MONGOLIA

Key conditions and challenges

Recent developments

| Table 1	2023
Population, million	3.4
GDP, current US$ billion	20.5
GDP per capita, current US$	5956.6
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	22.1
Gini index[a]	31.4
School enrollment, primary (% gross)[b]	95.6
Life expectancy at birth, years[b]	71.0
Total GHG emissions (mtCO2e)	81.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Mongolia's GDP growth is forecasted to remain robust at 4.8 percent in 2024, despite adverse weather affecting the agricultural sector and a slowdown in coal exports from the peak achieved in 2023. However, with rising wages and pensions, the poverty rate, measured at the lower-middle-income poverty line, is projected to decrease from 2.1 percent in 2023 to 1.9 percent in 2024. Significant risks and challenges persist, including renewed balance of payment pressures, uncertainties in external demand, and an overreliance on coal and other commodity exports.

While macro-fiscal conditions are improving due to an ongoing mining exports boom, without structural and fiscal reforms to address the underlying fiscal vulnerabilities and reduce the dependency on volatile mining, current positive developments could be short-lived. The current mining-led recovery, driven largely by exceptionally strong coal exports, while swift, has exacerbated existing climate and development challenges, reinforcing the importance of structural reforms to diversify the economy. Facing harsh weather conditions for the second consecutive year, Mongolia's agriculture sector, pivotal for economic diversification, is under significant risk, impacting economic growth, elevating domestic food prices, and hindering poverty reduction efforts in 2024. Driven by a strong recovery in revenues, mainly from coal exports, the government's fiscal position improved, resulting in a reduction in public debt. However, despite the country's high exposure to external shocks, policy space to respond to future macroeconomic shocks remains limited given elevated fiscal risks, including the offtake coal export contracts of Erdenes Tavan Tolgoi (a state-owned coal miner). Moreover, persistent public spending pressures may reignite inflationary pressures, prop up demand for imports, and increase the risk of "twin" fiscal and current account deficits for this year.

Despite the large contraction in agricultural production attributed to harsh weather conditions, the economy achieved a robust growth rate of 7.1 percent in 2023. This economic expansion was mainly driven by coal mining and its related transportation services. Indeed, coal exports soared to unprecedented levels in 2023, surging by 91 percent above the pre-pandemic 2018-2019 average. This surge was primarily driven by China's heightened demand for coal from Mongolia, aimed at replenishing stocks and bolstering China's steel exports, which heavily rely on coking coal as a key input. On the demand side, both public and private consumption supported the economy, spurred by rising household income and the 2023 supplementary budget, which increased public wages, pensions, and social welfare benefits. Declining inflation and rising wages boosted households' real incomes, translating into a decrease in poverty in 2023. However, the labor market remains weaker than in the pre-pandemic period with meager employment growth and lower labor participation rate. Headline inflation declined to 7.9 percent y-o-y in December 2023, down from 16.9 percent in June 2022, bolstering household purchasing power alongside higher household income. The inflation rate of imported goods decelerated as supply bottlenecks, transportation costs, international energy and food prices, as well as exchange rate

FIGURE 1   **Mongolia** / Real GDP growth and contributions to real GDP growth

Percent, percentage points
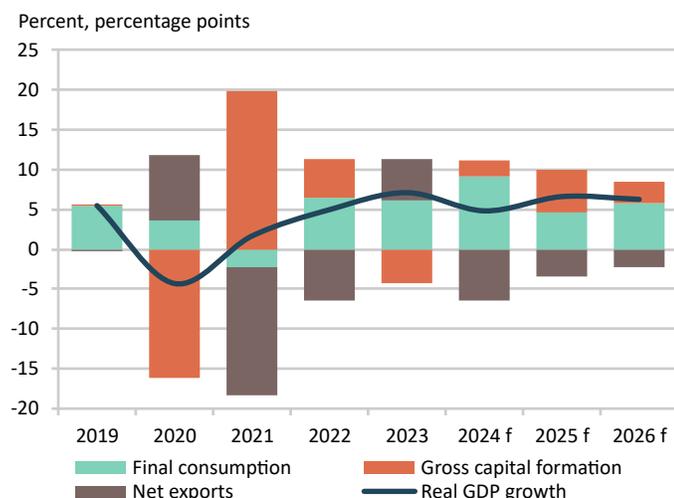
Sources: National Statistics Office and World Bank.

FIGURE 2   **Mongolia** / Actual and projected poverty rates and real GDP per capita

Poverty rate (%)   Real GDP per capita (constant million LCU)
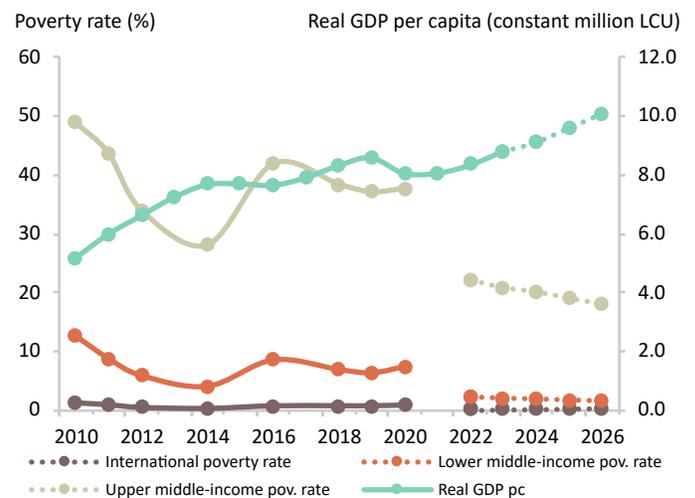
Source: World Bank. Notes: see Table 2.

depreciation eased. However, prices of domestically produced food, particularly meat, remained elevated.

The fiscal balance recorded a surplus of 2.6 percent of GDP, driven by robust revenue collection stemming from increased coal exports and a thriving economy, resulting in a reduction in public debt, which stood at 44.1 percent of GDP by the end of 2023 (excluding the Bank of Mongolia's swap agreement with the People's Bank of China). The robust coal exports were partially offset by increased imports of services and consumption goods, leading to a modest current account surplus, the first surplus since 2007. Gross international reserves stood at US$4.9 billion by end-2023, rebounding from their low of US$2.7 billion in August 2022, despite weaker net capital inflows and some payments on external debt obligations by the government, DBM (an SOE), and the central bank.

Outlook

In 2024, economic growth is anticipated to stay firm but moderate compared to the previous year, reaching 4.8 percent. This slowdown is primarily attributed to a significant downturn in the agriculture sector caused by the dzud weather phenomenon, characterized by extreme cold weather and heavy snowfall, while growth in the services and mining sectors is expected to persist, albeit at a slower rate. On the demand side, net export growth is anticipated to undergo a downturn as coal exports revert to standard levels and imports of investment and consumer goods ascend. Nevertheless, the growth trajectory for 2024 is underpinned by robust private consumption and fiscal expansion including augmented public wages, pensions, and investment. Moreover, an anticipated resurgence in private investments is bolstered by amplified lending to businesses and stabilized production costs.

Fiscal expansion and rising household incomes are expected to drive inflationary pressures in 2024. The supply-side shock from the expected agricultural contraction is poised to elevate domestic food inflation, pushing average headline inflation to 8.5 percent in the outlook, slightly exceeding the central bank's upper target of 8 percent. Deficits in the fiscal and current account balances are expected to reemerge in 2024 as coal exports normalize, export

commodity prices decline, elevated government spending persists, and demand for imports builds.

Despite low poverty at the lower-middle-income line, several groups are still vulnerable to falling into poverty due to high inflation and recent climatic events. Rising food prices pose greater risks to poor non-agricultural households, who spend a larger share of their budget on purchased food. In addition, high reliance on agricultural income among herder households means that the agricultural contraction can impede further poverty reduction.

In the medium term, growth is expected to reach an average of 6.4 percent over 2025-2026, driven by a substantial increase in mineral production of the Oyu Tolgoi mine, the largest copper mine in Mongolia, which is planning to more than double its 2023 production by 2025. Nevertheless, the economy could face negative spillovers from a faster-than-anticipated slowdown in the Chinese economy (including due to a protracted real estate market slowdown which could dampen demand for steel where Mongolian coal is a major input), and an escalation of geopolitical tensions resulting in a higher price of imported oil.

TABLE 2 Mongolia / Macro poverty outlook indicators   (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	1.6	5.0	7.1	4.8	6.6	6.3
Private consumption	-5.9	8.1	7.4	8.6	5.3	6.5
Government consumption	9.2	6.9	6.6	17.7	4.8	6.8
Gross fixed capital investment	17.7	13.2	7.0	17.1	9.8	6.1
Exports, goods and services	-14.6	32.3	42.9	3.5	16.0	6.3
Imports, goods and services	13.6	29.1	21.0	9.2	14.7	6.6
Real GDP growth, at constant factor prices	0.4	4.2	7.0	4.8	6.6	6.3
Agriculture	-5.5	12.0	-8.9	-9.5	8.0	6.5
Industry	-2.2	-4.5	12.6	6.4	11.2	7.8
Services	3.9	6.9	9.0	7.7	3.8	5.3
Inflation (consumer price index)	7.3	15.2	10.6	8.5	8.3	7.5
Current account balance (% of GDP)	-13.4	-13.2	0.7	-11.5	-10.2	-10.1
Net foreign direct investment inflow (% of GDP)	13.1	13.9	7.3	7.0	7.1	6.3
Fiscal balance (% of GDP)	-3.0	0.7	2.6	-1.0	-0.7	-0.5
Revenues (% of GDP)	32.0	33.8	34.5	33.7	34.8	33.9
Debt (% of GDP)[a]	64.5	62.1	44.1	43.8	42.0	40.1
Primary balance (% of GDP)	-1.1	2.1	4.2	0.2	0.4	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	0.2	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	2.4	2.1	1.9	1.7	1.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	22.1	20.9	20.2	19.1	18.2
GHG emissions growth (mtCO2e)	2.0	3.6	0.5	3.1	3.5	4.2
Energy related GHG emissions (% of total)	30.5	31.4	33.1	33.5	34.5	35.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Debt excludes the BoM's liability under the PBOC swap line (8% of GDP as of end-2023).
b/ Calculations based on EAPPOV harmonization using 2016-HSES, 2018-HSES, and 2022-HSES. The consumption aggregate was updated in 2022. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
c/ Projection using annualized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.