as meat prices increased at a faster pace than in previous years. The central bank lowered policy rate by 3 percentage points in 2024. Credit growth reached a 10-year high at the end of the third quarter of 2024, contributing to the increase in the money supply.

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

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

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

NEAR-TERM OUTLOOK

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

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

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

Inflation is expected to approach the upper limit of the target band. Inflation is projected to be around 7.2 percent in 2025, approaching the upper limit of the central bank's target band. The reduced meat supply resulting from the contraction in the agricultural sector, along with the energy tariff hike, could exert upward pressure on domestic inflation. The risks of increased import inflation also remain heightened due to geopolitical tensions, climate change, and disruptions in transportation logistics.

CHAPTER 1

REAL SECTOR

1. REAL SECTOR

OVERVIEW

The trade, service, and mining sectors were the main drivers of growth. On the demand side, growth was primarily fueled by strong consumption, supported by higher real incomes and improved employment. However, high import growth driven by increased demand for consumption and investment, had a negative impact on overall growth. Meanwhile, growth in employment and the accumulation of capital stock in the mining sector contributed to boosting potential output.

CHAPTER 1

1.1 AGGREGATE SUPPLY

1. Economic growth is primarily driven by mining and service sectors. Nominal GDP increased by 19 percent year-on-year, reaching MNT 56 trillion in the first three quarters of 2024, while real GDP grew by 5.0 percent. The mining and service sectors contributed 6 percentage points to real GDP growth, while the persistent contraction in the agricultural sector continued to constrain overall economic growth.

2. The production of coal, iron ore, and copper concentrate continued to increase, although the pace of growth in the mining sector slowed due to the base year effect. The growth of the mining sector slowed to 11.4 percent in the first three quarters of 2024, compared to 32.7 percent in the same period last year. Coal production reached 72.2 million tons, marking a 28 percent increase, while iron ore output rose to 7.2 million tons, a 30 percent rise compared to the same period last year. Copper concentrate production increased by 5.1 percent to 1,104 thousand tons, driven by the intensified production at the Oyutolgoi underground mine. In contrast, crude oil and gold production declined by 13 percent and 12 percent, respectively. Moving forward, the production of coal, iron ore, and copper concentrate is expected to support growth in the mining sector.

3. With robust growth in the service sector, non-mining sectors contributed two-thirds of the total growth. Non-mining sectors expanded by 4.0 percent in the first three quarters of 2024. In the third quarter of 2024, growth in the service sectors gained momentum, while the expansion of the construction and manufacturing sectors moderated, and the agricultural sector continued to contract. Particularly, growth in non-transportation service sectors – wholesale and retail trade, information and communication, and other services – accelerated to 8.8 percent in the first three quarters of 2024, contributing 3.7 percentage points to the economic growth. The wholesale and retail trade sector experienced a 7.9 percent growth, driven by increased household consumption. The increase in the number of actively operating entities, higher employment levels, and rising loan issuance all indicate a growth in activity within the trade sector. In the trade sector, 14,810 new enterprises were established, and the number of active enterprises rose by 6 percent, while newly issued loans grew by 34 percent year-on-year as of the first three quarters of 2024. Moreover, the information and communication sector experienced a growth of 14.4 percent, while other service sectors expanded by 8.6 percent. Moving forward, the service sector is expected to sustain its growth and continue to contribute to overall economic growth.

4. The transportation sector expanded in parallel with the growth in trade turnover. In the first three quarters of 2024, the volume of carried freight reached 87.5 million tons, recording a 21 percent year-on-year increase. The growth was primarily driven by a higher export volume of mining products, which accounted for 86 percent (75.0 million tons) of total freight transport. Furthermore, imports via railway and transit transportation increased by 6.8 percent and 7.8 percent, respectively, further contributing to the 16 percent growth of the transportation sector, which added 0.9 percentage points to overall economic growth.

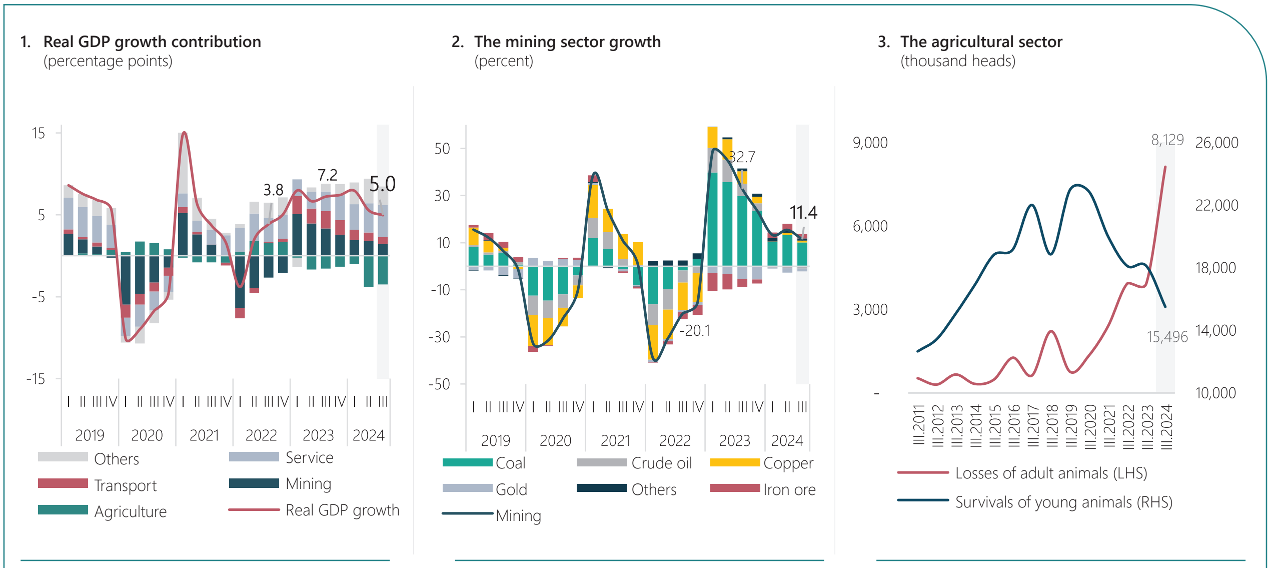
5. Beverages and chemical production supported the manufacturing sector growth. In the first three quarters of 2024, the manufacturing sector output remained largely unchanged from the previous year, with a modest growth of 0.1 percent. The 10 percent increase in beverage production, which accounts for approximately 20 to 25 percent of the sector's output, was the primary driver of the sector's growth. Specifically, soft drink production grew by 7 percent, alcohol production increased by 35 percent, and juice production rose by 40 percent. Additionally, increased activity in the mining sector stimulated the production of chemical products for explosives, further supporting the growth of the manufacturing sector. In contrast, the reduced production of meat and cashmere, which accounts for about 15 percent of the manufacturing sector, due to significant livestock losses from adverse weather conditions in 2023-2024, dampened the sector's overall growth.

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

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

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

Figure 1.1 Real GDP growth



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

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

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

[1] The sum of electricity and renewable energy production

BOX 1. THE ECONOMIC IMPACT OF CARBON TAXATION

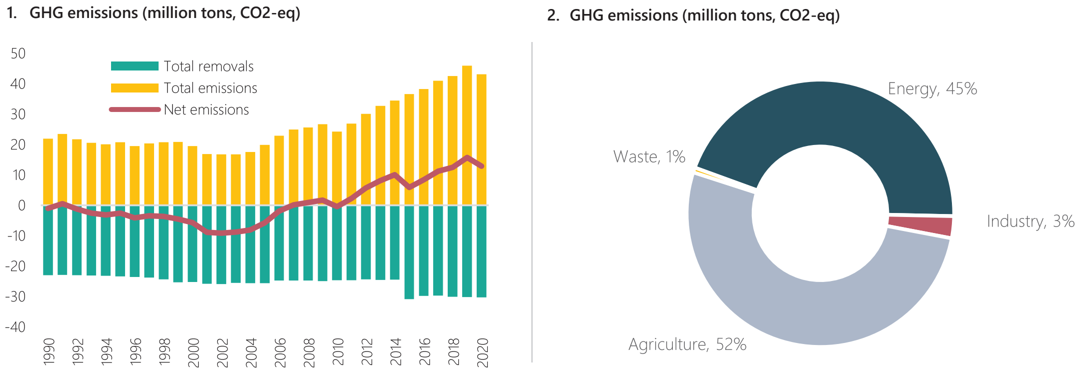
CURRENT DEVELOPMENT AND CHALLENGES OF GHG EMISSIONS

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

Mongolia contributes only 0.12 percent of global GHG emissions but ranks 9th globally in terms of per capita GHG emissions (World Bank, 2024). Until 2006, Mongolia had been a net carbon sink country, but since 2007, total emissions have exceeded removal levels, reaching 43.1 million tons of CO_2e in 2020 (Figure I.2.1). Notably, 97 percent of total emissions come from agriculture and energy sectors, primarily due to the traditional livestock practices, the rapid increase in the livestock numbers, and heavy reliance on coal for energy source (Figure I.2.2).

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

Figure 1.2 GHG emissions



Source: NSO

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

Source: NSO

Therefore, Mongolia ratified the Paris Agreement on September 1, 2016, and established National Determined Contribution (NDC), which was approved by the Government Decree No.407 of November 19, 2019, with the aim to contribute to the Paris Agreement. Following the entry into force of the Paris Agreement, member states must establish their NDC and report on their progress every 5 years. Within this framework, Mongolia has pledged to reduce its national greenhouse gas emissions by 22.7 percent, or 16.89 million tons of CO_2 equivalent, by 2030 compared to the projected emissions under a business-as-usual scenario for 2010.

International practice of carbon pricing

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

A carbon tax targets specific sectors and activities based on their GHG emissions, with the opportunity to expand the tax base, generate additional fiscal revenues, and reduce emissions. The resources and revenue collected from a carbon tax can be targeted to vulnerable households and used to support them, fund public services, build fiscal resilience, and finance investment aligned with SDG. A well-designed progressive carbon pricing can increase significant economic and social benefits. Global carbon pricing revenues reached USD 104 billion in 2023, with more than half allocated to funding climate and environment-related programs.

ANALYSIS OF THE DISTRIBUTIONAL IMPACT OF CARBON PRICING ON HOUSEHOLDS

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

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

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

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

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

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

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

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

Figure 1.3. The impact of carbon tax on household expenses

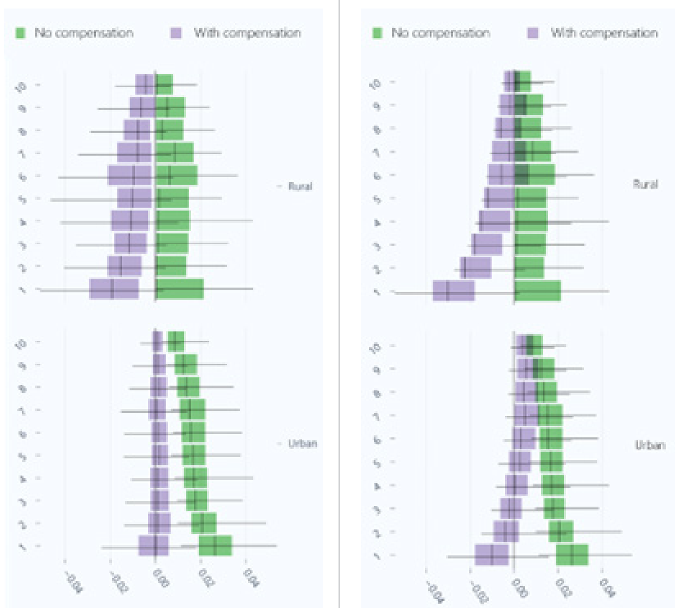
1. **Distributional impact of carbon pricing**
2. **Median of relative price**

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

Resource: https://www.cpic-global.net/country/MNG
Note: The first-order relative additional costs to households by dividing absolute additional costs by total household expenditure.

Figure 1.4. Allocation of carbon tax revenues

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



Vertical axis: Income group. Splits the population into ten equally sized income groups (deciles). Group 1 represents the poorest 10%, group 10 the richest 10% and so on.
Horizontal axis: relative price, percent.
The purple boxplot shows the costs with a per when 100% of revenues are distributed back to the popluation via Equal per household or per capita transfer (lump sum).
Negative values indicate that households are better off than before the policy intervention, i.e. are being overcompensated.

Resource: https://www.cpic-global.net/country/MNG
Note: The first-order relative additional costs to households by dividing absolute additional costs by total household expenditure.

CHAPTER I

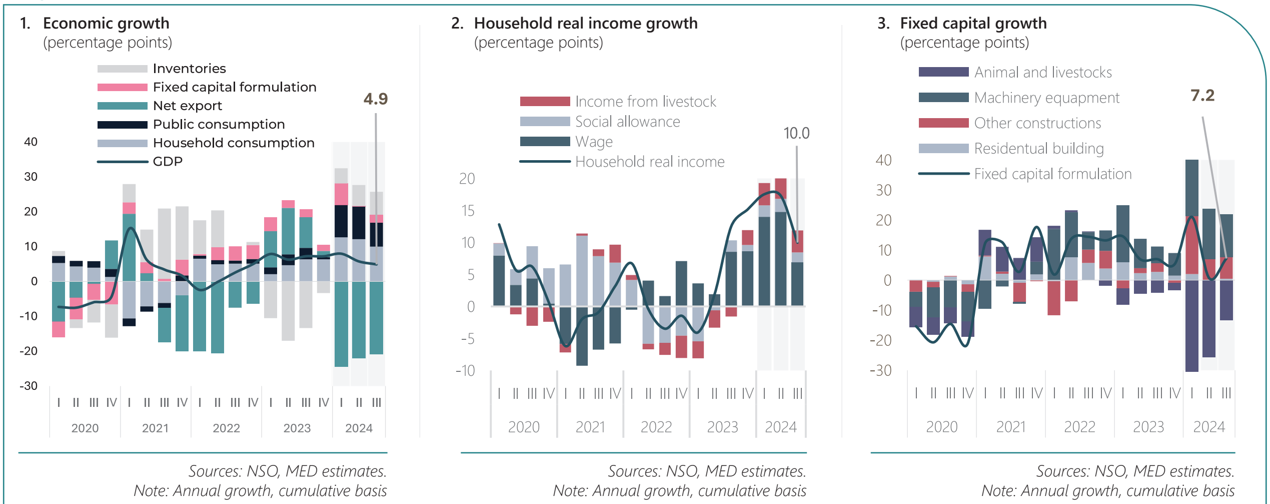
1.2 AGGREGATE DEMAND

9. Domestic demand was primary driver of economic growth. Both private and public consumption expanded, and domestic demand increased by 20.9 percent. However, net exports decreased due to larger imports driven by consumption and investment, which has slowed the overall growth.

10. Wage rise supported private consumption. By the 3rd quarter of 2024, household nominal income reached 2.6 million tugriks, in real terms, it increased by 10 percent. From the beginning of the year, public sector wages increased by about 10%, and from April 2024, they rose again by 10-40 percent. By the first half of 2024, the average salary of public officials had grown by 57.6 percent, which contributed to a subsequent 21-27 percent rise of the average wages in the private sector, bolstering household consumption. In addition, other favorable macroeconomic factors, such as moderate inflation, higher labor force participation, and increasing credit availability further supported the growth. According to the National Research and Consultancy Center's quarterly consumer confidence survey, consumer confidence in the third quarter of 2024 rose by 6.1 points compared to the previous quarter.

11. Income growth for low-income households remains below the national average. As result of the Household Socio-Economic Survey, out of overall 983 thousand households, 351 thousand are living with a monthly income of less than MNT 1.6 million. Their average nominal income is estimated at MNT 967 thousands, which is 2.7 times below than nation average and 3.3 times lower than that of households with higher incomes. Wage contributes 61 percent of income for high-income households, while it accounts only 22 percent of income for low-income households. Contrary, 57 percent of income for low-income households comes from social allowances. This indicates that employment is lower among low-income households, therefore, wage rise has an insignificant impact on their earnings.
Moreover, 20.9 percent of total households in Ulaanbaatar live on less than MNT 1.6 million, whereas 60.2 percent of rural households fall into this category. Although herders rely on their own production for living, their income remains low.

Figure 1.5. Growth contribution



Sources: NSO, MED estimates.
Note: Annual growth, cumulative basis

12. Increase in gross capital formation primarily driven by higher imports of heavy machinery for mining and ongoing construction works. Gross capital formation records changes in all types of capital stock across economic sectors during the reporting period. In the first half year, gross capital formation was explained mainly by inventory buildups. In the third quarter, fixed capital formation surged by 17.7 percent and positively contributed to overall gross capital formation. This growth was basically explained by 42.2 percent increase in machinery equipment, along with 15.2 percent increase in non-residential constructions, which offset the gross capital formation deduction due to significant reduction in the number of livestock.

13. Public investment is growing, while private investment has been sluggish. By 2024Q3, public investment expanded by 50 percent over the year, driven by maintenance, constructions of road and bridge in Ulaanbaatar, Umnugobi and Dornogobi provinces. Although corporate credit increased, private investment declined by 3.8 percent.

14. Net exports reduction, led by increase in import growth, has been contributing negatively to overall growth. Net exports refer to the difference between revenue earned by exports and payment made for imports. A positive net export indicated trade surplus, increase in overall growth, contrary a negative net export means a trade deficit and a reduction in overall growth. Stable prices in the external market supported the import inflows. Moreover, imports for consumption and investment accelerated with the economic activation. In result, goods and services imports increased by 19.3 percent, leading to decline of 89.9 percent in net exports.

CHAPTER 1

1.3 LABOR MARKET AND ENTERPRISES

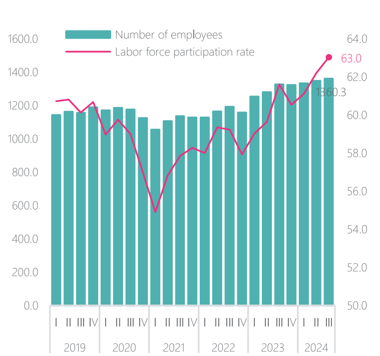
15. Driven by economic growth, the labor market continues to expand, with employment levels rising. In the third quarter of 2024, the number of employees increased by 34 thousand compared to the same period last year and by 121 thousand compared to pre-pandemic levels, reaching 1 million 360 thousand. Adjusted for seasonal variations[2], the number of employees rose by 51 thousand compared to the same period last year. This growth was primarily influenced by an increase of 46 thousand employees in the services sector, 26 thousand in the trade sector, and 11 thousand in the transportation sector. However, declines in agriculture contributed to a decrease of 50 thousand employees in the sector, along with a drop of 3 thousand in manufacturing and 1 thousand in the energy sectors, which moderated the growth pace. By region, employment in urban areas increased by 62 thousand compared to the same period last year, reaching a total of 624.2 thousand. In contrast, rural areas experienced a decline of 28 thousand, bringing the total down to 736.1 thousand. More specifically, the number of employees decreased by 18 thousand in the Khangai region, 7 thousand in the Central region, and 3 thousand in the Western region.

16. Employment indicators showed improvement as individuals moved from the non-labor force population into the labor force. The labor force grew by 48 thousand compared to the same period last year, reaching 1.448 million. This expansion raised the labor force participation rate by 1 percentage point year-on-year to 63 percent, marking its highest level in a decade. Adjusted for seasonal variations, the participation rate stood at 60.9 percent, an increase of 0.9 percentage points from the same period last year.
Alongside the increase in employment, a reduction of 23 thousand in the non-labor force population also played a critical role in labor force growth. This decline reflects a decrease in the number of potential labor force participants—individuals willing to work but previously unable to find opportunities. This trend highlights positive developments in labor market activity and workforce engagement.

17. Unemployment among individuals lacking professional skills and experience increased. The number of unemployed people rose by 14 thousand, or 19 percent, compared to the same period last year, reaching 88.1 thousand. As a result,

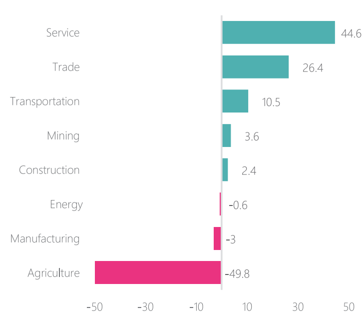
Figure 1.6. Labor market

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



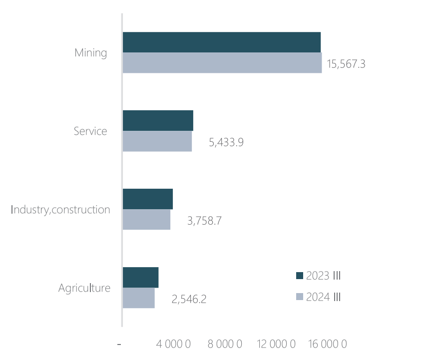
Source: NSO

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



Source: NSO

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



Source: NSO

[2] Seasonal adjustment is a statistical method used to eliminate recurring seasonal patterns from time series data. These patterns often result from factors such as weather changes, holidays, school schedules, and agricultural cycles. By removing these consistent fluctuations, seasonal adjustment allows for a clearer view of underlying trends and cyclical movements, making it easier to compare data across different time periods.

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

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

By sector, the mining industry recorded the highest average wage at 5.196 million MNT, which is 2.1 times higher than the national average. Additionally, the average wage of workers in the electricity and water sectors increased by 1.068 million MNT year-on-year, reaching 3 million MNT, positively contributing to the growth of the national average wage. However, the average wage in the accommodation, food, and service sectors remains at 1.611 million MNT, which is 1.6 times lower than the national average.

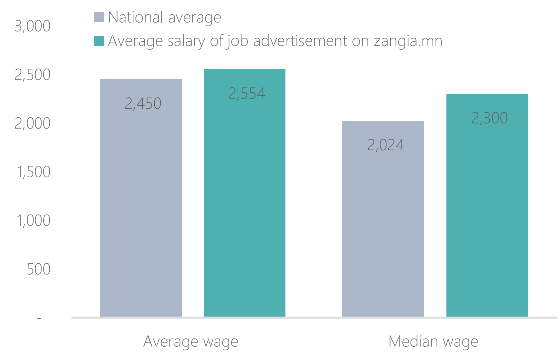
According to data from the labor market website www.zangia.mn the average salary of the 32 thousand[3] job advertisement advertised in the third quarter of 2024 was 2.554 million MNT, which is 104 thousand MNT higher than the national average. The median salary for these postings was 2.3 million MNT, exceeding the national median by 276 thousand MNT.

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

As shown in Figure 1.7, the average and median salaries of job advertisement on the www.zangia.mn platform are 4% and 14% higher, respectively, than the national average and median salaries. The salaries for job advertisements on this platform are likely to be higher than the national average due to factors such as the size of the posting enterprise, the unique characteristics of the positions, and the limited availability of qualified labor for these roles.

Figure 1.7. Comparison of the national average and median salaries with wages offered in the labor market

National average and median salary, salary of open positions advertised in the market (thousands of MNT)



Source: NSO, zangia.mn, MED estimates

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

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

By sector, the trade and services sectors accounted for the largest share of growth, with 8.3 thousand newly established enterprises and 4.6 thousand actively operating enterprises added. Notably, the growth in

[3] Of these job advertisement, 4.6 thousand were in the finance and insurance sector, 4.2 thousand in the mining sector, 4.1 thousand in the trade sector, 2.8 thousand in the manufacturing and construction sector, 2.6 thousand in the services sector, and 11 thousand in other sectors.

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

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

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

Boosted by mining export growth, the number of actively operating enterprises increased by 79 in mining and 397 in transportation, and the number of newly established enterprises rose by 67 in mining and 721 in transportation. Growth in newly established enterprises in the transportation sector exceeded the 10-year average by 48.2 percent.

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

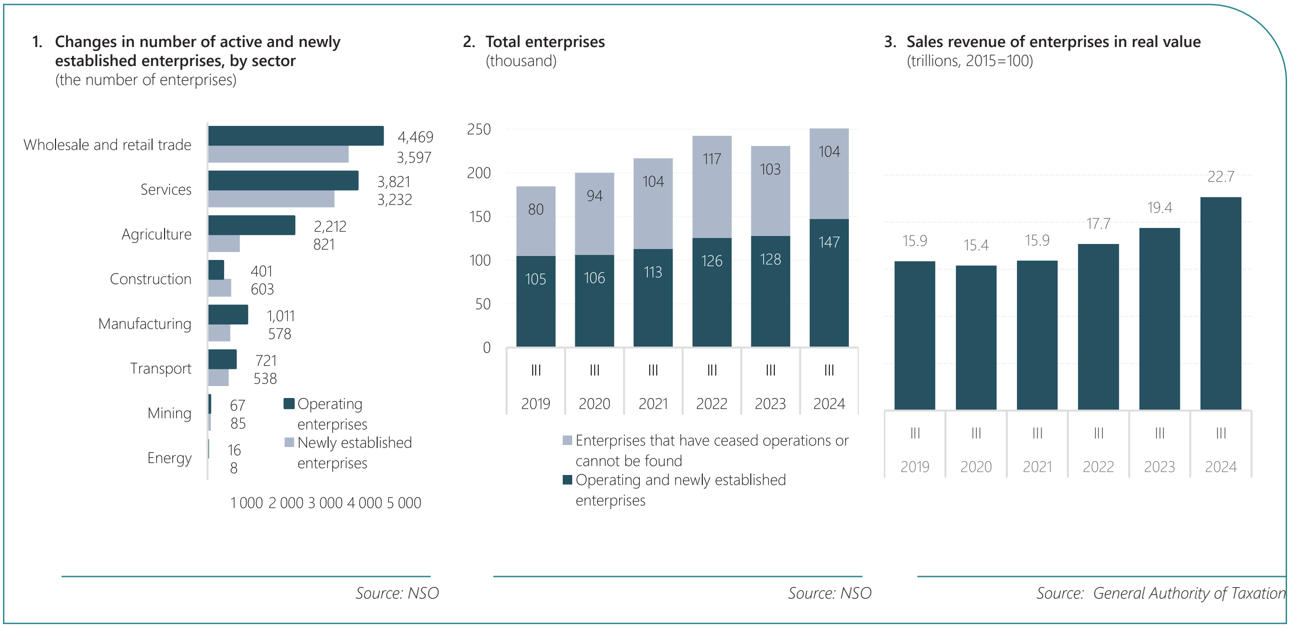
Meanwhile, enterprises with 10–19 employees reached 6.4 thousand, an increase of 319 compared to the same period last year, primarily driven by growth in the agriculture, services, and construction sectors. Additionally, 87 enterprises with 20–49 employees and 65 enterprises with more than 50 employees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

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

Number of employees	Number of enterprises	Percentage change	Note
1-9	90.1	7.5%	The service sector accounted for two-thirds of the growth.
10-19	6.4	5.3%	Agriculture and service sectors contributed one-third of the growth respectively, while construction made for 13 percent of the growth.
20-49	5.2	1.7%	Of the 87 newly started enterprises, 72 are in services, 15 in construction, and 11 in manufacturing. On the other hand, the trade sector has seen a decline in 32 enterprises.
50+	2.9	2.3%	Of the 65 new enterprises, 61 are in services, 12 in transportation, 7 in mining, and 6 in construction. Conversely, the number of enterprises in the trade sector declined by 19.
Total	104.6	6.9%	

22. The majority of the growth in enterprise sales revenue was driven by the services sector. As of the third quarter of 2024, the real sales revenue of enterprises increased by 17.0 percent year-on-year, reaching MNT 22.7 trillion. Of this growth, 6.0 percentage points were contributed by the services sector, primarily by the wholesale and retail trade sector, which makes up a significant portion of the services industry. Additionally, the mining sector accounted for 5.2 percentage points of the revenue growth, agriculture for 3.4 percentage points, transportation for 1.7 percentage points, and water and electricity for 0.9 percentage points. In contrast, sales revenue in the construction and manufacturing sectors declined compared to the same period last year.

Figure 1.8. Enterprises



BOX 2. CONSUMER CONFIDENCE INDEX

IN THE THIRD QUARTER OF 2024, CONSUMERS' ECONOMIC EXPECTATIONS IMPROVED, WITH THE CONSUMER CONFIDENCE INDEX INCREASING BY 9.9 POINTS COMPARED TO THE SAME PERIOD LAST YEAR AND BY 6.1 POINTS COMPARED TO THE PREVIOUS QUARTER.

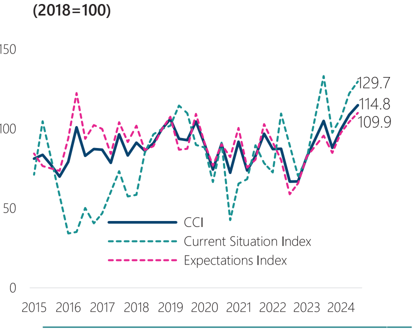
The Consumer Confidence Index (CCI), calculated by the National Research and Consulting Center (NRCC Co. Ltd) and the Japan-Mongolia Center for Human Resource Development, measures consumers' optimism about the general economic condition and household financial situation. The index is calculated based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

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

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

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

Figure 1.9. Consumer Confidence Index, by quarter



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

Table 2. Consumer Confidence Index Components

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

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

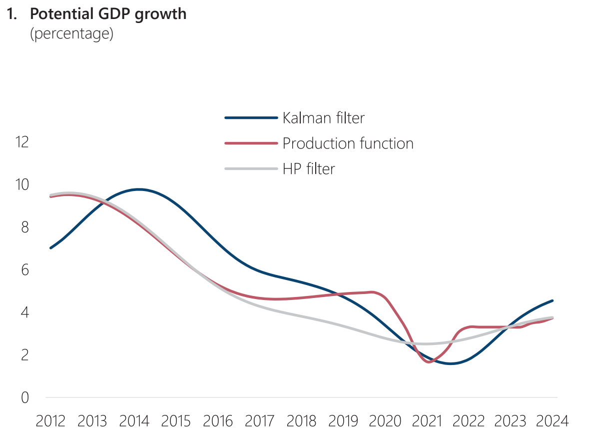
CHAPTER 1

1.4 BUSINESS CYCLE

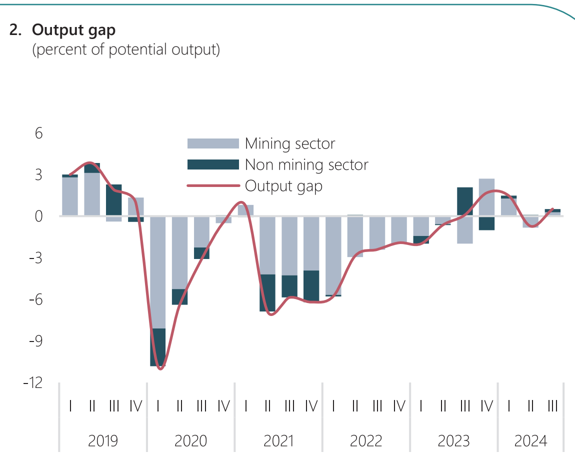
23. The potential output growth sustained momentum, driven by fixed capital formation growth and labor market recovery. In the third quarter of 2024, the potential growth remained at around 4 percent, mainly driven by a 7.2 percent growth in capital stocks, such as machinery and equipment, following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

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

Figure 1.10. Output gap



Source: Estimation of the MED
Note: Potential output growth is calculated by 3 different approaches HP filter, Kalman filter and Production function



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

CHAPTER 2

FISCAL SECTOR

2. FISCAL SECTOR

OVERVIEW

The budget balance recorded a surplus of MNT 2.5 trillion in the first three quarters of 2024, reflecting robust economic activity and increased export volumes of mining products. However, the decline in coal prices is putting pressure on royalty revenues.

Capital expenditure in the 2024 Budget was increased by MNT 1.8 trillion, or 11.4 percent, compared to the initially approved amount, reflecting the newly formed coalition government's focus on addressing key development challenges outlined in long- and medium-term policy documents.

The government nominal debt-to-GDP ratio increased to 38.9 percent at the end of the third quarter of 2024. However, the government debt burden is expected to increase in the medium-term due to bonds issued by the Capital city in both domestic and international markets.

CHAPTER 2

2.1 BUDGET PERFORMANCE

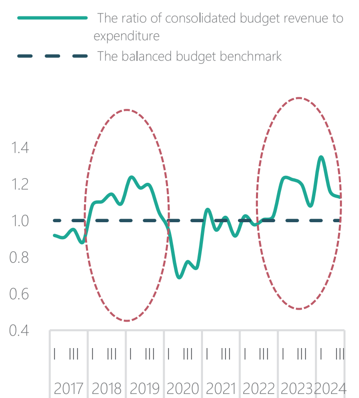
25. The rise in export volumes of mineral products boosted budget revenues, leading to a budget surplus. The consolidated budget revenue reached MNT 22.3 trillion in the first three quarters of 2024, an increase of 26.6 percent compared to the same period of the previous year. Meanwhile, consolidated budget expenditures amounted to MNT 19.8 trillion, a 34.4 percent rise year-on-year. As a result, the consolidated budget balance posted a surplus of MNT 2.5 trillion, the adjusted balance a surplus of MNT 1.5 trillion, and the primary balance a surplus of MNT 3.5 trillion.

26. Robust economic activity and increased export volumes of mineral products contributed to higher corporate income tax (CIT) and value-added tax (VAT) revenues. The structural budget revenues for the first three quarters of 2024 totaled MNT 21.3 trillion, up by 26.0 percent compared to the same period last year. The mining sector activity remained strong, with coal export volumes reaching 61.2 million tons in the first three quarters, an increase of 25.2 percent year-on-year. As a result, the sector's corporate income grew, leading to CIT revenue reaching MNT 4.8 trillion, a 50 percent increase year-on-year. Additionally, the increases in wages, pension, and benefits introduced at the start of the second quarter of 2024 stimulated government and household consumption. Consequently, VAT revenues reached MNT 4.3 trillion, up by 27 percent compared to the same period last year.

27. Despite high export volumes of mineral products, the decline in prices adversely affected royalties from mineral resources. Royalty revenue for the third quarter of 2024 amounted to MNT 3.6 trillion, a decrease of 11.5 percent year-on-year. The majority of royalty revenues stem from the mining sector, with coal representing 70 percent, copper concentrates 22 percent, gold 4 percent, and iron ore 1 percent. Despite the increase in coal export volumes, the decline in prices was the primary factor driving the decrease in royalty revenue.

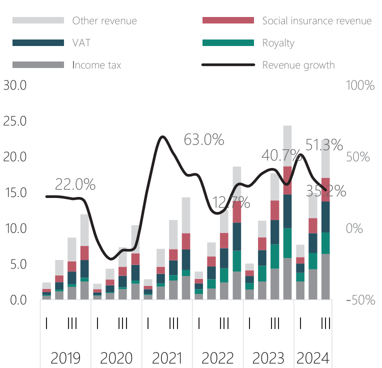
Figure 2.1. Budget revenue

1. Budget revenue-expenditure ratio
(unit)



Source: Estimations of MED, MOF

2. Tax revenue by type
(percent)



Source: MOF

3. Royalty income and export products

Royalty income /export products/	2024 Q1	2024 Q2	2024 Q3
Coal /billion MNT/	1,087	884	510
Export volume /million ton/	18.1	22.5	20.6
Average price /$/ton/	312	243	212
Copper /billion MNT /	310	235	291
Export volume /thousand ton/	367	418	401
Average price /$/ton/	8,443	9,745	9,208

Source: General department of taxation

Note: The ratio of total budget revenue and aid to total expenditure and net borrowing is calculated as the quarterly growth rate for the year.

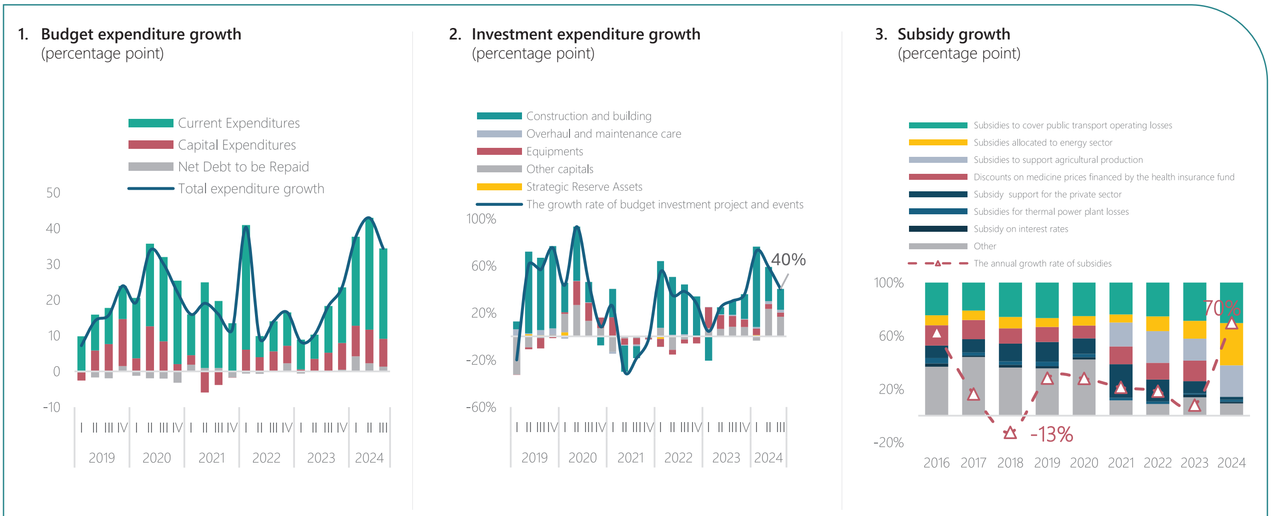
28. The increase in passenger car imports had a positive impact on excise tax revenues. The number of imported passenger cars reached 93,600 by the third quarter of 2024, marking a 75.8 percent increase compared to the same period last year. This surge was the main driver of excise tax revenues, which surpassed the projected amount by 13.8 percent.

29. Amendments were made to the Law on the 2024 State Budget of Mongolia. Following the constitutional amendment on May 31, 2023, Mongolia adopted a mixed electoral system, resulting in the establishment of the first 126-member State Great Khural. This marked the formation of Mongolia's first coalition government, consisting of three parties, ensuring that citizens' votes are adequately represented. The coalition government aims to address urgent development challenges swiftly by incorporating key elements from the "Vision 2050" long-term policy, the New Revival Policy, and the distinctive aspects of the political parties' platforms. Additionally, the government aims to accelerate key development projects. As a result, amendments to the Law on the 2024 State Budget included an increase of MNT 1.2 trillion in current expenditure and MNT 1.8 trillion in capital expenditures. As a result, total expenditure increased by 11.4 percent compared to the initially approved budget and by 35.4 percent compared to the same period last year, reaching MNT 30.5 trillion.

30. The increase in wages and pensions contributed to the expansion of budget expenditure and improvements in household real incomes. Total budget expenditures amounted to MNT 19.8 trillion as of the third quarter of 2024, an increase of MNT 5.1 trillion or 34.4 percent compared to the same period last year. The increase in expenditure was driven by a rise in current expenses by MNT 3.7 trillion (25.3 percentage points), capital expenses by MNT 1.1 trillion (7.7 percentage points), and net loans after repayments by MNT 0.2 trillion (1.4 percentage points). To support household incomes, the government increased pensions, allowances, and wages for public sector employees by an average of 10 percent, effective April 1, 2024, in line with inflation. Consequently, wage expenditures increased by MNT 2.2 trillion or 2.4 times compared to the same period last year, and pension and allowance expenditures rose by 31.6 percent. These adjustments were the primary contributors to the growth in current expenditures. Also the average monthly real income of households increased by 10 percent in the third quarter of 2024, with the average nominal income reaching MNT 2.6 million.

31. The execution of capital investments in construction projects has slowed. By the third quarter of 2024, cumulative financing execution for consolidated budget investments reached MNT 4.0 trillion, a 2.4-fold increase from the same period last year, with an overall investment execution rate of 49 percent. By economic classification, execution rates were as follows: 97.0 percent for major repairs, 58.3 percent for strategic reserve funds, 60.0 percent for equipment, and 51.0 percent for others, all recorsing improvements compared to the same period last year. However, the execution rate for construction projects was 46.0 percent, a decline of 20.6 percentage points from the previous year. The primary cause of the slowdown in the execution of construction-related capital investments was the addition of MNT 1.0 trillion to the budgeted costs for construction investments in the revised budget. Amendments to the Law on the 2024 State Budget, approved on August 30, 2024, prioritized implementation of major development projects, including allocation of

Figure 2.2. Budget expenditures



Source: Estimation of MED, MOF
Note: The growth rate of the consolidated budget expenditures was determined by the quarterly increase.

Source: Estimation of MED, MOF
Note: The budget investment expenditure was calculated as the quarterly increase.

Source: Estimation of MED, MOF
Notes: The distribution of subsidies provided by the consolidated budget to state-owned and private organizations is calculated as a percentage of the annual growth in total subsidies.

funds for feasibility studies. These amendments also focused on directing budget investments toward regional development, mitigating urban congestion in Ulaanbaatar, and addressing infrastructure bottlenecks. Moving forward, budget financing will be redirected toward major developmental infrastructure projects.

32. Subsidies to the energy sector and public transportation constituted the majority of total subsidies. By the third quarter of 2024, MNT 649 billion in subsidies had been disbursed from the consolidated budget, a 69.7 percent increase compared to the same period last year. By ownership type, MNT 253 billion (39.0 percent) was allocated to state-owned entities, while MNT 396 billion (61.0 percent) was granted to private sector entities. Subsidies accounted for 3.3 percent of total budget expenditure, an increase of 0.7 percentage points from the previous year. Specifically, subsidies to cover losses in the energy sector and public transportation constituted approximately 62 percent of total subsidies as of the third quarter of 2024. Of these, subsidies for public transportation losses totaled MNT 200 billion, a 78 percent increase from the previous year, while subsidies for energy sector losses also reached MNT 200 billion, nearly tripling compared to the same period last year. Additionally, MNT 153.5 billion was allocated in the third quarter of 2024 as incentives to support agricultural production, marking a threefold increase compared to the previous year. Although the share of total subsidies in consolidated budget expenditures has remained at 2–3 percent over the past decade, it is crucial to implement comprehensive reforms in the energy sector, privatize the public transportation sector, and eliminate the inefficient subsidy system. Reallocating these resources toward more productive and efficient investments will be key to reducing budget expenditures in the future.

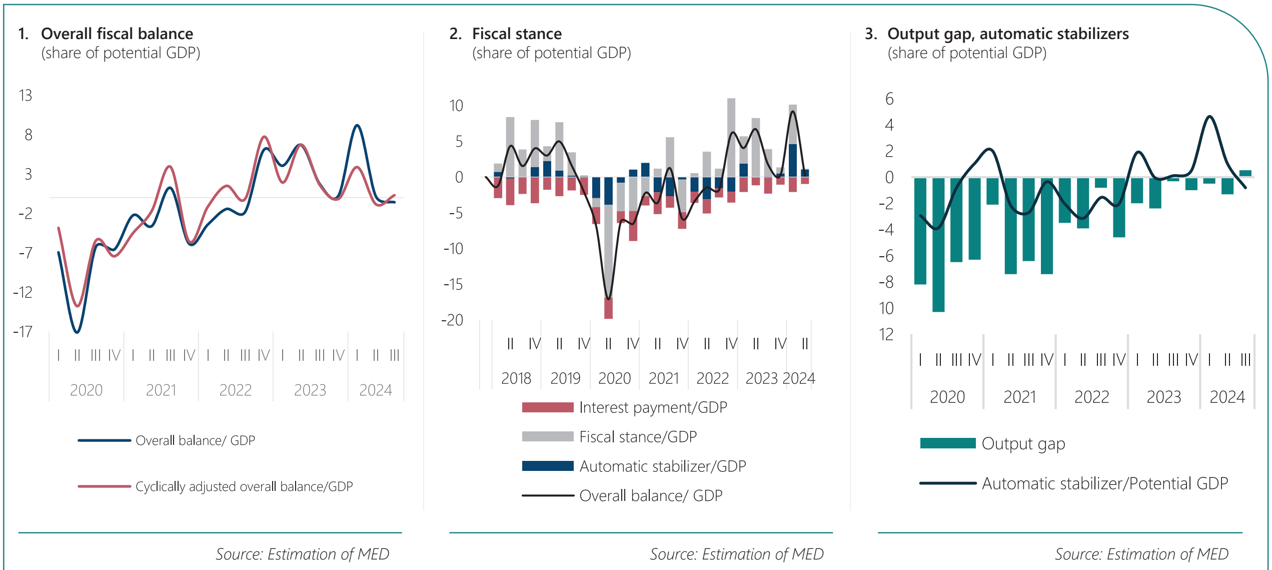
CHAPTER 2

2.2 FISCAL POLICY

33. The strength of economic activity played a crucial role in achieving a surplus in the overall fiscal balance. When evaluating fiscal policy, it is essential to account for and eliminate seasonal and cyclical effects on the fiscal balance. Seasonal effects reflect periodic influences on economic activity, while cyclical effects represent irregular impacts driven by economic cycles. For instance, heightened activity in the trade and services sectors, coupled with an increase in tourist numbers during the warmer months boosted VAT revenues, contributing significantly to the overall fiscal surplus of MNT 492 billion for the third quarter (based on quarterly data).

34. The seasonally adjusted overall balance recorded a deficit of MNT 110 billion. The factors affecting the fiscal deficit are depicted in Figure 2.3, where the impacts of discretionary fiscal policies are represented by the fiscal stance, the effects of the economic cycle independent of fiscal policy are shown as automatic stabilizers, and the debt service burdens are reflected in interest costs. The fiscal stance positively contributed MNT 421 billion or 2 percent of potential GDP to the seasonally adjusted overall balance. However, interest payments, amounting to MNT 363 billion or 1.8 percent of potential GDP reduced fiscal balance. Although the negative output gap has closed, the pace of economic growth slowed and declining commodity prices adversely impacted revenues, leading to a negative cyclical effect of MNT 168 billion or 0.8 percent of GDP on the fiscal balance.

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



CHAPTER 2

2.3 GOVERNMENT DEBT SUSTAINABILITY

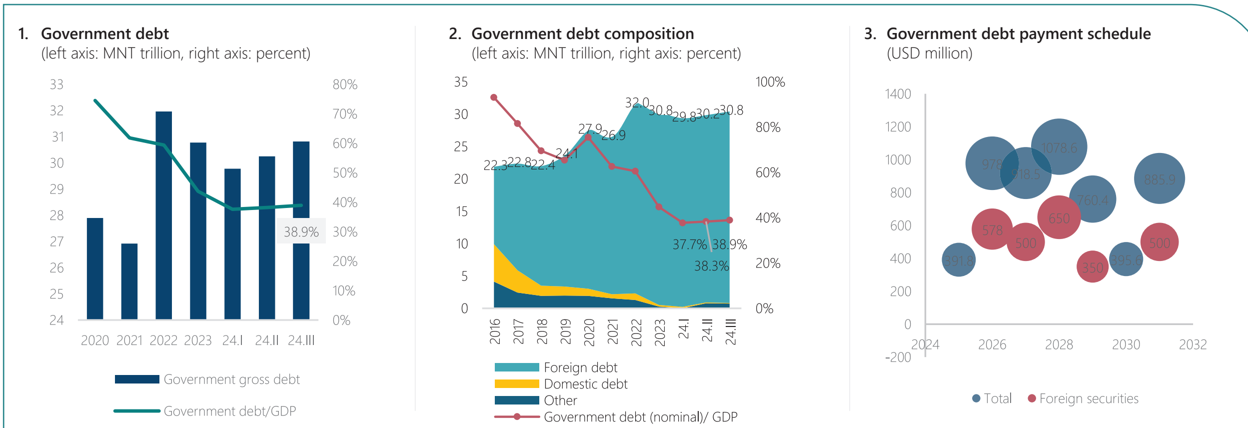
35. The nominal value of government debt rose. After four consecutive quarters of decline due to external bond and loan repayments, government debt rose for two consecutive quarters, reaching MNT 30.8 trillion in the third quarter of 2024, the same level as in the corresponding period last year. Local government borrowing has grown by MNT 513.5 billion since the beginning of the year. Although government-guaranteed debt decreased by MNT 535.5 billion, or 72 percent, compared to the same period last year, it rose by MNT 179.1 billion, or 6.1 times, compared to the first quarter of 2024. Meanwhile, domestic government debt decreased by MNT 437.3 billion year-on-year and by MNT 99.8 billion compared to the first quarter of 2024.

36. The capital city's domestic and foreign bonds, intended to finance social and infrastructure projects and measures, are expected to increase the government's debt. Under Government Resolution No. 201, dated May 8, 2024, and Resolution No. 264, dated June 6, 2024, it was decided to issue securities worth 1.0 trillion tugriks in the domestic market to finance infrastructure projects in 2024. Pursuant to this decision, securities worth 500 billion tugriks were issued on June 25, 2024. Additionally, plans include issuing another 500 billion tugriks in the domestic market and 500 million USD in the foreign market to finance projects such as the "Selbe Sub-Center-Based Ger Housing Project," "Buuruljuut Thermal Power Plant," "Battery Storage Station," "Repair and Modernization of Highways and Road Facilities," and "Tuul-1 Sewage Collector and Flood Facilities."

37. External debt is expected to raise total government debt level. As of the third quarter of 2024, external debt accounts for 97.3 percent of the total government debt, making it highly sensitive to exchange rate shocks and other external factors. Of the total external loans, 54.2 percent are denominated in USD, exposing the government to risks such as increased debt servicing costs due to changes in the USD/MNT exchange rate and potentially higher refinancing expenses. Moreover, the government is scheduled to repay a total of USD 3.4 billion in external loans and securities between 2025 and 2028, underscoring the need for sound debt management in the coming years.

38. The primary balance significantly influences the medium-term outlook for government debt. Debt sustainability analysis provides insights into how sensitive the medium-term trajectory of government debt is to key macroeconomic indicators. The analysis

Figure 2.4. Government debt



Source: MOF

Source: MOF

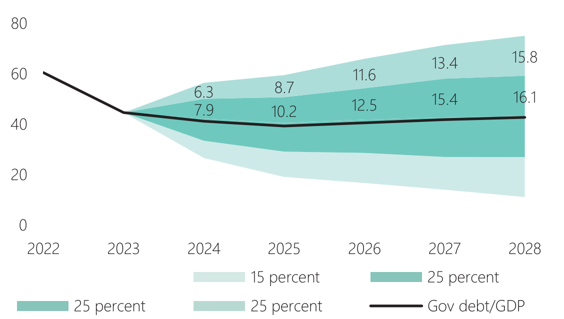
Source: MOF
The government's external debt comprises external securities and foreign loans. .

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

38. Primary balance surpluses are essential for ensuring the sustainability of government debt. In 2016, the nominal government debt-to-GDP ratio increased by 30.6 percentage points, with the primary deficit accounting for 11.2 percentage points of this rise. Conversely, in 2020, the nominal debt rose by 10.1 percentage points, of which the primary deficit contributed 6.9 percentage points. By 2023, the nominal government debt-to-GDP ratio decreased by 15.8 percentage points, driven by a 6.4 percentage-point effect from changes in the real interest rate and a 4.3 percentage-point contribution from the primary surplus. Going forward, real GDP growth and the primary deficit are expected to play a key role in ensuring debt sustainability. Therefore, it is crucial to continue implementing policy measures aimed at maintaining macroeconomic stability.

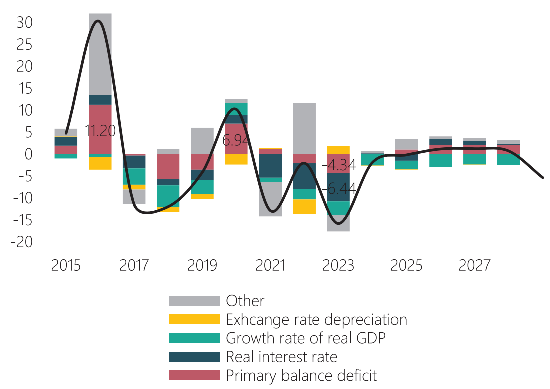
Figure 2.5. Government debt sustainability

1. Impacts of nominal external interest rate and exchange rate shocks on government debt
(share of GDP)



Source:Estimation of MED

2. Factors affecting government debt
(percentage change)



Source:Estimation of MED

CHAPTER 3

MONETARY SECTOR

3. MONETARY SECTOR

OVERVIEW

Inflation stood at 6.7 percent in September 2024, remaining within the central bank target range. Inflation for domestic goods and services exhibited an upward trend, reflecting resilient economic activity, whereas import inflation remained stable. Credit growth reached a 10-year high, contributing to the increase in the money supply. Given the current rapid credit growth and fiscal expansion, lowering the policy rate to 10 percent could potentially increase demand-side inflationary pressures.

CHAPTER 3

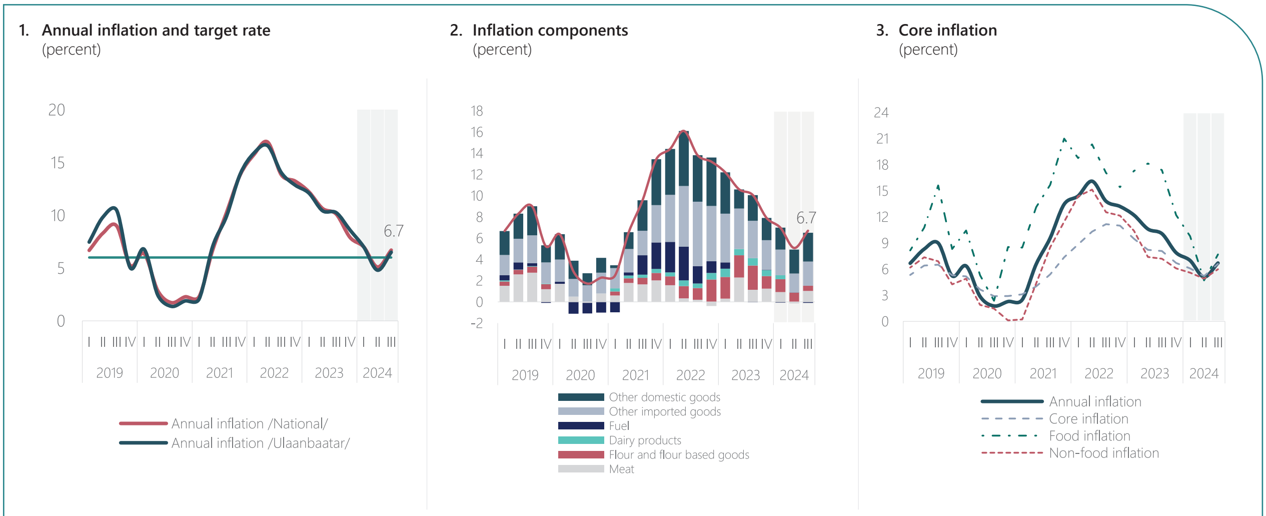
3.1 INFLATION

39. Inflation declined from a year earlier, remaining within the central bank's target band. Inflation reached 6.7 percent in September 2024, down by 3.4 percentage points compared to the same period last year. Food prices contibuted 2.2 percentage points, while prices of clothing, footwear, cloth contibuted 1.0 percentage point to total inflation. Contributions from educational services and from housing, water, electricity, and fuels accounted for 0.9 percentage points and 0.7 percentage points, respectively. Of the total decline in inflation, 2.4 percentage points were attributed to food, 0.6 percentage points to miscellaneous services, and 0.3 percentage points to restaurants. On the other hand, prices of clothing, shoes, housing, water, electricity, gas, fuels, and educational services put upward pressure on inflation.

40. As economic activity remained robust, demand-driven inflation accounted for the majority of inflation. Demand-driven inflation accounted for approximately 66 percent of the annual inflation and reached 6.6 percent, reflecting an increase of 1.4 percentage points from the previous quarter. The increase was This rise was driven by higher household consumption, fueled by increases in pensions, benefits, and salaries for government employees, alongside sustained domestic demand. Supply-driven inflation increased by 2.1 percentage points from the previous quarter, reaching 6.9 percent. Reduced meat supplies, due to adverse weather conditions and significant livestock losses, led to meat prices surpassing typical seasonal trends. Furthermore, the increase in fuelwood prices contributed to the rise in supply-side inflation.

41. Import inflation remained stable while inflation for domestic goods and services rose. Inflation from imported goods, representing 32.8 percent of total inflation, fell to 4.8 percent in September 2024, compared to 7.6 percent in the same period last year. Non-food goods accounted for about 95 percent of the inflation from imported goods and import inflation remained stable due to the moderation in price increases from trading partner countries. Inflation from domestic goods and services, which accounted for 67.2 percent of annual inflation, declined by 3.9 percentage points from the same period last year, reaching 8.3

Figure 3.1 Inflation



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

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

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

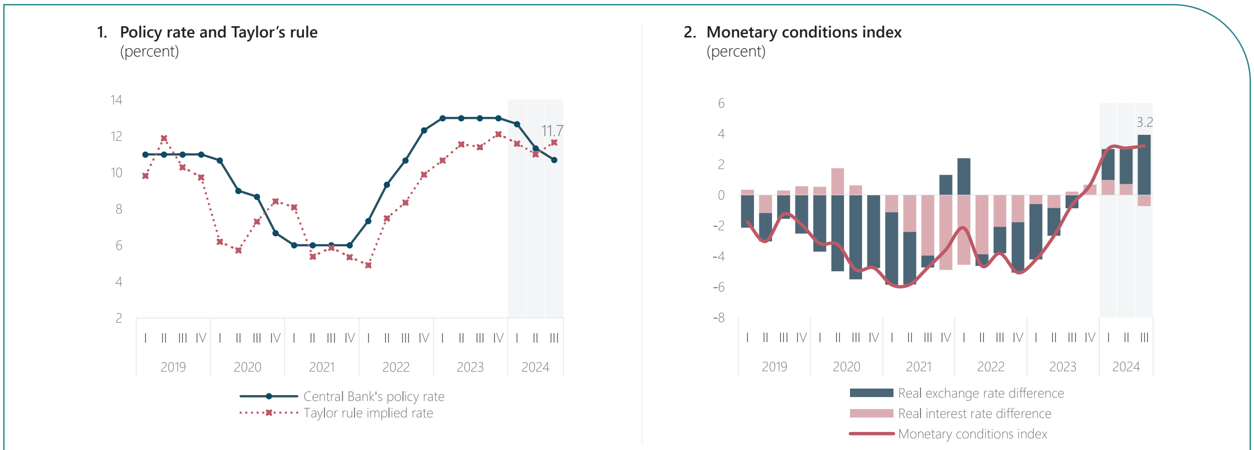
percent in September 2024, driven by lower prices of some food items. However, domestic inflation rose from the previous quarter, reflecting higher prices for meat and meat products, housing rents, and educational services.

42. World container shipping prices and the food price index increased. Drewry's World Container Index, which saw a sharp rise since February 2024 due to the Suez Canal blockage in the Red Sea, has been gradually declining since August 2024. By the end of the third quarter of 2024, global container shipping rates declined to USD 3,691 per 40-foot container, remaining 63 percent higher than the same period last year and 160 percent above pre-pandemic levels. The food price index increased by 2.1 percent year-on-year to 124.6 in September 2024, reaching its highest level since April 2023. Global prices for cereals, dairy products, vegetable oils, and sugar rose, while meat prices declined. Global inflation continued to ease, with inflation rates in both developed and developing countries approaching their target levels. Over the past month, China, Russia, Kazakhstan, Kyrgyzstan, Turkey, and Sri Lanka experienced disinflation, while inflation accelerated in South Korea, Georgia, the Eurozone, the United States, and the United Kingdom.

43. Inflation of both food and non-food goods and services accelerated compared to the previous quarter. In the third quarter of 2024, food inflation reached 7.7 percent, reflecting a 0.8 percentage point increase from the previous quarter. This rise was primarily driven by a 12.1 percent increase in meat prices, along with a 6 percent increase in flour product prices and a 9.2 percent rise in dairy products and eggs. Food inflation accounted for 2.2 percentage points of the overall inflation rate. Non-food goods and services inflation rose to 6.0 percent, marking a 0.9 percentage point increase from the previous quarter. This was primarily driven by an 8.2 percent rise in clothing, textiles, and footwear prices, a 14.6 percent increase in fuel prices, and higher costs for various services. Specifically, prices for services for individuals rose by 11.7 percent, residential rents increased by 23 percent, and educational services saw an 18.2 percent increase.

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

Figure 3.2 Taylor's Rule and monetary conditions index



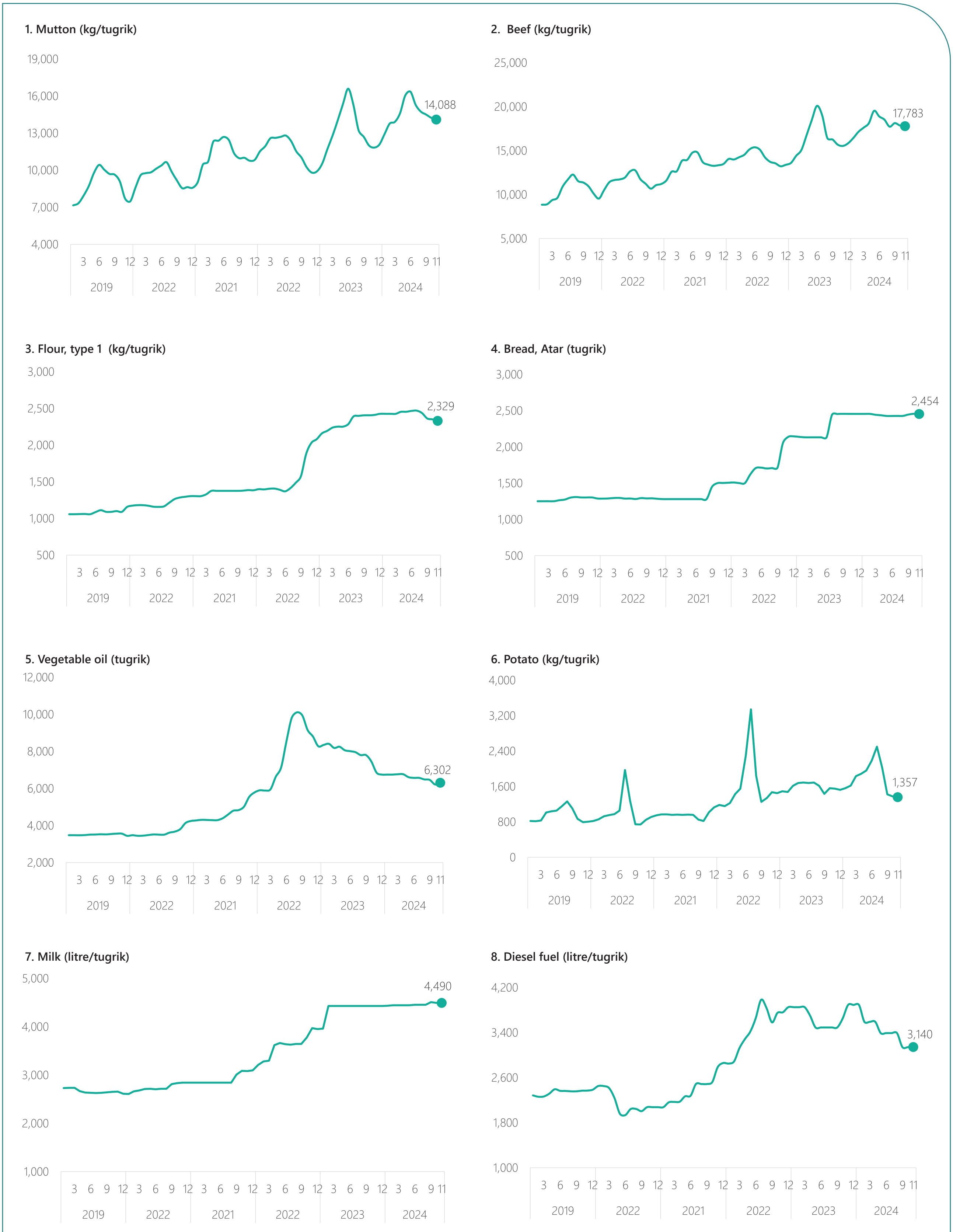
Source: MED estimation

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

Source: MED estimation

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

Figure 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.

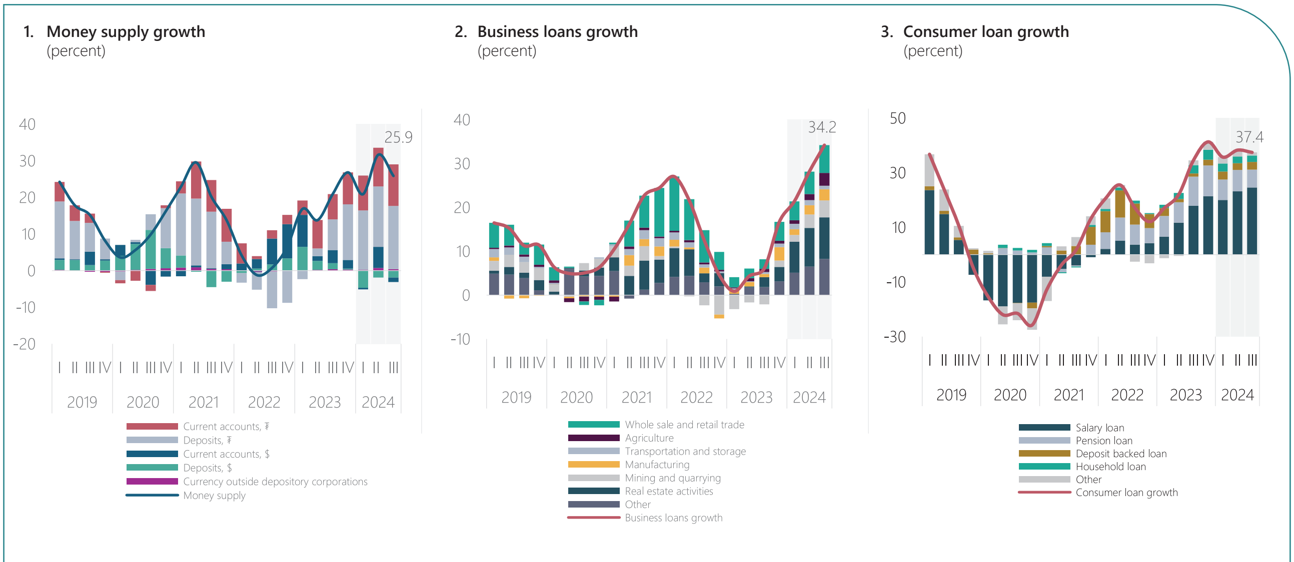
CHAPTER 3

3.2 MONETARY AND FINANCIAL SECTOR

45. Money supply growth accelerated. At the end of the third quarter of 2024, money supply growth reached 25.9 percent, up by 4.9 percentage points from the same period last year. On the liabilities side, domestic currency deposits were the key driver, contributing 17.3 percentage points to the growth, followed by domestic current accounts, which added 11.3 percentage points, and currency outside depository corporations, which accounted for 0.4 percentage points. In contrast, foreign currency deposits and current accounts reduced the money supply growth by 1.9 and 1.2 percentage points, respectively. The appreciation of the exchange rate since August 2023, coupled with its stabilization throughout 2024, contributed to the decline in foreign currency accounts and deposits. On the asset side, net domestic assets contributed 20.4 percentage points to the growth of the money supply, while net foreign assets added 5.5 percentage points. The growth in net domestic assets was primarily driven by an acceleration in credit expansion.

46. Credit growth reached a 10-year high. At the end of the third quarter of 2024, the outstanding balance of credit issued by commercial banks reached MNT 35.0 trillion, marking a growth rate of 35.2 percent, the highest in the past decade. Of the total outstanding loans, 68 percent, or MNT 23.8 trillion, were business loans, while 32 percent, amounting to MNT 11.2 trillion, were consumer loans. The business loan growth reached 34.2 percent, up 5.6 times compared to the same period last year. The largest contributors to business loan growth were real estate loans, which increased by 46.4 percent, followed by wholesale and retail loans with a growth of 22.2 percent, mining and quarrying loans at

Figure 3.4 Money supply and credit indicators



Source: Estimation of MED, Bank of Mongolia statistics

51.6 percent, agricultural loans, which surged by 97.1 percent, and manufacturing loans, which grew by 23.8 percent. In contrast, consumer loans growth reached 37.4 percent at the end of the third quarter of 2024, up by 2.9 percentage points from a year earlier, but down by 3.9 percentage points compared to the beginning of the year. The growth in consumer loans was largely driven by a 50 percent increase in salary loans, a 48.7 percent increase in pension loans, a 19.1 percent rise in loans secured by deposits, and a 66.7 percent increase in loans for household consumption.

47. Growth in newly issued loans accelerated for business loans but slowed for consumer loans. Newly issued loans totaled MNT 41.9 trillion, marking an increase of MNT 12.0 trillion, or 39.8 percent, compared to the same period last year. The annual growth rate for newly issued business loans surged to 45.1 percent, a notable acceleration of 23.8 percentage points from the same period last year. In contrast, newly issued consumer loans grew by 31.6 percent, reflecting a slowdown of 7.1 percentage points year-on-year. The substantial growth in business loans was largely driven by increased lending to mining, wholesale and retail trade, finance, insurance, and real estate sectors.

48. The mining and real estate sectors contributed positively to the improvement in credit quality. As of the third quarter of 2024, the total non-performing loans declined by 9.8 percent year-over-year to MNT 2.0 trillion. The decline was primarily driven by a reduction in non-performing loans in the mining, quarrying, and real estate sectors. In contrast, the balance of non-performing consumer loans, including salary, pension, and household consumption loans, rose by 13.5 percent compared to a year earlier. The share of non-performing loans in total loans continued to improve, falling to 5.7 percent, the lowest level recorded in the past eight years.

49. Domestic currency deposits increased for both individuals and corporations. As of the third quarter of 2024, total bank deposits reached MNT 25.0 trillion, reflecting a 25.7 percent increase compared to same period last year. Of this total, individuals' deposits accounted for MNT 20.8 trillion, marking a 23.3 percent year-on-year growth. Breaking this down further, individuals' domestic currency deposits amounted to MNT 17.6 trillion, which represents a substantial year-on-year increase of 34.9 percent. In contrast, individuals' foreign currency deposits stood at MNT 3.3 trillion, experiencing a decline of 16.0 percent compared to the previous year. Corporations' deposits reached MNT 4.2 trillion, showing a robust growth of 39.2 percent year-on-year. Corporations' domestic currency deposits grew to MNT 3.0 trillion, a notable increase of 65.1 percent, while foreign currency deposits reached MNT 1.2 trillion, reflecting a slight decrease of 0.4 percent year-on-year. The weighted average interest rate for domestic currency deposits was 11.8 percent as of the third quarter of 2024. Meanwhile, the weighted average interest rate for foreign currency deposits rose to 3.7 percent, representing an increase of 0.5 percentage points compared to the same period last year. The overall growth in domestic currency deposits, across both individuals and corporations, was primarily driven by the stability of deposit interest rates and the exchange rate.

Figure 3.5 Components of annual growth in total deposits and indicators of deposit interest rates

Source: Estimation of MED, Bank of Mongolia statistics.

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

50. The weighted average interbank rate declined reflecting the policy rate cuts. Following the policy rate cuts, and the weighted average interbank interest rate decreased to 10.2 percent in the third quarter of 2024, down 2.8 percentage points from the same period last year and 0.7 percentage points from the previous quarter. Despite the reduction in interbank rates, the weighted average interest rate on new deposits rose to 11.5 percent, marking an increase of 0.5 percentage points compared to the same period last year.

51. The difference between the effective interest rates on loans and deposits widened compared to the previous quarter. In the third quarter of 2024, the effective interest rate of commercial banks reached 17.7 percent, reflecting an increase of 0.4 percentage points from the same period last year. Similarly, the effective interest rate on deposits rose to 12 percent, marking an increase of 0.6 percentage points year-on-year. As a result, the difference between the effective rates on loans and deposits widened by 1.0 percentage points compared to the previous quarter, reaching 5.7 percent. This represents a decrease of 0.1 percentage points from the same period last year. Despite a policy rate cut, the gap between interest rates on loans and deposits widened compared to the previous quarter.

52. The growth in the outstanding loans of non-bank financial institutions remained high. In the third quarter of 2024, the total outstanding loans of 555 non-bank financial institutions (NBFIs) reached MNT 5.2 trillion, reflecting a 53.9 percent increase compared to the same period last year. Of the total outstanding loan, 89.7 percent were issued to individuals, while 10.3 percent were issued to legal entities. Notably, consumer loans made up 68 percent of the total outstanding loan. In terms of fintech loan services, NBFIs extended fintech loans amounting to MNT 1.2 trillion to 1.6 million borrowers during the third quarter of 2024. The weighted average monthly interest rate on loans issued by NBFIs stood at 3.4 percent, marking a modest increase of 0.1 percentage points from a year earlier.

53. Stock market value growth reached 17.6 percent. In the third quarter of 2024, the stock market capitalization reached MNT 12.1 trillion, an increase of 17.6 percent from the same period last year. The market capitalization reached 17.2 percent of GDP, and trading activity has seen significant improvements in recent years, largely driven by the banks' IPOs. Total securities trading reached MNT 1.1 trillion in the third quarter of 2024, marking an increase of 61.7 percent from the same period last year. Trades related to corporate bonds accounted for 58.4 percent, stocks for 23.1 percent, asset-backed securities for 12.4 percent, and investment funds for 6.1 percent.

54. Stock market indices rose, and liquidity improved. In the third quarter of 2024, a total of 895.4 million shares valued at MNT 242.5 billion were traded in the stock market across 187 transactions. Of this, MNT 24.1 billion was traded in the primary market and MNT 217.7 billion was traded in the secondary market. Corporate bond trading also reached MNT 618.7 billion, marking a 6.4-fold increase compared to the same period last year. Debt securities issued under the "Mayor's Program" in the second quarter of 2024 accounted for 80.8 percent of total bond trading, and new bond issuances by two companies were recorded. In the third quarter of 2024, the TOP-20 index increased by 35.1 percent compared to the same period last year. The MSE A and MSE B indices also increased by 20.4 and 26.3 percent, respectively, from the same period last year. The liquidity ratio of the securities market improved by 0.5 percentage points from the same period last year to 1.8 percent.

CHAPTER 4

EXTERNAL SECTOR

4. EXTERNAL SECTOR

OVERVIEW

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

CHAPTER 4

4.1 FOREIGN TRADE

55. The export volumes of main commodities increased but coal prices declined. As of the third quarter of 2024, exports increased by 4.3 percent year-on-year to to USD 11.7 billion, primarily driven by higher export volumes of coal, copper concentrate, and iron ore. Coal export volumes grew by 25 percent year-on-year to 61.2 million tons, but export prices dropped by 18 percent compared to a year earlier. Continued growth in coal and copper concentrate exports, along with higher global prices for pure copper and gold, will further support the expansion of exports.

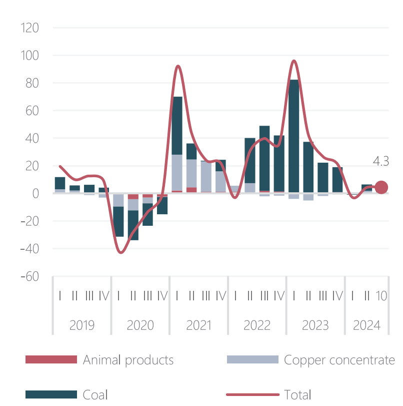
56. Copper concentrate and iron ore exports increased. Fueled by production from Oyutolgoi's underground mine, copper concentrate exports reached 1,186 thousand tons in the third quarter of 2024, marking a 3 percent increase compared to the same period last year. Iron ore exports also surged by 29 percent, reaching 5,466 thousand tons, driven by higher production levels. Moving forward, both copper concentrate and iron ore extraction are expected to continue growing, while the global price of refined copper is anticipated to rise.

57. Exports of agricultural products declined due to the severe winter and spring seasons. By the third quarter of 2024, meat exports fell by 28 percent, cashmere exports by 2 percent, and hides and skins exports by 24 percent, primarily due to severe weather conditions affecting most parts of the country.

58. Trading activity on the Mining Commodity exchange weakened. By the first nine months of 2024, a total of 17.8 million tons of coal were traded on the Mining Commodity exchange for USD 2.1 billion, 1,779 thousand tons of iron ore and concentrate for USD 125 million, 5.4 thousand tons of copper concentrate for USD 12 million, and 15.4 thousand tons of fluoride ore for USD 2.4 million. The number of trades dropped to 112 in the third quarter of 2024, from 127 and 212 trade in the first and second quarters of 2024, respectively. Notably, the number of coal trades steadily declined, from 55 in May 2024 to just 12 in September 2024.

Figure 4.1. Exports

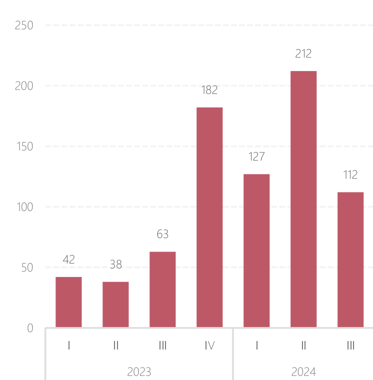
1. Export growth (percent)



2. Export volumes of main commodities

Product	2023.09	2024.09	Growth
Copper concentrate /thousand.ton/	1,151	1,186	3.0 %
Coal /million ton/	48.9	61.2	25.2 %
Gold /kg/	5,398	5,048	-6.9 %
Iron ore / thousand.ton/	4,221	5,446	29.0 %
Crude oil / thousand.bbl/	3,540	3,100	-12.4 %

3. Coal trades at the Mining commodity exchange



Source: MCGA

59. Imports surged due to sustained economic growth. As the economy grew for the tenth consecutive quarter, imports reached USD 8.6 billion in the third quarter of 2024, marking a 27.4 percent increase compared to the same period last year (Figure 4.2). According to the input-output table published by the NSO, total imports are categorized into three areas: intermediate consumption, final consumption, and capital accumulation. Notably, approximately 60 percent of imported goods are used for production.

60. Considering the growth of imports by group, of the total increase in imports, 12.4 percentage points were attributed to machinery and equipment for investment purposes and building materials, 10.2 percentage points to consumer products, and 4.8 percentage points to industrial inputs.

61. Imports of intermediate products for mining production increased. As of the third quarter of 2024, coal extraction rose by 29 percent, and export volumes increased by 25 percent, leading to a higher demand for intermediate products used in the mining sector. Imports of excavators and backhoe loaders totaled USD 264 million, doubling from the previous year. Imports of heavy vehicles increased by 85 percent, reaching USD 570 million, while diesel fuel imports amounted to USD 990 million, marking a 23 percent rise compared to the same period last year.

62. The growth in passenger car imports was the main driver of the increase in consumer goods imports. The growth in imports of durable goods, particularly passenger cars, was a major factor driving the increase in consumer goods imports. As of the third quarter of 2024, consumer credit growth reached 37.3 percent, driving an increase in the import of durable goods. In particular, imports of passenger cars reached 93.6 thousand, a 75.8 percent increase compared to the same period last year. Compared to the same period last year, when imports of large passenger cars with engine capacities exceeding 3,501 cm^3 were prominent, this year has seen a significant increase in the import of medium and small passenger cars with engine capacities under 3,500 cm^3. Driven by the high imports of passenger cars and the increased number of anniversary events in the provinces, gasoline imports totaled USD 464 million, marking a 15.9 percent increase.

63. Imports of food products increased. Real household incomes have increased for five consecutive quarters, resulting in higher household consumption. Food imports reached USD 840 million, reflecting a 24.7 percent rise compared to the same period last year. Wheat flour imports reached 38 thousand tons, a nine-fold increase compared to the previous year, following the decision to exempt wheat from customs duties starting May 1, 2024, and lift import limits.

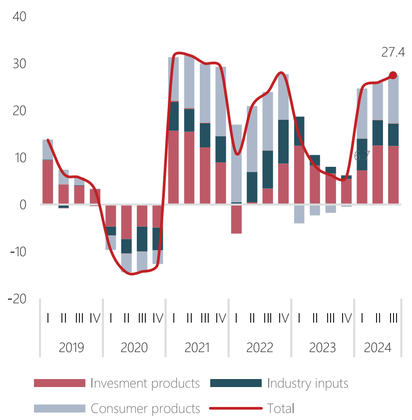
64. Imports of construction materials increased due to higher funding for mortgage loans and a reduction in customs duties on cement. The constuction sector expanded by 7.8 percent in the first three quarter of 2024, while imports of construction materials reached USD 1,028 million, marking a 17 percent increase compared to the same period last year. The Savings Fund allocated MNT 0.5 trillion to the mortgage concessional loan program, increasing the outstanding mortgage loan by MNT 1.8 trillion compared to the same period last year, which in turn boosted housing demand and increased imports of construction materials. To mitigate construction material price inflation, the government lifted restrictions on cement imports and reduced the customs duty from 20 percent to 5 percent until October 1, 2024, leading to a 12 percent year-on-year increase in cement imports, reaching 86 thousand tons. Growth in construction material imports is expected to continue in the fourth quarter of 2024, driven by the construction projects outlined in the 2024 budget amendment and the increase in mortgage lending.

65. The increased capacity and extended working hours at Zamyn-Uud Port enhanced the flow of imported goods. With over 50 percent of total imported goods passing through Zamyn-Uud Port, the Government of Mongolia extended the operating hours of the Zamyn-Uud-Ereen border crossing to 24 hours a day from April 1 to September 30, 2024. As a result, the number of vehicles crossing the border reached 135,300 between April and August 2024, marking a 44 percent increase compared to the same period last year. During this period of high economic activity, ensuring the continuous flow of imports is crucial to maintaining price stability.

66. Due to a slowdown in the price growth of goods from trading partner countries, the increase in the price of imported goods remained relatively low. In the first three quarters of 2024, imports increased by USD 1.9 billion compared to the same period last year, with approximately 85 percent of this increase attributed to volume and 15 percent to price changes (Figure 4.2). The slowdown in price growth from key trading partner countries kept the increase in import prices at a low level. Specifically, inflation in the People's Republic of China, which accounts for 40 percent of our total imports, averaged 0.3 percent in the first three quarters of 2024. Meanwhile, inflation in the Russian Federation, which makes up 25 percent of total imports, averaged 8.3 percent during the same period. However, 70 percent of the products imported from the Russian Federation consist of petroleum products, with 21 percent being AI-92 gasoline and 45 percent being diesel fuel. Under the agreement signed with Rosneft in 2022, AI-92 gasoline is being purchased at stable prices, and the decrease in the price of diesel fuel from Russia contributed to the low increase in the price of imported goods. Additionally, 10 percent of total imports come from Japan, mainly consisting of automobiles and spare parts, and the depreciation of the Japanese yen against the USD, reaching its lowest level since 1990, helped reduce the cost of goods purchased from Japan.

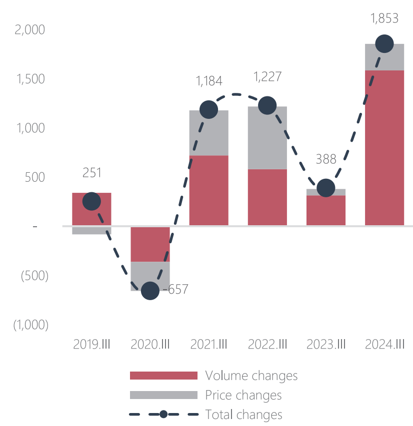
Figure 4.2. Imports

1. Annual growth in imports
(percent)



Source: MCGA

2. Annual change in imports
(USD million)



Source: MED estimates

3. Imports of main products
(USD million)

Products	2023.09	2024.09	Change
Food	673	839	24.7%
Passenger car	507	804	58.6%
Heavy truck	307	566	84.7%
Construction material	877	1028	17.2%
Equipment	1,198	1,599	33.5%
Fuel	1,202	1,452	20.8%
Total	**6,755**	**8,608**	**27.4%**

Source: MCGA

CHAPTER IV

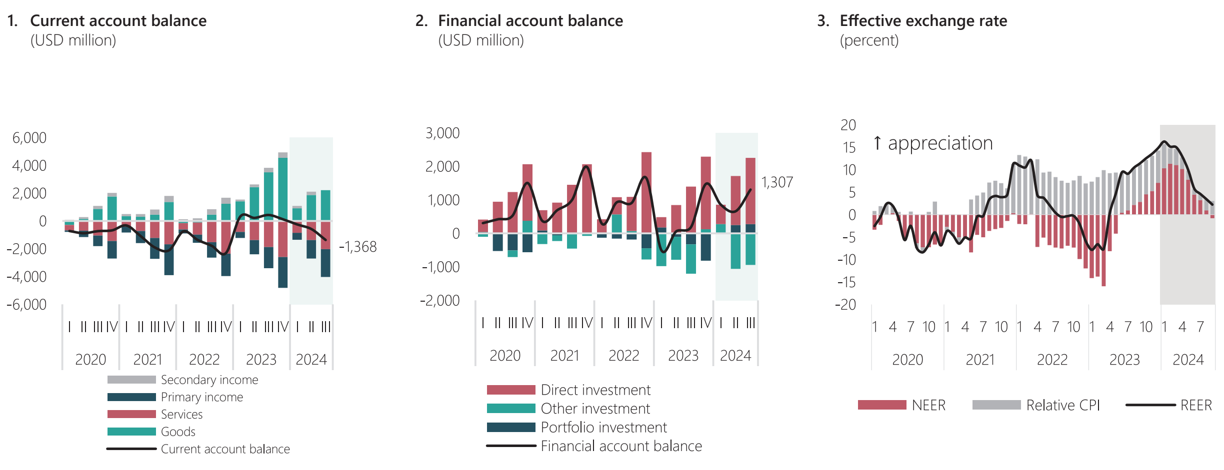
4.2 BALANCE OF PAYMENTS

67. The current account deficit widened, driven by a surge in goods imports. The current account deficit widened to USD 1.4 billion, equivalent to -7.2 percent of GDP, in the third quarter of 2024 as goods imports growth (7 percent) outpaced exports growth (29 percent).

68. The reduction in freight transportation payments contributed to a slowdown in the growth of the service account deficit. As a result of government measures, including the sale of mineral products at border prices, improved organization of export transportation operations, and enhanced efficiency, the debit for freight transportation services decreased by 20 percent year-on-year in the first three quarters of 2024**.** The reduction in the freight transportation debit contributed to a slowdown in the growth of the service account deficit, which decreased to 8 percent, down from 21 percent in the same period last year.

69. Net outflow of the travel account remains high. As of the third quarter of 2024, travel expenditures recorded an increase of 34 percent or USD 0.3 billion year-on-year, while inflows from travel services rose by only USD 55 million. The increase in travel expenditure was primarily driven by a 24 percent rise, or 221 thousand more people, in the number of citizens traveling abroad for personal reasons and tourism, along with a 22 percent increase in tuition fees paid by students studying abroad. On the other hand, the tourism service revenue growth remained subdued at only 12 percent, despite a 22 percent increase in the number of incoming foreign tourists.

Figure 4.3. Current and financial account balances, exchange rate



Source: MED calculation *Source: MED calculation* *Source: MED calculation*

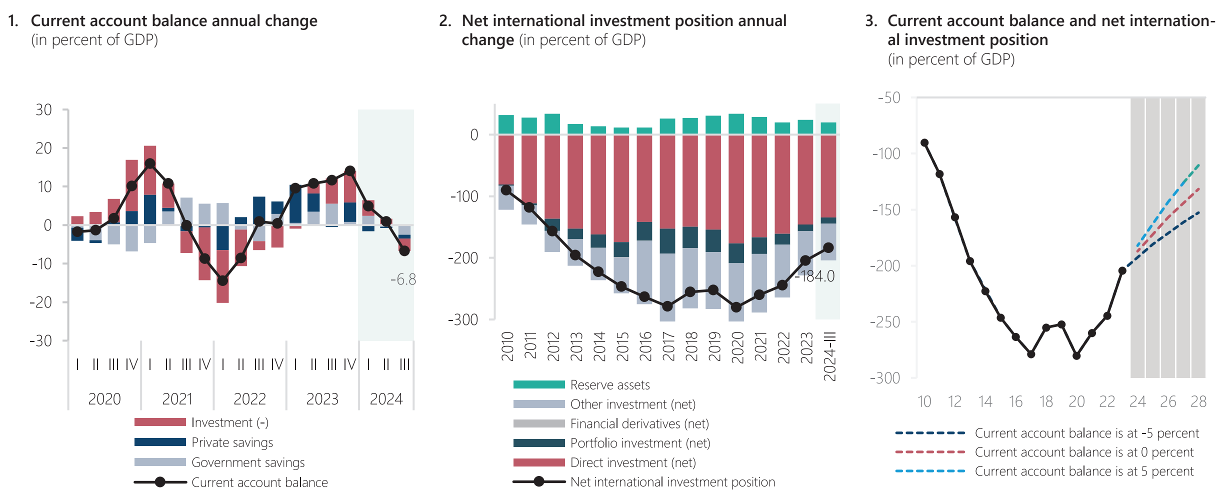
70. The financial account surplus expanded, reflecting increased FDI and portfolio inflows. Foreign direct investment inflow rose to USD 2.9 billion as of the third quarter 2024, up by USD 0.6 billion or 27 percent from a year earlier. According to the statistics of the General Authority for State Registration, the number of companies with foreign investment registered as of September 2024 reached 349, marking a 2.3-fold increase compared to the same period last year. Compared to the same period last year, direct investment in the mining sector increased by USD 0.6 billion, while investments in the trade, transportation, and financial sectors decreased by a total of USD 84 million. Furthermore, the issuance of new international bonds by "Mongolian Mortgage Corporation HFC" LLC, the Development Bank of Mongolia, and Golomt Bank boosted portfolio inflows, contributing to a USD 1.1 billion increase in the financial account surplus.

71. The growth rate of gross international reserves slowed, and the nominal effective exchange rate depreciated. Gross international reserves reached USD 4.7 billion at the end of the third quarter of 2024, with the annual growth rate slowing to 13 percent, down from 53 percent at the end of the first quarter. The central bank repaid USD 0.6 billion of its PBOC bilateral currency swap line in the second quarter of 2024 and sold USD 4.6 billion to foreign exchange markets in the first 9 months of 2024. The MNT/USD exchange rate stood at 3,381 MNT at the end of the third quarter of 2024, remaining largely unchanged from the previous quarter. However, the nominal effective exchange rate index, weighted against the currencies of trading partner countries, depreciated by 0.8 percent in September, reversing its appreciation since May 2023. In contrast, the real effective exchange rate index was up by 2.2 percent due to higher domestic prices.

72. The current account balance deteriorated due to a slowdown in savings growth and an increase in investment. From a savings-investment perspective, the current account balance reflects a difference between national savings and investment. The current account balance shifted to a deficit of 7.2 percent of GDP by the third quarter of 2024, compared to a surplus of 0.6 percent of GDP at the end of 2023. This shift was primarily driven by higher consumption and lower savings in the public sector, as well as increased investment in both the government and private sectors.

73. Mongolia's net international investment position remains weak. The net international investment position measures the gap between a country's financial assets held abroad and its liabilities to other countries. At the end of the third quarter of 2024, the net international investment position stood at USD -42.9 billion, equivalent to -184 percent of GDP. Financial liabilities totaled USD 51.6 billion, 5.9 times greater than the assets held abroad. It is important for Mongolia to improve its net international investment position and reduce vulnerability to external shocks by improving the current account balance and increasing international reserves.

Figure 4.4. Current account balance and net international investment position



Source: MED calculation *Source: MED calculation* *Source: MED calculation*

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

CHAPTER IV

4.3 EXTERNAL DEBT

74. The gross external debt increased in nominal terms, but declined as a share of GDP. Mongolia's gross external debt totaled USD 35.6 billion at the end of the third quarter of 2024, up by USD 2.4 billion or 7.2 percent from a year earlier. On the other hans, the external debt-to-GDP ratio fell to 153 percent, down by 21.7 percentage points from a year earlier, due to the nominal GDP growth.

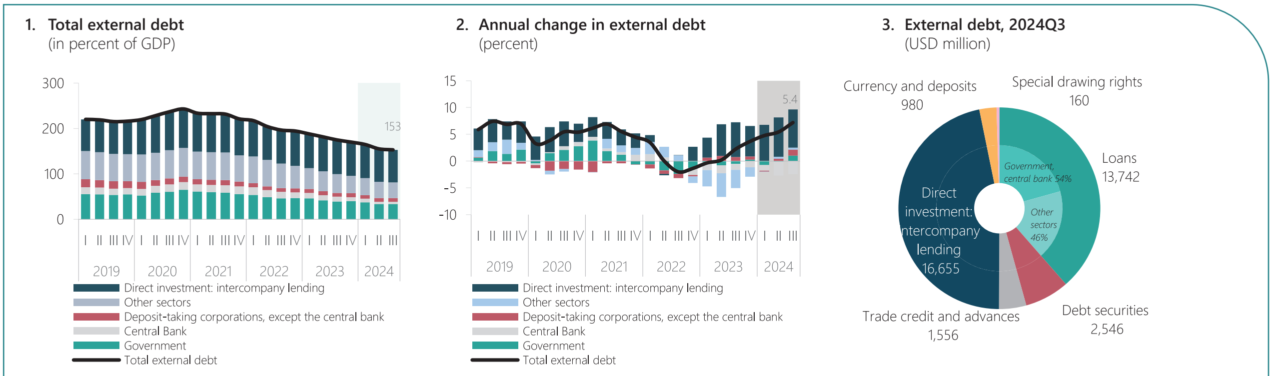
75. The stabilization of international reserves enabled the central bank to repay its swap line debt. Gross international reserves, which had fallen to USD 2.8 billion in 2022, rose to USD 5.2 billion at the end of the first quarter of 2024. This increase in reserves enabled the central bank to repay CNY 4.5 billion of the currency swap facility with the PBOC in the second quarter of 2024, reducing the outstanding balance of the swap line to CNY 6.0 billion. As a result, the central bank's external debt decreased by USD 813 million or 42 percent at the end of the third quarter of 2024, compared to a year earlier.

76. The external debt stock of the private sector rose. The private sector's external debt increased by USD 2.9 billion, with 83 percent of this rise attributed to intercompany lending. Within the private sector, the external debt of deposit-taking corporations' in the form of debt securities tripled, while loans grew by 12 percent compared to the same period last year, reflecting a greater access to external financing for the private sector.

77. The majority of the external debt is comprised of foreign direct investment and loans. 47 percent of the total external debt, amounting to USD 16.7 billion, consists of intercompany lending, while 39 percent, or USD 13.7 billion, is in the form of loans. Of the total outstanding loan, 54 percent is held by the government and central bank, while 46 percent by the private sector. It is important to maintain macroeconomic stability and improve credit ratings to increase sources and reduce costs of external financing.

78. 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, supported by growth in exports and GDP. However, the ratio remains particularly sensitive to exchange rate and current account shocks. Compared to the baseline, the external debt-to-GDP ratio could increase by 12.3 percentage points when current account balance deteriorates by one standard deviation and 15.2 percentage points if exchange rate depreciates by 10 percent.

Figure 4.5. External debt



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

Figure 4.6. External debt sustainability

External debt

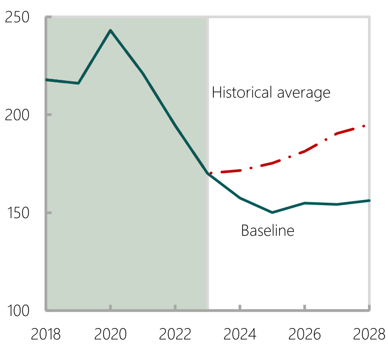
(in percent of GDP, unless otherwise indicated)

	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	150.0	154.9	154.2	156.2	-2.5
Change in external debt	-21.5	-1.7	26.9	-21.9	-26.7	-24.3			-12.5	-7.5	4.8	-0.6	2.0	
Identified net debt-creating flows	-20.9	-8.6	14.9	-25.3	-11.5	-32.4			-16.4	-13.2	-2.9	-11.2	-4.7	
Non-interest current account deficit	7.7	5.5	-4.9	5.6	4.9	-10.9			-1.4	-3.3	-6.1	-7.1	-2.1	
Net non-debt creating capital inflows	-6.8	-8.1	-4.6	-7.7	-0.9	-1.4			-1.8	-1.2	-1.0	-1.0	-1.5	
Automatic debt dynamics 1/	-21.8	-6.0	24.4	-23.2	-15.6	-20.1			-13.3	-8.7	4.1	-3.1	-1.0	
Contribution from nominal interest rate	9.0	9.7	10.0	8.2	8.5	10.3			10.6	7.9	7.5	6.8	5.8	
Contribution from real GDP growth	-16.2	-11.3	10.5	-3.5	-9.9	-12.2			-8.2	-10.5	-9.5	-9.4	-9.6	
Contribution from price and exchange rate changes	-14.7	-4.5	3.9	-27.9	-14.2	-18.2			-15.6	-6.2	6.1	-0.5	2.7	
Residual	-0.6	6.9	12.1	3.4	-15.2	8.1			3.9	5.7	7.8	10.5	6.6	
External debt-to-exports ratio (in percent)	374.5	364.8	423.3	377.7	303.4	223.0			223.7	207.5	194.3	188.3	192.7	
External debt: Scenario with key variables at their historical averages 2/									171.5	175.3	181.2	190.4	195.0	-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						

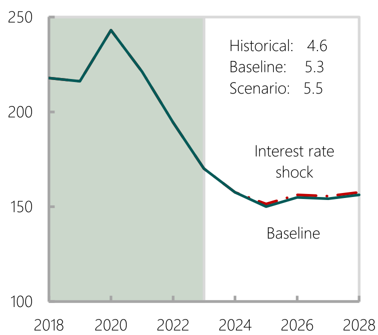
1/Change in external debt driven by variables including GDP growth, external interest rate, and exchange rate

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.

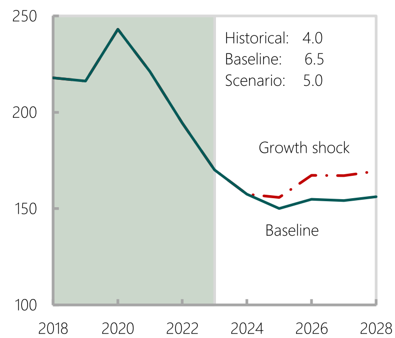
1. Baseline and historical scenarios



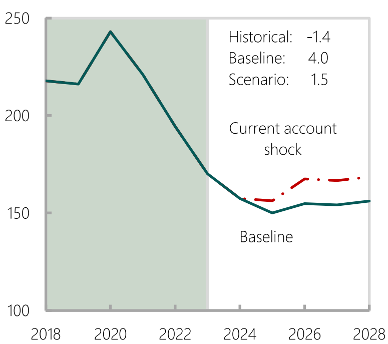
2. Interest rate shock



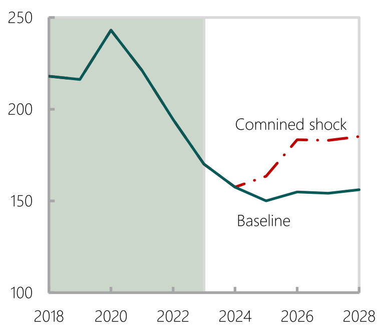
3. Growth shock



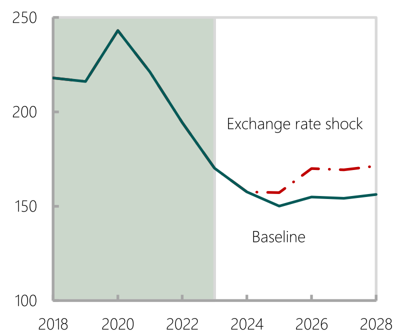
4. Non-interest current account shock



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



6. Exchange 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 ¼ 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

While the service sector continued to perform strongly in both advanced and emerging markets, the industrial sector remained weak in advanced countries. Major central banks lowered policy rates in response to the disinflationary trend. Chinese economic growth slowed in the third quarter of 2024, falling short of the government's target for the year.

CHAPTER 5

5.1 WORLD ECONOMIC SITUATION

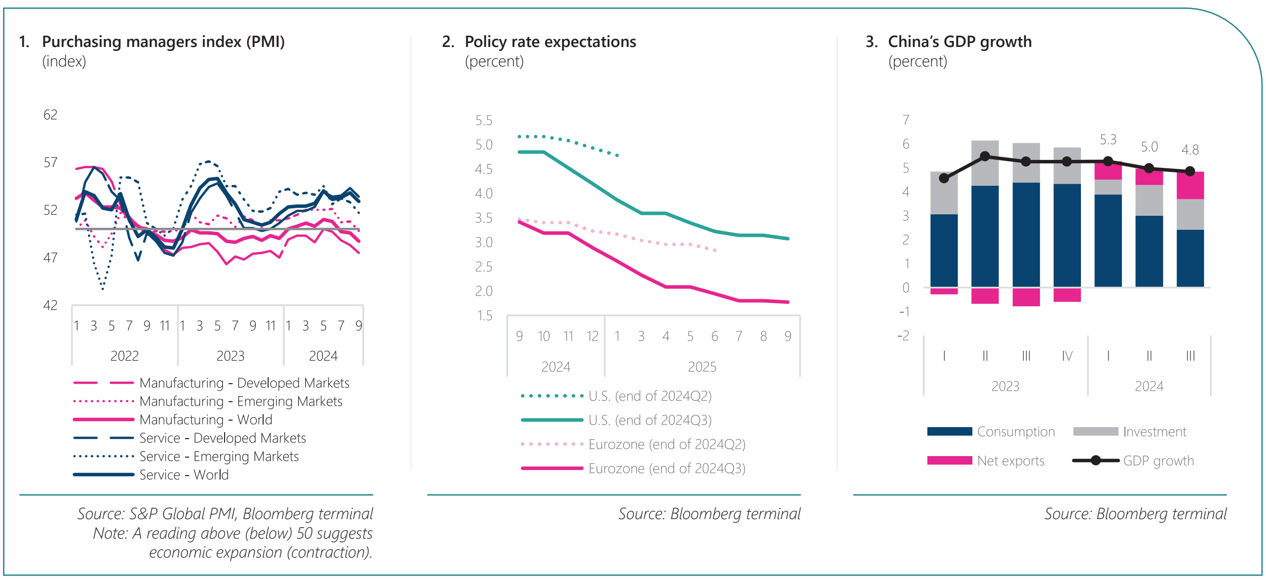
79. While the service sector continued to perform strongly in both advanced and emerging markets, the industrial sector remained weak in advanced countries. The global Purchasing Managers' Index (PMI), a leading economic indicator, indicates that the activity in the service sector in both developed and emerging markets maintained recovery momentum, while the manufacturing sector activity in developed countries remained weak. The Service PMI has consistently signaled expansion in both developed and emerging markets since 2023, whereas the Manufacturing PMI for developed countries has stayed below the 50 threshold since October 2022.

80. Major economies cut their policy interest rates. The Federal Reserve lowered its policy rate by 0.5 percentage points in September 2024, marking the first rate cut since the pandemic. The European Central Bank, which had already reduced its rate in June 2024, made an additional cut of 0.25 percentage points in September 2024. The rate cuts are adding to expectations of continued easing in global financial conditions.

81. China's economy continued to slow. With the prolonged weakness in the property sector and subdued domestic demand, China's growth decelerated to 4.8 percent in the first three quarters of 2024. However, economic activity in the northern regions, which play a significant role in driving our export demand, remained relatively strong compared to the overall national growth. To achieve its target growth rate of 5 percent for 2024, the Chinese government is implementing a series of policy measures, including lowering the policy interest rate, accelerating the issuance of special bonds, and providing support to the real estate sector.

82. The Eurozone economy growth exceeded expectation. The Eurozone GDP expanded 0.4 percent in the third quarter of 2024, the strongest growth rate in two years. The German economy grew by 0.2 percent, avoiding recession, while the French and Spanish economies outperformed expectations.

Figure 5.1. World economy



CHAPTER 5

5.2 COMMODITY MARKET DEVELOPMENTS

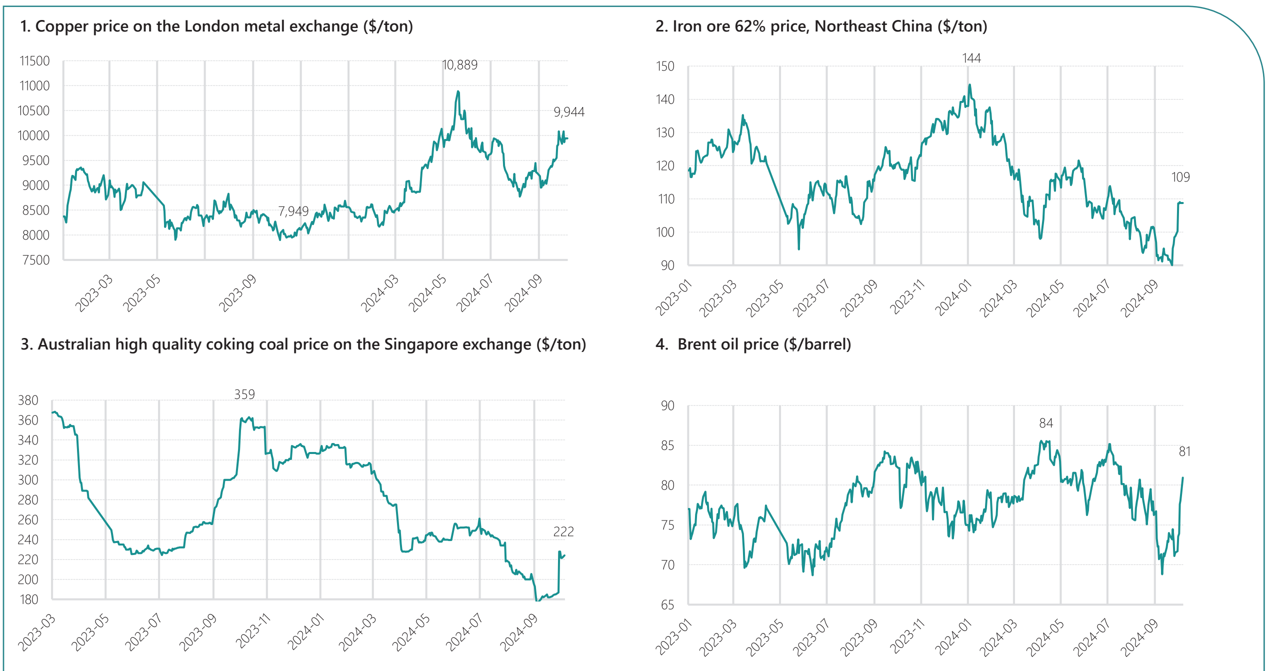
83. The average price of copper on the London Metal Exchange (LME) rose to 9,208 USD/ton in Q3 2024, marking a 12.7% increase from the end of the previous year. Key factors behind this price surge include production cuts by large copper mines, which have led to short-term supply instability. These reductions have tightened available supply, contributing to upward pressure on prices, particularly as demand remains steady or grows in various industries reliant on copper for manufacturing and infrastructure.

84. The average price of iron concentrate (62% content) in Northeast China fell to 105 USD/ton in Q3 2024, marking a 22% decrease from the end of the previous year. This decline is largely due to increased supply from major exporters like Australia and Brazil, which has led to a surplus in the market. Additionally, China's struggling real estate sector has weakened demand, as construction—a primary consumer of iron ore—has not seen the anticipated recovery. These factors combined have exerted significant downward pressure on iron concentrate prices.

85. The average price of Australian high-quality coking coal on the Singapore Exchange in Q3 2024 fell to $212/tonne, a decrease of 36.6% from the end of the previous year. This price fell is primarily due to China's coking coal purchases from Australia remaining below pre-pandemic levels, despite stabilized supply. The lag in recovery of Chinese demand has continued to exert downward pressure on prices.

86. The average price of Brent oil in Q3 2024 fell to 75 USD per barrel, a decrease of 2.9% from the end of the previous year. OPEC members announced they would increase their oil supply, which has primarily contributed to the decrease in oil prices.

Figure 5.2. Commodity prices



Source: Bloomberg

CHAPTER 5

5.3 INDEXES UPDATED IN 2024

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

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

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

Table 3. Score and ranking of Mongolia in the Worldwide Governance Indicators

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

According to the table, the Rule of Law indicator score declined compared to the previous year, with Mongolia dropping 4 positions. This decline is attributed to weaknesses in the legal framework and the comparatively low quality of judicial operations. Similarly, the Government Effectiveness indicator score decreased by 0.05 points, resulting in a 2-position drop, which is linked to insufficient policy implementation. Additionally, the Voice and Accountability indicator, reflecting citizens' trust in the government, fell by 0.01 points and dropped 6 positions compared to the previous year.

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

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

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

[4] The Worldwide Governance Indicators are calculated based on six indicators: Rule of Law, Government Effectiveness, Regulatory Quality, Control of Corruption, Voice and Accountability, and Political Stability and Absence of Violence/Terrorism. The index employs a scale ranging from -2.5 to 2.5, with higher scores indicating stronger governance performance and lower scores signifying weaker governance.

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

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

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

Table 4. Mongolia's Scores and Rankings in the Economic Freedom of the World Index

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

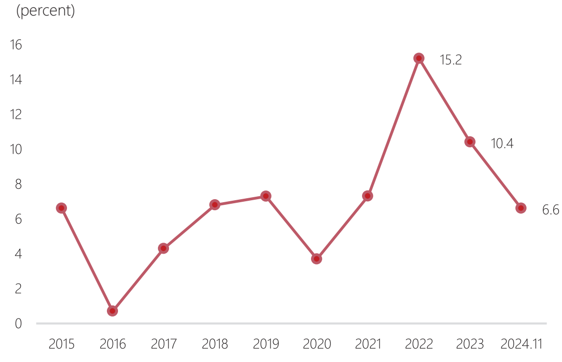
In 2024, Mongolia scored 6.86 on the Economic Freedom of the World Index, surpassing the global average by 0.2 points. A detailed breakdown reveals that a reduction in the share of government consumption in total consumption increased the score for the Government consumption indicator by 0.23 points, resulting in a one-rank improvement. This, in turn, contributed to a 0.04-point increase in the overall score for the Size of Government category. Additionally, the increase in the number of countries that can enter Mongolia without a visa improved the score for this indicator by 3.8 points, leading to a 0.2 point increase in the score for the Freedom to Trade Internationally category. Furthermore, a decrease in the fiscal deficit, and improved regulation in labor relations with the revised Law on Labor in force, enhanced the Regulation category's score by 0.09 points and raised the rank by 12 positions. International reports also noted improvements in the evaluation of government impartiality and reduction in bureaucracy, contributing positively to this category. Despite these advancements, Mongolia's overall ranking did not significantly improve, as other countries also achieved higher scores.

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

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

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

Figure 5.3. Mongolia's annual average inflation rate



Source: National Statistics Office, MED Calculation

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

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

CHAPTER 6

RISKS

CHAPTER 6

6 RISKS

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

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

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

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

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

APPENDIX

Table 5. Selected economic indicators

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

*Bloomberg Terminal **Includes mortgage-backed securities

Table 6. Real sector

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

Table 7. General government accounts

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

Table 8. General government accounts (in percent of GDP)

GENERAL COVERNMENT ACCOUTS

	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 9. Balance of payments

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

Table 10. 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 11. Monetary sector

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

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