

Mongolia: economic outlook and reflections based on the EBRD country diagnostics



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- Mongolia in a regional perspective
- EBRD Country Diagnostics: key risks and vulnerabilities
- Recent developments and outlook for 2022

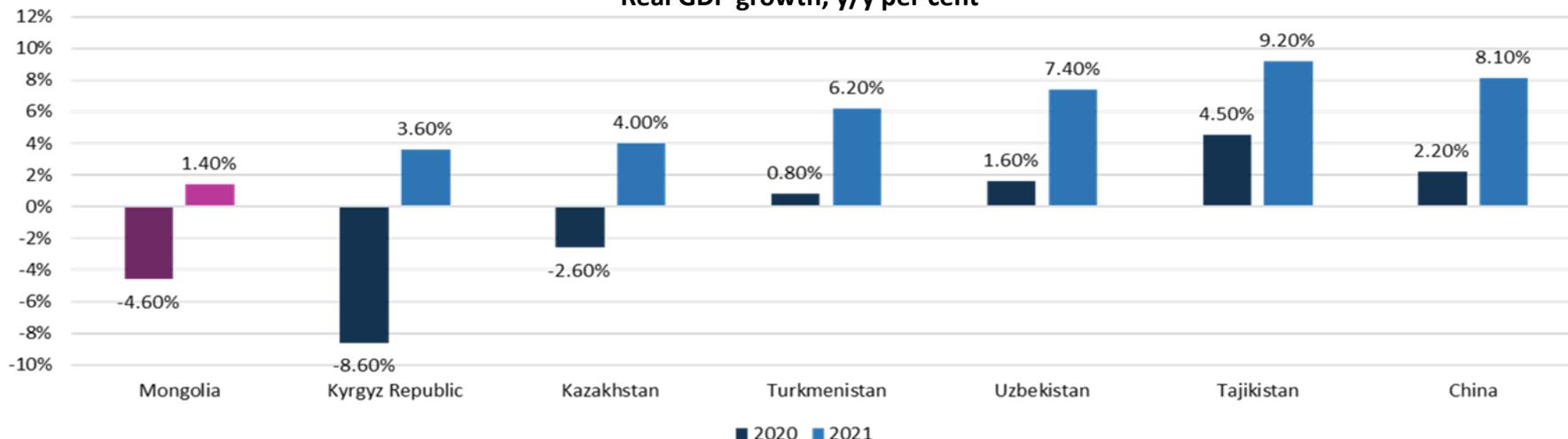
Mongolia in a regional perspective

Mongolia experienced a modest export-led recovery in 2021...

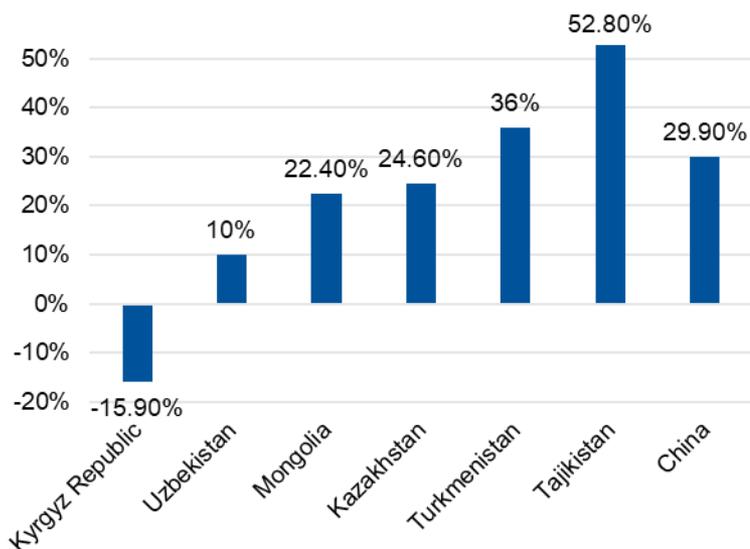


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Real GDP growth, y/y per cent



Export growth, per cent, y/y, 2021 or latest available



Epidemiological and border restrictions led to a **drop of export volumes**. Nevertheless, Mongolia sustained high **growth of export revenue** amid **favourable prices**.

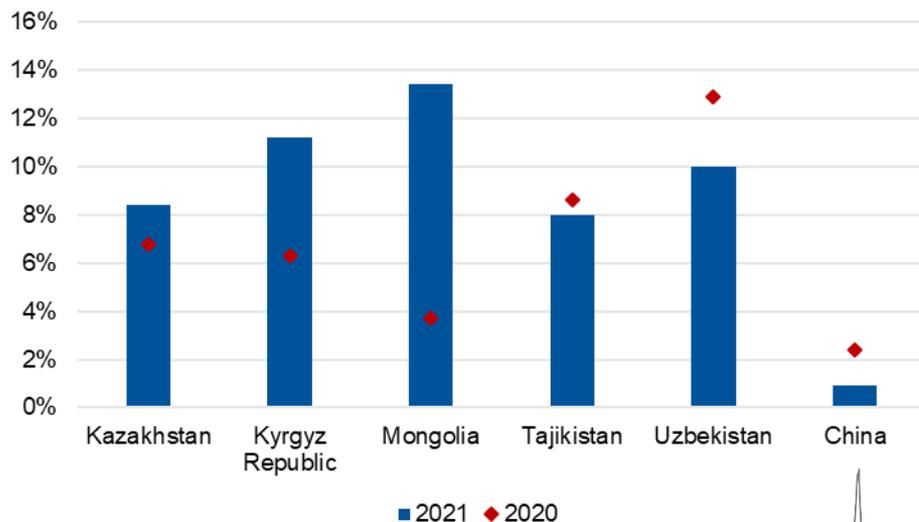
	Share in Total Exports	Export Revenues	Export Volume
Copper	28%	+63% y/y	-8%
Oil	1.9%	+81.2% y/y	+6.8%
Coal	23.5%	+30.7% y/y	-43.7% y/y

In 2021, Mongolia's inflation was the highest in CA region.



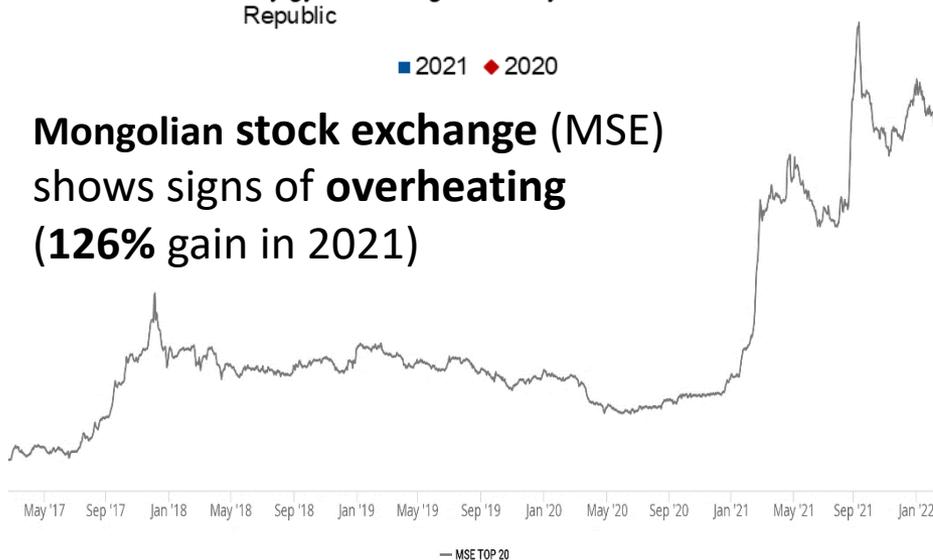
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CPI, y/y

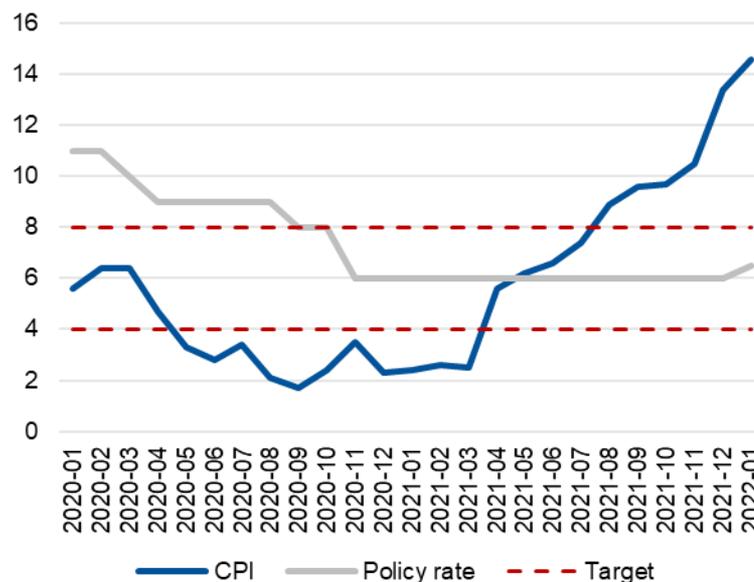


Amid **extensive fiscal stimulus, massive cash-handouts, expansionary monetary policy** (below-inflation policy rate) and **global inflation** in energy, food and commodity prices **CPI inflation surged**, reaching **13.4% y/y** in December 2021, far above the **Central Bank target range of 4-8 %**.

Mongolian stock exchange (MSE) shows signs of overheating (126% gain in 2021)

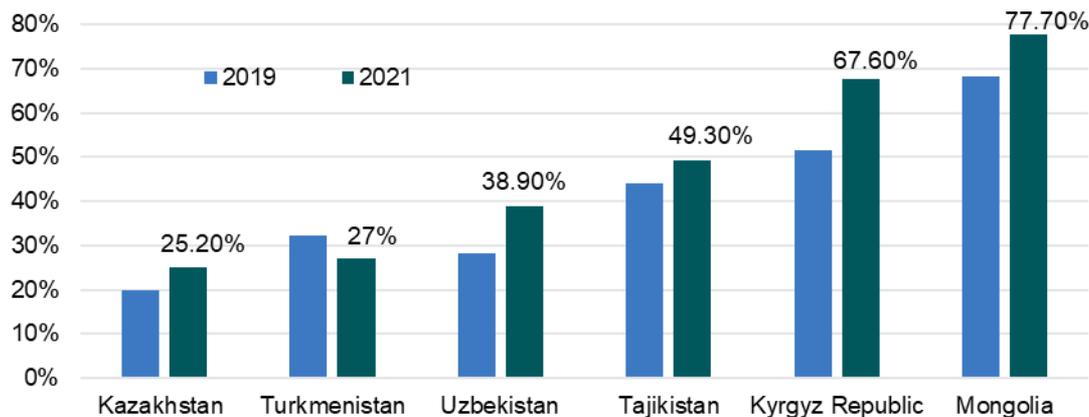


Mongolian Inflation, y/y



Mongolia had the highest public debt level in 2021 among CA economies, and risks of debt distress remain elevated

Public debt, % of GDP



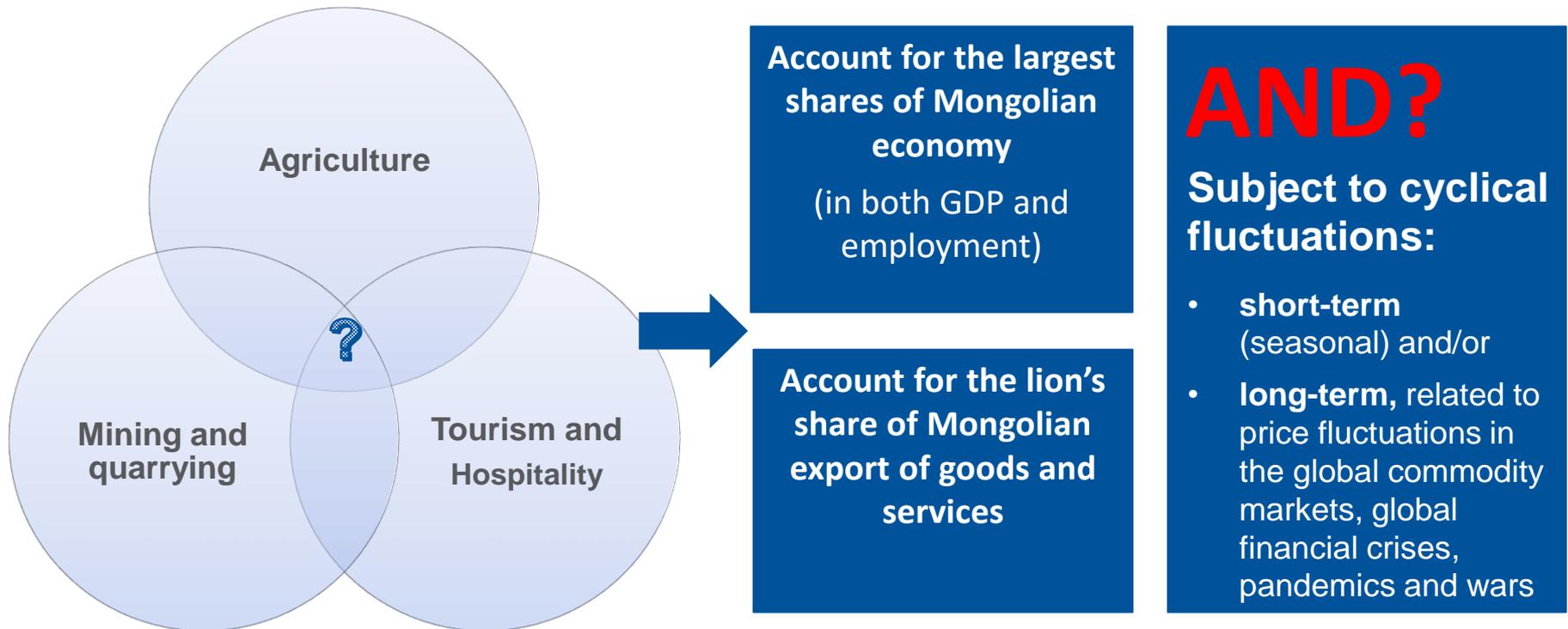
...However, **fiscal account** has somewhat **improved**:

- Budget deficit down from **10%** to **3%** of GDP
- Revenues **increased** from **28%** to **34%** of GDP driven by growth in tax receipts

- Mongolian authorities **refinanced Eurobond issues** maturing in 2022-2023 with **lower interest rate bonds** in June 2021
- **Current account deficit widened** in 2021. Once Oyu Tolgoi is completed, current account is expected to improve amid rising copper exports and lower capital imports.
- **Foreign currency reserves reached 4.4 billion USD** in December 2021, covering 7-8 months of imports
- **Rio Tinto wrote-off 2.3 billion USD** of Mongolia's debt to Oyu Tolgoi
- According to the IMF, Mongolia's **risk of debt distress is elevated** due to high levels of external debt, thin international reserves, and large fiscal financing needs in the medium term.

EBRD Country Diagnostics: key risks and vulnerabilities

What is common to these three sectors of Mongolia's economy?



This is how it looks...



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This is how it looks – coal and copper prices and Mongolia's GDP growth



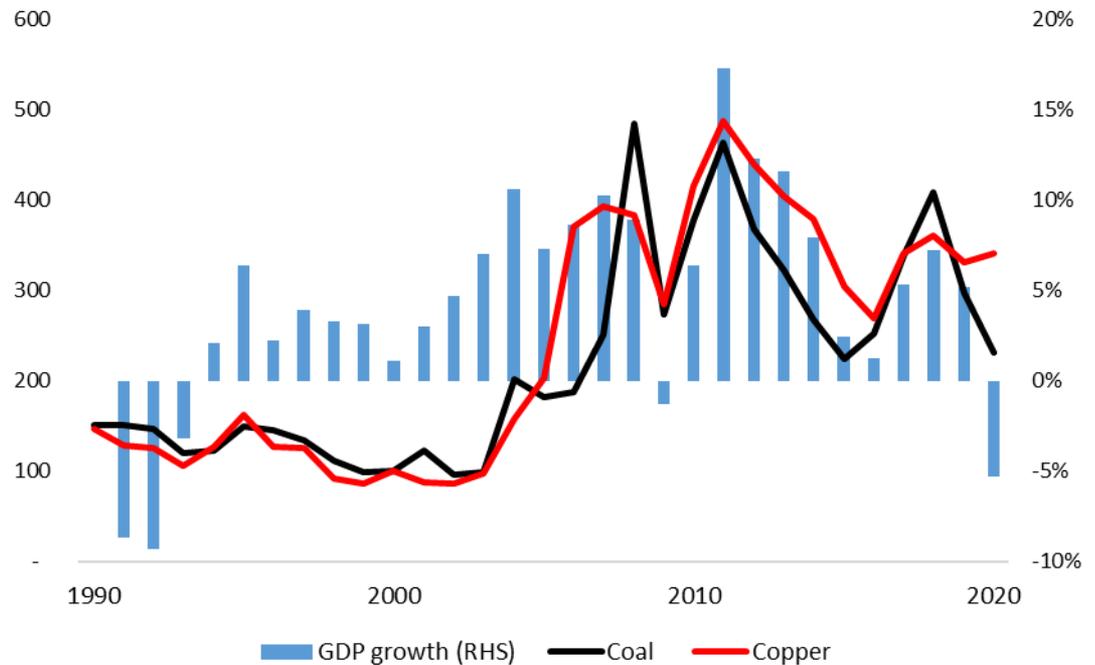
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As of 2020 mining industry accounted for:

20% of GDP
~ 70 % of FDI
> 90 % of total exports



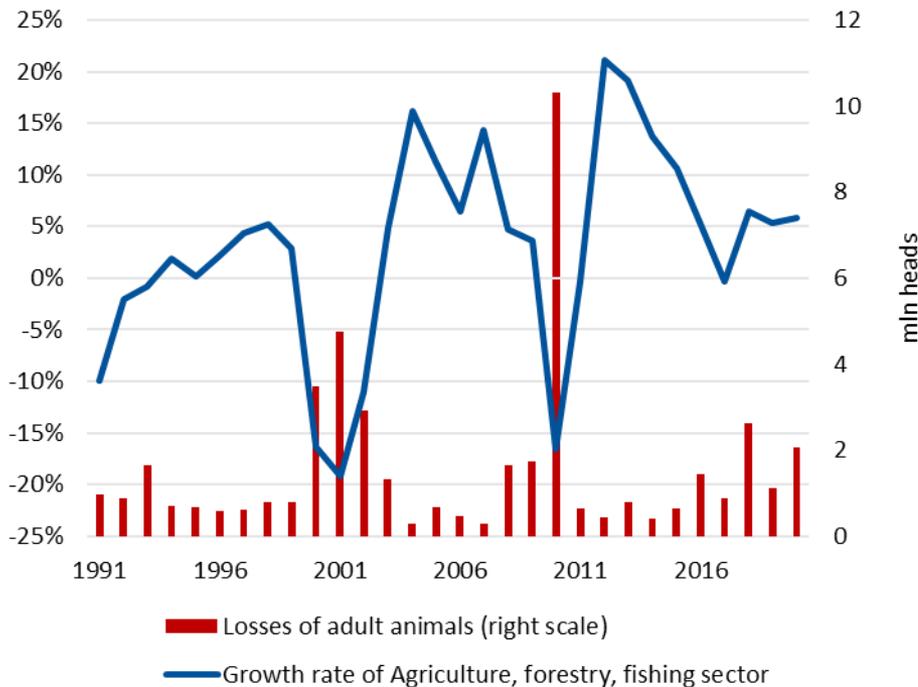
Real GDP growth and key commodity price indices (2000=100)



Excessive reliance on extractive activities results in regularly repeated boom-and-bust cycles driven by commodity price fluctuations

This is how it looks – ‘dzud’ and the ups and downs of Mongolia’s agriculture

Growth of agriculture, forestry, fishing sector and livestock losses



Source: NSO



Agricultural sector is subject to its own boom-and-bust cycles driven by regularly repeated extreme weather events known as ‘dzud’

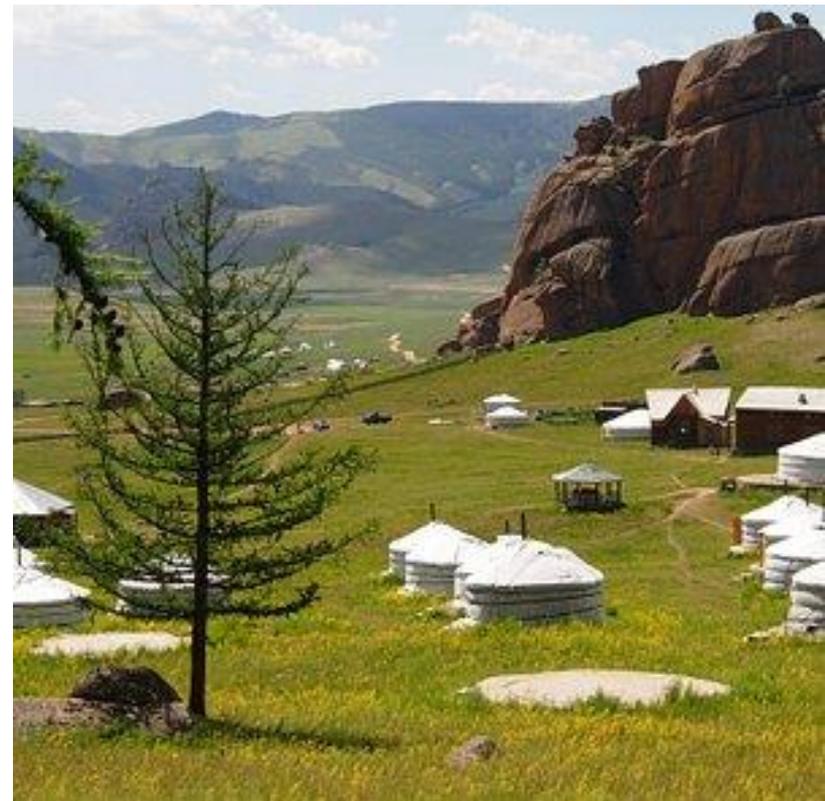
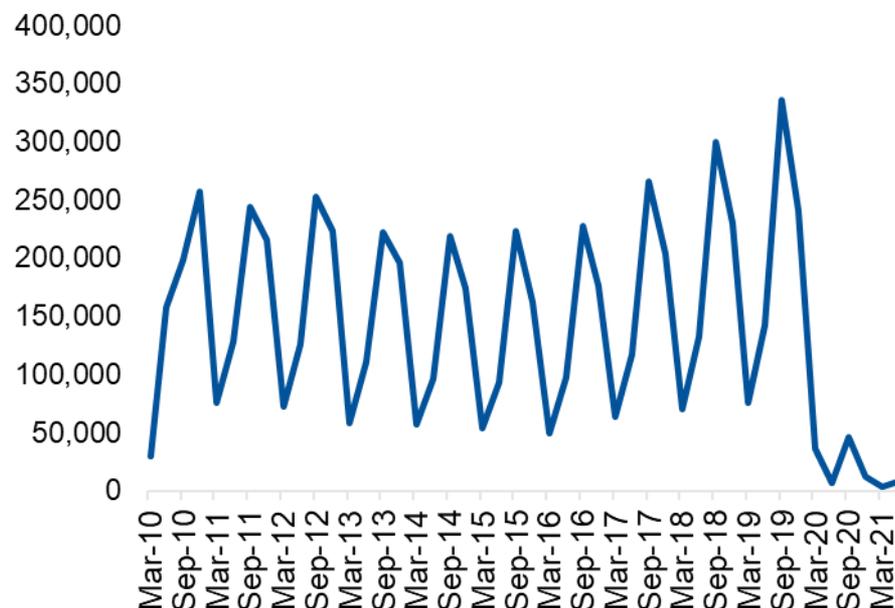
Source: NSO

This is how it looks – seasonal and pandemic-related cycles in tourism arrivals



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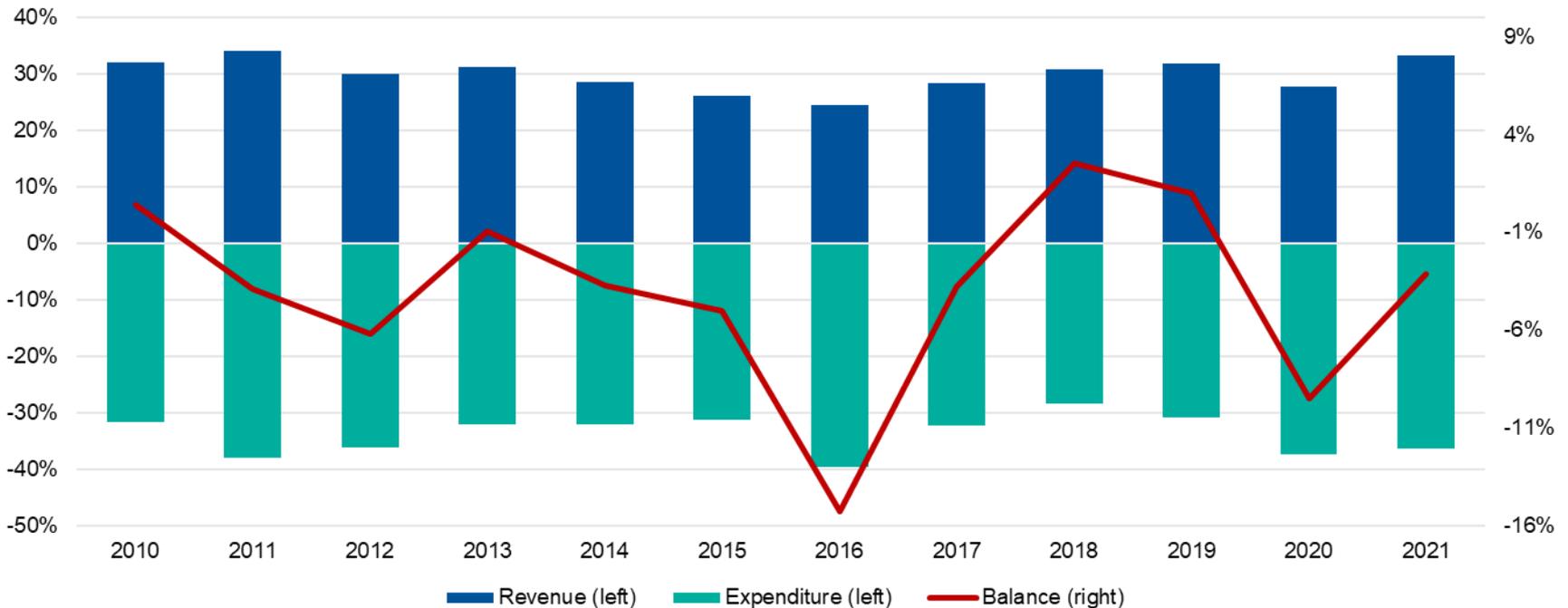
Quarterly number of inbound tourists to Mongolia – 2010-2020



- Seasonal employment results in a lack of professional tourism/hospitality staff: people come and go, switch between alternative occupations.
- Capital investment takes longer to pay back.

This is how it looks – fiscal and political “roller coasters”

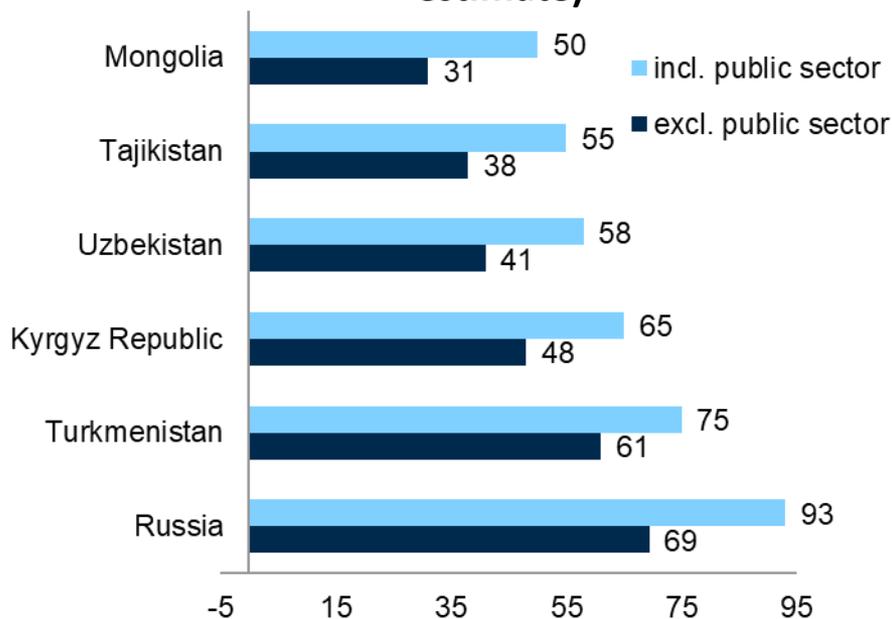
Highly cyclical fiscal performance



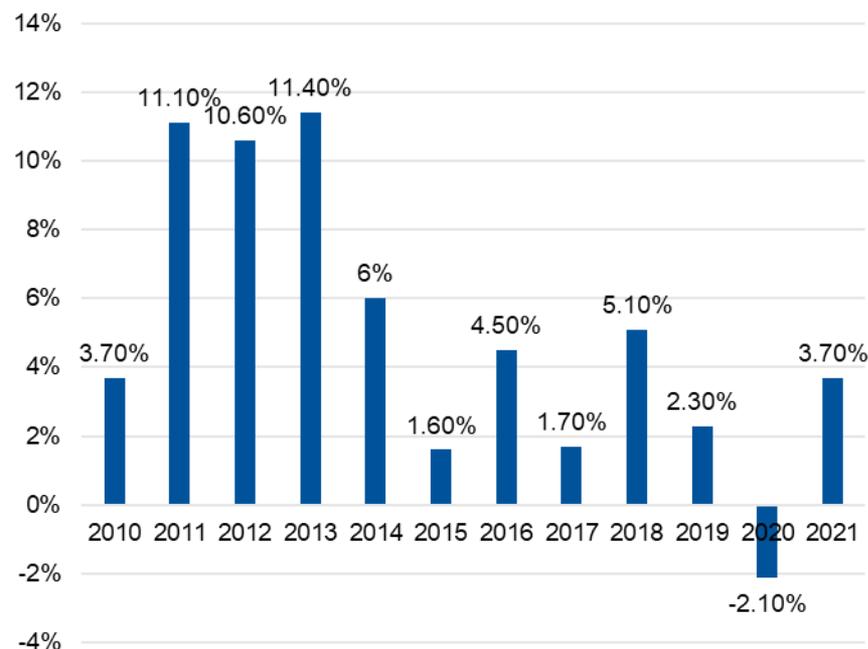
Political instability: during the first 27 years since the beginning of its post-communist transition (till 2018), Mongolia has had 14 governments, with each serving less than two years on average.

Mongolia under-utilizes its (tiny) labour force

Wage and salaried workers, % of total employment in 2019 (modelled ILO estimate)

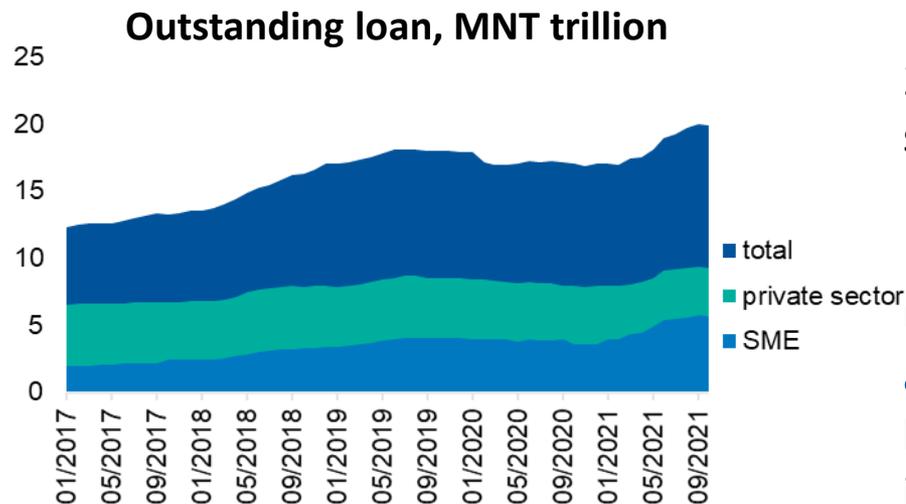


Annual growth rate of output per worker in Mongolia, (modelled ILO estimate)



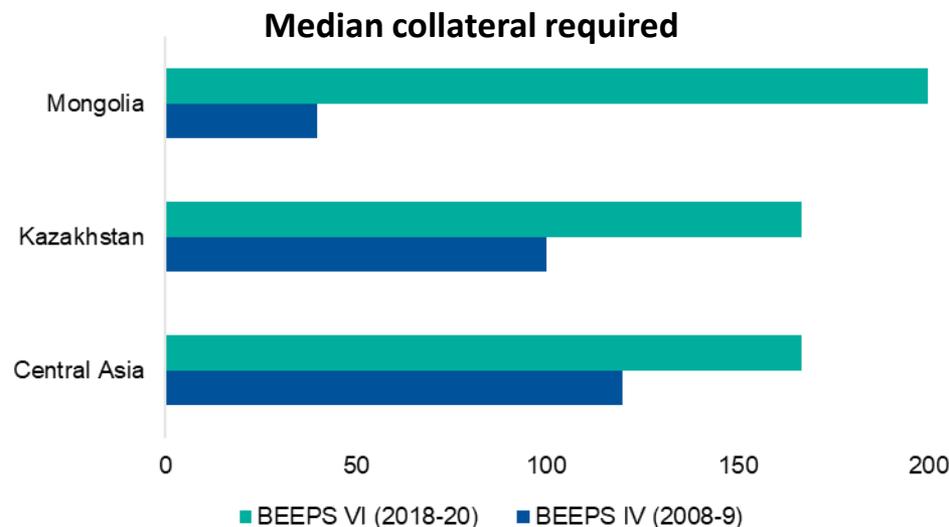
- Mongolia's formal (salaried) employment is the lowest in Central Asia (about 50%). With the other 50% having seasonal jobs, half the people work only half of the time (or less).
- Moreover, more than 1/3 of all formally employed have public sector jobs, with many redistributing rather than creating value.

Highly restricted access to finance for SMEs (and not only) is an obstacle for future growth



Lending to SMEs significantly increased in 2021 driven by extensive government support programs (subsidized loans).

However, access to finance still remains a major constraint since **banks clearly lack appetite to finance SMEs**, as reflected in high collateral requirements and elevated interest rates.



Mongolia went from first to last in risk taking by the banking sector between 2008-9 (the boom years) and 2018-19 (following a major bust).

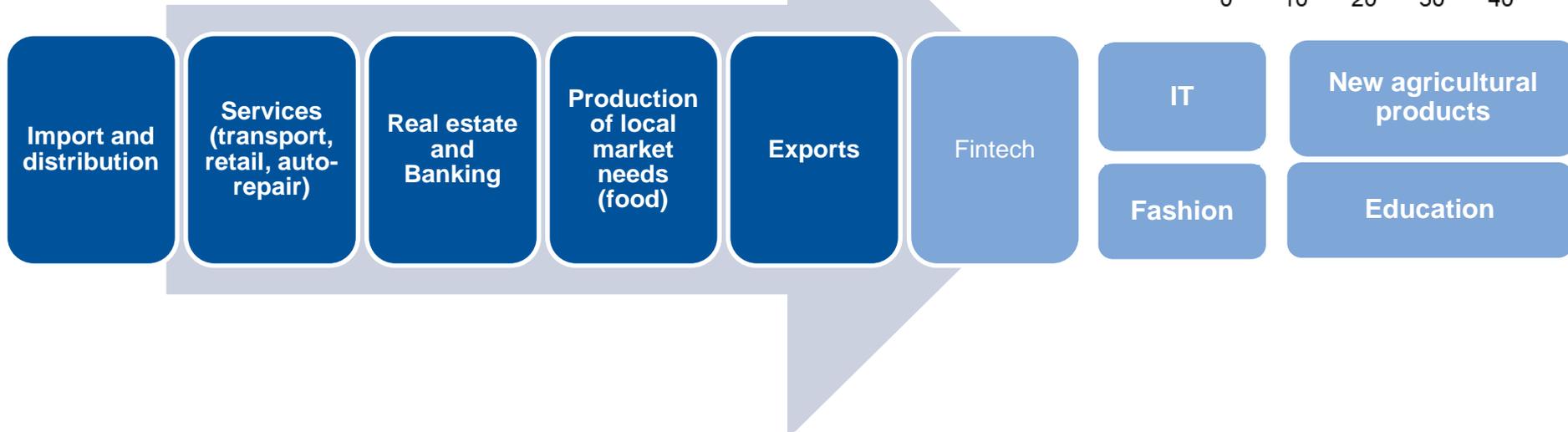
Serial entrepreneurship by horizontally-integrated groups is a key to Mongolia's diversification and growth

>30 Large holding groups in Mongolia

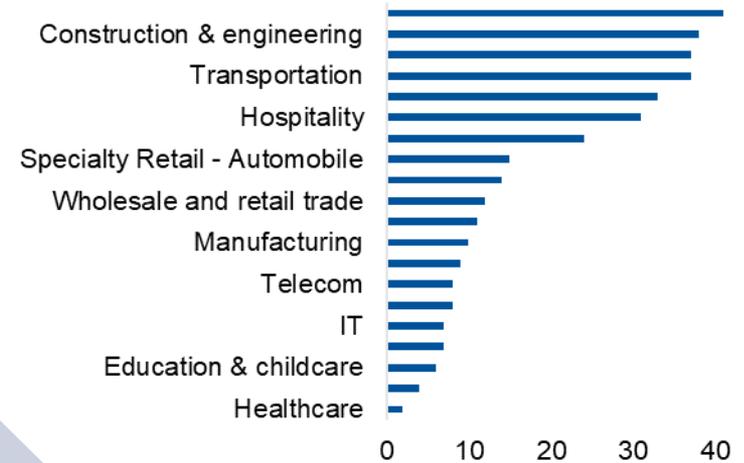
>50 Largest businesses are part of a holding

Only a few of these groups are formalized, i.e. have a proper holding company at the top of the pyramid, thus credit risks are difficult to assess.

Serial entrepreneurship is a key driver of growth and diversification in Mongolia



Distribution of holding companies by sectors, %



Recent developments and outlook for 2022

Risks and uncertainties



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Border
issues

Commodity
prices

Rising
inflation

Pandemic

Debt
distress

Supply chain
issues

Fiscal
risks

Interest rate surge in advanced
economies

Overheating

Resumption of
tourism?

Some good news!

Resilience

- Mongolia's **2.3 billion USD debt to Oyu Tolgoi waived.**
- Construction on the underground portion of Oyu Tolgoi will start soon, with **production expected to start in the first half of 2023**
- Oyu Tolgoi enters into an agreement to **use domestic power** which will serve as a **significant contribution for financing** the construction of the Tavan Tolgoi SOPP
- The **Ulaan discovery** results demonstrate the potential for **large-scale, high-grade gold discoveries** in the Khundii
- To **decentralize Ulaanbaatar**, Khushig Valley area to be developed for **150,000 residents**

Competitiveness

- The bill on the **suspension of some state inspections** from February 1, 2022, to December 31, 2024 was submitted to Parliament. The bill will reduce the negative economic impact of the COVID-19 pandemic, increase economic efficiency, and accelerate economic recovery.
- Individuals and business entities are no longer required to obtain any permits or special licenses to conduct 74 different business activities within the capital city.

EBRD projects Mongolia's GDP to grow at 6.5% in 2022



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