CHAPTER 1

REAL SECTOR

1.1 Aggregate supply
1.2 Aggregate demand
1.3 Labor market and enterprises
1.4 Business cycles

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.

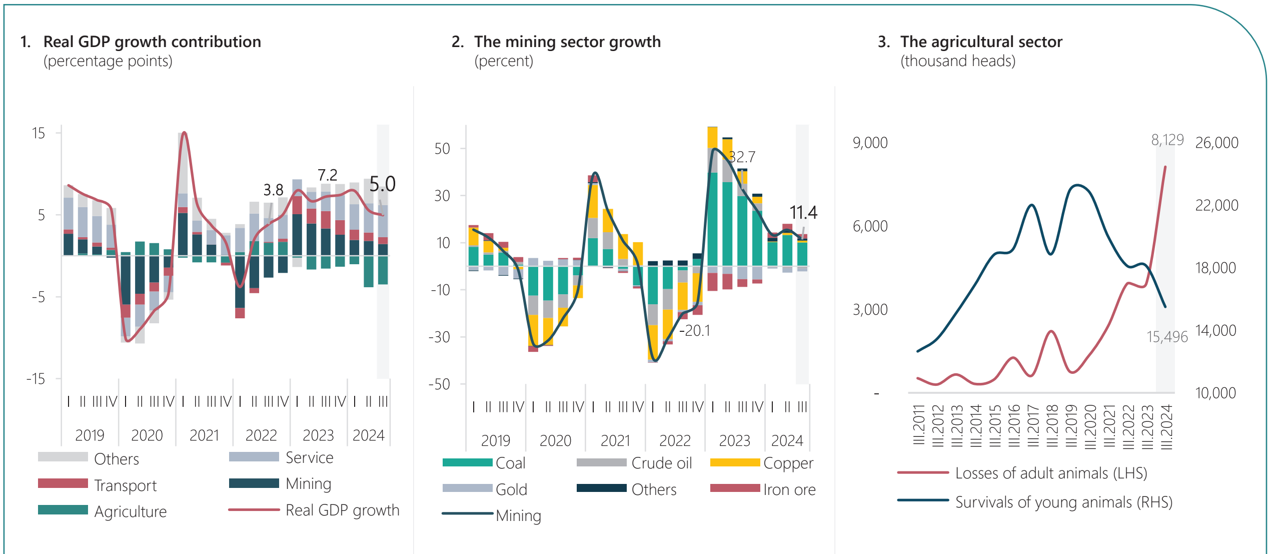
5. Beverages and chemical production supported the manufacturing sector growth. In the first three quarters of 2024, the manufacturing sector output remained largely unchanged from the previous year, with a modest growth of 0.1 percent. The 10 percent increase in beverage production, which accounts for 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

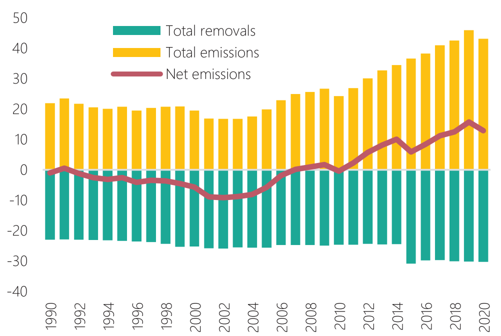
Mitigating climate change is becoming increasingly important as global greenhouse gas emissions continue to rise worldwide. Over the past century, the average temperature has risen by 1.1°C globally, and by 2.2°C in Mongolia, accompanied by a growing frequency of extreme weather events.

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.

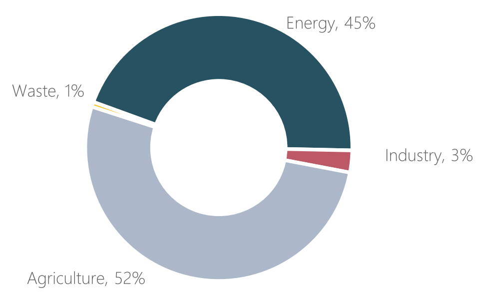
Figure 1.2 GHG emissions

1. GHG emissions (million tons, CO2-eq)



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

2. GHG emissions (million tons, CO2-eq)



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

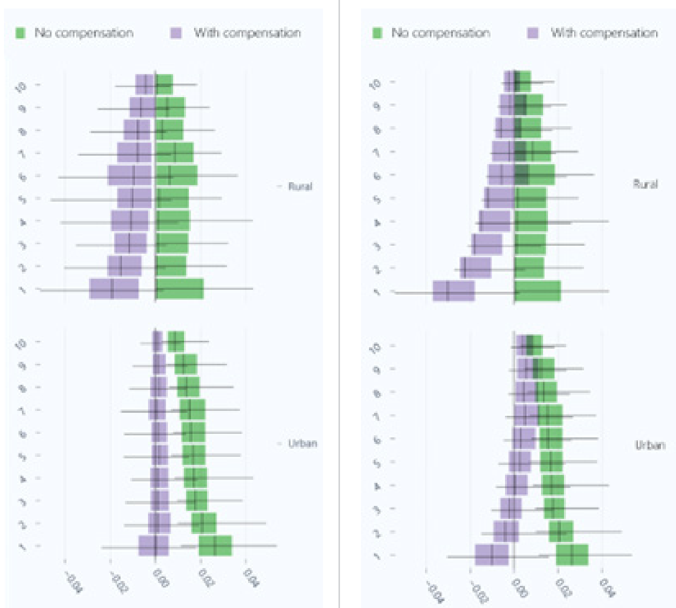
1. **Distributional impact of carbon pricing**
2. **Median of relative price**

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

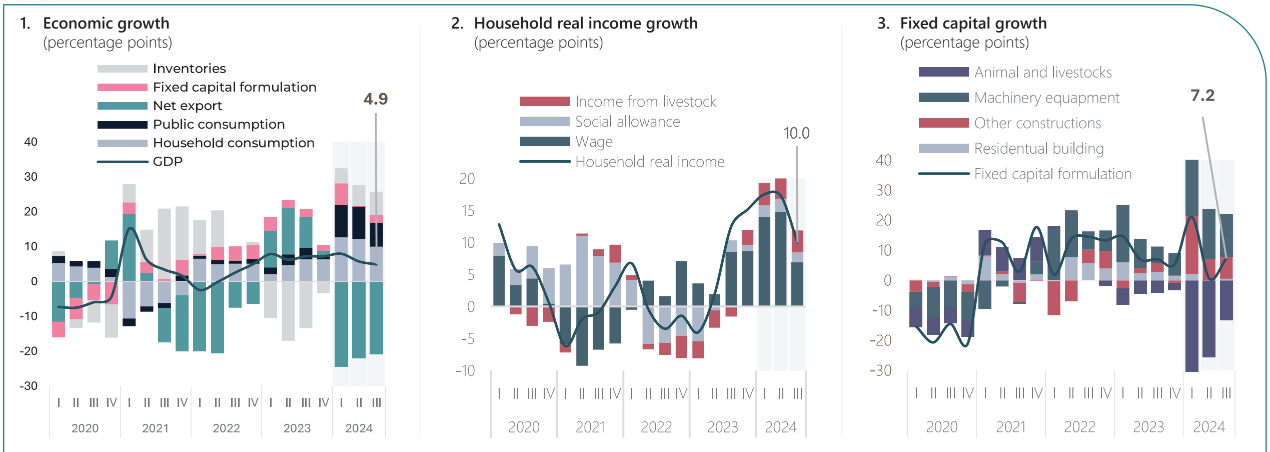
1.2 AGGREGATE DEMAND

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

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Note: Annual growth, cumulative basis

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

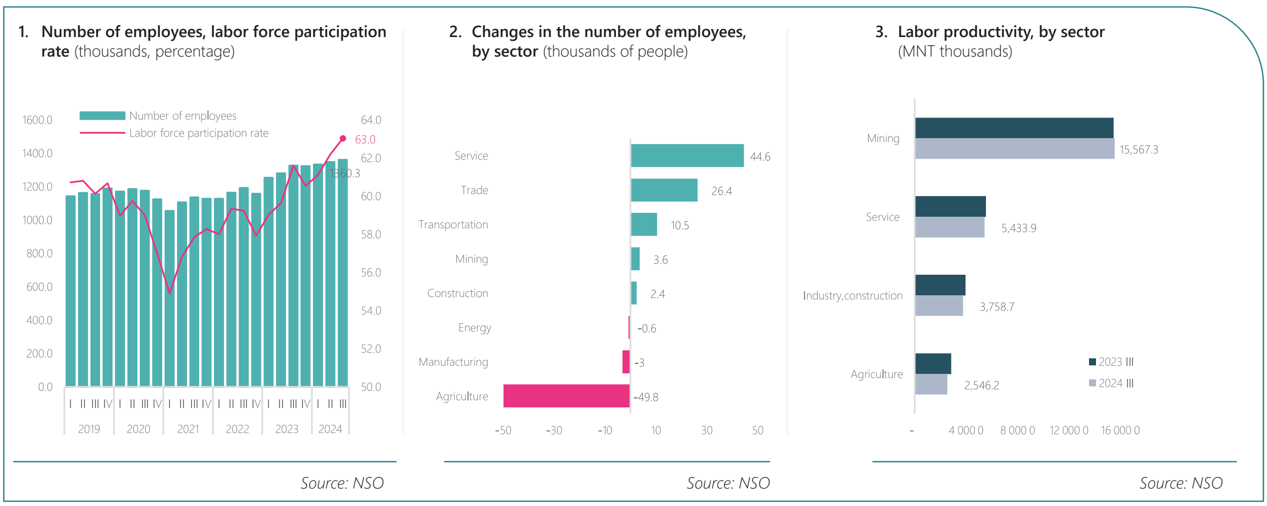
1.3 LABOR MARKET AND ENTERPRISES

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



[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.

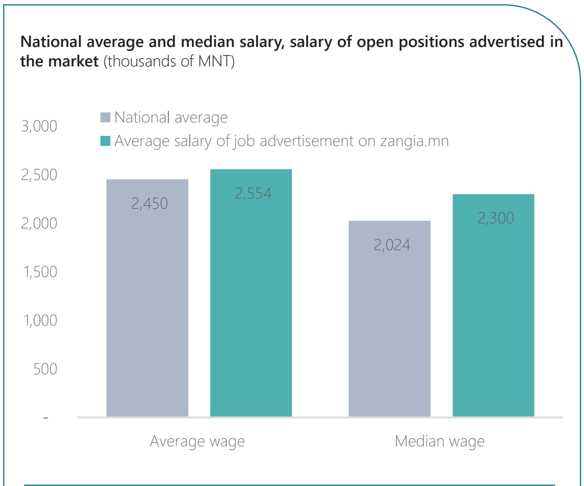
By sector, the mining industry recorded the highest average wage at 5.196 million MNT, which is 2.1 times higher than the national average. Additionally, the average wage of workers in the electricity and water sectors increased by 1.068 million MNT year-on-year, reaching 3 million MNT, positively contributing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



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./

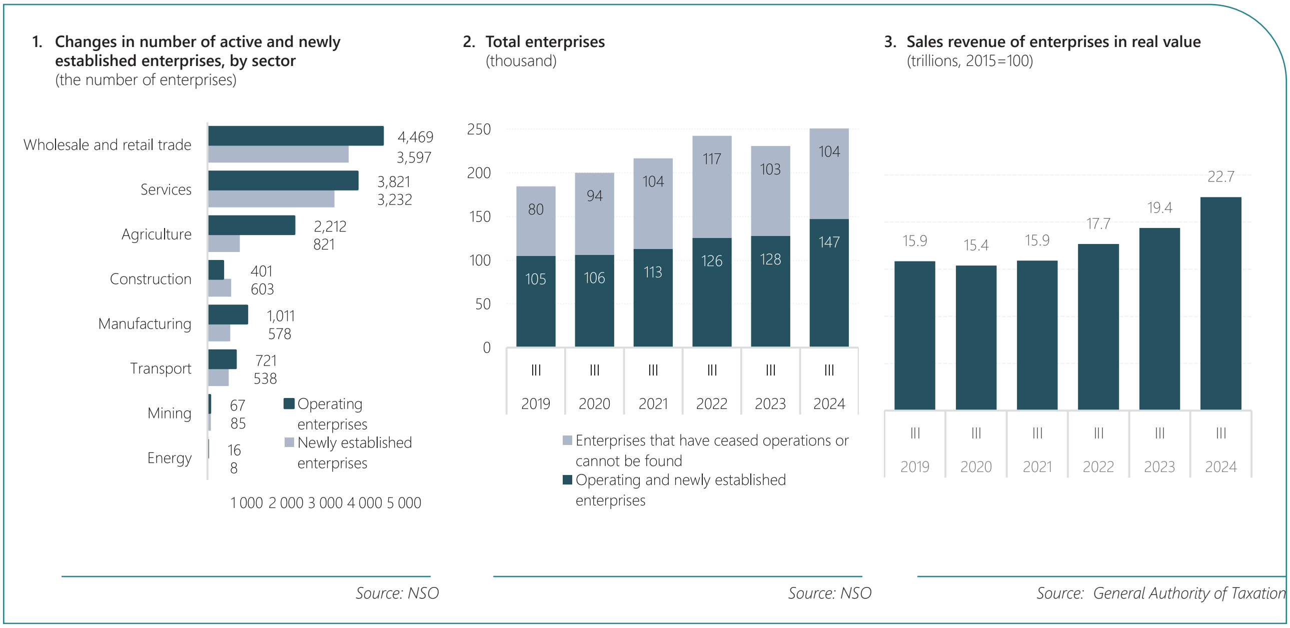
Meanwhile, enterprises with 10–19 employees reached 6.4 thousand, an increase of 319 compared to the same period last year, primarily driven by growth in the agriculture, services, and construction sectors. Additionally, 87 enterprises with 20–49 employees and 65 enterprises with more than 50 employees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

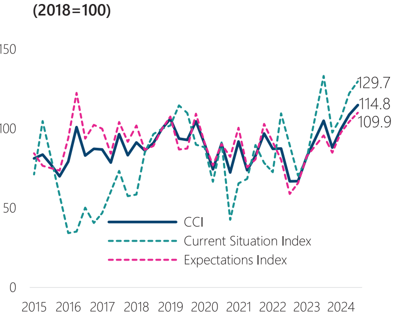
IN THE THIRD QUARTER OF 2024, CONSUMERS' ECONOMIC EXPECTATIONS IMPROVED, WITH THE CONSUMER CONFIDENCE INDEX INCREASING BY 9.9 POINTS COMPARED TO THE SAME PERIOD LAST YEAR AND BY 6.1 POINTS COMPARED TO THE PREVIOUS QUARTER.

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)

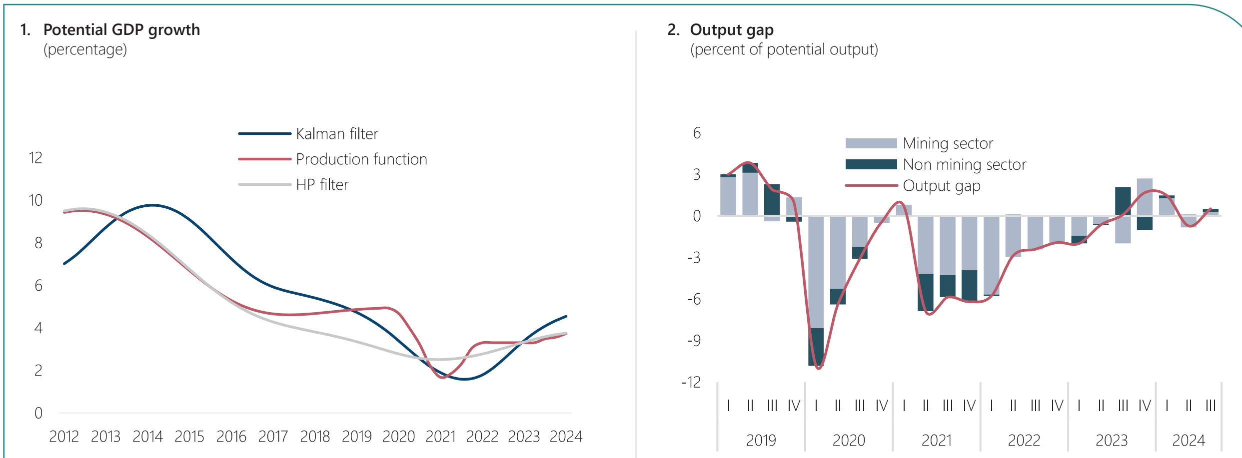
CHAPTER 1

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.