GOVERNMENT OF MONGOLIA

MINISTRY OF ECONOMY AND DEVELOPEMTNT

MACROECONOMIC REPORT

2026Q2





MINISTRY OF ECONOMY
AND DEVELOPMENT

MACROECONOMIC REPORT

H1 2026

OCTOBER 2026

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MACROECONOMIC REPORT

H1 2026

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Abbreviations

MED	Ministry of Economy and Development
MCGA	Mongolian Customs General Administration
NSO	National Statistical Office

EXECUTIVE SUMMARY

The mining sector was the main driver of economic growth. Real GDP expanded by 7.7 percent in the first half of 2026, driven by strong performance in the mining and transportation sectors, which contributed 4.7 percentage points to overall growth. Construction activity also accelerated, supported by major housing, railway, and road infrastructure projects. However, weaker consumer spending led to a contraction in the wholesale and retail trade sector, weighing on overall economic growth.

External demand was the primary driver of economic growth from the expenditure side, while the contraction in domestic demand weighed on growth. Net exports contributed 13.0 percentage points to overall economic growth as goods exports increased by 55.2 percent. In contrast, slower household consumption growth and declining investment led to a contraction in domestic demand, reducing overall growth by 5.2 percentage points. Household consumption growth decelerated sharply as slower nominal income growth and higher inflation resulted in a decline in real income. Meanwhile, although residential construction activity remained strong, gross capital formation reduced overall economic growth by 6.5 percentage points due to lower machinery and equipment investment and a decline in inventories.

Foreign trade turnover reached a record high. Export earnings rose 58 percent year-on-year, supported by strong external demand, larger physical volumes of key export commodities, and higher copper and gold prices on world markets. Imports grew 11 percent, mainly reflecting increased imports of industrial inputs and investment goods that support economic and production activity.

The structural balance recorded a deficit of MNT 2.1 trillion. Total budget revenue reached MNT 16.9 trillion in the first half of 2026, increasing by MNT 2.8 trillion (20.1 percent) year-on-year, mainly driven by improved value-added tax and social insurance revenue collection. And, the structural revenue amounted to MNT 14.7 trillion, falling short of the first-half target by MNT 1.4 trillion (10.7 percent). Meanwhile, total budget expenditure reached MNT 16.8 trillion, expanding by 20.0 percent year-on-year. The increase was mainly driven by higher current expenditure, particularly increased spending on public sector wages and pensions, which were adjusted in line with inflation. As a result, the structural balance recorded a deficit of MNT 2.1 trillion.

Inflation and money supply growth accelerated, while credit growth slowed. Rising prices of food products, particularly meat and vegetables, as well as fuel, intensified supply-side inflationary pressures, driving headline inflation to 12.0 percent in the first half of 2026. Meanwhile, money supply growth accelerated to 25.8 percent, driven by an increase in net foreign assets. However, credit growth slowed to 15.9 percent.

NEAR-TERM OUTLOOK

The risk of heightened global uncertainty remains elevated. Economic and geopolitical risks, including the Russia–Ukraine war, instability in the Middle East, and trade wars, continue to intensify, posing significant risks to global economic activity and potentially fueling inflation.

Economic growth is projected at approximately 5.8 percent in 2026. On the supply side, continued growth in output from the mining, agriculture, and construction sectors, together with a recovery in trade and services, is expected to support growth. Higher copper grades in Oyu Tolgoi's concentrate are also expected to contribute to growth. On the demand side, external demand is expected to remain the primary driver of economic growth through the end of the year.

Coal and iron ore prices show little sign of recovery. Copper prices have risen sharply on supply disruptions and growing demand from the technology and renewable energy sectors, and are expected to remain elevated over the medium term. Gold prices have also increased amid heightened geopolitical uncertainty and stronger central bank gold purchases. By contrast, the rise in coking coal prices driven by adverse weather in Australia is temporary, and a sustained recovery is not expected over the medium term.

Inflation is expected to remain above the central bank's target range on average in 2026. Inflationary pressures are expected to persist, driven by intensifying supply-side factors. Upside risks remain elevated due to geopolitical instability, climate-related risks, and potential disruptions to global transportation and logistics networks.

CHAPTER I

REAL SECTOR

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

1. REAL SECTOR

OVERVIEW

On the production side, growth was driven primarily by increased activity in the mining and transportation sectors, while a contraction in the trade sector weighed on economic growth. Led by the mining sector, total economic output was estimated at 2.9 percent above its potential level. On the expenditure side, net exports, supported by strong external demand, were the main driver of economic growth. However, domestic demand weakened as real household income contracted by 4.9 percent, causing household consumption growth to decelerate to its lowest level since the COVID-19 pandemic. In addition, decline in gross capital formation constrained economic growth. Labor market conditions also weakened, with employment declining, the unemployment rate rising to 5.5 percent, and the labor force participation rate falling to 61.5 percent.

1.1. Aggregate supply

1. **Economic growth reached 7.7 percent in the first half of 2026.** The growth was primarily driven by strong activity in the mining and transportation sectors, as well as continued growth in agriculture. However, the wholesale and retail trade sector contracted due to weaker sales of consumer goods and products, which weighed on overall economic growth.

2. **The mining sector expanded by 31.5 percent, contributing 3.9 percentage points to overall economic growth.** Growth in the mining sector was primarily driven by increased coal production and exports. As of the first half of 2026, coal production reached 61.0 million tons, up 48.7 percent from the same period of the previous year, while coal exports increased by 56.0 percent to 59.2 million tons. In addition, copper concentrate production rose by 20.0 percent to 1.2 million tons, and iron ore and concentrate production increased by 26.0 percent to 6.1 million tons, further supporting sectoral growth. Gold production remained broadly unchanged from the previous year at 4.5 tons. In contrast, crude oil production declined by 7.3 percent, partially offsetting the sector's strong performance.

3. **Non-mining activity grew by 4.3 percent, contributing 3.8 percentage points to economic growth.** Growth in the transportation sector accelerated, while agriculture, construction, and energy sectors continued to expand. Manufacturing activity also showed signs of recovery. Although growth in the service sectors gradually improved, the trade sector remained in contraction, limiting the pace of expansion in the non-mining economy.

4. **Agricultural sector growth remained strong despite slower growth in livestock production.** Adverse weather conditions, including snowfall and dust storms in some regions during the spring months, affected livestock production. As a result, the number of surviving newborn animals reached 18.9 million head, declining by 1.8 million compared to the same period of the previous year. Furthermore, the spread of livestock diseases led to an increase in abnormal adult livestock mortality, which reached 348 thousand head, up by 160 thousand head year-on-year. Consequently, growth in the livestock sector, which accounts for around 90 percent of agricultural output, decelerated. In contrast, crop production improved. The total cultivated area increased by 21.8 thousand hectares, or 3.9 percent, compared to the previous year. Grain cultivation expanded by 16.5 percent to 352.4 thousand hectares. However, the area planted with vegetables declined by 6.4 percent to 13 thousand hectares, while potato cultivation fell by 3.3 percent to 12.7 thousand hectares. Despite **weaker livestock production, favorable base effects from the previous year helped agricultural sector growth reach 11.3 percent, contributing 1.4 percentage points to overall economic growth.**

5. **Industrial sector growth remained strong.** Manufacturing output growth slowed to 1.2 percent, contributing 0.1 percentage points to overall economic growth. Within the sector, food production declined by 6.0 percent, mainly due to a 52.5 percent decrease in processed meat production and lower flour production resulting from reduced wheat harvests following the previous year's drought. Meanwhile, heavy industry growth was supported by higher production of non-metallic mineral products and chemical products. In light manufacturing, higher output of spinning, weaving, textile materials, apparel, and leather products contributed positively to overall manufacturing growth. The energy sector expanded by 7.4 percent, contributing 0.1 percentage points to economic growth. Electricity generation increased by 8.0 percent year-on-year to 4.7 billion kWh, while thermal energy production rose by 3.7 percent to 9.8 million Gcal during the same period. The construction sector grew by 7.9 percent in the first half of 2026. Growth was

supported by ongoing residential housing projects, bridge, embankment, and infrastructure works associated with the Bagakhangai–Khushig Valley railway project, road construction projects in Dornod aimag, and several large-scale development projects in the capital city.

6. **The service sector grew by 3.8 percent in the first half of 2026.** The service sector comprises transportation, information and communication, trade, and other service activities. The transportation sector expanded by 21.5 percent, contributing 0.8 percentage points to overall economic growth. Growth was primarily driven by a low base effect and higher coal export volumes. By mode of transport, freight carried by rail increased by 47.5 percent to 30.8 million tons, road freight rose by 53.0 percent to 62.2 million tons, and air freight grew by 1.2 percent to 4.7 thousand tons. Consequently, total freight transportation reached 93.0 million tons, representing a 51.3 percent increase from the same period of the previous year. Of total freight transported, road transport accounted for 67.0 percent, rail transport for 33.0 percent, and air transport for 0.01 percent. In addition, mining products transported during the first half of the year reached 64.9 million tons, accounting for 69.8 percent of total freight volume. Other service sectors also expanded.

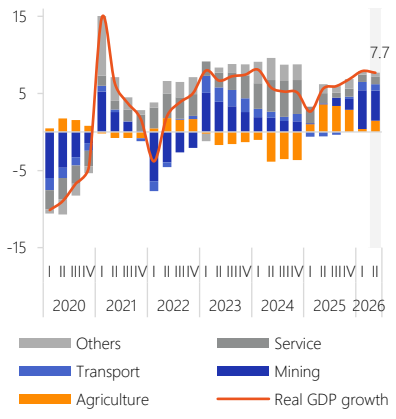
The information and communication sector expanded by 6.1 percent, while other service activities grew by 1.8 percent during the same period.

7. **The wholesale and retail trade sector remained in contraction.** Output in the trade sector declined by 0.2 percent in the first half of 2026, reducing overall economic growth by 0.02 percentage points. However, nominal sales revenue increased by 10.1 percent to MNT 35.0 trillion, while real sales revenue rose modestly by 0.3 percent to MNT 15.5 trillion. The Purchasing Managers' Index (PMI), which reflects business sentiment and expectations among domestic trading enterprises, stood at 44.5 in the first half of 2026. The index remained in contraction region for the sixth consecutive quarter, indicating continued weakness in business conditions and expectations within the trade sector.

8. **Net taxes on products increased by 4.5 percent in the first half of the year.** Growth in net taxes on products was primarily supported by higher value-added tax (VAT) revenue. The increase reflected growth in taxes on domestic goods and services, as well as higher VAT collections from imported goods. As a result, net taxes on products contributed positively to economic growth during the first half of 2026.

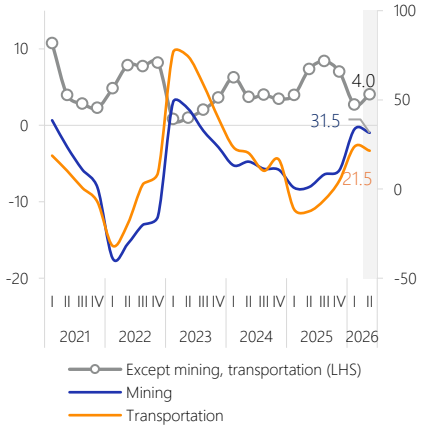
Figure 1.1. Real GDP growth - production

1. Real GDP growth contribution
(percentage points)



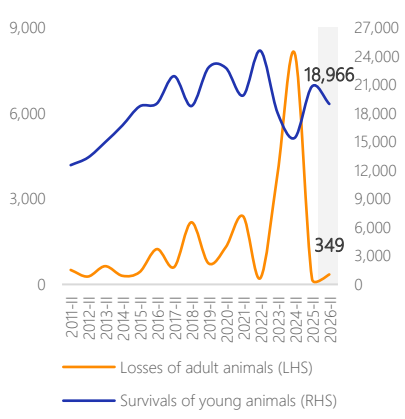
Source: NSO

2. The mining sector growth
(percent)



Source: NSO

3. The agricultural sector
(thousand heads)



Source: NSO

Box 1. Sustainable Infrastructure

Infrastructure development, which lies at the core of Mongolia's development policy, serves as a fundamental driver of economic and social development in a country characterized by vast territory and high vulnerability to climate change. Despite notable progress, structural and institutional challenges persist throughout the infrastructure project cycle. Key challenges include:

- Project planning, design, and appraisal are often undertaken without comprehensive feasibility studies and technical assessments.
- Maintenance and repair activities are irregular due to budget constraints.
- Procurement processes remain slow, inconsistent, and prone to delays, hampering project implementation.
- Annual budget revisions and amendments delay, and in some cases disrupt, the implementation of budget-financed projects.
- Climate and environmental conditions place additional pressure on aging infrastructure assets.

This background study examines how these challenges affect Mongolia's infrastructure sector in supporting national development objectives, including economic diversification, regional development, climate resilience, and social inclusiveness.

1. Infrastructure Needs Assessment:

Transport Sector:

The transport sector clearly illustrates the scale and persistence of Mongolia's infrastructure gap. **The national road network** extends approximately **45,000 km**, of which more than **14,000 km** is paved. Many roads connecting aimags and soums remain inaccessible year-round, while harsh climatic conditions accelerate road deterioration. Maintenance frequency and asset management systems continue to face capacity and financing constraints. In addition, insufficient multimodal transport connectivity at border crossings negatively affects the efficiency and reliability of freight transportation.

Considering the frequent occurrence of flooding and road damage caused by extreme heat, severe cold, and freeze-thaw cycles, investments in these priority areas would enhance both economic performance and climate resilience.

Seasonal conditions continue to significantly affect infrastructure expansion and modernization. During winter, mobility is restricted across much of the country, often bringing construction activities to a halt. In spring, flooding increasingly damages low-lying transport corridors and road pavements, while sharp temperature fluctuations contribute to cracking and deterioration of road surfaces. These factors increase lifecycle costs and highlight the need to incorporate future maintenance requirements into project planning and feasibility studies..

Energy Sector:

Mongolia's energy sector faces significant structural challenges stemming from aging infrastructure and heavy dependence on coal.

- More than **90 percent** of electricity and heat generation is supplied by coal-fired combined heat and power plants.
- Renewable energy accounts for only **9.41 percent** of total domestic electricity generation.
- **High energy losses** are largely attributable to aging and inefficient generation and transmission infrastructure.
- Winter and peak-load shortages are supplemented through energy imports, with imports accounting for **24.6 percent** of total electricity consumption.
- Most existing CHP plants have **exceeded their originally intended operational lifespan**.

Mongolia nevertheless possesses substantial renewable energy potential:

- **Wind:** Estimated technical potential of 1.1 TW, with the capacity to generate approximately 2,550 TWh annually.
- **Solar:** Estimated annual potential of 4,774 TWh, supported by 270-300 sunny days per year, solar radiation of approximately 1,400 kWh/m², and average daily solar intensity of 4.3-4.7 kWh/m².

Seasonal conditions also directly affect energy reliability. Peak winter heating demand places considerable strain on the energy system, while temperature fluctuations increase losses across aging infrastructure. Furthermore, climate-related flooding poses additional risks to substations and distribution networks.

These conditions underscore the need to prioritize investments aimed at modernizing transmission and distribution infrastructure, reducing energy losses, and improving the reliability of energy services.

Table 1.1. Electricity Generation by Source

Generation Source	2020	2021	2022	2023	2024 (GWh / %)	
Combined Heat and Power Plants	6493.6	7109.6	7428.5	7755.2	7930.6	90.59
Diesel Power Plants	2.7	1.1	1.2	0.5	0.1	0.00
Renewable Energy	649.4	803	748.9	772.6	823.9	9.41
Solar Power Plants	108.9	156.9	178.7	193	232.3	2.65
Hydropower Plants	83.3	83.1	61.7	48.1	74.1	0.85
Wind Power Plants	457.2	563	508.5	531.5	517.5	5.91

Total	7145.7	7913.7	8178.6	8528.3	8754.7	100.00

2. Defining Sustainable Infrastructure

Given their long operational life (25-50 years), high upfront capital costs, and role in delivering essential public services, infrastructure investments have significant implications for socio-economic development. Studies suggest that infrastructure systems account for more than 60 percent of global greenhouse gas emissions. Therefore, ensuring that infrastructure is inclusive, climate-resilient, environmentally sustainable, and economically efficient is increasingly important.

Over the past decade, sustainable infrastructure has gained growing international attention, accompanied by increasing capital flows toward such investments. Internationally, sustainable infrastructure is commonly assessed across four dimensions:

- Economic efficiency and financial sustainability;
- Environmental sustainability and climate resilience;
- Social inclusiveness;
- Quality of governance.

In Mongolia, existing regulations and methodologies incorporate some of these dimensions through environmental safeguards and financial oversight mechanisms. However, integrating them comprehensively during project preparation remains challenging. Insufficient consideration of these dimensions during project identification, guideline development, feasibility studies, appraisal, and selection processes often leads to implementation challenges.

For example, systematically incorporating environmental considerations, climate risk assessments, impacts on local communities, economic development objectives, and broader social needs at the earliest project stages would improve project implementation, while also facilitating project comparison, evaluation, and prioritization.

3. Climate and Environmental Performance

Climate-related risks significantly affect all types of infrastructure projects. Key challenges include:

- Floods, droughts, dzud events, and extreme temperature fluctuations frequently disrupt service continuity.
- Comprehensive climate risk assessments are seldom incorporated into feasibility studies.
- Detailed environmental impact assessments do not consistently apply climate resilience indicators.

Table 1.2. Climate Risks in Infrastructure Projects

Transport	Energy	Water and sanitation	Urban infrastructure	Urban infrastructure	
Extreme winter conditions (dzud)	Extreme heat and high temperatures	Flooding and intense rainfall	Windstorms and dust storms	Permafrost thawing	Drought and water scarcity
Disrupts transport, energy supply, and rural infrastructure connectivity	Deteriorates asphalt and cement materials	Major cause of road and bridge damage	Causes foundation settlement, cracking, and structural deformation	Affects water supply systems	Affects water supply systems
	Reduces electricity generation efficiency	Flooding of substations and infrastructure facilities	Damage to pipelines, heating networks, railways, and roads	Limits water cooling for industries and power plants	Limits water cooling for industries and power plants
	Affects worker safety and construction schedules	Damage to urban wastewater treatment networks	Damage to water supply infrastructure		Intensifies competition over water resources

4. Biodiversity

Ecosystem degradation in Mongolia is projected to intensify. The National Biodiversity Strategy and Action Plan emphasizes the integration of ecological information during early project preparation stages. In practice, however, biodiversity considerations are often incorporated only at later stages of project planning and design. Wildlife migration corridors and habitat characteristics are not consistently integrated into the engineering design of roads and infrastructure networks.

Conclusion

The legal framework governing development planning, together with the Medium-Term Fiscal Framework Statement and other planning and oversight mechanisms, provides a strong foundation for developing an efficient public investment management system in Mongolia. In addition, the respective mandates of the Ministry of Economy and Development, Ministry of Finance, Ministry of Environment and Climate Change, and the Government Monitoring Agency are clearly defined.

Nevertheless, this background study identifies several recurring challenges across national, sectoral, and cross-sectoral levels. For Mongolia, the principal constraint lies not in the volume of investment itself, but rather in the quality of project preparation, appraisal, selection, implementation, and decision-making processes.

Four strategic priorities are identified:

- Coordination: Strengthen coordination among the Ministry of Economy and Development, Ministry of Finance, Ministry of Environment and Climate Change, and the Government Monitoring Agency, and clarify how these institutions should operate under an integrated annual investment policy framework.
- Operational procedures and tools: Introduce sustainability criteria into project selection, feasibility studies, and appraisal methodologies, while incorporating climate risk assessments at the earliest project stages.
- Financial alignment: Link sustainability assessments with the Medium-Term Fiscal Framework Statement.
- Capacity and information: Strengthen climate risk analysis, project prioritization, and digital monitoring and evaluation capabilities.

These reforms would facilitate the transition from today's fragmented processes toward a more integrated public investment system aligned with national development objectives and climate commitments.

1.2. Aggregate demand

9. Net exports remained the main driver of economic growth. Real GDP, measured using the expenditure approach, grew by 7.8 percent year-on-year in the first half of 2026, indicating that the economy maintained its growth momentum. Final consumption expenditure increased by 1.3 percent, contributing 1.3 percentage points to overall GDP growth. Exports of goods and services increased by 44.1 percent, contributing 13.0 percentage points to overall economic growth through net exports. In contrast, declining gross capital formation weighed on growth, reducing it by 6.5 percentage points.

10. Household consumption growth decelerated sharply. Growth in household final consumption expenditure slowed sharply to 0.5 percent year-on-year in the first half of 2026, down by 9.4 percentage points from the same period a year earlier. As household consumption weakened, government final consumption expenditure became the main contributor to growth in final consumption for the first time in 17 quarters. The moderation in household consumption was driven primarily by higher consumer prices. Household food consumption increased by 2.1 percent, while non-food consumption contracted by 0.5 percent, weighing on household consumption growth. The increase in food consumption was driven mainly by higher consumption of meat and meat products and alcoholic beverages.

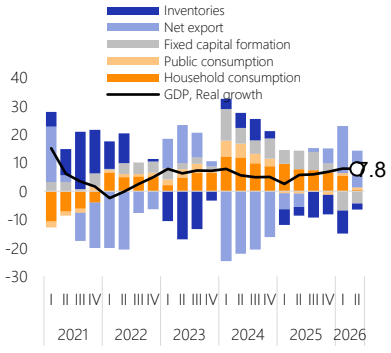
11. Real household income contracted by 4.9 percent. Growth in household wage and salary income slowed to 2.1 percent, while pension and benefit income declined by 0.3 percent and non-agricultural production income fell by 33.4 percent, further constraining income growth. Rising inflation was the primary factor behind the decline in real household income.

12. Gross capital formation continued to constrain overall growth. Gross capital formation declined by 14.5 percent during the reporting period, exerting a significant drag on economic activity and subtracting 6.5 percentage points from overall GDP growth. Gross capital formation comprises gross fixed capital formation and changes in inventories. Within gross fixed capital formation, investment in residential construction and cultivated biological resources remained relatively strong. However, investment in machinery and equipment declined by 25.5 percent, resulting in an 11.0 percent contraction in gross fixed capital formation and subtracting 4.3 percentage points from overall GDP growth. The decline in machinery and equipment investment was reflected partly in lower truck imports. During the first half of 2026, truck imports totaled 10.3 thousand units, down by 2.7 thousand units from the same period a year earlier. Meanwhile, inventories, including goods, materials, and work in progress, continued to decline

Figure 1.22. Growth contribution - expenditure

1. Economic growth

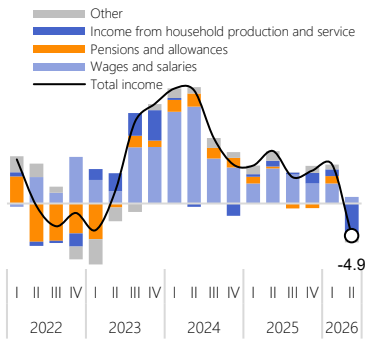
(percentage points)



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

2. Household real income growth

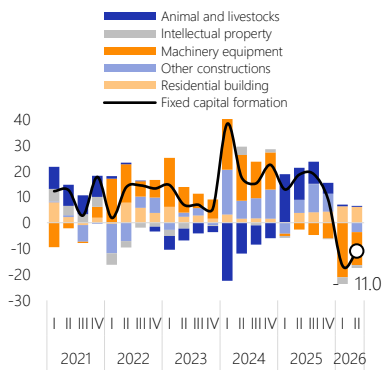
(percentage points)



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

3. Fixed capital growth

(percentage points)



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

following a decrease over the previous year, contracting by 38.6 percent year-on-year and reducing overall economic growth by 2.2 percentage points. This was primarily driven by a decline in the valuation of coal stockpiles and a slowdown in trade and service activities, which reduced inventory replenishment.

13. **Strong export growth significantly strengthened net exports.** Driven by an increase in coal purchases by China, coal export volumes reached 59.2 million tonnes in the first half of 2026, exceeding the average for the first half of the previous three years by 23 million tonnes. The acceleration in coal exports drove merchandise exports up by 55 percent year-on-year, making net exports the main contributor to economic growth. On the import side, service imports, which had been on a declining trend since 2023, increased by 18 percent in the first half of 2026. However, robust export growth resulted in net exports contributing 13.0 percentage points to overall economic growth.

1.3. Labor Market and Enterprises

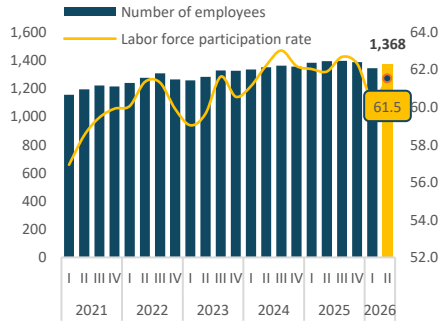
14. **Labor market activity is weakening.** In the second quarter of 2026, although the working-age population increased, the labor force declined, while the number of persons outside the labor force increased. Meanwhile, the number of persons in employment decreased by 22 thousand year-on-year to 1 million 368 thousand. The decline in employment was mainly driven by decreases in the agriculture, forestry and fishing sector and the manufacturing sector. Employment in agriculture, forestry and fishing decreased by 46 thousand year-on-year to 325 thousand, while employment in manufacturing declined by 24 thousand to 93 thousand. These declines accounted for a significant share of the overall decrease in the number of persons in employment. As a result of the decline in employment, the unemployment rate increased to 5.5 percent, while the labor force participation rate decreased to 61.5 percent.

15. **The number of unemployed persons increased, while the labor force declined.** Although the working-age population increased by 0.8 thousand year-on-year, the number of persons outside the labor force increased by 9.4 thousand, resulting in an 8.5 thousand decrease in the labor force to 1 million 447 thousand. The decline in the labor force was largely explained by the decrease in the number of persons in employment. At the same time, the number of persons in unemployment increased by 14 thousand, or 20.5 percent, compared with the same period of the previous year, reaching 79 thousand. By reason for unemployment, the number of unemployed persons experiencing temporary unemployment increased by 14.4 thousand, reaching 38.9 thousand. This was mainly driven by an increase of 6.6 thousand in the number of persons who were studying or planning to pursue further studies, and 5.1 thousand in those engaged in seasonal work. In contrast, the number of unemployed persons who were not able to find a job suited to their profession, were pregnant or taking care of a baby, or had low earnings decreased by a total of 5.9 thousand compared with the same period of the previous year.

16. **Youth employment is declining.** The youth unemployment rate, calculated as the number of unemployed persons aged 15–24 as a share of the labor force in the same age group, reached 22.1 percent in the first half of 2026, increasing by 13.4 percentage points compared with the same period of the previous year. This was 16.6 percentage points higher than the overall unemployment rate and represented the highest level in the past five years. The increase in youth unemployment was driven by a rise of 12.6 thousand in the number of unemployed young people, reaching 24.8 thousand, alongside a decline of 28.0 thousand in the youth labor force compared with the same period of the previous year. In addition, of the 14 thousand increase in the total number of unemployed persons, 11.8 thousand were men, of

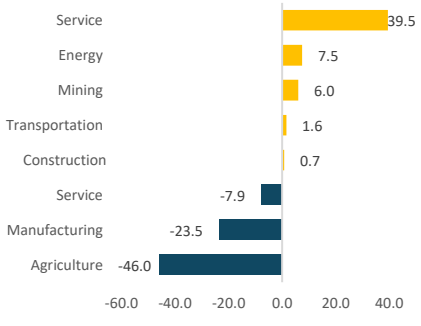
Figure 13.3. Labor market

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



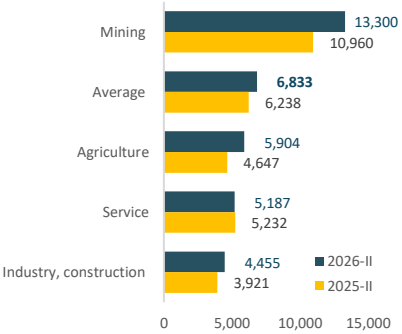
Source: NSO

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



Source: NSO

3. Labor productivity, by sector (MNT thousands)



Source: NSO

whom 8.9 thousand, or 75.4 percent, were aged 15–24.

17. The number of persons outside the labor force increased. The number of persons outside the labor force increased by 9.4 thousand, or 1.0 percent, year-on-year to 906.2 thousand. By reason, the number of persons who study, are retired, are elderly, and have disabilities increased by 53.8 thousand compared with the same period of the previous year. In contrast, the number of persons outside the labor force who were sick, pregnant, taking care of a baby, or taking care of patients or elderly persons decreased by 31.6 thousand compared with the same period of the previous year.

Looking at the composition of persons outside the labor force, the number of persons in the potential labor force, who are interested in working but whose efforts to seek employment were limited due to certain circumstances or who were unable to work immediately, increased by 25.9 thousand, or 106.9 percent, year-on-year. In contrast, the number of other persons outside the labor force decreased by 16.5 thousand, or 1.9 percent. This indicates that the share of persons who have an interest in and the potential to participate in the labor market has increased among persons outside the labor force.

18. Nominal average wages increased, while growth in real wages adjusted for the CPI remained subdued. In the second quarter of 2026, the monthly nominal average wage increased by 12.2 percent year-on-year, continuing the upward trend in wage levels in the labor market. By sector, although wages declined in agriculture and real estate, the average wage increase across sectors was 252 thousand tugrugs. In particular, the education and manufacturing sectors recorded the highest wage growth, at 26.6 percent and 25.7 percent respectively, compared with the same period of the previous year. Meanwhile, the real wage index grew by approximately 1 percent in the second quarter of 2026.

19. Labor productivity increased in most sectors. The overall level of labor productivity increased by 595 thousand tugrugs, or 9.5 percent, year-on-year to 6 million 833 thousand tugrugs. By sector, agriculture recorded the highest growth in labor productivity, with productivity increasing by 1 million 257 thousand tugrugs, or 27 percent, year-on-year. Labor productivity in the mining and quarrying sector and the construction sector also increased by 21.3 percent and 13.6 percent, respectively, supporting overall productivity growth.

In contrast, labor productivity in the services sector decreased by 46 thousand tugrugs.

20. Registered enterprise numbers rose. As of the second quarter of 2026, the Statistical Business Register listed 274.2 thousand enterprises, an increase of 2.9 thousand, or 1.1 percent, year-on-year. By operational status, the combined number of enterprises operating or yet to begin operations increased by 9.5 percent year-on-year, while the number that had temporarily or permanently ceased operations decreased by 10.0 percent.

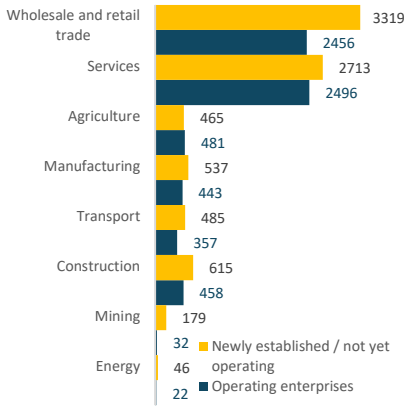
21. Growth in the number of enterprises in the trade and services sector accounted for the majority of the overall increase in enterprises. By sector, the number of newly established enterprises in the trade and services sector increased by 6.0 thousand year-on-year, while the number of operating enterprises increased by 5.0 thousand, together accounting for 72.7 percent of the overall increase in the number of enterprises. Specifically, the number of newly established and operating enterprises increased by 5.8 thousand in wholesale and retail trade, by 1,123 in professional, scientific and technical activities, by 642 in accommodation and food service activities, and by 1,091 in other service activities. These sectors accounted for the majority of the overall increase in the number of enterprises. Meanwhile, the average wage of persons in employment in the trade and services sector increased by 9.3 percent year-on-year.

22. **The number of active enterprises increased across other sectors.** Compared with the same period of the previous year, the number of actively operating and newly established enterprises increased in the mining, transportation, construction, and manufacturing sectors. Specifically, in the mining sector, the number of active enterprises increased by 32, while the number of newly established enterprises increased by 179. In the construction sector, the number of active enterprises increased by 458 and newly established enterprises by 615. In manufacturing, the number of active enterprises increased by 443, while the number of newly established enterprises increased by 537.

23. **The number of small enterprises operating in trade and services sector increased.** Of the 119.1 thousand operating enterprises registered in the Statistical Business Register, 87.1 percent, or 103.7 thousand enterprises, have 1–9 employees. The total number of enterprises increased by 6.7 thousand year-on-year, of which 6.6 thousand were small enterprises with 1–9 employees. Meanwhile, the number of enterprises with 10–19 employees reached 7.0 thousand, an increase of 143 enterprises year-on-year. This increase was driven by a rise in the number of enterprises operating in agriculture, services, and manufacturing sector. In contrast, the number of operating enterprises with 20–49 employees decreased by 15, while the number of enterprises with 50 or more employees decreased by 14.

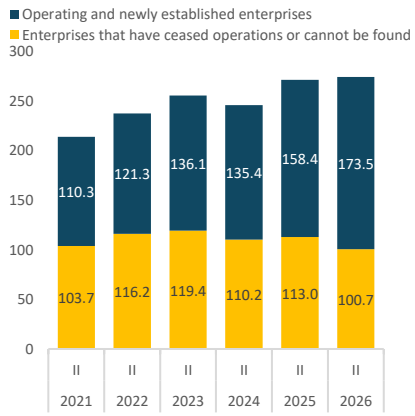
Figure 1.4. Enterprises

1. Change in the number of enterprises operating and newly established by sector
(the number of enterprise)



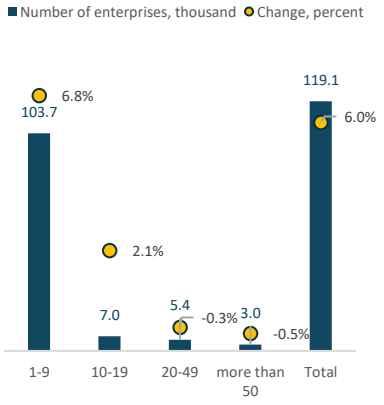
Source: NSO

2. Total enterprises
(thousand)



Source: NSO

3. Change in the number of operating enterprises, by number of employees



Source: NSO

1.4. Business cycle

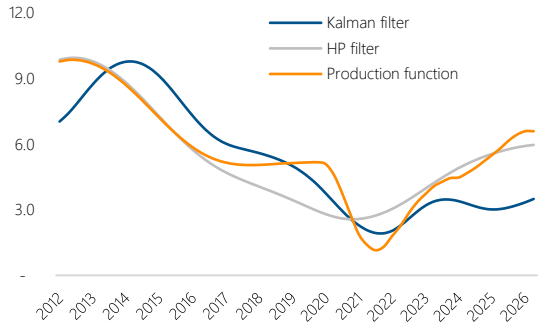
24. **Potential output growth remained broadly stable at around 5-6 percent, supported by productivity gains despite weaker fixed capital accumulation.** In the first half of 2026, investment in residential buildings and biological assets increased, while continued declines in machinery and equipment investment, together with lower investment in other structures, constrained growth in gross fixed capital formation. Meanwhile, strong mining activity continued to support total factor productivity growth, offsetting the impact of slowing labor input. As a result, potential output growth remained broadly unchanged from the previous quarter at around 5-6 percent.

25. **Stronger mining sector growth and sustained service sector activity pushed output above its potential level.** Coal production increased and export activity remained strong in the mining sector during the first half of 2026. As a result, higher sectoral revenues and increased activity on the commodity exchange supported mining output above its potential level. In addition, sustained activity in the service sector kept the output gap in the non-mining economy positive. Consequently, overall output was estimated at 2.9 percent above its potential level.

Figure 1.5. Output gap

1. Potential GDP growth

(percentage)

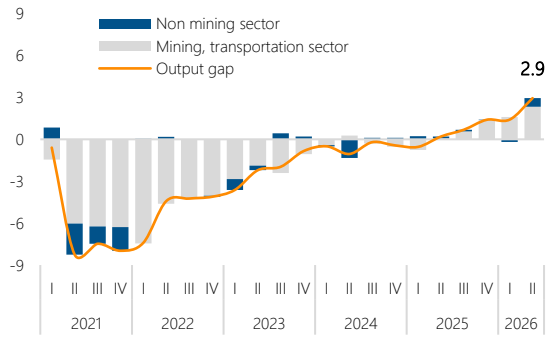


Source: Estimation of the MED

Note: Potential output growth is calculated by 3 different approaches HP filter, Kalman filter and Production function

2. Output gap

(percent of potential output)



Source: Estimation of the MED

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

Box 2. Consumer confidence index

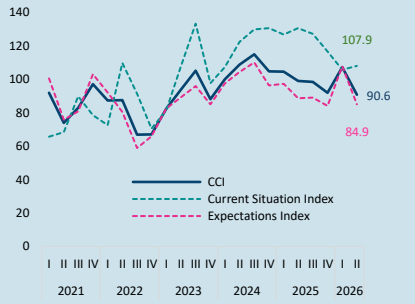
Consumer confidence weakened in the second quarter of 2026, with the Consumer Confidence Index declining by 8.3 points year-on-year to 90.6. The Consumer Confidence Index (CCI), calculated by the National Research and Consulting Center (NRCC Co. Ltd) and the Japan-Mongolia Center for Human Resource Development, measures consumers' perceptions of overall economic conditions and household financial circumstances. 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 decline in the CCI to 90.6 in the second quarter of 2026 was mainly driven by a decrease in consumers' assessment and expectations of current and future labor market conditions.

1. Current Situation Index: *Consumers' assessment of business conditions and job availability declined, resulting in a 22.6-point year-on-year decrease in the Current Situation Index.* This index measures consumers' perceptions of the current economic situation based on business conditions and job availability. In the second quarter of 2026, the Current Situation Index declined to 107.9, mainly due to a 10-point decrease in the share of consumers who rated job availability as "good" compared with the same period of the previous year. Meanwhile, the share of consumers who rated business conditions as "good" decreased by 2 points, while the share who rated them as "poor" increased by 4 points.

2. Expectations Index: *Consumers' expectations regarding economic conditions over the next six months deteriorated, resulting in a 3.7-point year-on-year decrease in the Expectations Index.* The Expectations index measures citizens' outlook on near-term economic conditions based on business conditions, job availability, and income expectations. In the second quarter of 2026, the Expectations Index declined to 84.9, mainly due to declines of 4, 8, and 2 percentage points, respectively, in the shares of consumers who expected business conditions, job availability, and income to be "good" over the next six months, compared with the same period of the previous year.

Figure 1.6. Consumer Confidence Index
(2018=100)



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.

Figure 1.7. Consumer Confidence Index Components

	2025.II	2026.II	Change
CURRENT SITUATION INDEX ▼			
Business conditions			
Good	10	8	-2▼
Normal	43	41	
Bad	47	51	4▼
Job availability			
Good	36	26	-10▼
Normal	34	44	
Bad	29	29	0
EXPECTATIONS INDEX ▼			
Business conditions			
Good	15	11	-4▼
Normal	56	62	
Bad	25	25	0
Job availability			
Good	23	15	-8▼
Normal	55	68	
Bad	19	16	-3▲
Income expectations			
Good	23	21	-2▼
Normal	57	68	
Bad	18	11	-7▲

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

Box 3. Mongolia's 2027 Development Plan

At the plenary session of the State Great Khural (Parliament) held on June 2, 2026, the draft resolution of the State Great Khural on the approval of Mongolia's 2027 Development Plan was discussed and adopted.

This planning document is designed to achieve the national, sectoral, and budget governor-level outcomes set out in the Five-Year Development Guidelines for Mongolia for 2026–2030. It comprises eight policy areas: "Human Development"; "Social Development and National Unity and Shared Values"; "Economic and Infrastructure Development"; "Environment and Green Economy"; "Public Sector Productivity and Governance"; "Regional Development"; "National Competitiveness"; and "Science, Technology, and Artificial Intelligence."

The Government of Mongolia will effectively implement its "Liberation" initiative and its four pathways to freedom, encompassing economic liberalization, legal and regulatory liberalization, green development liberalization, and anti-corruption liberalization.

1. Economic liberalization: Reduce lending interest rates, strengthen competition in financial markets, reduce state intervention, support the private sector, establish a stable and liberal business environment, implement tax and fiscal reforms, promote employment and production, and strengthen national economic resilience to withstand potential risks with minimal losses.
2. Legal and regulatory liberalization: Simplify the permitting system, digitize public services, restructure the civil service, improve decision-making, reduce bureaucracy, address gaps in learners' knowledge and skills, and modernize and improve the transparency of the healthcare system.
3. Green development liberalization: Reduce energy dependence by expanding distributed renewable energy sources, including household solar panels, battery storage systems, and small-scale solar power generation. Develop green infrastructure, create new opportunities to increase household incomes, and establish green data centers.
4. Anti-corruption liberalization: Support the information technology industry, develop domestic artificial intelligence capabilities, introduce data-driven decision-making, enhance e-governance and transparency, strengthen accountability mechanisms and the justice system, and gradually eliminate regulations that exceed or contradict the law.
5. A United Nations regional training and research center for the Asia-Pacific region will be established in Ulaanbaatar. The center is expected to strengthen Mongolia's role in promoting human rights education in the region and enhance the country's position as a hub for the human rights community, National Human Rights Institutions (NHRIs), civil society organizations, academic institutions, and research organizations. The initiative is also expected to support knowledge exchange, strengthen regional cooperation, and contribute to tourism and related economic activity.

CHAPTER II

FISCAL SECTOR

2.1. Budget performance

2.2. Fiscal policy

2.3. Government debt sustainability

2. FISCAL SECTOR

OVERVIEW

Total consolidated budget revenue reached MNT 16.9 trillion in the first half of 2026, up MNT 2.8 trillion (20.1 percent) year on year. Growth was driven primarily by stronger collections of value-added tax, personal income tax, and social insurance contributions. Structural revenue amounted to MNT 14.6 trillion in the first half of 2026, falling MNT 1.4 trillion (9.0 percent) short of the MNT 16.1 trillion target.

On the expenditure side, current expenditures rose, driven by higher civil servant salaries and pension payments from the Social Insurance Fund, which were adjusted in line with inflation. Total budget expenditures reached MNT 16.8 trillion, marking a 20.0 percent increase year-over-year. As a result, the structural balance recorded a deficit of MNT 2.1 trillion.

2.1. Budget performance

26. The structural balance recorded a deficit. In the first half of 2026, total consolidated budget revenue reached MNT 16.9 trillion, equivalent to 48 percent of the annual revenue target. Revenue increased by MNT 2.8 trillion (20.1 percent) year on year. Total expenditure rose by 20.0 percent to MNT 16.8 trillion, resulting in an overall balance surplus of MNT 0.1 trillion and the structural balance deficit of MNT 2.2 trillion.

27. The share of mineral royalties allocated to the Future Heritage Fund was increased in stages to 65 percent in 2026, boosting revenue accumulation. Driven by rising global demand for copper and higher copper prices, total royalties reached MNT 2.7 trillion in the first half of 2026, up MNT 1.3 trillion (1.9 times) compared with the same period of the previous year. As a result, royalty revenues allocated to the Future Heritage Fund (FHF) rose to MNT 1.4 trillion, up MNT 1.0 trillion (3.1 times) year-on-year. Previously, 20–40 percent of mineral royalty revenues were allocated to the FHF. However, since the beginning of 2026, the allocation rate has increased to 65 percent, boosting the Fund's accumulated assets and contributing positively to revenue growth. Consequently, the National Wealth Fund's accumulated assets reached MNT 1.7 trillion, up MNT 1.1 trillion (2.9 times) from the same period last year.

The Fiscal Stabilization Fund receives additional revenue arising from the difference between market prices for major mineral commodities and the structural prices used in the annual budget. The 2026 budget assumed a structural copper price of USD 8,341 per tonne. Market prices are currently approximately 60 percent above this benchmark. As a result, revenue accumulated in the Fund reached MNT 0.5 trillion in the first half of 2026, increasing 2.1 times compared with the same period of the previous year.

Structural revenue reached MNT 14.6 trillion in the first half of 2026, up MNT 1.4 trillion, or 10.7 percent, year on year. Growth was driven primarily by stronger collections of social insurance contributions and value-added tax.

28. Wage increases supported growth in personal income tax and social insurance revenue. Effective January 1, 2026, wages for teachers, doctors, and workers were increased by 30–50 percent, while the Government revised minimum pay levels for employees in selected public service sectors. These measures expanded the wage base subject to social insurance contributions, helping social insurance revenue reach MNT 3.0 trillion in the first half of 2026, up MNT 415.8 billion (16.2 percent) year on year.

Despite a decline in employment in the first half of 2026, wage growth boosted personal income tax revenue to MNT 1.6 trillion, up MNT 216.7 billion, or 15.5 percent, year on year.

29. Value-added tax collections increased year on year. Value-added tax revenue reached MNT 3.2 trillion in the first half of 2026, up 11.7 percent year on year. VAT on imports contributed 7.7 percentage points to revenue growth, domestic VAT contributed 4.9 percentage points, and VAT refunds contributed −0.9 percentage points. Higher fuel prices boosted VAT and customs duty receipts on imports during the first half of 2026, contributing to higher VAT collections. VAT receipts on imports reached MNT 2.2 trillion, up MNT 222.2 billion (11.4 percent) year on year, while domestic VAT receipts rose by 11 percent to MNT 1.4 trillion.

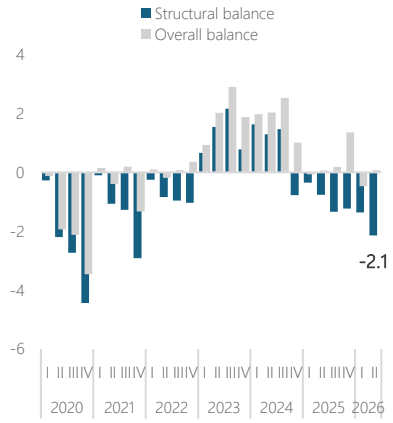
30. The decline in passenger car imports continued to put pressure on excise tax revenue. Excise duties on passenger cars account for approximately 50 percent of total excise tax revenue. Restrictions on the issuance of vehicle registration plates in the capital were introduced in 2024, prompting a surge in passenger car imports

toward the end of that year and increasing market supply. Import volumes subsequently declined in 2025, weighing on excise tax collections, and this trend continued into 2026. In the first half of 2026, passenger car import volumes fell by 31.5 percent year on year, while import values also declined. Excise tax receipts from passenger cars fell by 38.2 percent to MNT 188.7 billion. This was the principal driver of the decline in total excise tax revenue to MNT 438.3 billion, down MNT 114.7 billion, or 20.7 percent, year on year.

To mitigate the revenue decline and broaden the tax base, the Government secured parliamentary approval of an amendment to the Law on Excise Tax on June 26, 2026. The amendment introduces an additional excise duty of 33 percent on the portion of an imported vehicle's customs value exceeding MNT 360 million. This measure is expected to offset the decline in excise tax revenue and support revenue performance.

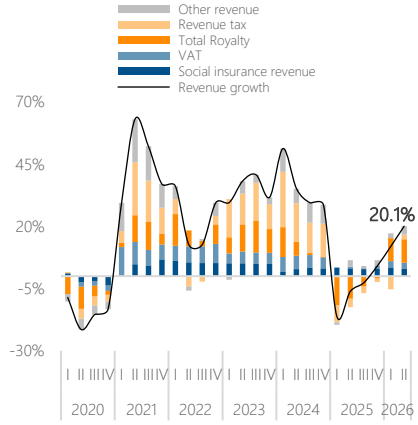
Figure 2.1. Budget revenue

1. Budget balance
(trillion MNT)



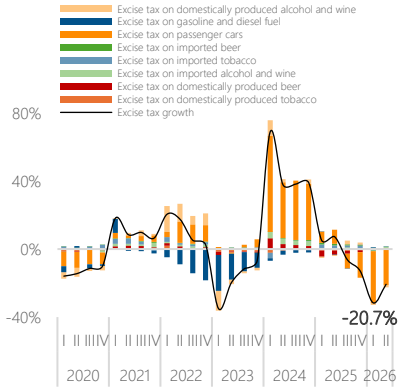
Source: MOF

2. Share of tax revenue growth by type
(percent)



Source: MOF

3. Share of excise tax revenue growth by type
(percent)



Source: MOF

31. The increase in salaries and pensions, aimed at protecting households' real incomes, was the primary driver of growth in total expenditure. In the first half of 2026, current budget expenditures reached MNT 13.9 trillion, an increase of MNT 1.7 trillion, or 14.1 percent, compared to the same period of the previous year. Of total current expenditures, 30.8 percent (MNT 4.3 trillion) was allocated to salaries and wages of public sector employees, while 33.3 percent (MNT 4.6 trillion) was allocated to social insurance and social welfare pensions and benefits. Specifically, under Government Resolution No. 135 of 2026, the minimum salary levels for public service positions in the health sector were revised, while Government Resolution No. 151 introduced revisions to the minimum salary levels for public service positions in the science and education sectors The salary adjustments, which took effect on May 1, 2026, were the primary driver of the increase in wage expenditure and, consequently, recurrent government expenditure, as the additional costs arising from these adjustments were accommodated within the approved budget.

32. Child allowance accounted for around 60 percent of social welfare expenditure. The 2026 Budget Law allocated MNT 2.6 trillion for social welfare pensions and benefits, of which MNT 1.3 trillion had been spent by the end of the first half of 2026, representing an execution rate of 50 percent. Of the total expenditure, MNT 773.6 billion was allocated to child allowance, accounting for around 60 percent of social welfare pension and benefit expenditure. These benefits were provided to 1,284.0 thousand children, underscoring the

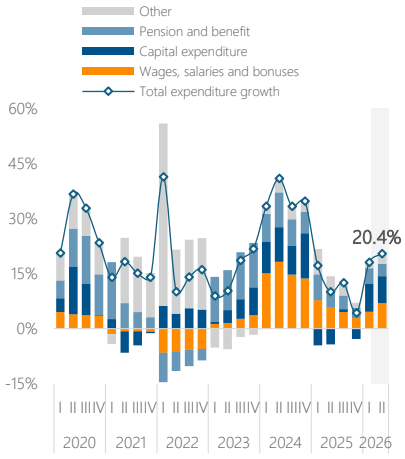
significant share of child money benefits in total social welfare expenditure. Social welfare pension expenditure amounted to MNT 165.9 billion in the first half of 2026. Of this amount, 61 percent was spent on pensions for people with disabilities, 26 percent on benefits for children under the age of 18 who had lost a breadwinner, and 13 percent on other pensions.

33. The fiscal burden of government debt servicing increased compared with the same period of the previous year. Interest payments amounted to MNT 792.4 billion in the first half of 2026, an increase of MNT 51.2 billion, or 6.9 percent, year on year. Of the total, MNT 597.8 billion was paid in interest payments on external debt, while MNT 194.6 billion on domestic debt. Under the 2026 Budget Law, MNT 1.3 trillion was allocated for total interest payments, equivalent to 3.9 percent of total budget expenditure. By the end of the first half of 2026, budget execution for interest payments had reached 61.0 percent of annual allocation.

34. The majority of budgetary subsidies were allocated to cover public transport operating losses. In the first half of 2026, total subsidies from the consolidated budget amounted to MNT 554.3 billion, representing an increase of MNT 119.6 billion, or 21.6 percent, compared with the same period of the previous year. Subsidies to private-sector entities totaled MNT 455.1 billion, an increase of 15.1 percent year on year, while subsidies to state-owned entities amounted to MNT 109.2 billion, a decline of 47.9 percent. By category, subsidies to cover public transport operating losses reached MNT 207.1 billion, up 15.9 percent year on year, while interest subsidies amounted to MNT 65.3 billion, representing an increase of 75.1 percent. Despite the introduction of a revised public transport fare arrangement in January 2025, which set the daily fare at MNT 1,000 and allowed passengers to make up to four trips per day without time restrictions, budgetary subsidies to cover public transport operating losses have continued to rise.

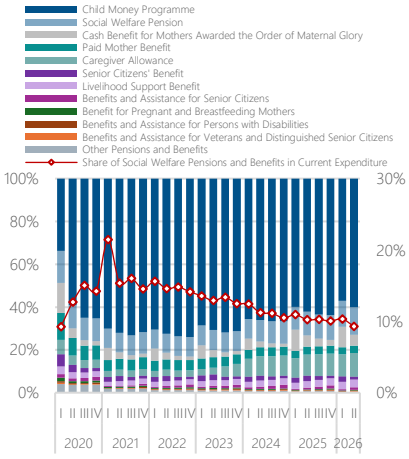
Figure 2.2. Budget expenditures

1. Budget expenditure by economic classification
(percentage point)



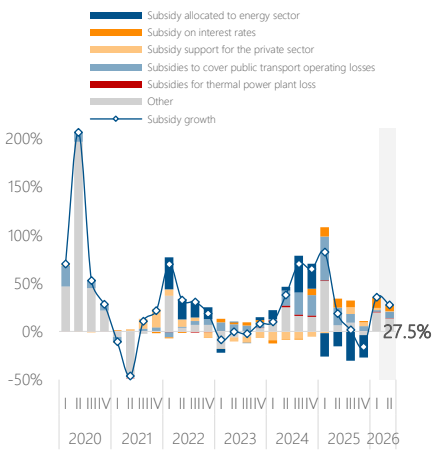
Source: Estimation of MED, MOF
Note: The growth rate of the consolidated budget expenditures was determined by the quarterly increase.

2. Social welfare pension and allowances
(percent)



Source: Estimation of MED, MOF
Note: The share of social welfare pensions and benefits in total consolidated budget current expenditure was calculated quarterly, by expenditure classification.

3. Growth in total budget subsidies provided from the budget by purpose
(percentage point)

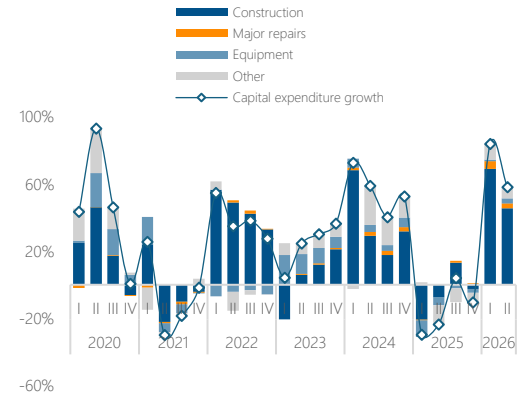


Source: Estimation of MED, MOF
Notes: The distribution of subsidies provided by the consolidated budget to state-owned and private organizations is calculated as a percentage of the annual growth in total subsidies.

35. Expenditure on construction and equipment increased compared with the same period last year. In the first half of 2026, consolidated budget investment expenditure reached MNT 2.7 trillion, an

increase of 58.2 percent year on year. By economic classification, 73.1 percent of investment expenditure was allocated to construction, 14.9 percent to other assets, 6.9 percent to equipment, and 4.6 percent to major repairs. Expenditure on construction and major repairs increased by 65.0 percent compared with the same period last year, making the largest contribution to the growth in capital expenditure. A total of MNT 3.1 trillion was planned for consolidated budget investment expenditure for the first half of 2026, with the execution rate reaching 90.8 percent. Construction and equipment performance has declined year-on-year.

Figure 2.3. Investment expenditure growth
(percentage point)



Source: Estimation of MED, MOF
Note: The investment expenditure for the current quarter was calculated as an increase from the same period last year.

2.2. Fiscal policy

36. A countercyclical fiscal contractionary policy is being implemented. Fiscal policy should maintain a countercyclical stance aimed at ensuring economic stability by supporting economic activity during periods of economic contraction through increased government expenditure and tax reductions, while during periods of economic overheating, reducing budget expenditure and saving revenue gains to prepare for potential crises. To analyze how fiscal policy contributes to macroeconomic stabilization, the impact of fiscal policy is separated from the overall balance. Figure 2.3 decomposes the fiscal balance into three components: the fiscal stance, which reflects the impact of discretionary fiscal policy; automatic stabilizers, which capture the effects of economic cycles independent of fiscal policy measures; and interest payments, which represent debt service obligations that must be paid according to schedule regardless of economic conditions.

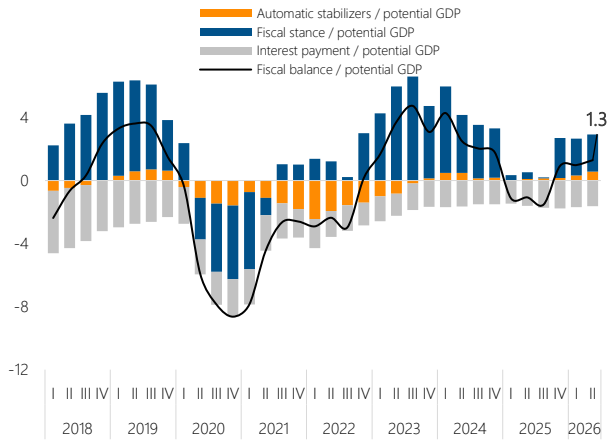
Figure 2.3 shows the impact of fiscal policy on the budget balance by fiscal stance, the impact of the economic cycle independent of fiscal policy by automatic stabilizers, and the impact of debt service payments by interest payments.

In the first half of 2026, the overall balance recorded a surplus equivalent to 1.3 percent of potential GDP. The fiscal stance and automatic stabilizers contributed positively by 2.4 and 0.6 percentage points, respectively, while interest payments had a negative impact equivalent to 1.6 percentage points. Compared with the same period last year, the fiscal stance strengthened by 0.1 percentage points, and the fiscal contractionary policy continued.

37. The recovery in mining sector production led to increased economic activity, resulting in a positive impact from automatic stabilizers on the budget. Economic output remained at its potential level in the first half of 2026, primarily supported by growth in the mining and transportation sectors. Consequently, the impact of automatic stabilizers, independent of fiscal policy, reached MNT 144.7 billion, equivalent to 0.6 percentage points in the first half of 2026, an increase of 0.5 percentage points compared to the same period of the previous year.

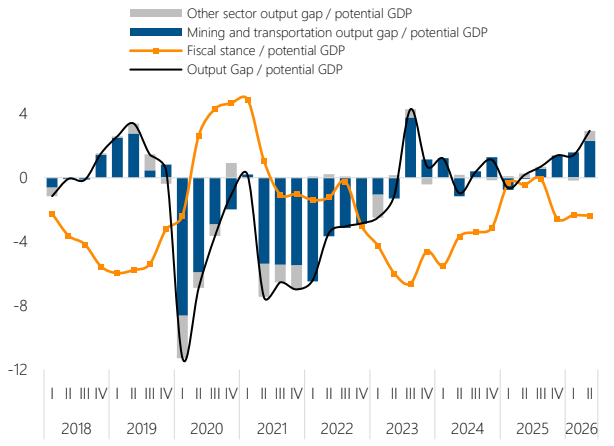
Figure 2.3. Fiscal balance and fiscal stance

1. Fiscal balance
(share of potential GDP)



Source: Estimation of MED, MOF

2. Fiscal stance
(share of potential GDP)



Source: Estimation of MED, MOF

2.3. Government debt sustainability

38. The nominal outstanding balance of government debt has increased. As of the first quarter of 2026, the nominal outstanding balance of government debt reached 35.8 trillion MNT, equivalent to 37.5% of GDP, up 1.2 trillion MNT (3.4 percentage points) from the same period of the previous year.

The composition of government debt is dominated by external borrowing instruments. External loans accounted for 63.9 percent of total government debt, followed by external securities at 25.5 percent, domestic securities at 3.0 percent, while the other liabilities accounted for the remaining 7.7 percent.

Table 2.1. Outstanding Government Debt, Q2 2026 (billion MNT)

Debt Instrument	2025.II	2026.II
Government Domestic Debt	562.8	1,107.9
Government External Debt	32,219.3	32,198.9
Securities	*9,053.9*	*9,052.1*
Loans	*23,165.4*	*23,146.8*
Other Government Debt	2,751.4	2,911.3
Debt Guarantees	*176.2*	*157.5*
Local Borrowing	*2,575.2*	*2,753.8*
Total Debt	35,533.5	36,218.1

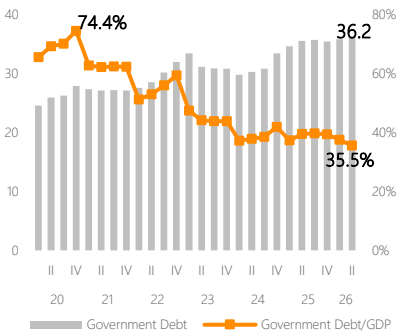
39. Domestic and local government borrowing contributed to the increase in government debt. The increase was mainly driven by a rise in the outstanding balance of domestic securities, which reached 1.1 trillion MNT as of the second quarter of 2026, up by 545.1 billion MNT (96.9%), compared to the same period of the previous year. Local government borrowing and exchange rate fluctuations also contributed to the increase.

40. The domestic government securities (DGS) market is recovering. Objective 4 of the Government Debt Management Strategy for 2026–2028 states that "regularizing the trading of domestic and external government securities and establishing benchmark interest rates will increase businesses' access to financing from financial markets and broaden the investor base." In this context, the Government launched open trading of domestic government securities through the Mongolian Stock Exchange on April 16, 2025.

The launch of open trading of domestic government securities is important for establishing a risk-free yield curve in MNT in the domestic market, enabling businesses to raise funds from the domestic market at more realistic and relatively lower interest rates, and increasing the number of domestic and foreign investors in the capital market. As of August 19, 2026, a total of 170.0 billion MNT in securities had been traded through open trading. Short-term securities were traded at an average interest rate of 9.4%, while medium- and long-term securities were traded at interest rates ranging from 10.1% to 13.9%.

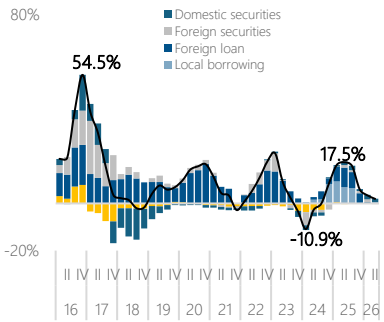
Figure 2.4. Government debt

1. Government debt
(left axis: MNT trillion, right axis: percent)



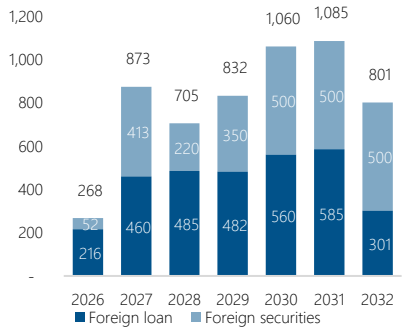
Source: MOF

2. Government debt composition, annual growth (percent)



Source: Estimation of MED, MOF

3. Government external debt repayment schedule (USD million)



Source: MOF

As of the second quarter of 2026, the outstanding balance of domestic government securities had reached 1,107.9 billion MNT. Of this amount, 97.1 billion MNT represented securities issued to finance the "Good Shares" program, 240.3 billion MNT represented securities traded through the Mongolian Stock Exchange to support the development of the domestic securities market, and 770.6 billion MNT represented securities issued to cover seasonal cash shortages.

41. No new external government securities were issued in the second quarter. Objective 4 of the Government Debt Management Strategy for 2026–2028 also states that "the Government will regularly implement refinancing measures for external government securities and repay amounts, where feasible, using Treasury cash balances, while refraining from issuing securities to finance projects, programs, or the budget deficit." In line with this strategy, the Government of Mongolia successfully issued the "Century-V" bond in international financial markets in the first quarter of 2026, raising USD 500 million with a maturity of six years and an interest rate of 5.95%.

The issuance of this bond created an opportunity to improve the debt structure and reduce interest costs by refinancing the "Nomad" bond, which matures in 2026 and carries an interest rate of 5.125%, and the "Century-2" bond, which matures in 2028 and carries an interest rate of 8.65%.

42. The outstanding balance of external government loans remained at the same level as the corresponding period of the previous year. Since 1991, the Government of Mongolia has received and utilized USD 10.5 billion in loans from international financial institutions and bilateral partner countries for a total of 351 projects and programs. As of the first half of 2026, the nominal outstanding balance stood at USD 6,467.8 million, equivalent to MNT 23,146.8 billion.

By creditor, as of the second quarter of 2026, loans from multilateral creditors amounted to MNT 12,064.9 billion, of which the Asian Development Bank accounted for 63.0% and the World Bank for 25.0%. Meanwhile, loans from bilateral creditors amounted to MNT 11,081.9 billion, of which China accounted for 36.2% and Japan for 24.2%.

43. The outstanding balance of local government borrowing remained at the same level as the corresponding period of the previous year. According to Article 4.1.8(a) of the Fiscal Stability Law, payment obligations incurred by provinces and the capital city to third parties through debt instruments are classified as government debt. As of the second quarter of 2026, the outstanding balance of local government securities amounted to MNT 2,753.8 billion, comprising the following borrowings:

Securities issued to finance the Buuruljuut Thermal Power Plant construction project, road repair and maintenance, and the sanitation collector facility project: MNT 500.0 billion, issued at interest rates of 12–14% with maturities of 1–3 years, of which MNT 200.0 billion has been repaid.

Securities issued to finance the Battery Energy Storage System (BESS) project: MNT 298.0 billion, issued to the International Finance Corporation (IFC) at an interest rate of 13.8% (equivalent to 8.3% in USD) with a maturity of five years, of which MNT 45.4 billion has been repaid.

Securities issued to finance the Selbe subcenter-based ger area housing project: USD 500.0 million, issued with a government debt guarantee at an interest rate of 7.75% and a maturity of 2.75 years.

Securities issued by the Capital City Governor's Office to finance the Thermal Power Plant No. 5 (TPP-5) project: MNT 200.0 billion, issued at an interest rate of 14.0% with a maturity of three years.

Securities issued by the Umnugovi province Governor's Office to finance the construction of a 50 MW thermal power plant in Dalanzadgad: MNT 150.0 billion, issued at an interest rate of 16.0% with a maturity of two years.

As of the first half of 2026, the Capital City Governor's Office had repaid MNT 129.8 billion in principal and MNT 107.0 billion in interest.

44. The nominal outstanding balance of government guarantees remained at the same level as the corresponding period of the previous year. As of the second quarter of 2026, the outstanding balance amounted to MNT 157.5 billion, representing the outstanding loan balance of the Development Bank of Mongolia borrowed to finance the Choibalsan Thermal Power Plant expansion project.

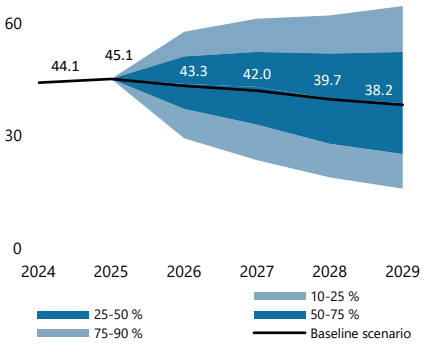
In accordance with Resolution No. 90 of the State Great Khural dated November 10, 2023, and Government Resolution No. 133 dated March 27, 2024, a government debt guarantee was issued to the Development Bank of Mongolia on May 6, 2024, to finance the project to expand the Choibalsan Thermal Power Plant by 50 MW, using a CNY 420 million loan from the China Development Bank. The expansion of the thermal power plant was commissioned on June 6, 2024.

45. Government external debt repayments remain high. According to the external debt repayment schedule, debt service payments are expected to amount to USD 267.6 million in 2026, USD 972.8 million in 2027, and an annual average of USD 800.0 million in 2028–2029. Although the burden of government external debt has steadily declined since 2021, it is projected to increase from 2030 onward. Therefore, it is important to increase foreign exchange reserves, mitigate risks arising from exchange rate fluctuations, and direct external borrowing toward projects and activities that generate economic returns.

46. Government debt remains sensitive to macroeconomic shocks and changes in baseline assumptions over the medium term. The sensitivity of the medium-term government debt outlook to key macroeconomic indicators was assessed through a debt sustainability analysis (DSA). Under the baseline debt dynamics projections, assuming real GDP growth of 5.4 percent, 5.8 percent, 6.0 percent, and 6.3 percent in 2026–2029, respectively, exchange rate depreciation at the average level of the past 10 years, and the GDP deflator and primary balance remaining around their projected levels, government debt is expected to gradually decline to 38.2 percent of GDP by 2029. To illustrate uncertainty in debt dynamics, annual shocks of one standard deviation were applied to key indicators starting in 2026, and the results were presented in a fan chart. The gap between the most optimistic (5th percentile) and most adverse (95th percentile) debt projection scenarios widens significantly, from 36.4 percentage points in 2026 to 70.1 percentage points five years later. This indicates that government debt remains highly sensitive to macroeconomic uncertainty and shocks.

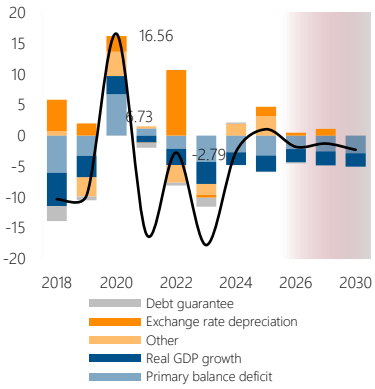
Figure 2.5. Government Debt Sustainability

1. Distribution of Government Debt Projections (share of GDP)



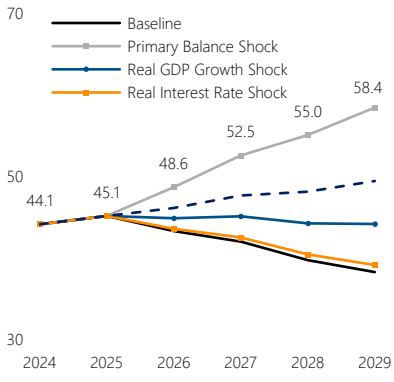
Source: Estimation of MED

2. Determinants of Government Debt Sustainability (percentage change)



Source: Estimation of MED

3. Determinants of Government Debt (share of GDP)



Source: Estimation of MED

47. Government debt remains sensitive to macroeconomic shocks and changes in baseline assumptions over the medium term. The sensitivity of the medium-term government debt outlook to key macroeconomic indicators was assessed through a debt sustainability analysis (DSA). Under the baseline debt dynamics projections, assuming real GDP growth of 5.4 percent, 5.8 percent, 6.0 percent, and 6.3 percent in 2026–2029, respectively, exchange rate depreciation at the average level of the past 10 years, and the GDP deflator and primary balance remaining around their projected levels, government debt is expected to gradually decline to 38.2 percent of GDP by 2029. To illustrate uncertainty in debt dynamics, annual shocks of one standard deviation were applied to key indicators starting in 2026, and the results were presented in a fan chart. The gap between the most optimistic (5th percentile) and most adverse (95th percentile) debt projection scenarios widens significantly, from 36.4 percentage points in 2026 to 70.1 percentage points five years later. This indicates that government debt remains highly sensitive to macroeconomic uncertainty and shocks.

48. The primary balance and real GDP growth have a significant impact on government debt sustainability. The factors affecting government debt were assessed using debt dynamics analysis. In 2026, the debt-to-GDP ratio is projected to decline by 1.8 percentage points. The primary balance deficit and real GDP growth contributed positively by 2.2 and 2.3 percentage points, respectively, while exchange rate depreciation contributed 0.9 percentage points. In contrast, the real interest rate and relative inflation had a negative impact of 1.0 percentage point. Going forward, real GDP growth, the primary balance deficit, and exchange rate fluctuations are expected to remain key determinants of government debt sustainability.

CHAPTER III

MONETARY SECTOR

3.1. Inflation and monetary policy

3.2. Financial sector

3. MONETARY SECTOR

OVERVIEW

Inflation accelerated to 12.0 percent in the first half of 2026. Although demand-driven inflation gradually moderated, supply-side inflationary pressures intensified due to rising prices of food products, including meat and vegetables. Meanwhile, money supply growth accelerated, driven by an increase in net foreign assets, while credit growth slowed. Credit growth at non-bank financial institutions remained strong.

3.1. Inflation

49. In June 2026, inflation reached 12.0 percent, remaining above the central bank's target range. Inflation increased by 3.8 percentage points compared with the same period of the previous year. Of the 12.0 percent inflation rate, food contributed 6.8 percentage points, clothing and footwear 0.9 percentage points, the transport group 0.9 percentage points, and education services 0.8 percentage points.

50. Inflation of domestic goods and services showed an upward trend. In June 2026, imported goods inflation reached 6.0 percent, increasing by 1.0 percentage points compared to the same period of the previous year and accounting for 23.0 percent of the total inflation. Price increases for non-food items contributed 82.8 percent to imported inflation, particularly through higher prices for clothing and textiles, footwear, and fuel. Domestic goods and services inflation reached 17.2 percent in June 2026, accelerating by 6.1 percentage points year-on-year and contributing 77.0 percent to the total inflation. Service price inflation stood at 9.4 percent in the second quarter of 2026, moderating by 7.5 percentage points from the same period of the previous year. The moderation in service price inflation was mainly driven by the fading impact of the electricity tariff increase and the bus ticket price increase, and slower growth in housing rent prices.

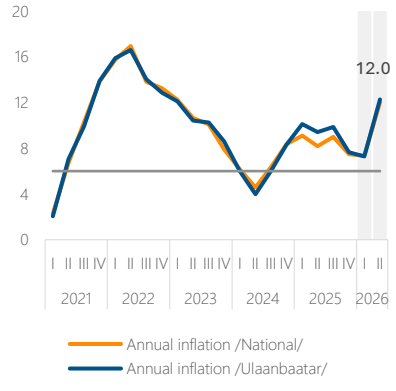
51. Supply-side inflation remains elevated. Supply-side inflation stood at 20.2 percent in June 2026, have accelerated by 13.0 percentage points year-on-year. The acceleration of supply-side inflation in recent months was mainly driven by a 24.8 percent year-on-year increase in food prices and a 51.6 percent rise in meat prices since the beginning of 2026. Demand-driven (core) inflation, which excludes food, fuel, heating fuel and energy, reached 6.8 percent in the second quarter of 2026, decelerating by 2.0 percentage points compared to the same period last year. Core inflation increased for four consecutive months, mainly driven by the moderation in the decline in passenger vehicle prices since March. Demand-driven inflation contributed to the total inflation, accounting for about 34.5 percent.

52. Inflation for non-food goods and services decelerated, while food inflation increased. As of the second quarter of 2026, non-food goods and services inflation reached 7.2 percent, decreasing by 2.0 percentage points compared to the same period of the previous year, mainly reflecting the fading base effect of the increase in household electricity tariffs, as well as slower growth in

Figure 33.1. Inflation

1. Annual inflation and target rate

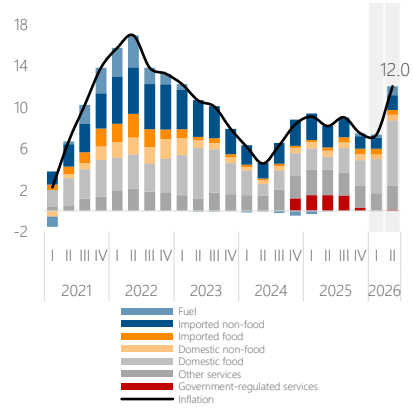
(percent)



Source: National Statistics Office
Note: Quarterly inflation rates are measured using the final month of each quarter.

2. Inflation components

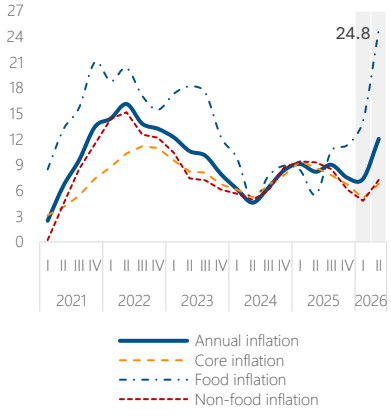
(percent)



Source: National Statistics Office
Note: Annual inflation contributions are shown for the goods and services groups with the largest contributions to inflation

3. Core inflation

(percent)



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

residential rent and solid fuel prices. Meanwhile, food inflation stood at 24.8 percent, up 19.1 percentage points compared to the same period of the previous year. Food inflation, which contributed 6.8 percentage points to total inflation, accelerated in the last quarter, mainly due to increases in the prices of meat and meat products and vegetables. In particular, prices of meat and meat products rose by 50.9 percent year-on-year, while vegetable prices increased by 26.6 percent. The increase in vegetable prices was mainly driven by lower agricultural yields resulting from adverse weather conditions. In 2025, total vegetable production declined by 15 percent year-on-year, while potato production decreased by 55 percent

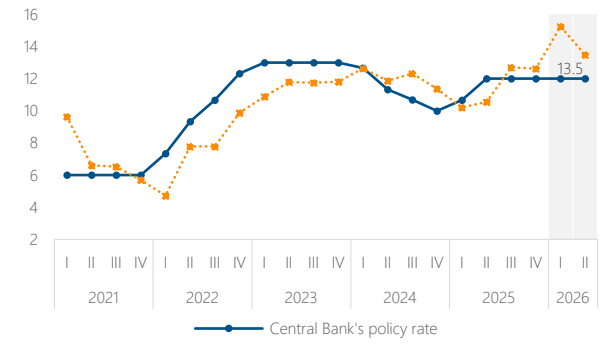
53. **The Drewry World Container Index and the FAO Food Price Index both increased.** Container shipping costs, which began to decline in the second half of 2025, have since risen again amid the conflict in the Middle East. As of the end of June 2026, the world shipping cost for a 40-foot container stood at USD 4,166, representing a 39.6 percent increase from the same period last year, and reaching 2.6 times its pre-pandemic level. The FAO food price index reached 130.3 at the end of the second quarter of 2026, increasing 1.8 percent year-on-year. In the global market, prices of vegetable oils, cereals, and meat increased, whereas prices of sugar and dairy products declined.

54. **The policy rate remained at an appropriate level.** The central bank maintained the policy rate at 12 percent throughout the first half of 2026. The optimal interest rate implied by the Taylor rule, which indicates the appropriate level of the policy rate, stood at 13.5 percent. The narrowing gap between the implied and actual policy rates suggests that the monetary policy stance has moved closer to an appropriate level. Meanwhile, in the second quarter of 2026, the tightening effect of the real exchange rate gap on monetary conditions increased compared with the previous quarter. Going forward, risks of higher inflation stemming from credit growth, geopolitical uncertainty, oil prices, and tariff policies remain elevated.

Figure 33.2. Taylor's Rule and monetary conditions index

1. Policy rate and Taylor's rule

(percent)

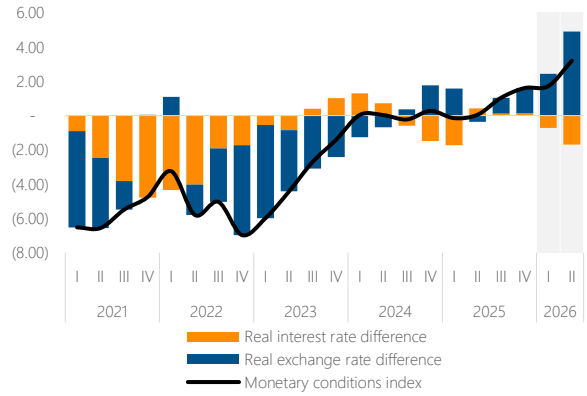


Source: MED estimation

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.

2. Monetary conditions index

(percent)

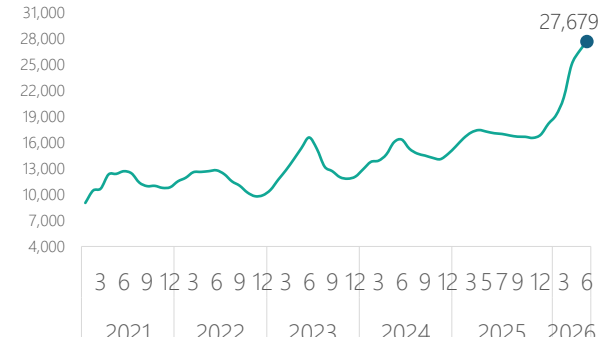


Source: MED estimation

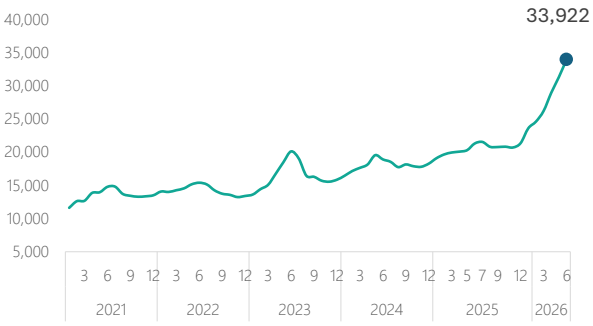
Note: The Monetary Conditions Index is an indicator that measures the impact of monetary policy in an economy. The Monetary Conditions Index was calculated using the GAP methodology of the Monetary Policy Analysis.

Figure 33.3. Prices of selected items

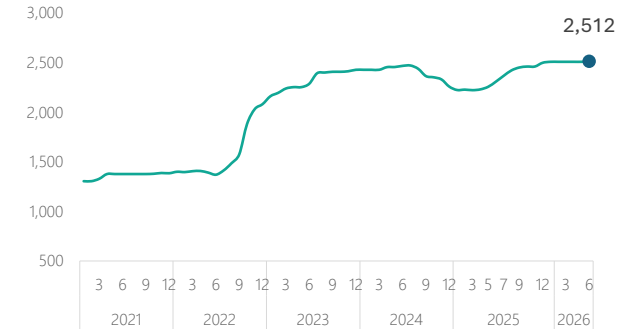
1. Mutton (kg/tugrik)



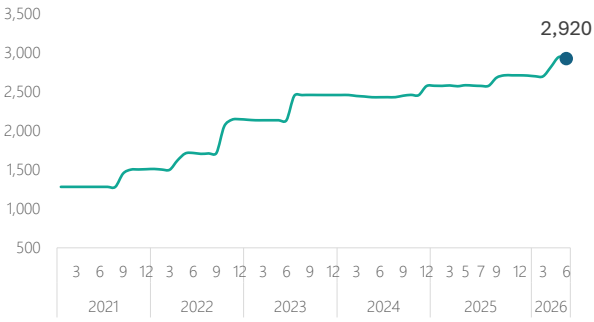
2. Beef (kg/tugrik)



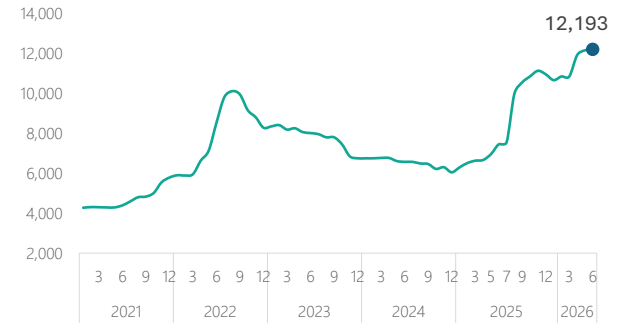
3. Flour, type 1 (kg/tugrik)



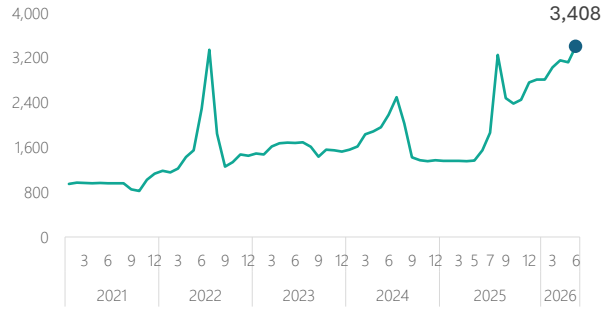
4. Bread, Atar (tugrik)



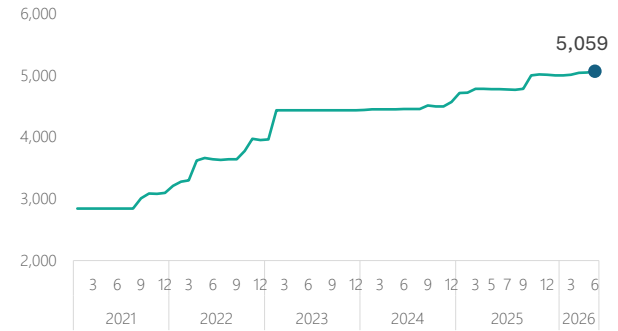
5. Vegetable oil (tugrik)



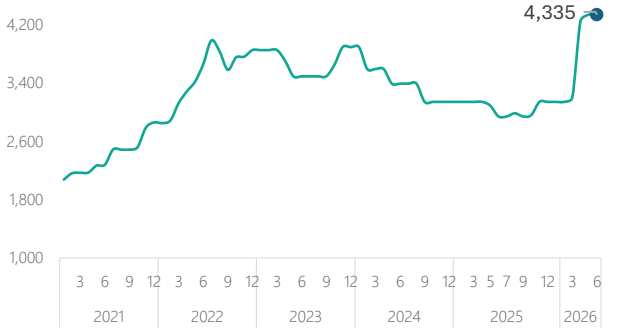
6. Potato (kg/tugrik)



7. Milk (litre/tugrik)



8. Diesel fuel (litre/tugrik)



Source: National Statistics Office

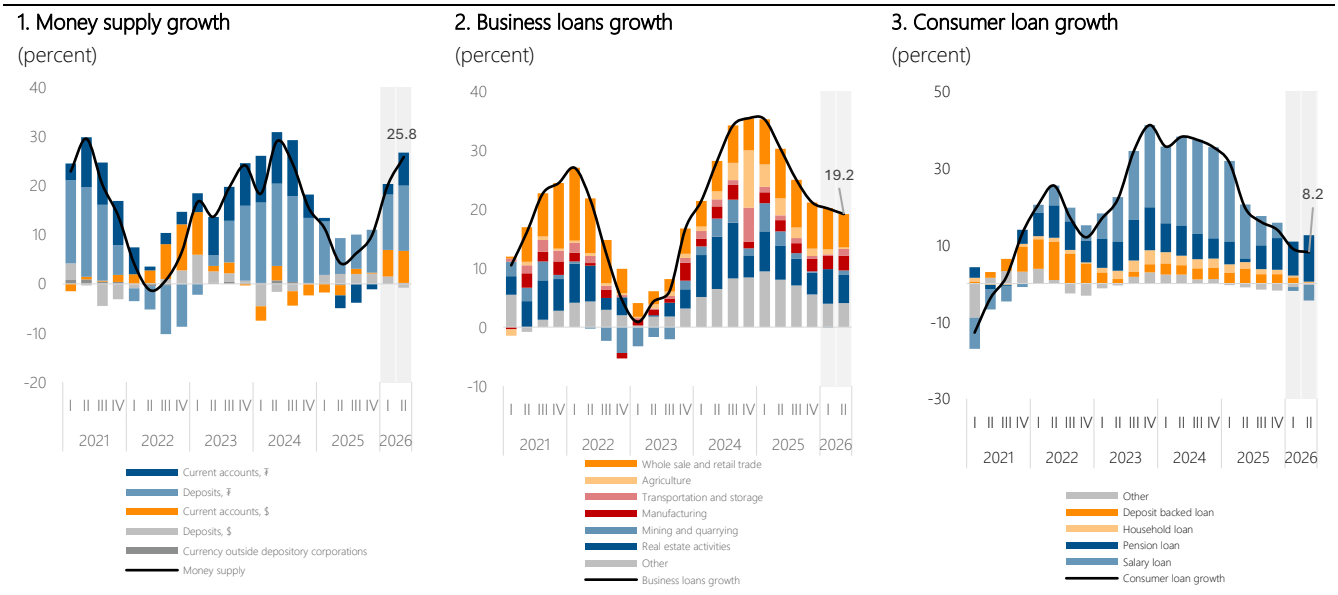
Note: This graph shows monthly fluctuations in the prices of some items within the consumer basket.

3.2. Monetary and financial sector

55. Money supply growth accelerated. At the end of the first half of 2026, money supply growth reached 25.8 percent, increasing by 21.6 percentage points compared to the same period last year. On the liabilities side, domestic currency deposits were the main contributor to money supply growth. Specifically, domestic currency deposits accounted for 13.3 percentage points, domestic currency current accounts for 6.7 percentage points, foreign currency current accounts for 6.5 percentage points and currency outside depository corporations for 0.2 percentage points. Meanwhile, foreign currency deposits made a negative contribution of 0.9 percentage points. On the asset side, net domestic assets accounted for 10.3 percentage points of money supply growth, while net foreign assets accounted for 15.5 percentage points.

56. The pace of credit growth slowed. At the end of the first half of 2026, outstanding loans in the banking sector amounted to 49.0 trillion MNT, with annual growth slowing to 15.9 percent. Business loans accounted for 73 percent or 35.5 trillion MNT of the total, while consumer loans comprised 27 percent or 13.4 trillion MNT. The growth of outstanding business loans reached 19.2 percent at the end of the first half of 2026, decelerating by 11.1 percentage points compared to the same period last year. By sector, loans to transportation and storage activities rose by 29.2 percent and manufacturing by 27.3 percent compared with the same period of the previous year. Loans to construction rose by 26.9 percent, real estate activities by 22.1 percent and wholesale and retail trade by 20.7 percent over the same period. The growth of outstanding consumer loans reached 8.2 percent in the second quarter of 2026, decelerating by 11.5 percentage points from the same period last year. Specifically, while the outstanding balance of salary loans decreased by 7.4 percent year-on-year, pension loan growth accelerated to 89.8 percent at the end of the first half of 2026 following the Monetary Policy Committee revoked, in July 2025, the regulation on loans collateralized by pension and benefit income and removed the debt-to-income ratio requirement for newly issued loans.

Figure 33.4. Money supply and credit indicators



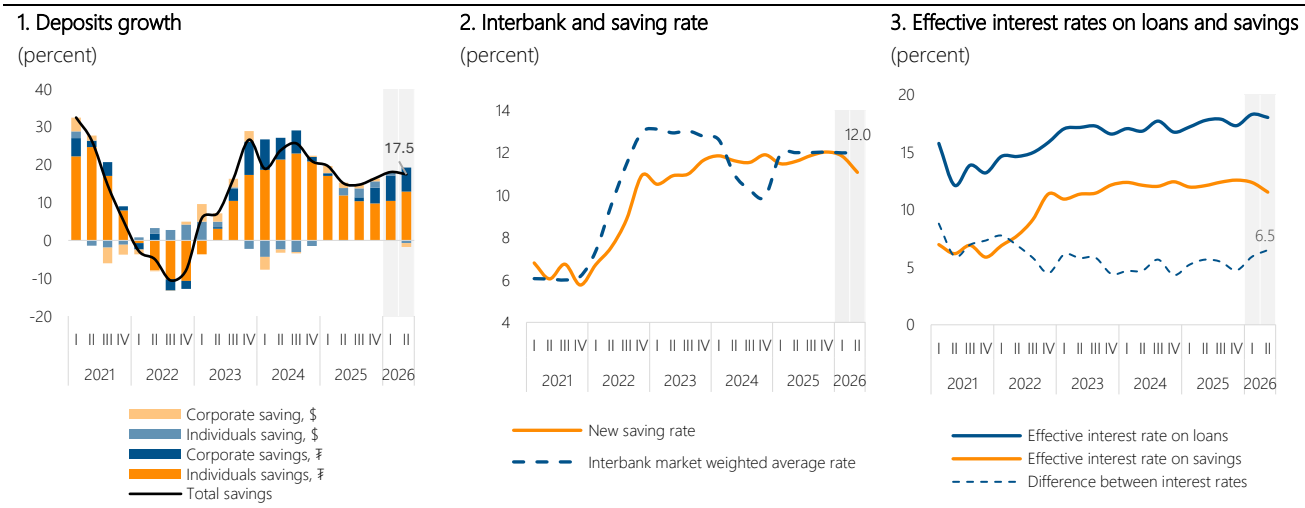
Source: Estimation of MED, Bank of Mongolia statistics

57. **The pace of growth in newly issued loans slowed.** In the first half of 2026, the total newly issued loans in the banking sector reached 37.9 trillion MNT, with annual growth slowing to 15.5 percent, a deceleration of 2.0 percentage points compared to the same period last year. The annual growth of newly issued business loans reached 21.7 percent in the first half of 2026. The increase in business lending was mainly supported by higher loan disbursements to wholesale and retail trade and the mining sector. Meanwhile, the growth of newly issued consumer loans stood at 3.4 percent in the second quarter of 2026, down by 4.8 percentage points year-on-year. Newly issued salary loans decreased by 1.1 trillion MNT compared with the same period of the previous year. In July 2025, the central bank revoked the regulation that had been applied to loans collateralized by pensions and benefits. As a result, pension loans issued in the first half of 2026 increased by MNT 1.1 trillion compared with the previous year. Specifically, the share of pension loans in newly issued consumer loans rose from 12.4 percent in the same period of the previous year to 21.7 percent in the first half of this year.

58. **The share of non-performing loans in total outstanding loans increased compared to the same period of the previous year.** At the end of the first half of 2026, the total amount of non-performing loans in the banking sector reached 2.4 trillion MNT. The non-performing loans ratio stood at 5.0 percent of total outstanding loans, up 0.1 percentage points from the same period of the previous year. Comparing the share of non-performing loans in each sector's loan balance with the same period of the previous year, the ratio declined from 9.0 to 7.9 percent in mining, from 5.5 to 5.0 percent in agriculture, from 11.0 to 8.9 percent in construction and from 3.4 to 2.5 percent in trade. In contrast, the ratio increased from 5.7 to 9.9 percent for salary loans and from 19.1 to 26.2 percent for study abroad loans.

59. **Individuals' domestic currency deposits account for most of the growth in total deposits.** At the end of the first half of 2026, total deposits in the banking sector reached 32.5 trillion MNT, representing a 17.5 percent increase compared to the same period last year. Of this amount, individuals' deposits stood at 26.7 trillion MNT, up by 14.4 percent year-on-year, which was the main contributor to the increase. Specifically, individuals' domestic currency deposits reached 23.0 trillion MNT, reflecting an 18.3 percent increase, while foreign currency deposits amounted to 3.7 trillion MNT, decreasing by 5.3 percent. Deposits held by corporations totaled 5.8 trillion MNT, increasing by 34.1 percent from the same period of the previous year.

Figure 33.5. 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

60. **The level of asset dollarization increased compared to the same period of the previous year.** At the end of the first half of 2026, the share of foreign currency current accounts and deposits in broad money stood at 21.4 percent, an increase of 0.2 percentage points compared to the same period last year, while it decreased by 1.4 percentage points from the previous quarter. The increase in asset dollarization was primarily driven by a 75.4 percent year-on-year increase in foreign currency current accounts.

61. **The weighted average interbank market interest rate remained close to the policy rate.** In the second quarter of 2026, the policy rate was maintained at 12 percent, while the weighted average interest rate in the interbank market also stood at 12 percent. This remained around the levels of the same period of the previous year and the previous quarter.

62. **The effective real interest rate spread between loans and deposits increased compared with the same period last year.** In the second quarter of 2026, the real effective loan rate of commercial banks rose to 18.0 percent, increasing by 0.3 percentage points year-on-year and decreasing by 0.3 percentage points from the previous quarter. In contrast, the real effective deposit rate decreased to 11.5 percent, down by 0.6 percentage points year-on-year and by 0.8 percentage points from the previous quarter. As a result, the spread between real effective loan and deposit rates widened by 0.8 percentage points compared to the same period last year, reaching 6.5 percent. The increase in the effective real interest rate spread from the previous year was driven by deposit rates falling faster than lending rates.

63. **Growth in outstanding loans of non-bank financial institutions remained strong.** In the second quarter of 2026, a total of 583 non-bank financial institutions (NBFIs) were operating, with outstanding loans reaching 8.2 trillion MNT, marking an increase of 23.3 percent compared to last year. Of the total loans issued, 88.4 percent were extended to individuals and 11.6 percent to legal entities. In the second quarter of 2026, 92.1 percent of all NBFI borrowers, which is 3.3 million clients, received loans totaling 3.0 trillion MNT through fintech-based lending services. The weighted average monthly interest rate on loans issued by NBFIs stood at 3.7 percent, showing an increase of 0.1 percentage points compared to the same period last year.

CHAPTER IV

EXTERNAL SECTOR

4.1. Foreign trade

4.2. Balance of payments and external debt

4. EXTERNAL SECTOR

OVERVIEW

Strong external demand lifted coal export volumes by 56 percent and copper concentrate volumes by 24 percent. Together with higher global copper and gold prices, this pushed export earnings up 58 percent year on year. Import growth, meanwhile, was driven mainly by higher diesel prices and increased imports of investment goods. Because export earnings grew faster than imports, the current account posted a surplus, which in turn was the main driver of the overall balance of payments surplus.

4.1. Foreign Trade

64. **Foreign trade turnover increased compared to the same period of the previous year, driven by export growth.** As of the first half of 2026, Mongolia traded with 145 countries worldwide, recording a trade surplus of USD 4.2 billion, while total trade turnover reached USD 16.5 billion, an increase of 36 percent compared to the same period of the previous year.

65. **Export revenue increased due to favorable global market prices and strong external demand for key products.** As of the first half of 2026, exports reached USD 10.4 billion, an increase of 58 percent compared to the same period of the previous year. This growth was mainly driven by rising copper and gold prices on the global market and the increase in the physical volume of coal exports. Going forward, the physical volume of key export products is expected to remain stable at a high level.

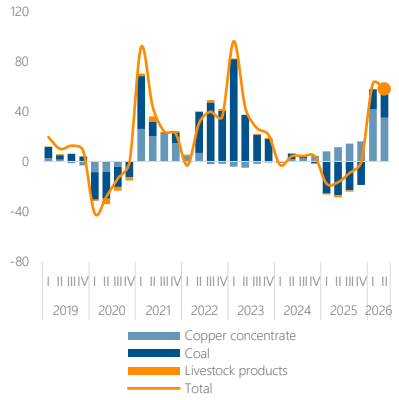
66. **The physical volume of coal exports increased due to rising external demand.** In May of this year, a major accident in Shanxi province, China, caused the country's coking coal production to decline by approximately 7–10 percent. As a result, Mongolia's coal exports increased, reaching 59.2 million tonnes as of the first half of 2026, an increase of 56 percent compared to the same period of the previous year. Going forward, although coal demand in the external environment is expected to remain stable and physical volume to increase, border prices are not expected to recover.

67. **Export volumes of copper concentrate and iron ore increased.** As of the first half of 2026, copper concentrate exports reached 1,307 thousand tonnes, an increase of 24 percent, and iron ore exports reached 4,355 thousand tonnes, an increase of 13 percent, respectively, compared to the same period of the previous year. This growth was driven by increased production and sustained high demand for copper on the global market. Going forward, copper concentrate and iron ore production is expected to increase steadily, and the global market price of refined copper is expected to trend upward.

68. **Trading activity on the mining commodity exchange recovered.** As of the first half of 2026, the mining commodity exchange traded 14.6 million tonnes of coal for USD 1,345 million, 3,050 thousand tonnes of iron ore and concentrate for USD 192 million, and 36.2 thousand tonnes of copper concentrate for USD 115 million, respectively.

Figure 4.1. Exports

1. Export growth
(percent)



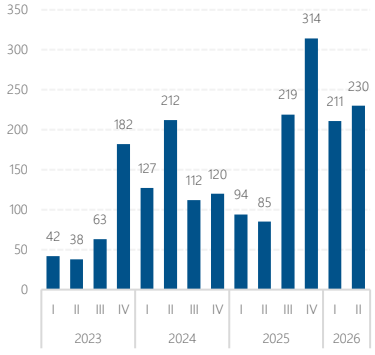
Source: MCGA

2. Export volumes of main commodities

Product	2025.06	2026.06	Growth
Copper concentrate /thousand.ton/	1,053	1,307	24%
Coal /million ton/	37.9	59.2	56%
Gold /kg/	4.2	2.8	-33%
Iron ore /thousand.ton/	3,856	4,355	13%
Crude oil /thousand.bbl/	1,786	1,707	-4%

Source: MCGA

3. Coal trades at the Mining commodity exchange



Source: MCGA

69. **The increase in petroleum product prices was the main factor driving the rise in the value of imports.** In the first half of 2026, imports increased by USD 589 million, or 11 percent, compared to the same period of the previous year, indicating stronger import demand. Considering the annual change in imports by product group, consumer products contributed negatively to total import growth by 1 percentage point, while industrial inputs and investment machinery, equipment, and trucks contributed positively by 9 and 3 percentage points, respectively.

70. **A slowdown in passenger car imports reduced consumer product imports.** Imports of consumer products reached USD 2.1 billion in the first half of 2026, declining by 3 percent compared to the same period of the previous year. Due to the decision not to issue state vehicle registration license plates in the capital city to passenger cars older than 10 years, passenger car imports reached USD 489 million, a 26 percent decrease compared to the same period of the previous year. Meanwhile, imports of food products increased by 7 percent. In particular, imports of meat and meat products increased by 30 percent, while tobacco imports increased by 44 percent.

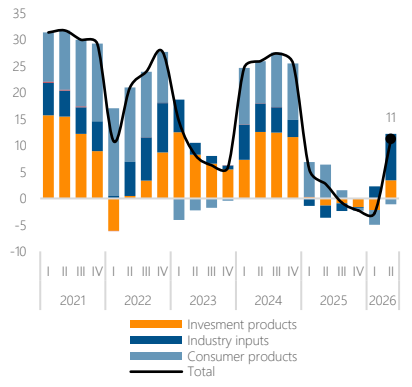
71. **A-92 gasoline imports increased.** Imports of AI-92 gasoline reached USD 353 million in the first half of 2026, an increase of 27 percent compared to the same period of the previous year, while import volume rose by 25 percent to 492 thousand tons. Under the agreement signed with the Russian Rosneft company in 2022, AI-92 gasoline continues to be purchased at a stable price.

72. **Diesel fuel prices increased due to the rise in global oil prices amid geopolitical tensions in the Middle East and uncertainty in global supply chains.** The import price of diesel fuel increased in the second quarter. In the first half of 2026, diesel fuel imports reached USD 938 million, increasing by 54 percent compared to the same period of the previous year, while import volume rose by 15 percent to 957 thousand tons. The increase in diesel fuel prices was driven by higher global oil prices amid developments in the Middle East.

73. **Imports of construction materials increased as construction activities on major projects intensified.** In the first half of 2026, imports of construction materials reached USD 789 million, an increase of 17 percent compared to the same period of the previous year. Construction of major projects such as the Oil Refinery, the Erdeneburen Hydroelectric Power Plant, the Selbe Sub-Center, and the cross-border railway at the Gashuunsukhait–Gantsmod port supported the growth of construction materials imports. Import growth in this category is expected to remain strong through the end of the year as project implementation continues.

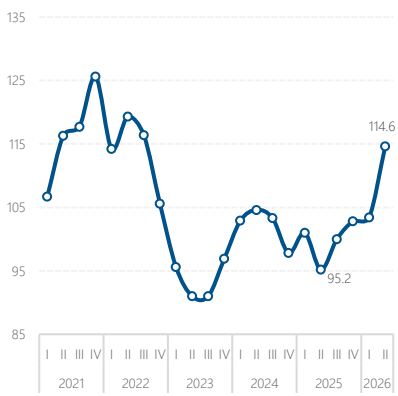
Figure 4.2. Imports

1. Annual growth in imports
(percent)



Source: MCGA

2. Import price index
(percent, YoY)



Source: NSO

3. Imports of main products
(USD million)

Products	2025.II	2026.II	Change
Passenger car	661	489	-26%
Food	581	621	7%
Construction material	672	789	17%
Equipment	1,026	1,170	14%
Fuel	893	1,301	46%
Heavy truck	293	224	-24%
Total	**5,527**	**6,117**	**11%**

Source: MCGA

74. The cost price of imported goods increased. The import price index[1] reached 114.6 percent, an increase of 20.4 percent compared to the same period of the previous year. Inflation in China, which accounts for 36 percent of Mongolia's total imports, reached 1 percent in the first half of 2026, up by 0.9 percentage points from the same period of the previous year, contributing to higher import prices. Meanwhile, inflation in Russia, which accounts for 30 percent of Mongolia's total imports, reached 6 percent in the second quarter. Fuel products account for 72 percent of Mongolia's imports from Russia, and their price increases remained significant.

[1] *Starting from 2026, the National Statistics Office no longer calculates the Import Price Index using the 2015 base year; therefore, the index based on the 2024 base year has been used. As the index is not published on a quarterly basis, the arithmetic average of the monthly indices for April–June was used.*

4.2. Balance of payments and external debt

75. **The balance of payments recorded a surplus.** The overall balance of payments recorded a surplus of USD 567 million in the first half of 2026.

76. **The current account recorded a surplus for the first two quarters.** Higher export earnings contributed to a current account surplus in the first two quarters. Following government measures to increase foreign exchange reserves, coal exports rose, contributing to a 67 percent year-on-year rise in total merchandise exports in the first half of 2026. Meanwhile, the relatively moderate growth in merchandise imports resulted in a current account surplus of USD 179 million.

77. **The services account deficit widened year-on-year**. In the first half of 2026, the services account deficit reached USD 1.8 billion, up USD 348 million from the same period the previous year. Business services accounted for 41 percent (USD 757 million) of the total deficit, followed by travel services at 36 percent (USD 667 million) and transport services at 22 percent (USD 412 million). The widening services account deficit was driven by the increased deficit in travel services during the first half of the year. Furthermore, the increase in exports of mining products increased freight transportation service expenses by USD 48 million. Combined with a USD 20 million decline in transportation service receipts, the transport services deficit is up USD 68 million year-on-year.

78. **The travel services deficit increased year-on-year.** The travel services deficit reached USD 667 million, an 18 percent increase compared with the same period of the previous year. This increase was driven by a USD 35 million (61 percent) rise in expenditure on medical-related travel, a USD 18 million increase in education-related expenses, and a USD 52 million increase in other personal travel expenditure. The number of foreign visitors entering Mongolia reached 418,000 in the first half of 2026, up 89,000 (27 percent) compared with the same period of the previous year. This growth was mainly attributable to increases in visitors from Russia (60,000), China (22,000), and Japan (3,000). Meanwhile, Mongolian citizens travelling abroad for tourism purposes reached 205,000, up 3,000 (1.3 percent) year-on-year.

79. **The financial account surplus declined year-on-year, due to lower external financing and debt.** The financial account recorded a surplus of USD 613 million in the first half of 2026, down USD 912 million compared with the same period last year. Higher commodity prices and volumes improved the profitability of mining companies, leading to an increase in private sector deposits held abroad during the first quarter of 2026. However, in the second quarter, the repatriation of these funds and a decline in cash and current account assets held abroad improved the financial account balance. Nevertheless, lower capital inflows and external borrowing from foreign sources led to a year-on-year decline in the financial account surplus.

80. **Foreign Direct Investment Inflows Increased.** Foreign direct investment (FDI) reached USD 2,845 million in the first half of 2026, up 102 percent (USD 1,439 million) relative to the corresponding period last year. FDI inflows were driven by investment in the mining sector, which reached USD 2,387 million, up USD 1,392 million (140 percent) year-on-year. In the first half of the year, investment from the Netherlands, mainly associated with the Oyu Tolgoi project, increased by USD 1,248 million, accounting for 87 percent of the total growth in FDI inflows. In contrast, FDI in the wholesale and retail trade sector declined by USD 75 million, while investment in administrative and support service activities decreased by USD 37 million compared with the corresponding period of the previous year.

81. **Gross international reserves increased, while MNT remained relatively stable against the USD.** Gross international reserves reached a historic high of USD 8,373 million at the end of August 2026, increasing by USD 2,689 million year-on-year and

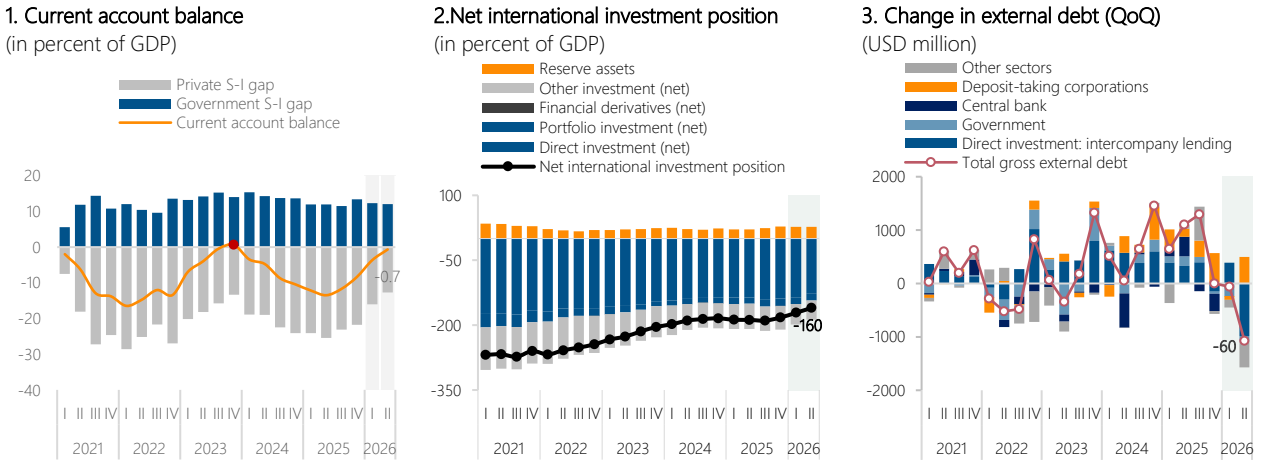
USD 410 million from the previous month. The increase in international reserves helped maintain MNT stability. As of the end of August, the exchange rate stood at MNT 3,595 per US dollar, representing a depreciation of MNT 38 (1.1 percent) since the beginning of the year. The pace of depreciation also slowed, from an average of MNT 0.6 per day in July 2026 to MNT 0.1 per day in August. The nominal effective exchange rate index, weighted by trading partner currencies, dropped by 2.4 percent year-on-year; however, the real effective exchange rate index, adjusted for relative price changes, rose 0.8 percent over the same period.

82. The current account deficit narrowed, driven by a decline in private sector investment. The current account balance can also be expressed as the difference between national savings and investment. Over the past decade, Mongolia's investment needs have consistently exceeded domestic savings, resulting in a current account deficit in all years except 2023. As of the first half of 2025, the four-quarter rolling current account deficit stood at 0.7 percent of GDP, down 12.8 percentage points from the same period of the previous year. This Improvement reflects a 2.2 percentage point increase in savings, alongside a 10.6 percentage point decline in investment. The decline in private sector investment widening than the increase in savings by both the government and the private sector.

83. The net international investment position remains weak. The net international investment position, which reflects the difference between Mongolia's financial assets held abroad and the country's external liabilities, reached USD -45.7 billion by the end of the first half of 2026, equivalent to -160 percent of GDP. Foreign-owned financial assets totaled USD 59.3 billion, which is 4.4 times Mongolia's financial assets held abroad. Of the foreign-owned financial assets, 63 percent (USD 37.5 billion) constitute direct investment, while 24 percent (USD 14.1 billion) are loans. Conversely, 56 percent (USD 7.7 billion) of Mongolia's financial assets held abroad are reserve assets.

84. Gross external debt of both the public and private sectors declined. Mongolia's total gross external debt reached USD 39.1 billion at the end of 2025Q2, down USD 1.1 billion (2.7 percent) against the previous quarter. By sector, banking sector external debt rose by USD 491 million, the central bank's external debt rose by USD 9 million, government external debt fell by USD 104 million, and other private sector external debt fell by USD 999 million over the same period.

Figure 4.3. Current account, net international investment position, external debt



Source: MED calculation, Bank of Mongolia statistics

Source: MED calculation, Bank of Mongolia statistics

Source: MED calculation, Bank of Mongolia statistics

Note: Calculated as rolling sum of four quarters.

85. **The majority of the increase in private sector external debt was driven by the mining sector.** Although external debt outstanding in the financial and insurance sector increased by USD 351 million (7%) quarter-on-quarter, the mining sector's external debt decreased by USD 1,375 million (6%), resulting in an overall decrease in private sector external debt. Among other sectors, external debt position increased in manufacturing, wholesale and retail trade, and information and communication, whereas external debt declined in the construction, transportation, electricity, and real estate sectors compared to the previous quarter.

86. **The majority of the total external debt is comprised of direct investment and loans.** Of the total external debt, 45 percent (USD 17.6 billion) represents intercompany lending, 36 percent (USD 14.1 billion) consists of loans, and 12 percent (USD 4.8 billion) comprises bonds. Notably, 46 percent of the loan is attributable to government and central bank borrowings, while the remaining 54 percent pertains to private sector loans.

87. **External debt dynamics remain particularly vulnerable to exchange rate and current account shocks.** The external debt-to-GDP ratio remains particularly sensitive to exchange rate and current account shocks. Compared to the baseline scenario, over the medium term, the external debt-to-GDP ratio is expected to increase by 10.1 percentage points in response to a one standard deviation decline in the current account balance, and by 16.4 percentage points following a 10 percent depreciation of the MNT.

Figure 4.4. External debt sustainability

External debt

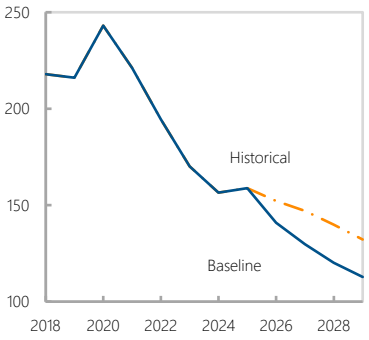
(in percent of GDP, unless otherwise indicated)

	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**	**156.5**	**140.9**	**129.8**	**120.2**	**112.8**	**-4.7**
Change in external debt	-21.5	-1.7	26.9	-21.9	-26.7	-24.3	-13.6	-17.9	-11.0	-9.6	-7.4	
Identified net debt-creating flows	-20.9	-8.6	14.9	-25.3	-11.5	-32.4	-16.4	-19.8	-14.1	-10.7	-7.7	
Non-interest current account deficit	7.7	5.5	-4.9	5.6	4.9	-10.9	0.0	-6.1	-6.7	-4.5	-2.9	
Net non-debt creating capital inflows	-6.8	-8.1	-4.6	-7.7	-0.9	-1.4	-2.0	-5.2	-4.6	-4.6	-4.3	
Automatic debt dynamics 1/	-21.8	-6.0	24.4	-23.2	-15.6	-20.1	-14.3	-8.4	-2.9	-1.5	-0.4	
Contribution from nominal interest rate	9.0	9.7	10.0	8.2	8.5	10.3	10.4	9.2	8.9	8.5	8.2	
Contribution from real GDP growth	-16.2	-11.3	10.5	-3.5	-9.9	-12.2	-7.4	-7.6	-7.4	-7.2	-7.0	
Contribution from price and exchange rate changes	-14.7	-4.5	3.9	-27.9	-14.2	-18.2	-17.3	-10.0	-4.3	-2.9	-1.6	
Residual	-0.6	6.9	12.1	3.4	-15.2	8.0	2.8	1.8	3.1	1.1	0.2	
External debt-to-exports ratio (in percent)	374.5	364.8	423.3	377.7	303.4	223.0	227.7	201.4	193.9	191.6	185.7	
External debt: Scenario with key variables at their historical averages 2/								**152.1**	**147.0**	**139.9**	**132.2**	**-8.1**

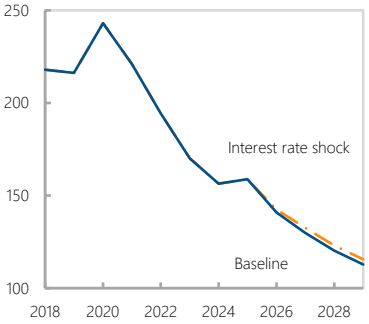
								historical average	standard deviation
Real GDP growth (in percent)	7.7	5.6	-4.6	1.6	5.0	7.4	5.1	3.8	3.7
Nominal external interest rate (in percent)	4.3	4.8	4.3	3.9	4.3	6.3	7.2	4.8	1.0
Growth of exports (USD, in percent)	12.8	9.7	-9.1	17.1	22.8	41.1	5.5	11.5	16.1
Growth of imports (USD, in percent)	37.5	3.1	-20.6	26.1	30.9	11.8	22.5	10.7	21.0
Non-interest current account balance	-7.7	-5.5	4.9	-5.6	-4.9	10.9	0.0	-0.6	5.7
Net non-debt creating capital inflows	6.8	8.1	4.6	7.7	0.9	1.4	2.0	3.5	3.9

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.

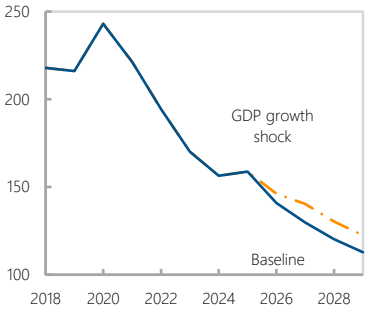
1. Baseline and historical scenarios



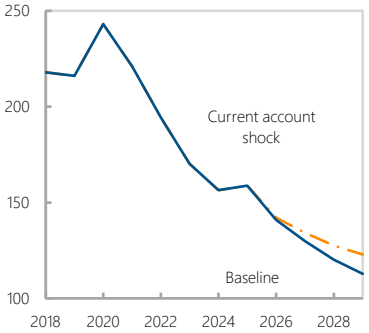
2. Interest rate shock



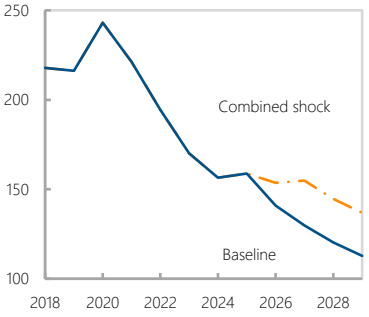
3. Growth shock



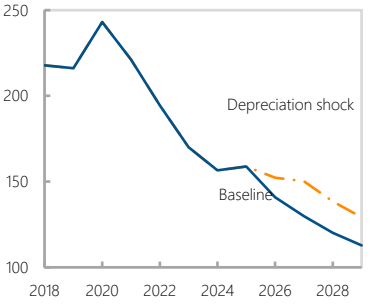
4. Non-interest current account shock



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 1 standard deviation shocks are applied to the current account balance, GDP growth rate and a permanent increase of 100 bps is applied to the interest rate and depreciation of 10 percent is applied to the exchange rate.

CHAPTER V

WORLD ECONOMY

5.1. World Economic Situation

5.2. Commodity Market Developments

5. WORLD ECONOMY

OVERVIEW

Global uncertainty has risen to 2.5 times its average level over the past decade, driven by ongoing geopolitical tensions around the world. Supply disruptions, coupled with growing demand from the technology and renewable energy sectors, have led to a sharp increase in copper prices, which are expected to remain elevated over the medium term. Gold prices have also increased amid heightened geopolitical uncertainty and rising gold purchases by central banks.

5.1. World Economy

88. **Uncertainty in the global economy remains elevated.** In recent years, policy and structural shifts across countries have reshaped trade and investment flows, amplifying uncertainty in the global political and economic environment. Notably, the World Uncertainty Index reached a historic high in the third quarter of 2025, and although it eased slightly in the second quarter of 2026, it remains 2.5 times higher than its average over the past ten years.

89. **The IMF reduced its global growth projection.** The renewed conflict in the Middle East has heightened risks to the global economy, including increased volatility in commodity prices and disruptions to supply chains. 2026, Against this backdrop, the IMF revised its global economic growth forecast downward to 3.0 percent in its July outlook. This represents a downward revision of 0.3 percentage points from the January 2026 projection and 0.1 percentage points from the April 2026 projection. By contrast, for 2027, the IMF revised its growth projection upward to 3.4 percent, up 0.2 percentage points from its April forecast. This upward revision reflects the assumption that the Strait of Hormuz will reopen in the second half of 2026, with trade and shipping conditions expected to return to pre-conflict levels and operations to normalize by the first quarter of 2027.

90. **China's economic growth slowed to 4.3 percent in the second quarter of 2026, down 0.7 percentage points from the previous quarter.** Growth was primarily driven by expansion in manufacturing output and exports, while weaker consumption and investment activity weighed on overall economic performance. In April 2026, the IMF had projected China's economy to grow by 4.4 percent in 2026. However, reflecting easing trade tensions and continued support for high-tech manufacturing and exports, the IMF revised its growth forecast upward by 0.2 percentage points to 4.6 percent.

91. **The Euro area economy grew by 1.2 percent in the second quarter of 2026.** Growth was driven by exports and household consumption; the regional economy expanded by 0.6 percentage points in the second quarter of 2026 compared with the previous quarter. Particularly, exports alone contributed 1.6 percentage points to GDP growth. In addition, Germany, which accounts for approximately 30 percent of the region's economy, recorded 3.7 percent year-on-year growth in total exports and 5.0 percent in goods exports, further supporting regional economic growth. The IMF projects the region's economy to grow by 0.9 percent in 2026.

92. **The US economy expanded by 1.5 percent in the second quarter of 2026, representing a slowdown of 0.6 percentage points from the previous quarter, driven by increased imports and decreased government spending.** Household consumption, investment, and exports drove the majority of economic growth. In particular, increased exports of crude oil and petroleum products contributed positively to economic activity. However, a contraction in government spending during the second quarter and rising imports weighed on economic growth. As of July 2026, the IMF maintained its 2026 growth forecast for the US at 2.3 percent.

5.2. Commodity Market Developments

93. The average price of refined copper on the London Metal Exchange reached USD 13,396 as of the first 9 months of 2026, up 40.5 percent compared to the same period last year. Supply disruptions at Indonesia's Grasberg and the DRC's Kamoa-Kakula mines, along with a decline in Chilean production, tightened global copper supply, causing prices to rise in the short term. In addition, expectations of US tariffs on refined copper imports increased demand for copper.

94. The average price of Australian premium coking coal on the Singapore Exchange reached USD 237 as of the first 9 months of 2026, an increase of 28.3 percent compared to the same period of the previous year. Following the mine accident in Shanxi province, China, in May, safety inspections were carried out and operations at many mines were temporarily suspended. The resulting tightening of China's domestic supply was the main factor behind the price increase. In addition, demand for coking coal remains stable due to growth in India's steel production.

95. The average price of gold on the London Metal Exchange reached USD 4,550 as of the first 9 months of 2026, an increase of 42.5 percent compared to the same period of the previous year. With central bank gold purchases continuing at a high level and increased demand for safe-haven assets, the gold price has reached a record high.

96. The price of iron ore (62 percent Fe content) reached USD 104 as of the first 9 months of 2026, an increase of 3.3 percent compared to the same period of the previous year. This was mainly driven by stable steel production in China and an increase in iron ore imports compared to the previous year.

97. The average price of Brent crude oil reached USD 81 as of the first 9 months of 2026, an increase of 21.9 percent compared to the same period of the previous year. This was mainly driven by the outbreak of war against Iran in late February of this year, which nearly halted shipping through the Strait of Hormuz and caused a major disruption to global oil supply.

Figure 5.1. Commodity prices

1. Copper price on the London metal exchange ($/ton)



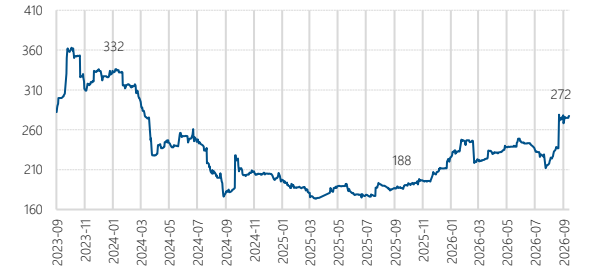
Source: Bloomberg terminal

2. Iron ore 62% price, Northeast China ($/ton)



Source: Bloomberg terminal

3. Australian high quality coking coal price on the Singapore exchange ($/ton)



Source: Bloomberg terminal

4. Brent oil price ($/barrel)



Source: Bloomberg terminal

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