

MONGOLIA

Key conditions and challenges

Recent developments

Table 1 2020

Population, million	3.3
GDP, current US\$ billion	13.3
GDP per capita, current US\$	4030.3
National Official Poverty Rate ^a	28.4
Gini index ^a	32.7
School enrollment, primary (% gross) ^b	104.0
Life expectancy at birth, years ^b	69.9
Total GHG Emissions (mtCO ₂ e)	59.0

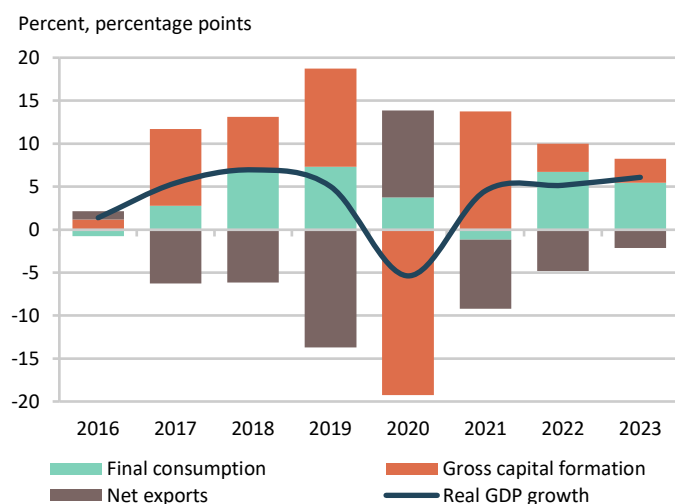
Source: WDI, Macro Poverty Outlook, and official data.
 (a) National Statistics Office. Most recent value (2018).
 (b) WDI for School enrollment (2018); Life expectancy (2019).

Following last year's contraction, the Mongolian economy is expected to grow by 4.5 percent supported by the Government's stimulus packages, the global economic recovery, and a successful vaccine rollout. Near-term risks remain high as a new outbreak of the delta variant threatens the ongoing economic recovery. The immediate challenge is to contain the pandemic and secure the economic rebound, while decelerating quasi-fiscal support that could contribute to a further build-up of contingent liabilities, renewed external imbalances, and financial sector fragility.

Prompted by the COVID-19 pandemic, the Mongolian economy contracted by 5.4 percent in 2020, its worst recession since the 1990s. To contain the health and economic crisis, the authorities implemented strict mobility restrictions, initiated the rollout of vaccines, and announced a follow-up recovery package (US\$3.5 billion for 2021-23) in March 2021, complementing the ongoing fiscal and quasi-fiscal support to firms and households. While the rapid vaccination and generous stimulus have supported the economic rebound, the recovery remains fragile as containment measures in the wake of the recent outbreak continue to weigh on the services sector. Externally, the global economic recovery supported growth, however, border disruptions have dampened the recovery in exports of major commodities (e.g., coal) and imports of critical inputs for domestic firms. An immediate challenge for Mongolia is to contain the current outbreak while securing the economic rebound under a limited fiscal space. In the medium term, Mongolia faces structural challenges reflecting the over-reliance on natural capital, and underutilization of human capital due to its inability to create adequate well-paying jobs. Strengthening the quality of institutions and escaping the procyclicality trap will be critical to secure a sustainable and resilient structural transformation.

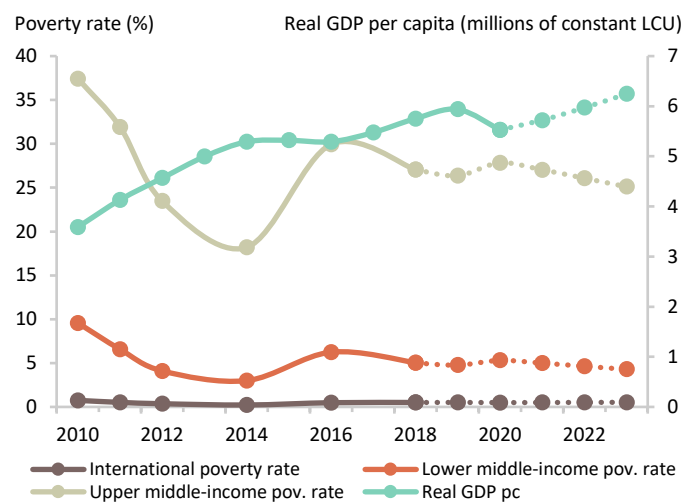
Mongolia's economic growth rebounded in the first half of 2021 to 6.1 percent (y/y) on the back of robust exports and a surge in private investment, mainly in the mining sector. In addition to a temporary improvement in the ore grade of a major mine, stronger Chinese demand for commodities and higher commodity prices were among the main factors supporting the mining-driven growth, especially during Q1 2021. The government's relief and stimulus measures during the pandemic translated into higher credit growth which in turn led to increased investment and supported domestic demand. The strong economic recovery lost steam in Q2 following mobility restrictions in May and temporary border closures. Moreover, the strong rebound observed in the mining, manufacturing, trade and other services sectors largely dissipated in Q2 due to disruptions in the supply of imported inputs and commodity exports. Despite government support, the employment rate dropped markedly in Q1 and private consumption contracted for the first time since 2016. This is mainly explained by the stagnation of household labor income amid the widespread impact of the pandemic on the labor market and elevated food prices, mainly due to sluggish agriculture output and disruption of food imports exacerbated by higher fuel prices. The June 2021 household survey revealed rising food insecurity among the poor, raising

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

concerns of adverse coping strategies (e.g., increased household indebtedness) and long-term consequences on child nutrition and family health. Despite sizable spending from fiscal and quasi-fiscal sources, the budget deficit narrowed in H1 2021, reflecting the clearance of disputed tax arrears from Oyu Tolgoi (OT). Meanwhile, the external position improved slightly as of July 2021 helped by a larger surplus of the financial account (partly explained by base effects following a sizable private sector external debt repayment in 2020) which offset the widening current account deficit. The current account deficit deteriorated amid higher oil prices, rising imports, disruption in key commodities exports, and large repayments to foreign investors. The central bank has limited exchange rate flexibility by increasing FX intervention, mostly in the last three months. The financial sector benefitted from subsidized loans including the housing mortgage program, increased lending and improved liquidity as a result of the Government's stimulus package.

Outlook

Real GDP is projected to grow by 4.5 percent in 2021, supported by a rebound in exports and private sector investments on the back of improved FDI and subsidized loans. The government's recent decision to extend income support until end-2021 would further support domestic demand in 2021. Although the contribution of the mining sector is likely to decline in 2022 when temporary improvements in ore grade of the OT mine dissipate, growth would accelerate to about 5.6 percent in 2022-23 mainly driven by non-mining industries and services sectors, supported by the rapid implementation of the stimulus program, improved trade facilitation and digitalization. While the pandemic-induced household welfare loss might linger into 2021, the extension of the government income support would fully or partially offset income loss among poor households. Poverty is projected to slightly

decline in 2021 but a full recovery to pre-pandemic levels will not be realized until 2022. While the economic recovery and clearance of tax arrears from OT would further narrow the fiscal deficit, the government debt ratio is projected to increase this year with the rising cost of the pandemic, before gradually declining on the back of an improving primary deficit. A key risk is containing the pandemic to avoid a further disruption in economic activity while decelerating quasi-fiscal support. Given limited fiscal room, further unchecked stimulus to support the economy runs the risk of heightened inflationary pressures, growing contingent liabilities, widening external imbalances, and increased financial sector fragility. Moreover, external buffers may deteriorate if the US\$1.8 billion swap agreement between the Bank of Mongolia and People's Bank of China is not extended when it expires in 2023. Exchange rate flexibility could help cushion additional external shocks and thereby preserve the limited domestic policy room.

TABLE 2 Mongolia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	7.0	5.0	-5.4	4.5	5.2	6.1
Private Consumption	12.4	9.9	2.7	-1.8	9.8	8.4
Government Consumption	-0.8	11.5	15.9	0.2	3.3	-0.3
Gross Fixed Capital Investment	21.3	23.5	-11.8	5.0	10.3	7.0
Exports, Goods and Services	24.0	9.1	-0.1	8.9	14.7	13.9
Imports, Goods and Services	30.9	22.3	-8.9	15.3	16.4	13.2
Real GDP growth, at constant factor prices	7.2	5.2	-5.3	4.5	5.2	6.1
Agriculture	4.5	8.4	6.2	4.3	4.9	5.0
Industry	7.9	3.1	-6.2	6.4	4.3	5.3
Services	7.5	5.9	-8.3	2.9	6.1	7.2
Inflation (Consumer Price Index)	6.8	7.3	3.7	6.6	7.5	7.0
Current Account Balance (% of GDP)	-16.8	-15.4	-4.3	-10.4	-11.9	-10.7
Net Foreign Direct Investment (% of GDP)	16.3	16.5	12.4	12.7	13.3	12.4
Fiscal Balance (% of GDP)	2.6	1.4	-9.5	-6.6	-3.4	-3.0
Debt (% of GDP)	72.7	69.2	78.4	82.5	82.7	72.4
Primary Balance (% of GDP)	5.8	3.6	-6.9	-4.4	-1.5	-1.4
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.5	0.5	0.5	0.5	0.5	0.5
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	5.0	4.8	5.3	5.0	4.6	4.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	27.1	26.4	27.8	27.0	26.1	25.1
GHG emissions growth (mtCO₂e)	3.2	5.7	0.1	-1.0	1.0	1.0
Energy related GHG emissions (% of total)	39.0	38.0	34.9	35.0	33.4	32.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2016-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.