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.