



MONGOLIA

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

October 2023

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Mongolia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on July 4, 2023, with the officials of Mongolia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 29, 2023.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund
Washington, D.C.**



IMF Executive Board Concludes 2023 Article IV Consultation with Mongolia

FOR IMMEDIATE RELEASE

Washington, DC – October 4, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Mongolia on Thursday, September 14, 2023, considered and endorsed the staff appraisal without a meeting.

Growth rebounded to 5.0 percent in 2022 and the external position stabilized as a result of China's reopening, the government's determined efforts to boost exports, and private sector financing inflows. After peaking in mid-2022, headline inflation gradually declined to 10.6 percent in June 2023 largely reflecting falling global prices. Core inflation also started to moderate. In light of the improving economic situation, a supplementary budget for 2023, passed in June 2023, introduced large and permanent increases in wages, benefits, and pensions. Strong mining sector activity and the fiscal expansion are expected to help sustain robust growth in 2023.

The procyclical fiscal expansion is expected to boost growth initially. However, with unchanged fiscal policies, inflation is expected to rise and remain above the target range set by the Bank of Mongolia (BOM) over the medium term, and external pressures could re-emerge. These factors are likely to weigh on the non-mining sector and growth outlook from 2024 onwards. Without consolidation measures, the overall fiscal balance is expected to deteriorate from a surplus in 2022 to a large deficit by 2024, placing public debt on an upward trend, and posing a risk to Mongolia's economic stabilization.

The risks surrounding the baseline outlook are tilted to the downside. Mongolia's high external debt, limited external buffers, and dependence on imports and commodity exports makes it vulnerable to external shocks. Additional policy slippages before the June 2024 Parliamentary elections could pose further risks to macroeconomic stability, as could lower than targeted coal exports.

Executive Board Assessment²

In concluding the 2023 Article IV consultation with Mongolia, Executive Directors endorsed staff's appraisal as follows: Mongolia's economy has stabilized from a difficult position in 2022. After multiple global shocks and policy excesses, China's reopening, the government's successful efforts to facilitate exports and rollover external debt, greater ER flexibility and tighter domestic financial conditions gradually began to yield economic dividends. The external position stabilized by late 2022 but remained weaker than the level implied by medium-term fundamentals and desirable policies. GIR improved and inflation moderated through 2023H2, supported by stronger exports, and weaker global food and energy prices. The full operationalization of OT's underground copper mine in 2023Q1 was a major economic milestone. A supplementary budget for 2023 introduced large and permanent increases in wages, benefits, and pensions in anticipation of large revenue gains from record high coal exports.

The procyclical fiscal stimulus is likely to boost near term growth and inflation but also increases risks of macroeconomic instability. With the stimulus, inflation is likely to rise, remaining high for longer, and

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² Management has determined it meets the established criteria as set out in Board Decision No. 15207 (12/74); (i) there are no acute or significant risks, or general policy issues requiring a Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact in the near term; and (iii) the use of Fund resources is not under discussion or anticipated.

external pressures could re-emerge. The economic boost from the fiscal stimulus is likely to be temporary and start fading as higher inflation erodes real incomes despite continued support to growth from the mining sector. Despite stronger exports, external buffers are likely to remain low in 2023–25, due to a terms of trade deterioration, stronger imports related to public sector infrastructure, FDI and consumer goods, and weaker net financing inflows due to tighter global financing conditions. Downside risks dominate, including tighter global financial conditions, commodity price volatility, slower growth in China and the risk of further domestic policy slippages. Should a subset of these risks materialize, and the government's ambitious coal export targets fall short, the economic implications could be significant.

Fiscal consolidation and adherence to fiscal rules are imperative to preserve Mongolia's hard-won recent economic stabilization. An adjustment of 4 percent of GDP in 2023–24 underpinned by fiscal reforms could help achieve an orderly resolution of macroeconomic and external pressures, while improving debt dynamics. Such adjustments would be in line with the stated intentions to adhere to the FSL. Fiscal reforms should prioritize capital expenditures to projects with high returns and strong performance; contain the wage bill by reversing pay supplements, holding real wages constant for a few years and gradually rationalizing civil servants; reducing tax arrears and tax expenditures; targeting social assistance; allowing greater PIT progressivity; and undertaking pension reforms.

The BOM should continue to allow ER flexibility and opportunistically accumulate GIR. Given tighter global financial conditions, the external liability management plans of domestic entities and their ability to raise adequate external financing to fund domestic operations and maintain credit lines with foreign banks should be closely monitored. The government should repay DBM's external liabilities through new external borrowing and ensure adequate enforcement of Mongolia's currency settlement law and SOE repatriation requirements.

Domestic financial conditions should be tightened to contain inflation. The effective enforcement and harmonization of macroprudential policies across banks and NBFIs could help contain salary-based consumer lending, as could the permanent cessation of quasi-fiscal operations. Domestic debt issuance through market auctions can help contain excess liquidity. While the current monetary policy stance remains appropriate, the BOM should stand ready to tighten further if inflationary pressures or dollarization increases. Strengthening BOM's operational autonomy and the monetary policy framework would help build credibility and improve policy transmission. While ending the BOM's quasi-fiscal operations is a welcome development, the outstanding balances should be transferred to the government without involving any state-owned intermediaries.

Though broadly stable, the financial sector could be vulnerable to macroeconomic pressures. Supervision should be strengthened across the financial sector and intensified for high-risk banks and operations. The key priorities are to ensure effective offsite supervision; more frequent onsite supervision of D-SIBs; avoid regulatory forbearance; and align supervisory actions with BOM communications. The end 2023 deadline for shareholder diversification should be delayed, to provide banks with more time to attract fit and proper investors. Raising shareholder limits to facilitate the improved management and operation of banks and aligning withholding and capital gains taxes with international norms, could be helpful. The BOM should urge D-SIBs to develop time-bound plans for diversification and clarify the penalties and contingency plans in case the deadline is not shifted. Aligning the AML/CFT framework with FATF requirements and enhanced implementation for high-risk sectors and activities, is crucial.

Policies to improve the business climate, address corruption and strengthen governance are critical to attracting FDI and strengthening economic resilience. The strengthened Investment Law should be urgently enacted and implemented effectively to cut red tape, the Minerals Law overhaul should be accelerated, and the insolvency framework modernized. The effective enforcement of SOE governance reforms, a decisive resolution of DBM's governance challenges, and a strong judiciary would be important. The draft Whistleblower Law should be approved by Parliament without further delay.

Mongolia: Selected Economic and Financial Indicators, 2020-27								
	2020	2021	2022	2023	2024	2025	2026	2027
	Actual				Projections			
(In percent of GDP, unless otherwise indicated)								
National Accounts								
Nominal GDP (in USD million)	13,313	15,286	17,146	18,782	19,552	19,648	20,074	21,122
Real GDP growth (percent change)	-4.6	1.6	5.0	5.5	4.5	3.5	3.5	3.5
Contributions to Real GDP (ppt)								
Domestic Demand	-12.8	17.6	12.9	6.9	3.5	-1.1	1.4	3.5
Exports of G&S	-2.7	-7.5	13.4	10.6	4.5	5.7	4.7	3.1
Imports of G&S	10.9	-8.5	-21.3	-12.0	-3.5	-1.1	-2.6	-3.2
Consumption	76.3	67.9	64.9	64.4	67.5	67.6	69.7	71.0
Private	60.5	53.0	51.3	50.6	52.8	52.9	54.9	56.1
Public	15.8	14.9	13.7	13.8	14.7	14.7	14.8	14.9
Gross Capital Formation	22.4	36.7	39.9	38.3	36.8	33.4	29.5	27.3
Gross Fixed Capital Formation	23.6	26.8	25.2	27.0	26.4	24.2	20.3	19.5
Public	8.1	6.8	7.1	8.9	8.6	8.4	8.1	7.9
FDI	12.7	13.5	14.2	14.9	14.6	13.1	9.4	8.7
Domestic Private (including SOEs)	2.8	6.5	4.0	3.3	3.2	2.7	2.8	2.9
Gross national saving	17.3	22.9	26.5	27.4	24.2	23.1	20.4	18.9
Prices								
Consumer Prices (Avg; percent change)	3.7	7.4	15.2	12.3	12.3	12.0	10.5	8.9
Consumer Prices (EoP; percent change)	2.6	13.9	13.2	11.7	12.8	11.2	9.8	8.0
Copper prices (US\$ per ton)	6175	9317	8829	8404	8191	8225	8250	8271
Coal prices (US\$ per ton) 1/	74	150	123	125	110	100	100	100
GDP deflator (percent change)	3.7	14.4	17.7	11.4	9.6	10.2	9.6	8.6
General government accounts								
Primary balance (IMF definition)	-6.7	-1.1	2.1	1.0	-0.7	-0.2	0.1	0.4
Total revenue and grants	27.9	32.8	34.4	34.7	34.2	34.3	34.2	34.2
Primary expenditure and net lending	34.6	34.0	32.3	33.6	34.9	34.5	34.1	33.7
Interest	2.5	1.9	1.5	1.7	2.1	2.3	2.7	3.1
Overall balance (IMF definition)	-9.2	-3.0	0.7	-0.7	-2.8	-2.5	-2.6	-2.6
Non-mineral primary balance (in percent of GDP)	-12.8	-8.7	-7.3	-8.7	-9.6	-9.2	-8.9	-8.1
Gross financing needs	15.9	13.4	3.9	20.9	10.2	9.1	24.5	17.1
General government debt 2/	83.4	67.7	64.5	59.1	61.5	63.3	65.8	67.5
Domestic	5.6	3.2	4.4	6.3	6.0	9.3	12.6	15.7
External	77.8	64.6	60.1	52.8	55.5	54.0	53.1	51.8
Monetary sector								
Broad money growth (percent change)	16.2	13.8	6.5	12.3	9.9	11.8	11.9	11.8
Reserve money growth (percent change)	-12.7	6.5	39.9	5.3	8.7	9.5	9.8	10.2
Credit growth (percent change)	-3.8	18.5	8.6	8.6	8.9	9.6	10.0	10.0
Balance of payments								
Current account balance	-5.1	-13.8	-13.4	-10.9	-12.6	-10.3	-9.1	-8.5
Exports of goods	52.5	53.2	57.5	63.0	59.3	60.6	61.0	60.9
Imports of goods	39.3	44.3	50.3	51.0	49.7	48.5	47.5	46.6
Gross official reserves (in USD million) 3/	4534	4366	3400	3005	3412	3692	4419	5112
(In months of imports)	5.9	4.3	3.0	2.7	3.1	3.3	3.8	4.3
Net International Reserves (NIR) 7/	1065.9	779.1	-796.6	-1346.2
(net of bank's FX deposits held at the BOM)	3651	3612	1949	1695.6
Net international reserves (NIR) 4/	1066	779	-797	-1196
Exchange rate								
Togrog per U.S. dollar (eop)	2850	2849	3445

Sources: Mongolian authorities; and IMF staff projections.

Note: The projections assume higher coal export volumes (47 million tons in 2023 and 50 million tons/year in 2024-27) reflecting government forecasts, OT's revised medium-term copper production and FDI plans, and updated information on SOE off-take contracts. The forecasts take the 2023 supplementary budget into account.

1/ Historical data from China General Customs Administration.

2/ Excludes BOM liabilities to PBOC. Domestic debt in 2022 includes government's liabilities to BOM related to the TDB settlement with regard to Erdenet as well as the DBM's borrowing from BOM. Assumes DBM Eurobond maturity in 2023 is financed through new external borrowing by the government while DBM Samurai bond is repaid without external refinancing. Assumes full rollover of the government's Eurobonds maturing in 2023-24.

3/ Gross official reserves includes drawings from the PBOC swap line rolled over in 2023, 2026 and IMF SDR allocation in 2021.

4/ NIR is defined as GIR excl. commercial banks' and government's US\$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.



MONGOLIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

August 29, 2023

KEY ISSUES

Mongolia's economic conditions stabilized by 2023H2, helped by China's reopening. The economy was in a challenging position in 2022 with widening external and internal imbalances due to multiple global shocks, policy excesses and governance lapses. However, greater exchange rate (ER) flexibility; the government's strenuous efforts to facilitate exports; an influx of new private external financing, and some moderation of global shocks helped lift economic activity, moderate inflation, and stabilize the external position by end-2022. Effective public debt management by the government mitigated rollover risks. A supplementary budget for 2023 introduced large and permanent expansions in wages, benefits, and pensions.

The procyclical fiscal stimulus from the supplementary budget will lift near term growth and inflation but entails increased macroeconomic stability risks. The growth boost from the stimulus is expected to fade from 2024 onwards as higher inflation and external pressures begin to weigh on the non-mining sector. The mining sector is, however, likely to grow strongly due to improving operational capacity. Despite stronger exports, the current account deficit is likely to remain large due to lower commodity prices and large imports. As a result, GIR is likely to remain low in 2023–25. The outlook is subject to downside risks, notably from the possibility of additional domestic policy slippages before the June 2024 Parliamentary elections, weaker-than-expected coal exports to China, tighter global financial conditions, and commodity price volatility. Mongolia's sizeable negative NIIP position, weak external buffers, import and commodity export dependence make it vulnerable to external shocks.

Fiscal consolidation and adherence to fiscal rules are critical to ensure macroeconomic stability. Consolidation should entail measures to contain the wage bill, prioritize public investment, increase progressivity in personal income taxes (PIT), introduce means-tested social assistance targeting, and continued improvements in public investment management (PIM) and tax and customs administration. Without corrective action, the procyclical fiscal expansion may jeopardize Mongolia's hard-won recent economic stabilization.

External buffers should be strengthened to build resilience to external shocks. The BOM should continue to allow greater ER flexibility and opportunistically accumulate GIR, especially if mineral exports exceed the government's targets or external financing inflows improve. Besides fiscal consolidation, the government should refinance DBM's

maturing debt, better enforce SOE repatriation and the currency settlement law, and undertake reforms to attract new FDI and external private financing.

Monetary and macroprudential policies will need to ensure that domestic financial conditions remain tight. The government should assist the BOM to mop up excess liquidity by undertaking its planned 2023 domestic debt issuance through market auctions. The BOM should effectively enforce the debt service to income limits (DSTI) in banks, while the DSTI of the non-bank financial sector should be harmonized with those of the banking sector to contain excessive salary-backed consumer credit. Although the current monetary policy stance remains appropriately tight, further policy rate hikes may be needed if external imbalances worsen resulting in broader pressures for dollarization. The BOM's operational autonomy should be strengthened but so should independent oversight over, and internal controls within, the BOM. The cessation of BOM's quasi-fiscal operations should not be resuscitated.

Financial sector supervision should be strengthened and intensified. Supervisors should effectively implement off-site supervision, prioritizing high-risk banks and operations; conduct full scale onsite supervision for domestic systemically important banks more frequently; and ensure bank capital is of high quality and from fit and proper investors; avoid regulatory forbearance. The end-2023 deadline for shareholder diversification should be delayed.

Addressing corruption and strengthening governance and institutions are critical. The anti-corruption and regulatory framework should be upgraded and effectively enforced. SOE governance and transparency should be reinforced and DBM's long-standing governance challenges resolved. The draft Whistleblower Protection law should be passed without further delay.

A comprehensive development agenda is needed to reduce medium-term vulnerabilities. This includes measures to attract FDI, enhance public sector efficiency and diversify the economy by effectively implementing the Investment Law and accelerating the overhaul of the Minerals Law.

Approved By

**Thomas Helbling
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Loko (SPR)**

An IMF staff team visited Ulaanbaatar, Mongolia on June 21–July 4, 2023. The team included Angana Banerji (head), SeokHyun Yoon (outgoing Resident Representative), Tigran Poghosyan (Resident Representative), Pranav Gupta, Yi Wu (all APD), Manabu Nose (FAD), Alain Kabundi (MCM), and Fabiano Rodrigues Bastos (SPR). Minjoo Park (OEDAP) participated in the discussions. Thomas Helbling (APD) and Robert Nicholl (OEDAP) joined the concluding meetings. The team received excellent support from David Corvino (ICD); Mmes. Selenge, Ardag, and Khulan (economists in the Resident Representative's Office), Stella Tam and Livia Tolentino (all APD); and Tina Burjaliani and Heena Gupta (LEG). The IMF team met with the Speaker of the Parliament G. Zandanshatar, Deputy Prime Minister Khurelbaatar, Finance Minister B. Javkhlan, Bank of Mongolia Governor B. Lkhagvasuren, and other senior officials.

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Acronyms

ADP	Annual Development Plan
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
APL	Anti-Pandemic Law
APG	Asia Pacific Group for Money Laundering
ARA	IMF Assessing Reserve Adequacy Metric
AQR	Asset Quality Review
BO	Beneficial Owners/Ownership
BOM	Bank of Mongolia
CBL	Central Bank Law
CIT	Corporate Income Tax
CMP	Child Money Program
DBM	Development Bank of Mongolia
DICOM	Deposit Insurance Corporation of Mongolia
ETT	Erdenes Tavan Tolgoi
FATF	Financial Action Task Force
FHF	Future Heritage Fund
FRC	Financial Regulatory Commission
FSF	Fiscal Stability Fund
FSL	Fiscal Stability Law
D-SIB	Domestic Systemically Important Bank
GASR	General Authority for State Registration
GIR	Gross International Reserves
IAAC	Independent Authority Against Corruption
IIP	International Investment Position
IPO	Initial Public Offering
MOED	Ministry of Economy and Development
MOF	Ministry of Finance
MNT	Mongolian Togrog
MPG	Monetary Policy Guideline
MTBF	Medium-term Budget Framework
NAO	National Audit Office
NIIP	Net International Investment Position
NIR	Net International Reserves
NPL	Non-Performing Loans
NPV	Net Present Value
NRP	New Revival Policy
PBOC	People's Bank of China
PEP	Politically Exposed Person
PFM	Public Financial Management
PHC	Public Housing Corporation
PIMA	Public Investment Management Assessment

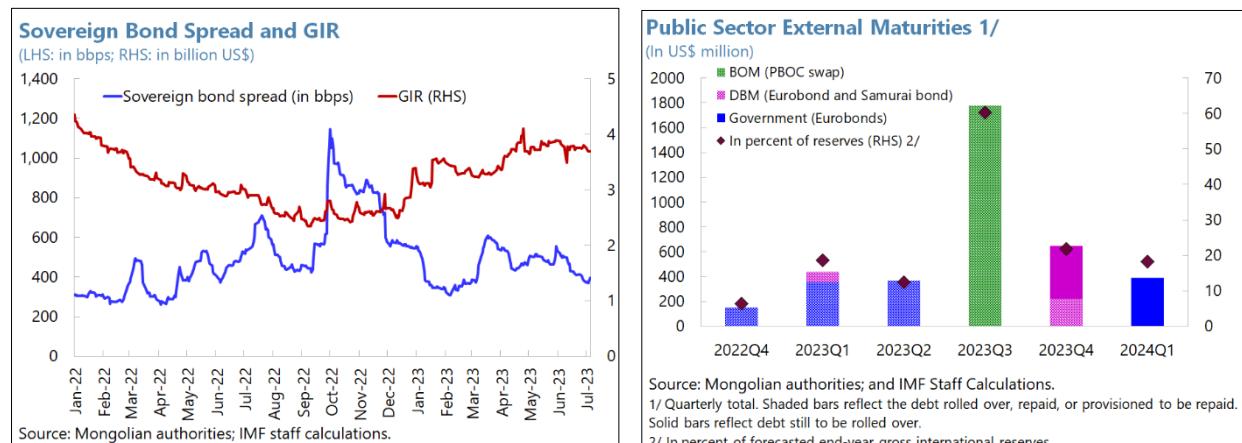
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PIMIS	Public Investment Management Information System
PIS	Pension Insurance Scheme
PIT	Personal Income Tax
SDG	Sustainable Development Goals
SOE	State-Owned Enterprises
SSC	Social Security Contributions
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool

CONTEXT: STEPPING BACK FROM THE BRINK

1. Mongolia faced multiple economic challenges in 2022. From mid-2021 through much of 2022, the economy was hit by multiple global shocks as it emerged from the pandemic. The impact of closed borders of its main trading partner, China, was aggravated by the Ukraine war and sanctions on Russia, Mongolia's only other neighbor. Subsequently, rising global prices and sharply tighter global financing conditions dealt a double blow to the import-dependent and indebted economy. Mongolia's policy response to the pandemic, including its sizeable untargeted policy support and interventions to stabilize the exchange rate (ER), also contributed to the large and rising external and internal imbalances. These factors culminated in sovereign spreads spiking in 2022Q3 ahead of large external debt repayments that were coming due in 2023–24.

2. Economic conditions have since stabilized somewhat, helped by China's reopening. The government is aggressively facilitating exports, with new leadership installed at the helm of Erdenes Tavan Tolgoi's (ETT), the major state-owned coal exporter beset with governance challenges. Greater ER flexibility and tighter domestic financial conditions due to hikes in the monetary policy rate to 13 percent and banks' risk aversion, helped contain imports. Stronger export volumes and prices and a large influx of private sector financing at end-2022 shored up gross international reserves (GIR) which, together with improved global financial conditions, helped alleviate pressures on sovereign bond spreads (Figure).¹ When global financial conditions improved in early 2023, the government successfully refinanced its Eurobond obligations (Figure).² The US\$1.8 billion PBOC swap was rolled over till 2026 in August 2023.

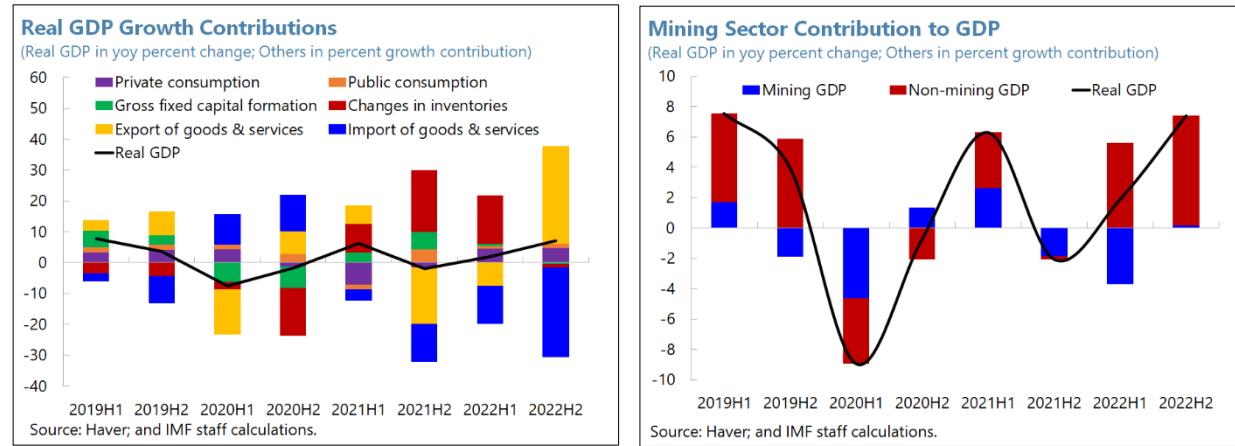


3. GDP growth surged to 5 percent in 2022 and 7.9 y/y in 2023Q1. Export facilitation and China's reopening triggered an export-led economic recovery in 2022H2 (Figures, Figure 1). Growth was also supported by the ongoing post-pandemic recovery in domestic activity boosted by continued fiscal and quasi-fiscal policy support; FDI into the OT copper mine; and base effects from the 2021H2/2022Q1 GDP contraction. However, mining sector activity remained stagnant (Figure),

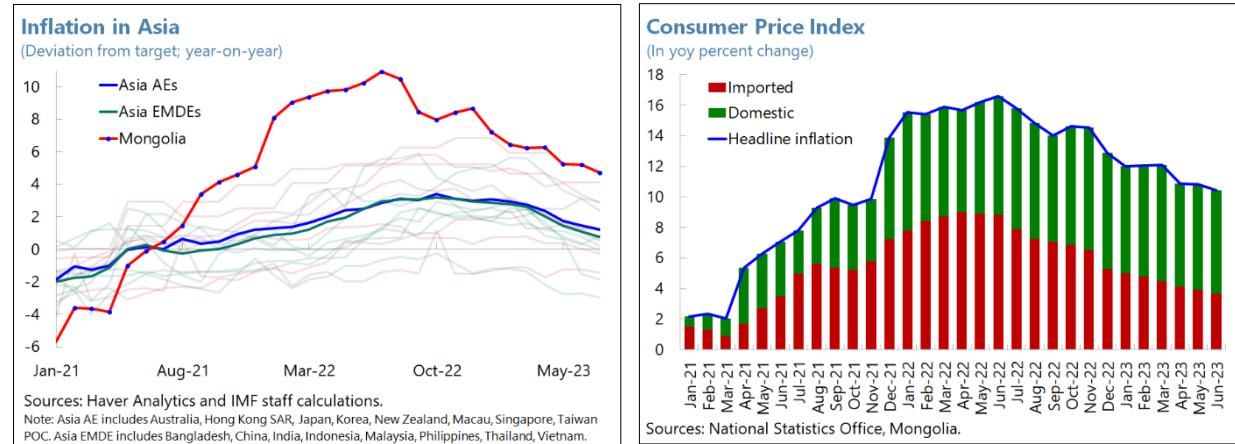
¹ Moody's and S&P Global reaffirmed Mongolia's sovereign ratings at B3 stable and B (outlook stable), respectively.

² On January 10th, 2023, Mongolia issued a US\$650 million Eurobond with a 5-year tenor and coupon rate of 8.65 percent to help refinance the Eurobonds maturing in May 2023 and a part of the US\$600 million Eurobonds maturing in 2024. The bond was oversubscribed up to about \$4 billion.

as stronger coal exports largely reflected a drawdown of accumulated inventories, and lower copper and gold concentrates, and border disruptions hampered other mineral production.



4. Inflation is moderating, largely due to global factors. At 9.2 percent in July 2023, headline inflation remains above the BOM's 6 ± 2 band but on a declining trend after peaking in mid-2022, despite the strong passthrough of a depreciating ER through 2023Q1 (Figures, Figure 2). This largely reflects falling global prices, and to some extent, declining domestic prices due to easing supply constraints in transportation, and rising meat production. Core inflation has also recently started moderating after a sustained year-long rise.



5. However, external imbalances remain large. A key vulnerability stems from Mongolia's large net international investor position (NIIP) and external debt—already among the world's largest (Figure), making it susceptible to external shocks and tighter global financial conditions.

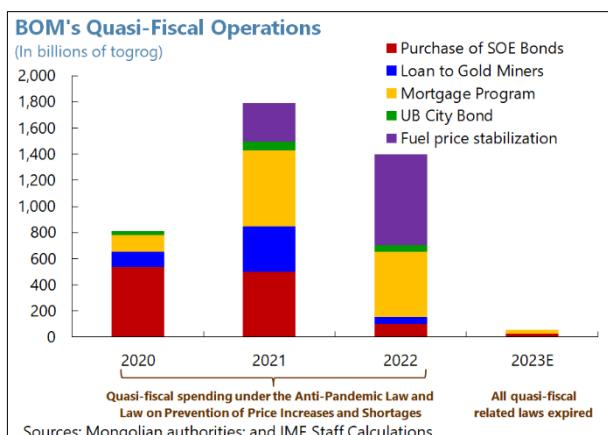
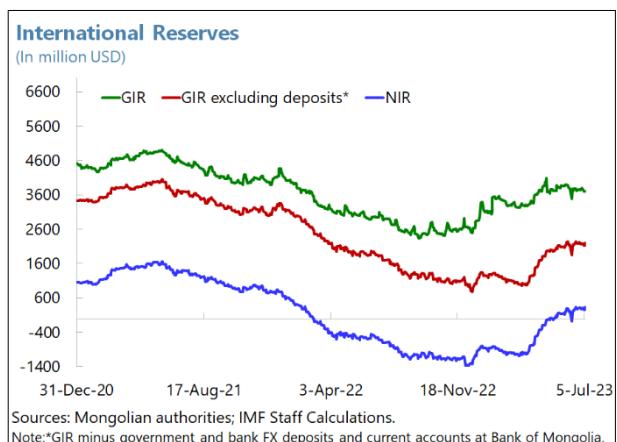
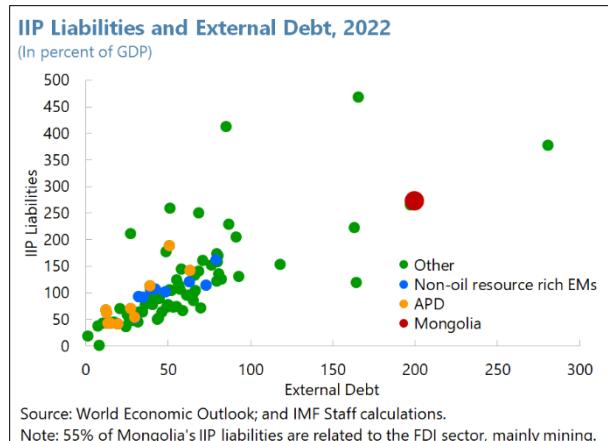
- Notwithstanding the export recovery, the 2022 current account (CA) deficit remained wide due to weaker exports prices and large imports related to public sector infrastructure, FDI, consumer goods and transportation services (Figure, Figure 3). The former includes the impact of ETT's multi-year off-take agreements worth US\$3.4 billion which also lock in coal export price discounts (Annex I). Imports were also boosted by the post-pandemic release of pent-up domestic demand. The external position at end-2022 is assessed to be weaker than implied by

fundamentals and desirable policy settings (Annex II). Notwithstanding a large depreciation in the ER since early 2022 in response to external pressures, a small REER gap remains.

- GIR continues to be low (US\$3.4 billion at end-2022 and US\$3.8 billion at end-July 2023, 3.4 months of imports and 87 percent of the ARA metric). GIR (excluding commercial banks' FX deposits at BOM) and net international reserves (NIR), excluding all BOM's FX liabilities, are lower still (Figure).
- Finally, while the sound execution of debt management operations has mitigated sovereign rollover risks, rollover risks for other entities (e.g., the private sector) remain high.³

6. While other policies have tightened, fiscal policy is set to become expansionary in the run-up to the June 2024 Parliamentary elections (Annex III). In addition to the BOM allowing greater ER flexibility and tightening monetary policy,

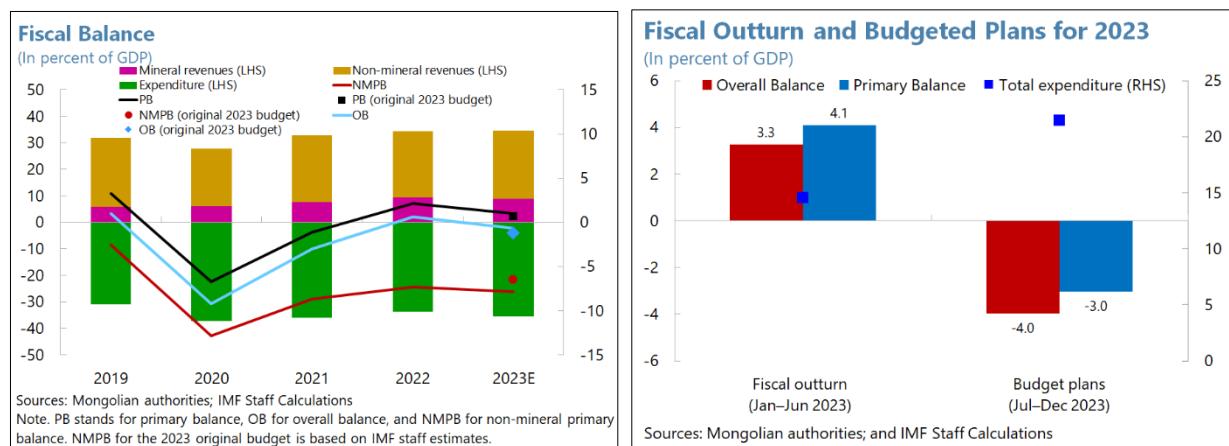
- **Parliament terminated the BOM's quasi-fiscal operations** by allowing the Anti-Pandemic Law, the legislative basis for these operations, to expire at end-2022 after multiple extensions. Moreover, the 2023 Monetary Policy Guidelines (MPG), approved by Parliament, mandates that the outstanding quasi-fiscal operation balances (7 percent of GDP) be moved off the BOM's balance sheet by end-June 2023.⁴



³ Balance of payments data for January-April 2023 indicates net financial outflows of US\$222 million, in contrast to net inflows of US\$294 million during the same period in 2022, reflecting net private sector repayments and consistent with continued challenges in the external financing landscape.

⁴ The BOM's advance payments to banks for the subsidized mortgage program in December 2022, however, *de facto* allows these operations to continue through 2023H1. The BOM has also instructed banks to use amortization proceeds for new mortgage financing instead of repayment to the BOM which is not expected to increase credit growth.

- The fiscal position is expected to deteriorate by end-2023**, despite better-than-expected performance through 2023H1 mainly reflecting a large overperformance of commodity revenues (Figure 4). Public expenditures have been expansionary relative to pre-COVID levels due to persistently higher untargeted social transfers through the Child Money Program (CMP) and the large pipeline of public investment projects to complete ongoing multi-year projects in the original 2023 budget. The supplementary budget approved in mid-2023 introduces large and permanent spending increases in the wage bill and pension benefits—amounting to 3 and 6 percent of GDP in 2023 and 2024 respectively. As a result, the non-mineral primary balance (NMPB), which would have continued to record a deficit relative to pre-pandemic levels in the original 2023 budget, is now expected to deteriorate by year-end (Figures). IMF staff forecasts assume that the large spending increase will be funded by stronger export-related revenues and a mix of domestic and foreign financing.⁵ Domestic bonds issuance started again in 2022 after a long pause, through private placements, but market issuance is planned in 2023.



7. Public pressure instigated steps to address governance lapses. Public outcry in late-2022 regarding alleged coal theft from ETT led to an emergency resolution to declassify ETT’s off-take contracts with a domestic company and hire an international audit firm to examine its operations. The Independent Agency for Anti-Corruption (IAAC) is also investigating ETT.⁶ SOE reforms were introduced to improve operational transparency and governance more broadly through strengthened disclosure of commercial contracts and transactions, a ban on new off-take contracts, and an open selection of board members. A more transparent pricing mechanism for coal exports through online auctions was introduced on a pilot basis and is expected to extend to all SOE commodity exports starting January 1, 2024. ETT has effectively permanently suspended a large off-take contract, though its efforts to renegotiate the remaining contracts have had limited success. Legal proceedings are also ongoing regarding DBM, following a 2022 BOM audit which discovered large NPLs due to weak lending practices, oversight, and governance leading to several illegitimate

⁵ The 2023 fiscal forecast (Tables 5a-5b) incorporates spending plans approved in the supplementary budget, and projects revenues in line with tax policy measures in the supplementary budget, and staff macroeconomic and external forecasts.

⁶ The investigation covers ETT’s unrecorded coal extraction, transportation, and sale, coal contracts, beneficial owners (BO) of coal transportation companies, and project financing.

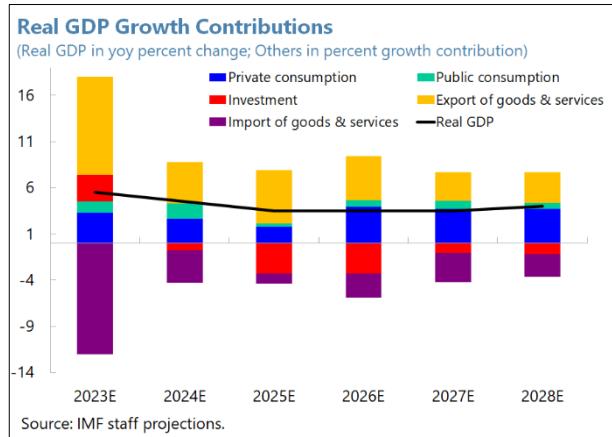
loans to BOs of borrowing companies.⁷ The governance challenges arose despite a strengthened DBM Law in 2017. A Parliamentary working group issued recommendations to strengthen DBM's governance, but these recommendations lack detail. The modalities for DBM's external debt repayment are being decided.

8. Other reforms are advancing gradually (Annex III).

- **The legislative agenda is moving forward** with Parliament approval of the public-private partnerships (PPP) law, the Investment Banking law, medium-term budget framework (MTBF) and fiscal oversight and accountability reforms, and a package of Social Insurance laws, including the Pension law. Parliament is slated to discuss reforms in private pension system, and the insolvency framework in 2023H2. These initiatives have benefitted from IMF assistance, with World Bank (WB) assistance on pension and social insurance reforms. An updated Public Investment Management Assessment (PIMA) was recently completed, and IMF assistance remains underway for operationalizing the PPP law and fiscal and SOE risk assessment.
- **Banking sector reforms continue.** Following the BOM's Asset Quality Review (AQR) of five domestic systemically important banks (D-SIBs) in 2022, all five have since launched initial public offerings (IPO). IMF assistance on upgrading the BOM's macroprudential framework; bank corporate governance regulatory framework in line with Basel Corporate Governance Principles; and improving its risk-based supervision (RBS) framework, continue.

OUTLOOK: A RETURN TO IMBALANCES

9. **After an initial uptick, growth is expected to slow in 2024–27.** Mining sector activity is likely to resurge as the primary engine of growth following China's reopening, ETT's improved performance, the operationalization of OT's underground copper mine starting 2023Q1, and a reorientation of coal export transportation toward domestic companies (Table 2). The 2023 growth outlook will be further boosted by the fiscal stimulus starting in 2023H2, notably the public sector wage increases of 30-40 percent on average which will likely spillover to other sectors.⁸ However, these gains are expected to be gradually eroded by a mutually reinforcing pickup in inflation and ER pressures from 2023Q3 onwards (below) squeezing non-mining sector growth, especially in the informal and rural sectors, and by increasing credit and investor risk aversion and economic uncertainty. Therefore, while growth in 2023 has been upgraded to 5½ percent,

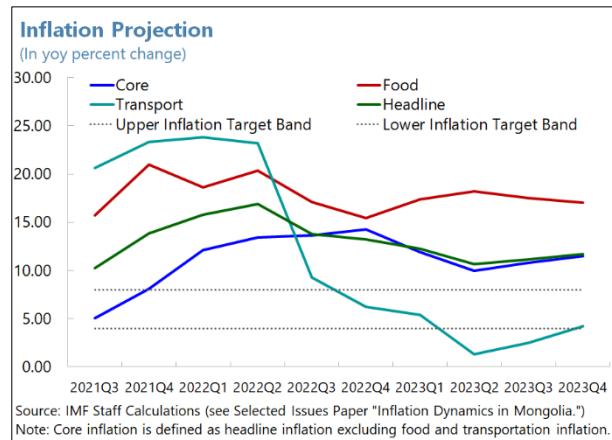


⁷ DBM's NPLs amounted to MNT1.7 trillion (3½ percent of GDP or 55 percent of DBM's total assets). 35 percent of NPLs were recouped in 2022, reducing DBM's NPLs to 1.2 percent of GDP at end-2022. NPL recovery continues in 2023.

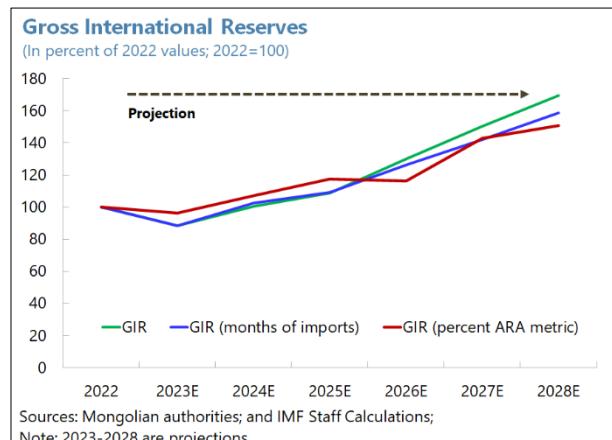
⁸ Public sector employees account for 25 percent of total employment in Mongolia.

medium-term forecasts envisage below-potential GDP growth despite stronger mining sector performance following the completion of the OT project and record coal exports to China.

10. Inflation is expected to rise in 2023H2–25 and decline to the BOM’s 6±2 percent target range over the medium term. Despite several moderating forces,⁹ inflation is expected to remain at 11.7 percent by end-2023 (Figure), instead of continuing its gradual decline, and rise further to 12.8 percent in 2024. The rise in inflation will be driven by the procyclical fiscal stimulus and public sector wage growth, which will add to domestic demand through the consumer credit channel (i.e., salary-backed loans), and will likely foster broader wage and cost-push pressures, given the declining labor force participation (Figure 1) and distorted labor market incentives from untargeted social transfers and large minimum pensions hikes in 2022. ER pressures due to large CA deficits and rising inflation expectations should also contribute to inflation. However, there is high forecast uncertainty due to significant commodity price volatility.



11. External buffers are likely to remain weak (Tables 3a-3b, Annex II). CA deficits are expected to remain large despite high coal and copper export volumes, stronger copper prices, fuel import price discounts, and a reorientation of coal export transportation toward domestic companies. The main reason are a terms of trade deterioration because of declining coal prices, high public infrastructure-related imports and FDI investments, and the boost to consumer imports from the supplementary budget.¹⁰ While foreign financing from multilateral agencies is forecast to remain in line with recent trends, new net external financing inflows from international markets is likely to decline if global interest rates remain high. While stronger OT FDI should help

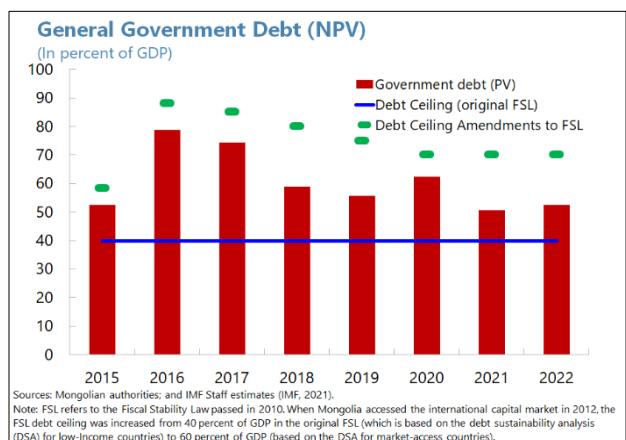
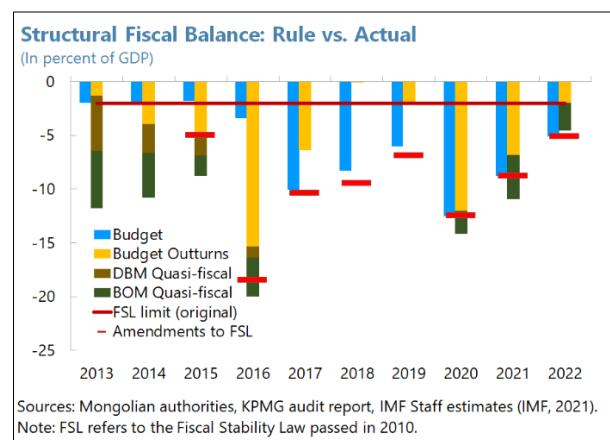
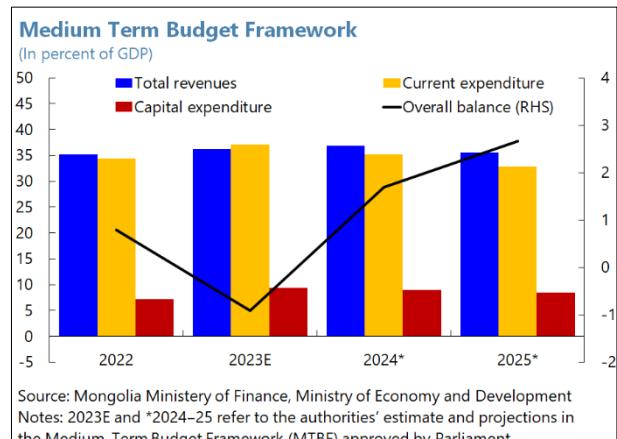


⁹ Some of the principal drivers of inflation in Mongolia can help moderate headline inflation, namely declining global food, energy and other imported commodity prices, coupled with an agreement to purchase Russian gasoline at a discount till 2027, and tighter domestic financial conditions (IMF (2022f): Selected Issues Paper on Inflation Dynamics). However, domestic food prices have been rising recently due to reduction in livestock and lower meat production.

¹⁰ Coal exports are assumed to increase to 47 million tons in 2023, higher than the record achieved in 2019 (36.5 million tons) and rise further to 50 million tons during 2024–27 as forecasted by the government. Early data suggests that the target could be achievable in 2023, provided logistical capacity constraints are resolved speedily. However, China's sustained demand for coal remains uncertain. Despite a drop in global coal prices, the forecasts assume a small increase in coal export prices for Mongolia in 2023 to reflect the new pricing mechanism through online auctions and improved transparency in ETT. Auction outcomes till June, 2023 corroborate this assumption.

mitigate the impact of these pressures, GIR is expected to decline in 2023 and remain low in 2024–25. Eventually, weakening domestic activity will begin to ease external pressures through import compression in the medium-term.¹¹

12. Fiscal forecasts for 2024–27 assume unchanged policies given the lack of clarity about fiscal policy commitments for 2024 at this stage.¹² The government's 2024 budget forecasts and policy decisions are still preliminary. The Medium-Term Budget Framework (MTBF) for 2024–25 approved by Parliament provides some indication of the broad direction of fiscal policy (Figure), namely, consolidation in current spending, though with unspecified measures, and the implementation of the government's New Revival Policy (NRP) and, thereby, elevated capex through 2025. However, in recent years, approved budgets have deviated from the MTBF, thereby making it less than a fully reliable indicator of fiscal policy, especially in an election year. More generally, fiscal targets under the Fiscal Stability Law (FSL) do not provide a reliable signal about the direction of fiscal policy, given Mongolia's track record in adhering to the FSL (illustrated in Figures below and as noted in the IMF's July 2023 PIMA Update (see paragraph 24)).¹³ Parliament's recent



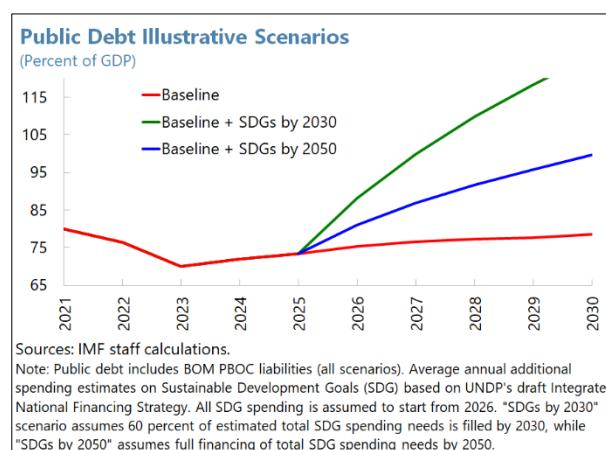
¹¹ Based on discussions with the government, DBM, BOM and private sector entities, the forecasts assume that external debt obligations coming due in 2023–24 will be rolled over barring some US\$1/4 billion owed by one entity. The forecasts also assume a gradual investment of the Future Heritage Fund (FHF) abroad starting 2026, given that the financial assets of the FHF are slated for new portfolio management by an independent entity after 2025.

¹² Fiscal forecasts for 2024–27 thereby assume unchanged revenue and expenditure measures based on historical fiscal outcomes as well as IMF staff macroeconomic forecasts. The 2024 expenditure projection assumes the full-year impact of wage and pension increase in the 2023 supplementary budget, growth of wages and purchases of goods and services in line with inflation, and elevated capex following the 2024 Annual Development Plan.

¹³ In "The private sector is contracting as the budget expands," G. Temuulen, Chairman of the Mongolian Parliament Budget Standing Committee, noted on June 23, 2023 "The Fiscal Stability Law (FSL) has been amended, upon the government's proposal, 13 times since its approval in 2010. In addition, Parliament approves the medium-term budget framework in May of each year, but it has become a norm to amend it when the annual budget proposal is submitted to Parliament...The current framework of budget preparation, discussion, and approval largely lacks transparency." ([Г.Тэмүүлэн: Төсөв томрох тусам хувийн хумигдаж байна \(vip76.mn\)](#)).

amendments to the FSL may improve adherence to the fiscal framework but in future, once the amendments become effective at a date that remains to be agreed with the Ministry of Finance.

13. Without corrective measures, fiscal balances are expected to remain in deficit during 2023–27, raising public debt ratios (Tables 5a-5b). Notwithstanding stronger coal exports, the NMPB is expected to record large deficits due to a softer outlook for commodity prices, the full-year impact of the large and permanent increases in pension and public sector wages and benefits in 2024 and elevated capex through 2027 in line with the government's Annual Development Plan. As a result, Mongolia's public debt is projected to rise to 67.5 percent of GDP by 2027, well above the appropriate debt anchor (50 percent of GDP),¹⁴ assuming that the Future Heritage Fund (FHF) and Fiscal Stability Fund (FSF) accumulations take place largely in line with legislative mandates. Mongolia, therefore, faces a high risk of sovereign stress (Annex V). Longer-term spending pressures due to the need to finance the deficit in the pension system and support development needs in line with the government's commitments, could further boost public debt (Figure).



Authorities' Views

14. The authorities were more optimistic about the overall economic outlook, although some of this assessment pre-dated the supplementary budget. The supplementary budget assumes GDP growth of 6 and 6.5 percent in 2023 and 2024 respectively driven by stronger coal export volumes (50 million tons), with inflation declining to 10 by end-2023 and reaching the BOM's target range by end-2024. The BOM expects the supplementary budget to have 2 percentage point impact on inflation and remains optimistic about inflation reduction in 2023–24, though more granular information would be needed to firm up inflation forecasts. According to the government, inflationary pressures from the supplementary budget would be contained through planned measures to reduce logistical bottlenecks to supply. The BOM's external sector projections were largely in line with staff's though slightly more optimistic on external financing prospects and GIR, with the BOM confirming that the PBOC swap had been rolled over. The government plans to address the negative impact of higher budget spending on GIR by improving non-mining exports. The BOM noted that it was misleading to emphasize GIR net of commercial bank deposits since banks need to maintain FX reserve requirements at the BOM.

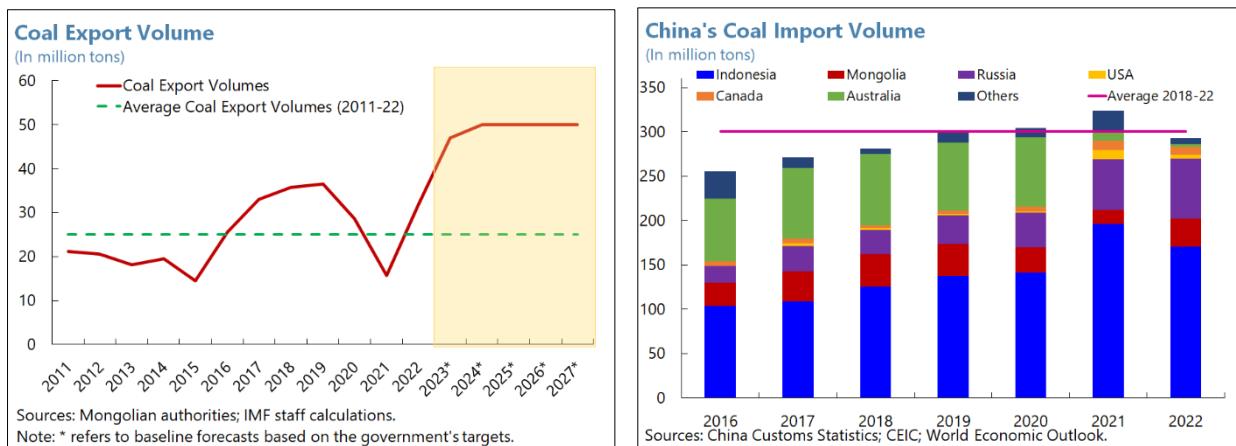
¹⁴ The 2019, 2021 and 2022 Article IV consultations recommended a nominal anchor of 50 percent of GDP as appropriate for Mongolia. IMF 2022f (Selected Issues Paper: Fiscal Framework) recalibrated the debt anchor using stochastic debt simulations for emerging market economies under various scenarios, with different levels of maximum debt thresholds and contingent liability risk. On balance, 50 percent of GDP (in nominal terms, excluding the PBOC swap) was considered to be an appropriate debt anchor which could help increase fiscal discipline through greater transparency.

15. The fundamental differences in views relate to the fiscal forecasts for 2024–27. The government projects the supplementary budget to be deficit neutral due to a windfall from coal exports. They firmly believe that their commitment to adhere to the deficit, debt, and expenditure targets in the Fiscal Stability Law in the 2024 budget would lead to stronger fiscal and economic outcomes than staff projections.

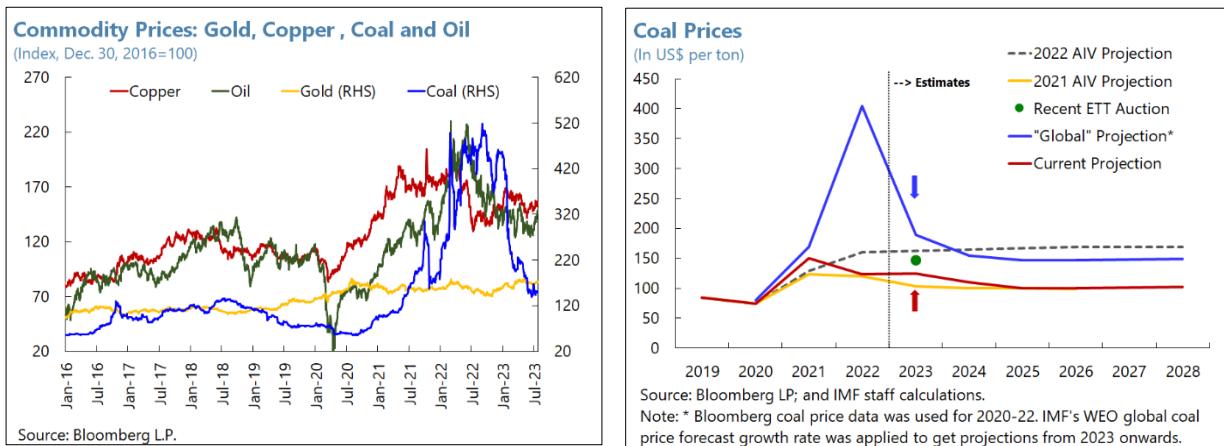
RISKS TO THE OUTLOOK: ON THE DOWNSIDE

16. Downside risks weigh on the outlook (Annex IV). Mongolia's negative NIIP position including high external debt and weak external buffers, and its dependency on imports and commodity exports leaves it vulnerable to external shocks. Mongolia is vulnerable, in particular, to tighter global financial conditions, commodity price volatility, intensifying geo-economic fragmentation, and China's recovery.

- A sharper-than-expected slowdown in China could reduce demand for commodity exports. The baseline forecasts assume significantly stronger coal export volumes to China—double the long-term historical average—based on the government's plans and recent successes in export facilitation (Figure). However, Mongolia's share in China's annual coal imports has remained broadly constant over the years (Figure), and logistical challenges may delay the achievement of ambitious export targets. Geopolitical developments inject further uncertainty.

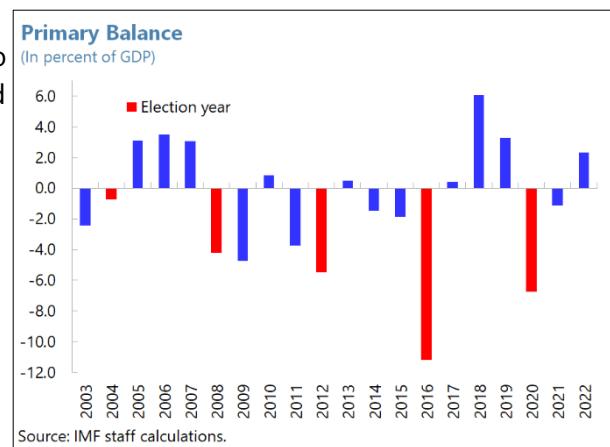


- Commodity price volatility has increased in recent years (Figure) and a negative price shock could materialize if global risks related to growth slowdown in AEs and China were to materialize. The baseline forecast assumes a more positive trend for Mongolia's coal export prices in 2023 than global developments due to the results of the pilot online coal auctions (Figure). Nevertheless, there is considerable uncertainty in commodity price developments.



- Domino effects from higher global interest rates and/or disorderly debt events in some EMDEs could spill over to Mongolia, resulting in capital outflows and an increase in risk premia. Rising external funding costs could aggravate financing and refinancing difficulties for domestic operations.
- Finally, disruptions in oil import payments due to escalating Russian sanctions could significantly hurt Mongolia's mining and energy sectors, which rely heavily on Russian petroleum products.¹⁵

17. Domestic developments could pose downside risks. The government's ability to maintain policy discipline ahead of the 2024 elections may present a challenge (Figure). If fiscal support were to be further increased, it could aggravate external and inflationary pressures. Contingent liabilities of the SOE sector also pose debt sustainability risks. An intensification of governance challenges could adversely affect public finances, external imbalances, and/or financial stability. On the other hand, should precautionary savings increase due to persistent economic uncertainty, it could present a potential upside risk for inflation and external developments, though a downside risk for growth.

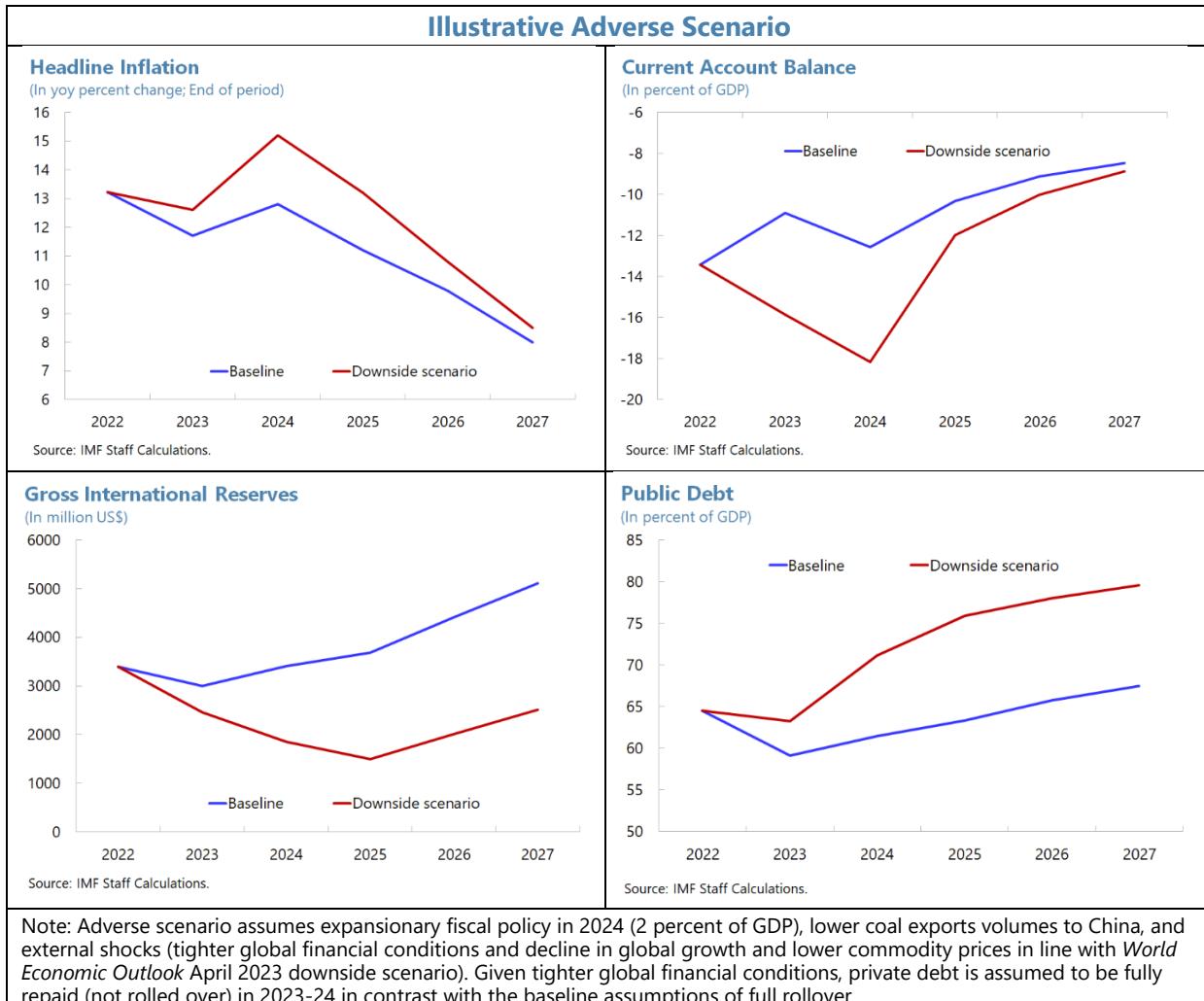


18. Mongolia's economic outlook could deteriorate if a subset of the downside risks were to materialize simultaneously. The illustrative adverse scenario is based on the global adverse scenarios from the *World Economic Outlook Update* (April 2023).¹⁶ The scenario also assumes coal export volumes to China to be 10 percent lower relative to the baseline (though still above the historical highs achieved in 2019) and higher budget spending (2 percent of GDP in 2024). Private sector external debt is assumed to be partly repaid (not fully rolled over) in 2023–24. Under such a downside scenario, exports receipts and fiscal balances would deteriorate, raising persistent

¹⁵ Due to the expansion of Russian sanctions, Mongolia's CBR with Russia is now limited only to yuan-transactions through Chinese banks. Discussions to resume CBRs with western banks have been advancing: a D-SIB's CBR with a US bank is expected to be operationalized by end-August 2023.

¹⁶ The following global shocks to the world-economy and commodity prices are modeled for 2023–24: lower global credit supply, flight to safety, decline in global equity prices and a fall in confidence.

inflationary and external pressures (Figures below). External buffers are likely to decline and remain precariously low in 2024–25. Widening fiscal deficits would increase gross financing needs and public debt sharply. Without new external financing and/or policy adjustment and given the still-limited domestic debt absorption capacity, these shocks could potentially result in budget financing constraints and lead to FX liquidity pressures in the banking system (paragraph 32). A disorderly adjustment of external and internal imbalances cannot be ruled out given the limitations of policy tools to contain inflation and FX pressures.



Authorities' Views

19. The authorities broadly agreed with the assessment of risks to the outlook. They emphasized the negative spillovers from continued geopolitical tensions and tighter global financial conditions. The government downplayed the risks to coal exports from an economic slowdown in China, claiming that Mongolia's coking coal was competitively priced and of better quality than competitors and would remain in strong demand due to continued demand for steel. They expressed confidence that high coal export volumes can persist despite logistical constraints and infrastructure gaps.

POLICIES TO PRESERVE MACROECONOMIC AND EXTERNAL STABILITY

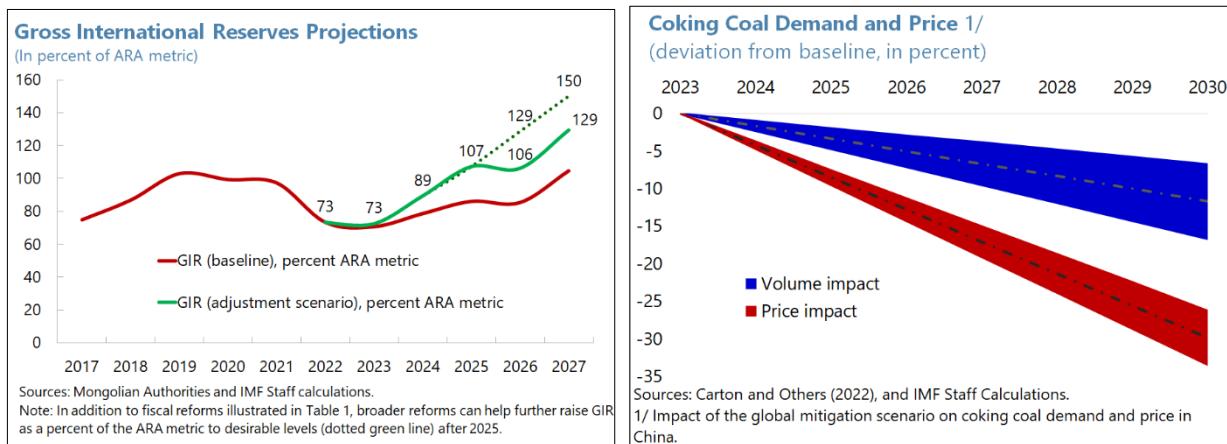
Fiscal consolidation and adherence to fiscal rules would be vital for ensuring macroeconomic stability. Fiscal spending should be reined in starting in 2023, and the 2024 budget should be based on high-quality revenue and spending measures to boost efficiency and equity. Greater ER flexibility is needed to boost external buffers, supported by a government refinancing of DBM's external debt and efforts to attract new FDI and private external financing. Stronger enforcement of macroprudential policies and the permanent cessation of quasi-fiscal activities should help contain inflation. These measures should be supported by effectively implementing SOE and fiscal governance reforms, and intensifying banking supervision.

20. In the aftermath of the passage of the 2023 supplementary budget, discussions focused on policies to preserve macroeconomic stability. The limited political appetite for major reforms before the upcoming elections constrains fiscal adjustment. The strong fiscal reforms recommended in the 2022 Article IV consultation have been difficult to implement. Even the limited social assistance targeting, and personal income tax (PIT) progressivity introduced in the 2023 budget are being challenged in the Constitutional Court. The former has now been reversed in the 2023 supplementary budget, with universal transfers restored retroactively from January 1, 2023. Additional efforts on PIT progressivity and social assistance targeting are, therefore, likely to be complicated in an election year, as will any reversal in the large permanent increases in wages, benefits and pensions. While there has been progress in other policy areas, such as ER flexibility and monetary policy tightening, relying solely on further adjustments in ER and monetary policy, without fiscal adjustment, has limitations given the weak monetary policy transmission, shallow FX markets and rising dollarization. While measures to facilitate and diversify exports and attract foreign investment can also alleviate economic pressures, these structural policy reforms are likely to help only gradually. Policy discussions, therefore, focused on fiscal consolidation (Section A), the main policy tool available amongst a limited arsenal; ER flexibility (Section B) and monetary and macroprudential policies (Section C). Discussions also reiterated the need for strong structural reforms to boost resilience in a challenging external environment by strengthening fiscal institutions, domestic debt markets, financial and non-financial sector balance sheets, and governance.

A. Fiscal Consolidation: The Main Policy Option

21. Fiscal consolidation is vital for ensuring macroeconomic stability. Fiscal adjustment will help contain domestic demand, and thereby improve external imbalances and debt rollover prospects, contain inflation, and alleviate Mongolia's high risk of sovereign stress (Annex V), which remains vulnerable to macroeconomic shocks and ER depreciation. Fiscal consolidation would also reduce fiscal and external risks stemming from permanent increases in less productive spending on the basis of volatile commodity-related revenues. It would also create room to absorb exogenous shocks and planned development needs in the government's *Vision 2050* program and NRP, large contingent liabilities from the SOE and financial sectors, and future commodity revenue losses from

global efforts to reduce emissions (Figure). Without fiscal consolidation, the risk of persistent imbalances is high, given the limitations of other policy tools and budget financing options. Illustratively, fiscal adjustment of around 4 percent of GDP in 2023–24 underpinned by fiscal reforms could help achieve an orderly resolution of macroeconomic and external pressures while setting public debt on a downward path toward the recommended debt anchor of 50 percent of GDP by 2027 and raising GIR to adequate levels (Figure). Such an adjustment would also be consistent with the government's intention to adhere to the FSL. The government should refrain from using fiscal transfers to the FHF for budget spending to contain debt to adhere to the fiscal framework.¹⁷



22. Fiscal spending should be contained in 2023, despite the political constraints posed by the elections. Savings on capital expenditures could be immediately achieved by prioritizing projects with high economic returns and strong performance, limiting transfers of unspent capex to line ministries for un-shoveled projects, and strengthening the monitoring of project execution. Taking advantage of the excellent progress in developing a new household database, social spending should be rationalized by eliminating the duplication of beneficiaries in social welfare and pension benefits.

23. The 2024 budget should prioritize high-quality measures to strengthen macroeconomic stability, efficiency, and equity. Possible savings from fiscal measures are elaborated in Annex VI and illustrated in Table 1.

¹⁷ As discussed in IMF (2021), using FHF transfers to finance spending, without addressing the underlying factors driving the debt dynamics, would not fundamentally alter the debt path over time. Moreover, using such transfers would come at a permanent cost to future Mongolian generations. In the current context, domestic debt issuance through market auctions to facilitate FHF accumulation could help absorb excess liquidity and help develop the domestic debt market.

Table 1. Fiscal Adjustment to Boost International Reserves and Improve Debt Sustainability
 (In percent of GDP)

	2022	2023		2024		2027		Impact of Reforms and Macro by 2027
	Baseline	Baseline	Reform	Baseline	Reform	Baseline	Reform	
Total Revenue & Grants	34.4	34.7	34.6	34.2	35.3	34.2	36.4	2.2
Tax Revenue 1/ 2/	31.3	31.2	31.2	30.8	31.9	30.7	33.0	2.2
Social security contributions	5.6	6.0	6.0	6.2	6.2	6.2	6.2	0.0
CIT 2/	5.1	5.1	5.1	4.9	5.4	5.0	5.7	0.7
PIT	2.4	2.4	2.4	2.4	2.6	2.5	2.9	0.4
VAT 3/	7.3	7.5	7.4	7.3	7.6	7.1	8.0	0.9
Excise taxes 3/	1.6	1.6	1.6	1.8	1.8	1.8	1.8	0.1
Total Expenditure	33.7	35.4	34.6	37.0	33.9	36.8	34.4	-2.4
Current Expenditure	26.4	26.7	27.0	28.7	27.2	29.2	26.5	-2.7
Wages and salaries 4/	6.2	7.5	7.5	8.7	7.8	8.6	7.2	-1.4
Purchase of goods and services	6.5	5.7	5.7	5.9	5.6	6.0	5.7	-0.3
Pension 5/	5.6	5.9	5.9	6.4	6.2	5.9	5.4	-0.5
Child Money Program 6/	2.8	2.4	2.4	2.2	2.2	2.2	1.6	-0.6
SDG (Health & Education) 7/	0	0	0	0	0	0	1.1	1.1
Capital Expenditures 8/	7.3	8.6	7.6	8.4	6.7	7.6	7.9	0.2
Project management/selection (PIMA) 9/	0	0	0.3	0	0.2	0	0	...
Maintenance Spending (PIMA) 9/	0.3	0.3	0.3	0.3	0.3	0.3	0.8	0.5
Overall Balance	0.7	-0.7	0.0	-2.8	1.4	-2.6	2.0	4.6
Primary Balance	2.1	1.0	2.0	-0.7	3.4	0.4	4.1	3.7
Structural Balance (Fiscal Stability Law)	-5.2	-2.6	-1.7	-6.9	-2.8	-6.2	-1.9	4.3
Non-mineral Primary Balance	-7.3	-8.7	-7.5	-9.6	-5.5	-8.1	-4.4	3.7
Public Debt	64.5	59.1	58.2	61.5	59.7	67.5	53.6	-13.9
Memorandum Items:								
Nominal GDP (US\$ million)	17146	18782	18781	19552	19541	21122	21729	607
GDP growth (YoY)	5.0	5.5	5.5	4.5	3.5	3.5	5.0	1.5
Inflation (YoY)	15.2	12.3	12.3	12.3	10.9	8.9	6.7	-2.3
Gross International Reserves (in US\$ million) 10/	3400	3005	3080	3412	3873	5112	6305	1193
In months of imports	3.0	2.7	2.8	3.1	3.6	4.3	5.2	0.9

Source: IMF Staff Projections

1/ Collection of tax arrears (1 percent of GDP over 2024-25) and rationalization of tax expenditure (0.9 percent of GDP over 2024-26) across all

2/ Assumes gains from tax administration reform (a total of 0.6 percent of GDP in 2024) across all taxes.

3/ Assumes new measures on luxury consumption tax and excise tax on cigarettes (about 0.1 percent of GDP in 2024). VAT revenues affected by lower capex-related imports and lower nominal GDP in 2023, but improves due to gains from revenue measures by 2027.

4/ Includes savings by introducing performance-based budgeting, cut in pay supplements and nominal wage freeze in 2024, and rationalization in civil services over 2025-27.

5/ Pension reforms saving under a mix of wage and price-based indexation of pension benefits based on 2023 estimates by the World Bank.

6/ Assumes the introduction of means-tested CMP after 2025 which reduces CMP benefits for the upper quintiles of income distribution (Annex V).

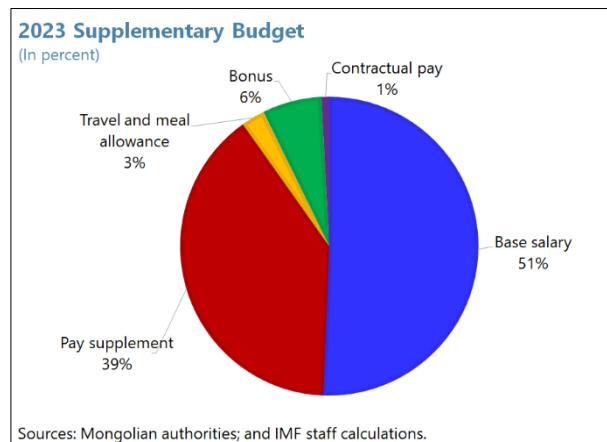
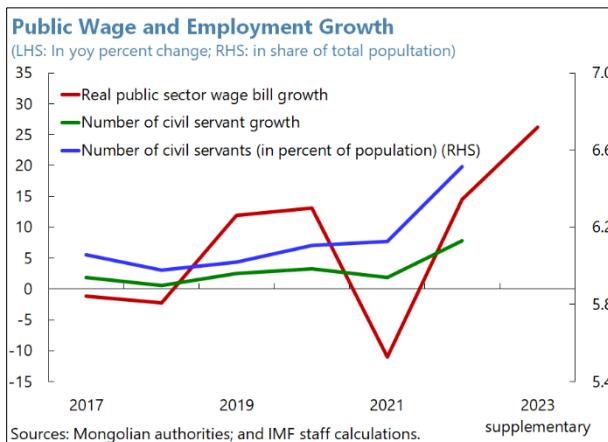
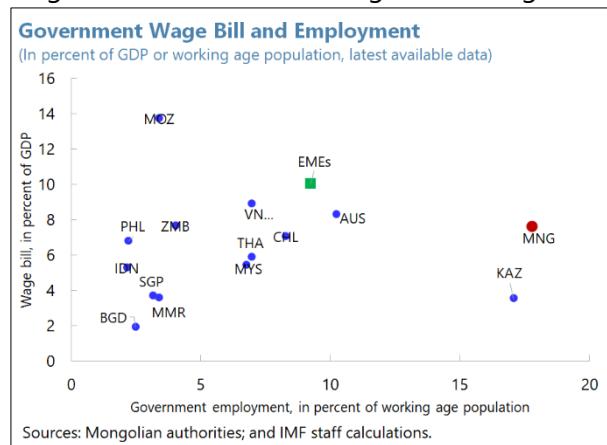
7/ Includes additional social spending to meet SDG (or the government's Vision 2050) goals (1.1 percent of GDP for 2025 onwards).

8/ Reprioritization/reduction in public investment (MNT802bn in 2023-24). Assumes additional infrastructure spending by PPPs to meet SDG goals (1 and 2 percent of GDP for 2026 and 2027, respectively) as contingent liabilities.

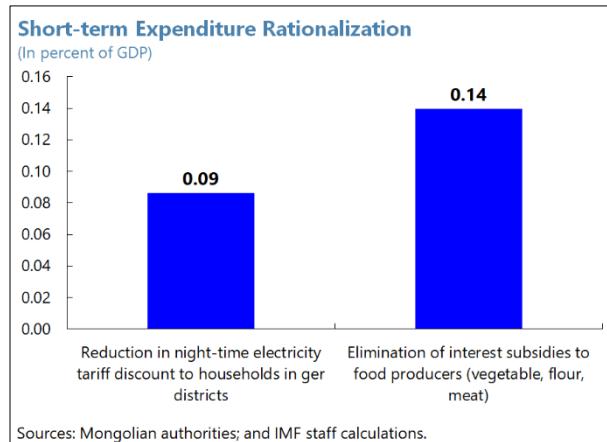
9/ Implementation of PIMA creates fiscal savings (0.5 percent of GDP in total) over 2023-24 through strengthened capex portfolio management and effective project selection. Savings can be used to increase maintenance spending.

10/ Reflects impact of fiscal consolidation and improved prospects for refinancing/financing relative to baseline due to greater investor confidence following fiscal reforms. DBM Eurobond maturity in 2023 is financed through new external borrowing by the government while the DBM Samurai bond is repaid without external refinancing, leading to a net DBM-related BOP outflow of US\$223 million.

- To achieve fiscal savings, the automatic increase in civil service pay supplements (such as overtime) as a result of the 2023 supplementary budget should be rolled back given the large real increase in base pay and the six-fold increase in pay supplements over 2017–23 which has led to pay supplements accounting for 40 percent of **the civil service wage bill** (Figure). Given the rapid expansion since 2018, the size of the civil service should be gradually rationalized to pre-COVID levels to better align with EMDE norms (Figures below). Public sector wage rates should be frozen at end-2023 levels in 2024 in nominal terms and subsequently maintained in real terms for a few years.

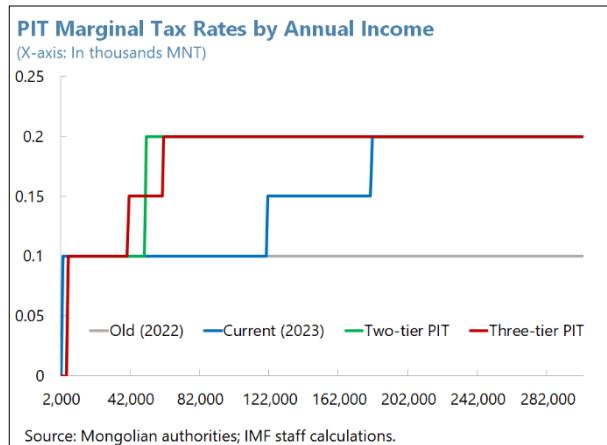
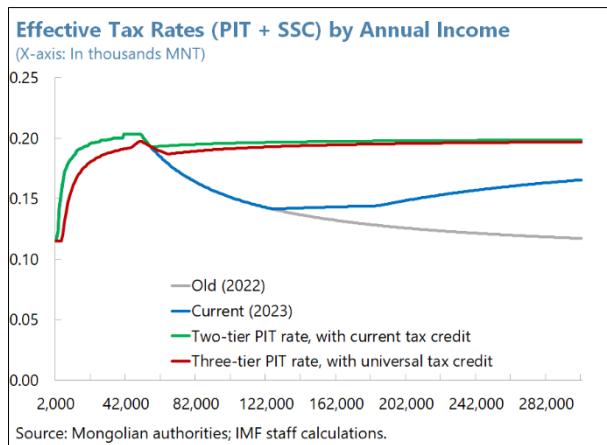
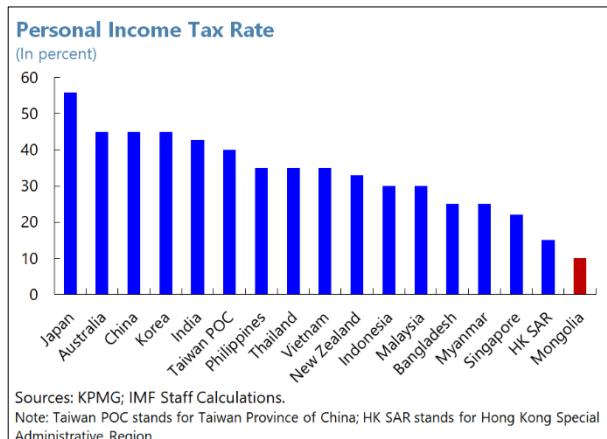
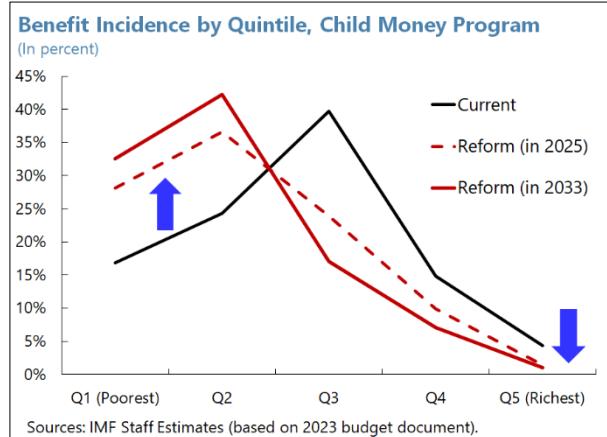


- To **contain non-wage current spending**, the effectiveness of performance-based budgeting in education, health, and culture/art sectors should be strengthened, together with greater transparency, and control over the recurrent budget. As food and energy prices stabilize, there could be scope for rationalizing food and energy subsidies (Figure).
- In line with IMF technical advice on **public investment management**, capex portfolio management and new project selection should be strengthened by fully utilizing performance indicators and scoring in the digitalized Public Investment Management Information Systems (PIMIS). Sectoral budget allotment for capex should be in line with the performance on capex execution. SOE oversight should be strengthened by mandating that MED and MoF review (at arms-length) investment plans and budgets of major SOEs. Investment projects should not be implemented unless they have gone through rigorous project appraisal and selection criteria.

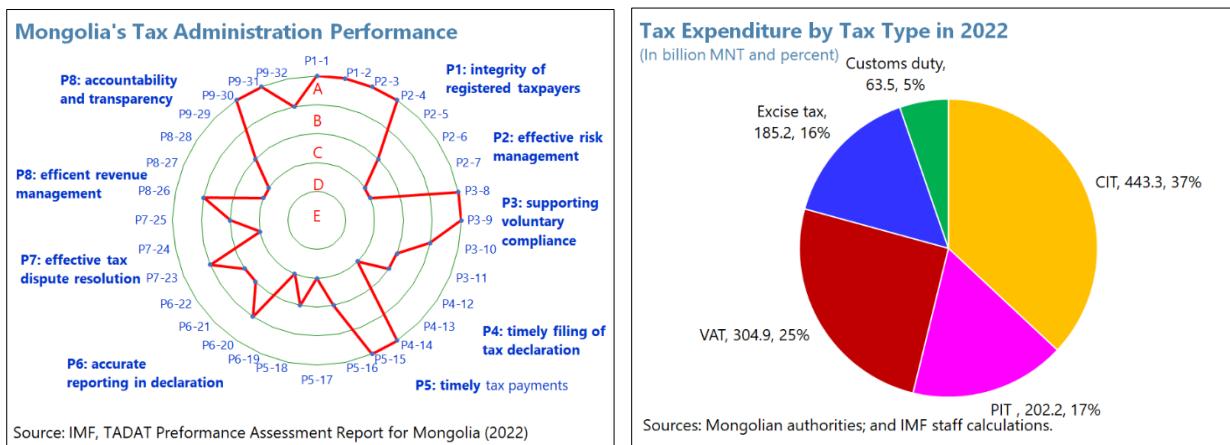
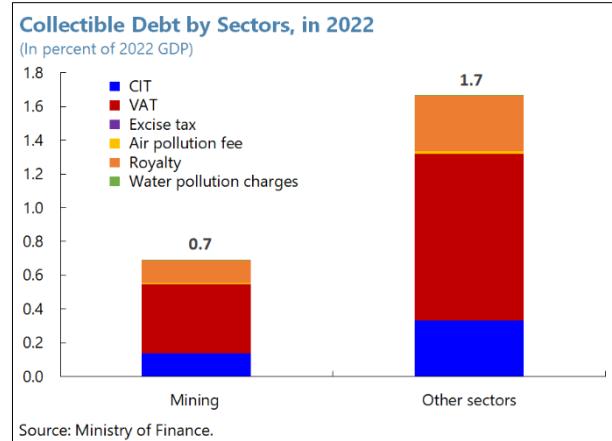


MONGOLIA

- Despite high spending on social assistance programs, Mongolia falls short in effectively addressing poverty and inequality relative to comparable nations (IMF, 2021). **Greater targeting of social assistance** should be phased in after the elections using the new and improved household income database. Social security reform should re-align the Child Money Program benefit levels to the pre COVID levels for high-income groups to better support the most vulnerable.
- Despite the introduction of progressivity in the **personal income tax (PIT)**, the base rate for the majority of taxpayers remains one of the lowest in the world. The effective tax burden (including social security contributions) is low, making the PIT system highly regressive with significant revenue losses, including through tax avoidance by corporations exploiting the mismatch of the top CIT and PIT rates (IMF, 2022c). IMF technical assistance suggests that a two or three-tier PIT system with a top PIT rate of 20 percent above a high-income threshold would equalize the effective tax burden between the rich and the poor while potentially generating additional revenues.



- **Other revenue enhancing measures** should be stepped up. The 2022 TADAT report assessed a need to improve the collection of tax arrears (Figure) by refining the classification of uncollectable debt, introducing clear write-off provisions, and monitoring the aged schedule of debtors. The report also noted that despite improvements in tax administration (Figure below), there was scope to strengthen filing and payment and voluntary compliance online taxpayer registration, dispute resolution and effective operational risk management. Reducing tax expenditures to pre-pandemic levels by removing tax exemptions and credits could create efficiency gains.



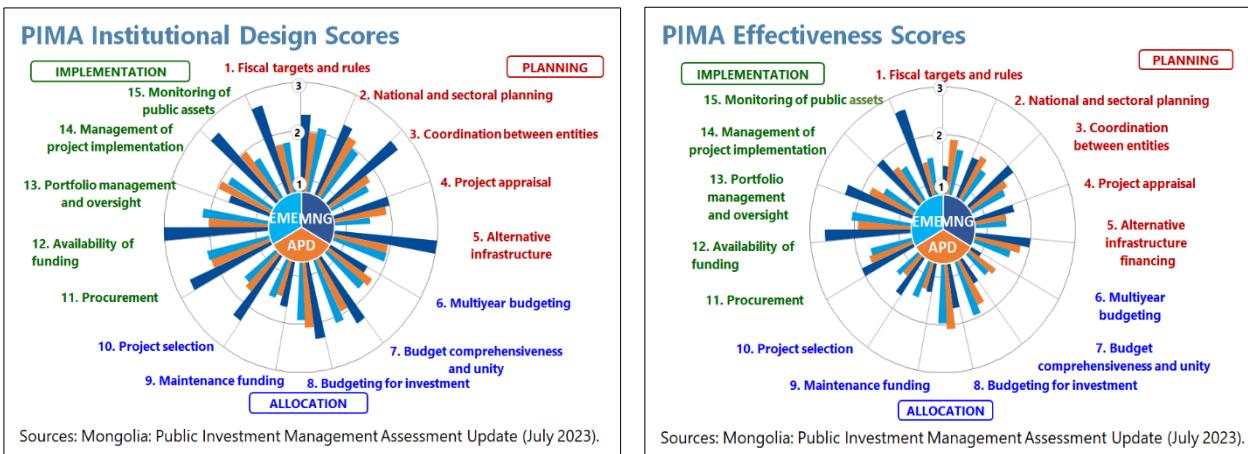
- In line with previous World Bank recommendations on **pension reform**, an automatic indexation of pension benefits and other parametric reforms on retirement age and vesting rules—beyond the inflation indexation introduced in the revised Pension Law of July 2023—and the rationalization of social welfare pension beneficiaries, could create fiscal savings.¹⁸

24. Strong structural measures to enhance fiscal discipline could boost investor confidence. Strengthening tax administration and the customs regulatory framework to broaden the revenue base in an equitable manner should continue to be prioritized. It would also be critical to strengthen PIM to improve efficiency and reduce corruption, and ensure greater budget transparency, oversight, and accountability (Figure). While IMF technical assistance (IMF, 2023d) noted major progress on several fronts,¹⁹ it noted the need to strengthen the effective implementation of fiscal rules, MTBF, investment budgeting, budgeting comprehensiveness and

¹⁸ These recommendations will be updated following a World Bank review of the Pension Law revisions enacted in July 2028.

¹⁹ Progress has been made in upgrading the PIM system, improving transparency and accountability by deploying the PIMIS system, and establishing guidance on project prescreening and selection.

unity and maintenance funding.²⁰²¹ Adopting a simplified fiscal framework based on a nominal debt anchor of 50 percent of GDP and a simple operational rule can improve fiscal discipline by boosting transparency.²² In addition, in line with international best practices, there is need to: (i) integrate PPPs in the PIM process, (ii) consolidate the PPP funding into the state budget; (iii) further strengthen the MOF's role as a gatekeeper to manage PPP-related fiscal risk; (iv) rigorously appraise all PPPs according to the new PPP law and (v) introduce mechanisms to limit unsolicited PPP proposals. Mineral wealth management should be properly integrated into the fiscal framework and underpinned by clear accountability.²³



25. Contingent fiscal liabilities should be reduced. The current strategy to minimize new fiscal contingent liabilities of state-owned DBM by appointing an internationally reputable manager may be difficult to achieve without addressing DBM's current balance sheet and governance challenges. Appointing an independent external advisor to conduct a diagnostic balance sheet review to develop a proper course of action, therefore, remains essential for the government's strategy to work. However, if DBM's governance cannot be effectively, credibly, and durably strengthened and the long-term viability of its business model clarified in the context of a revamped PIM, there may be a need to consider winding DBM down to reduce fiscal risks. Similarly, the SOE privatization agenda should be carefully designed and preceded by adequate risk assessment, strengthened

²⁰ The reforms proposed by Parliamentary Budget Standing Committee which were enacted on July 7, 2023, will be assessed in due course. IMF fiscal experts reviewed the draft proposals at an earlier stage.

²¹ In this regard, the COVID-19 expenditure audit should be completed by filling gaps, including BOs. After publishing a limited audit of COVID-19 expenditure for 2020 in its annual report, the National Audit Office (NAO) embarked on a dedicated audit of government COVID-19 expenditures for 2020–21, which was published in December 2022 (<https://open.audit.mn/reportSingle/3647>).

²² IMF (2022f): Selected Issues Paper: Fiscal Framework.

²³ The planned sovereign wealth fund and Development Fund for strategic investment should be integrated into the state budget for proper oversight and be guided by the PIM and PFM framework. A strong firewall is needed to ensure that the SWF law does not become a mechanism to permit asset transfers from the FHF into the Development Fund, thereby harming the integrity of the FHF. Appropriate safeguards must be put in place to ensure the independence and accountability of the SWF Board.

governance and oversight, a sound regulatory framework, and transparent reporting, to control contingent liabilities.²⁴

Authorities' Views

26. The 2023 supplementary budget was well justified. Strong coal exports and GDP growth in 2023H1 have boosted government revenues providing room for extra spending. Public sector wages, benefits, and pensions were raised to compensate for inflation in light of the post-pandemic austerity in public sector wages, and the need to ensure equality in pension benefits. CMP was expanded to universal coverage to support Mongolia's birth rate; CMP should not be viewed as social assistance. However, draft revisions to the Social Welfare Law envisage means-testing social assistance going forward on the basis of a refined database on households.

27. The government disagreed with the fiscal forecasts and the assessment of a high risk of sovereign stress. The authorities underscored their intention to abide by the FSL Article 6 by containing recurrent expenditure (keeping wage bills and goods and service expenditure at end-2023 nominal levels) in the 2024 budget. They noted that staff's expenditure projections for 2024 exceeds the FSL limits. The authorities were also confident that public debt would be kept within FSL limits and therefore disagreed with the assessment of high sovereign stress due to differences in view about the debt trajectory.

28. The authorities reaffirmed their intention to advance fiscal reforms and governance. The authorities intend to approve a new SOE law, prepare necessary PPP regulations, and strengthen budget transparency and oversight. With IMF TA, they intend to strengthen public investment management, tax compliance and arrears collection, and explore new tax policy measures. They noted that improvements in ETT's governance are already bearing fruit in the form of higher revenues from coal mining. DBM officials noted that they had requested the Asian Development Bank for TA on a range of issues, including on improving governance.

B. Greater Exchange Rate Flexibility and Stronger External Buffers

29. The BOM should continue to allow greater ER flexibility. Greater flexibility since 2022Q1 has helped contain imports and what could have been, a larger erosion of GIR, although, as expected, the impact on infrastructure and essential imports has been limited. The BOM has, understandably, exercised some discretion in its FX interventions given the precarious external position in 2022 and shallow FX markets, shifting FX sales from auctions to inter-bank transactions

²⁴ IMF (2022f): Selected Issues Paper: State-owned Enterprises. Among the 26 SOEs that the government planned to initiate IPOs in 2022–2023, 2 SOEs (State Bank and Mongolian Stock Exchange) successfully launched IPOs in 2022. Since June 2022, the government has merged 6 SOEs with overlapping functions into 3 SOEs and liquidated 1 SOE based on a Cabinet decision. Erdenes Mongol is being restructured by bringing some mining SOEs under its umbrella and liquidating loss-making subsidiaries. The approval of the draft SOE law and the State and Local Property Law has been postponed until the 2023H2 Parliamentary autumn session due to inconsistencies between the two draft laws.

(Figure).²⁵ Given the assessment of an overvalued REER (Annex II, Figure), persistent external imbalances, and significant downside external risks, the BOM should continue to use the ER as a shock absorber, to contain consumer imports and preserve GIR. The BOM's recent resumption of FX sales through auctions is welcome as it could support an efficient FX allocation. An effective BOM communication strategy remains critical to maintaining confidence in the currency and reducing excessive ER volatility in a shallow FX market. Such a strategy would be more effective if accompanied by a credible commitment to fiscal prudence by the government (for example, by a strict adherence to the FSL). The impact of a weaker ER on inflation should be offset through fiscal consolidation (Section A) and stronger macroprudential policy enforcement, and monetary policy credibility (Section C).

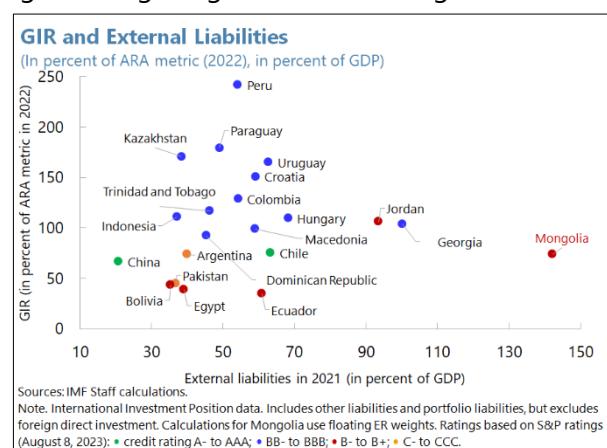
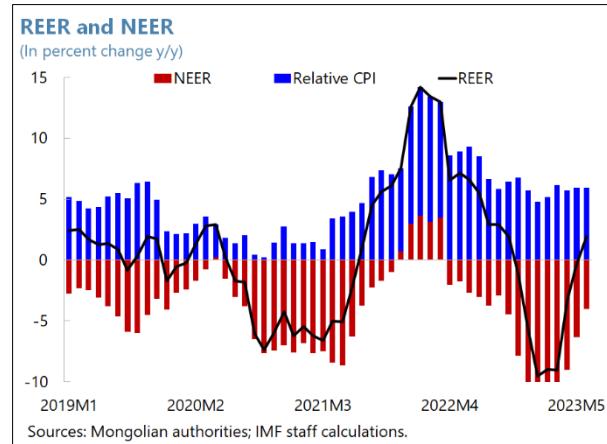
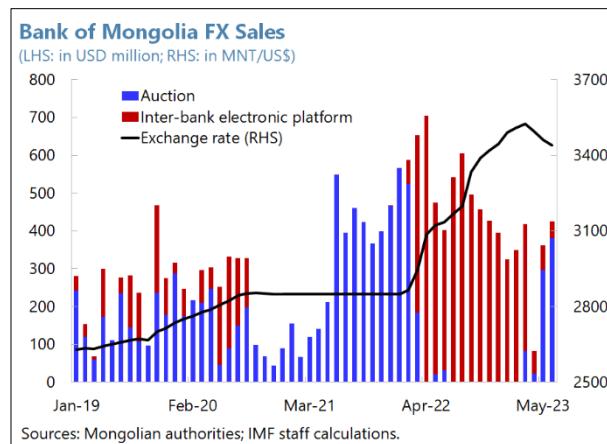
30. External buffers should be increased

to build resilience to external shocks. Given Mongolia's large negative NIIP and negative CA norm (Annex II), GIR should ideally be around 130-150 percent of the ARA metric (Annex II, Figure). The BOM should accumulate reserves through opportunistic interventions and accelerate the pace of accumulation, e.g., if mineral exports reach or exceed the government's target or in case there are stronger net foreign financing inflows.

31. The government has a critical role to play in safeguarding and boosting GIR.

In addition to strong fiscal consolidation and reforms that could boost investor confidence even in a difficult global environment, the government can help:

- **Safeguard against FX drains, including through sound debt management.** Given the moderation in Mongolia's sovereign spreads, the government should directly refinance DBM's



²⁵ Under the auction, bids are ranked and only banks with the highest bid receive FX. The BOM shifted to supplying FX in the interbank market during periods of high FX pressures as it allowed the BOM more discretion in supplying FX to more banks.

external liabilities through new external financing and address moral hazard concerns and public sentiments by resolving, definitively, DBM's long-standing governance problems (paragraph 26). The external liability management plans of domestic entities and their ability to raise adequate external financing to fund domestic operations (such as ETT's off-take contracts) and maintain credit lines with foreign banks should be closely monitored. The government should ensure that fiscal and SOE spending plans pay due regard to external sector implications, and that the recently introduced SOE governance reforms are properly enforced to prevent a repeat of recent events (Annex I). The government should adequately enforce Mongolia's currency settlement law and SOE repatriation requirements and coordinate with the BOM on external payments and options for handling disruptive FX outflows.

- **Improve FX inflows.** Besides export facilitation, the government should enable new FDI and portfolio inflows as a matter of urgency, by strengthening governance and the investment environment (Sections B and E). The IPOs of banks and SOE provide an opportunity to attract foreign financing but amendments to capital gains and withholding taxes are required to align with international practices.²⁶

32. The BOM and government should continue to work with key stakeholders to prepare contingency plans to ensure Russian fuel import payments can continue to proceed smoothly. Mongolia has lost access to all CBRs for US\$ gasoline import payments and is limited to the costly approach of making yuan transactions through Chinese banks. The BOM and government should work with relevant stakeholders to ensure Russian fuel import payments are not disrupted.

Authorities' Views

33. The authorities perceive the ER to be fully determined by market forces and in line with fundamentals. The exchange rate depreciated markedly in 2022 until March 2023 in response to external pressures. Since 2023Q1, the exchange rate has stabilized and somewhat appreciated on account of the improving balance of payments and is well aligned with fundamentals. The shift of FX sales from auctions to interbank market interventions intended to broaden access of individual banks to FX and has not distorted the market-based determination of the ER. In this regard, IMF TA on FX market interventions would be helpful.

C. Tighter Domestic Financial Conditions and A Stronger Monetary Policy Framework

34. Domestic financial conditions should be tightened to counter inflationary pressures from the supplementary budget.

- *The BOM and the government should mop up excess liquidity through the continued issuance of Central Bank Bills (CBBs) at the policy rate and market-based auctions of domestic securities, respectively.* Lacking tradeable new government securities, the BOM has relied on short-term

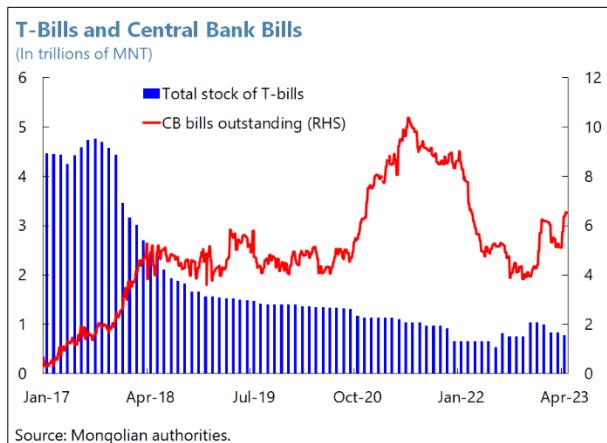
²⁶ For example, the non-resident capital gains tax should be applied to net capital gains instead of the gross sales value (IMF 2022).

CBBs for monetary policy operations (Figure) and market signals from the government bond yield-curve have diminished significantly.

The planned additional domestic debt issuance in 2023²⁷ could help counter the liquidity effects of the fiscal expansion; provide instruments to facilitate the BOM's market operations; and help establish a well-functioning domestic securities market. The latter would deepen domestic financial markets and improve monetary transmission by establishing benchmark yields. Reducing the BOM's need to rely solely on CBBs for monetary policy operations should also help

reduce its negative capital position. To better serve broader policy goals, private placements of domestic securities should be replaced with a regular schedule of issuances through market-based auctions; primary market participants should be broadened to include non-bank financial institutions (NBFIs); and secondary market trading should be encouraged in the Mongolian Stock Exchange (MSE) and over-the-counter markets. As the domestic debt market is relatively underdeveloped with a lack of price discovery, the government to offer higher yields to encourage investor participation. Hence, the modalities for these issuances should be carefully considered by enhancing institutional coordination, strengthening investor relations, developing an issuance strategy, and adequate staffing (IMF-World Bank, 2021).

- *Macropredutive policies should be strengthened to tighten financial conditions.* Harmonizing the debt service to income limit (DSTI) for NBFIs with that of the banking sector and better enforcement of the DSTI limits across the financial sector would help contain excessive demand for consumer loans supported by stronger wages. The DSTI limit may need to be lowered if inflation and consumer credit growth remain persistently elevated. in the event there is need to maintain attractive real returns on MNT assets to preempt external pressures through dollarization.
- *The monetary policy stance remains appropriately tight at the moment, but further policy rate hikes maybe warranted in some circumstances.*²⁸ The BOM's survey-based 12-month ahead inflation expectations have started to pivot, falling to 9 percent in 2023Q2, resulting in forward-looking real policy rates reaching 4 percent (Figure).²⁹ Higher policy rates are gradually raising average lending and deposit rates (Figure), and credit growth, which declined significantly in recent quarters, is projected to remain subdued in real terms. Furthermore, the

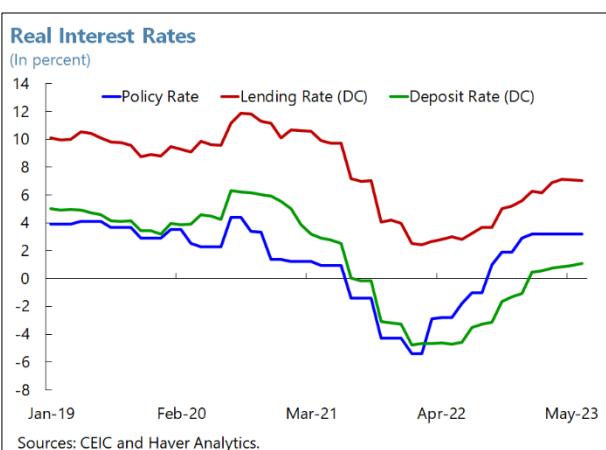
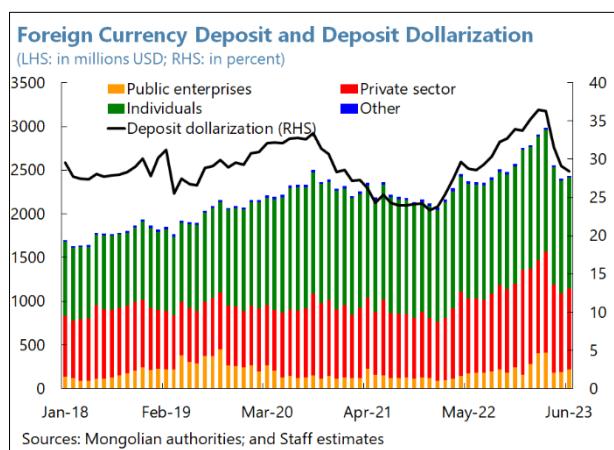
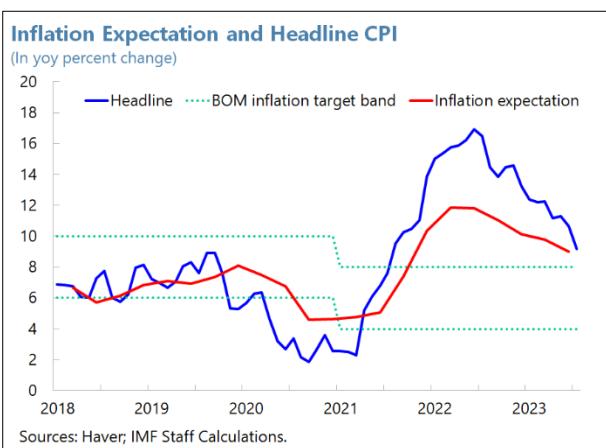


²⁷ The planned MNT1.6 trillion 2.6 percent of GDP) domestic bonds issuance in 2023 is to be used for deficit financing, developing the domestic securities market, and for refinancing domestic bonds. The law on securities market is being strengthened to include new products and increase the number of professional long-term investors.

²⁸ The BOM raised its policy rate by 700 bps (from 6 percent to 13 percent) over 2022, and tightened reserve requirements.

²⁹ At current inflation rates (9.2 percent in July 2023), the real policy rate is around 4 percent.

end of BOM's quasi-fiscal operations by 2023Q2 and the lagged impact of interest rate hikes will add to the negative impulse from tighter domestic liquidity conditions. Given large internal and external imbalances, higher deposit dollarization of private companies due to risk aversion (Figure), and significant uncertainty/downside risks, there may be need for further policy rate hikes should these factors generate ER pressures, stronger imported inflation, and broader pressures for dollarization.

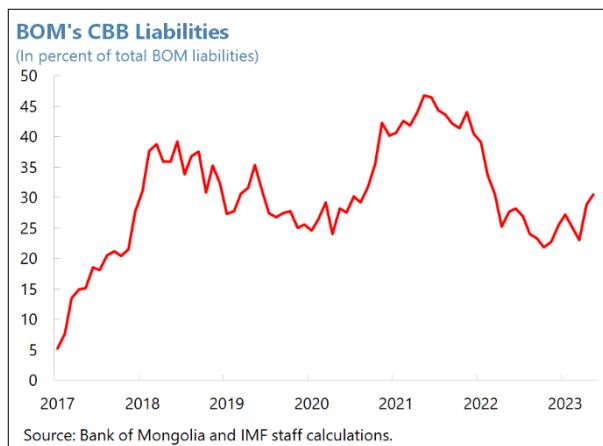


- The BOM should further improve its monetary policy communications to support its decision-making and anchor inflation expectations by making its monetary policy communications consistent, its Inflation Report more forward-looking and by streamlining its MPG (IMF 2023a).

35. The BOM's operational autonomy should be strengthened to improve the monetary policy framework. The 2023 safeguards assessment highlighted elevated risks due to weak legal provisions on autonomy and governance in the Central Bank Law (CBL) and the expansion of quasi-fiscal activities. The BOM's quasi-fiscal operations have undermined its monetary policy effectiveness and contributed to a large negative equity position which impedes monetary policy credibility (Figure).³⁰ The cessation of quasi-fiscal operations and the proposed transfer of the outstanding quasi-fiscal balances from the BOM is appropriate and should be permanent; the lapsed API should not be revived in another form. To ensure transparency, these balances should be transferred directly to the government, instead of another agency. The latter could lead to policy slippages if the agency does not have the capacity to oversee mortgage financing operations and/or is unable to withstand pressures to expand these operations, thereby adding to budgetary, external,

³⁰ At end-May 2023, BOM capital was -4.7 trillion MNT (7.6 percent of GDP).

and inflationary pressures. The subsidized mortgage lending program should be wound down to by allowing the outstanding stock of such lending to be gradually run down on the government's balance sheet in line with repayment terms, while managing the resulting rise in budget liabilities over time through fiscal consolidation and an improved fiscal framework. Legislative changes to clarify the BOM's mandate and boost its *ex ante* operational autonomy from Parliament are needed to avoid a recurrence of BOM policy support legislated by Parliament. In this regard, the Constitutional amendments proposed by the BOM are welcome and the CBL and the Banking Law (BL) should be strengthened further, including to ensure greater protection for BOM management and staff from political pressures.³¹



36. Independent oversight and internal controls of the BOM should be strengthened. The 2023 safeguards assessment also notes that the Parliament-appointed Supervisory Board (SB) responsible for BOM oversight does not conduct the typical independent oversight seen at other central banks. Establishing an independent oversight body with a fiduciary duty to the BOM and stronger internal operational controls is essential. The high concentration of power in the Governor's position should be counterbalanced by independent oversight and operational controls in key areas (e.g., ER, reserves management).

Authorities' Views

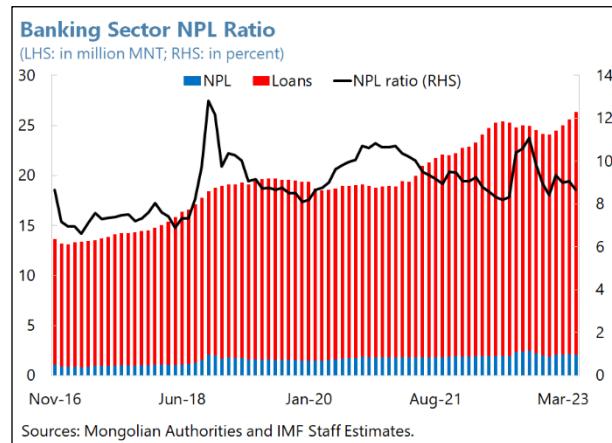
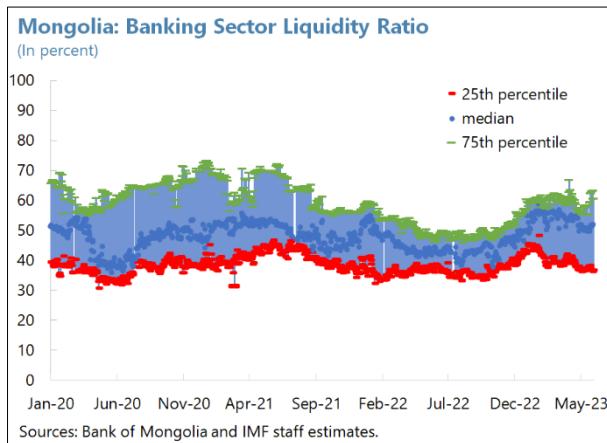
37. The BOM agreed with the need to maintain a tight monetary policy stance and continue to be vigilant against rising inflationary pressures. The BOM's main concern was the rise in inflation pressures through the credit channel due to the potential growth in salary-backed loans from the NBFI sector where the DSTI limits are higher than that of the banking sector. It acknowledged the scope to implement the DSTI in NBFIIs and to harmonize DSTIs with the banking sector DSTI, noting that the requested IMF TA on the macroprudential framework would be helpful in this regard. Further monetary tightening at this stage may be premature given the already weak banking sector credit growth and uncertain impact of the supplementary budget on inflation and the exchange rate. However, it acknowledged that keeping the tighter monetary policy stance may be required to meet the inflation target and to deal with upside risks of inflationary pressures. A restart of government domestic debt issuance through market auctions would be welcome, as it would help deepen domestic financial markets and absorb excess liquidity. While the BOM is working with the MOF to transfer quasi-fiscal operations to government, the permanent cessation of these operations is unlikely given their socio-economic importance. The BoM has established a

³¹ A current Constitutional provision allows the Parliament to define Mongolia's financial, monetary and credit policies which hurts the BOM's ability to independently exercise its core mandate under the CBL. This provision can be reopened only after 2027, 8 years after the previous amendments made in 2019.

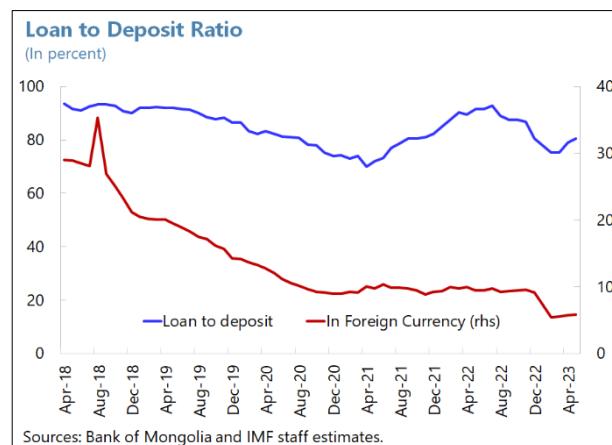
working group dedicated to implementing the 2022 safeguards assessment. It is implementing the IMF recommendations on BOM communications, for example, by streamlining the MPG that will be presented to Parliament in September 2023.

D. Ensuring Financial Sector Soundness

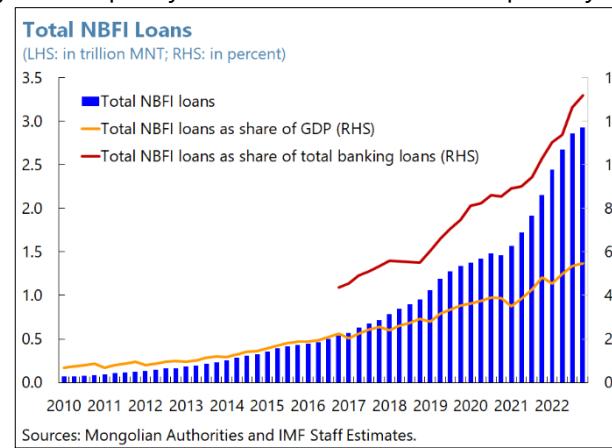
38. The financial sector remains broadly stable but could be susceptible to broader macroeconomic pressures. Banks are profitable and bank liquidity has been holding up well, with no major changes in buffers and an improvement across the most liquid banks (Figure). While system-wide provisioning indicates that NPLs are well covered (95 percent at end-May 2023), NPLs remain elevated (Figure). System-wide capitalization edged down but remains above minimum requirements, and the BOM provided assurances that bank capital quality met the requisite standards. Full-scale onsite inspections of D-SIBs have resumed since August 2020, supported by targeted onsite inspections. The resumption of inspections is a positive development for the supervision of banks, including of their asset quality. However:



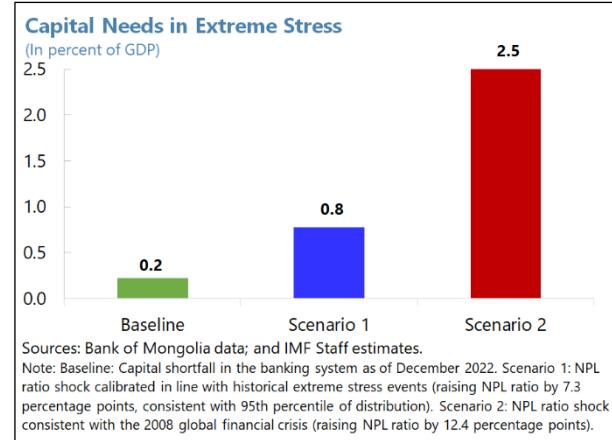
- FX liquidity risk has risen for some D-SIBs due to deteriorating net FX positions amid high FX deposits to hedge ER volatility (Figure). Banks also have large FX borrowings abroad, partly hedged by swaps with BOM. FX liquidity pressures (including from a potential non-renewal of overseas credit lines) would require the BOM's intervention but this may be difficult for the BOM to address given the implications for GIR and ER stability.



- Declining private sector credit growth may weigh on future bank profitability and capital. Credit risk may rise as non-mining GDP growth begins to slow, economy-wide real incomes decline due to persistently high inflation and the resumption of mortgage payments after the end of the moratoria. Continued weakness in debt repayment capacity is visible across sectors especially in the mining and construction sectors where 23-31 percent of loans are non-performing. Risks are high for banks with concentrated corporate lending.
- Finally, the NBFI sector—though still small—is emerging as an alternative source of private sector credit (Figure). Leverage is rising (Figure 6) amid a weaker regulatory framework and limited supervisory capacity.

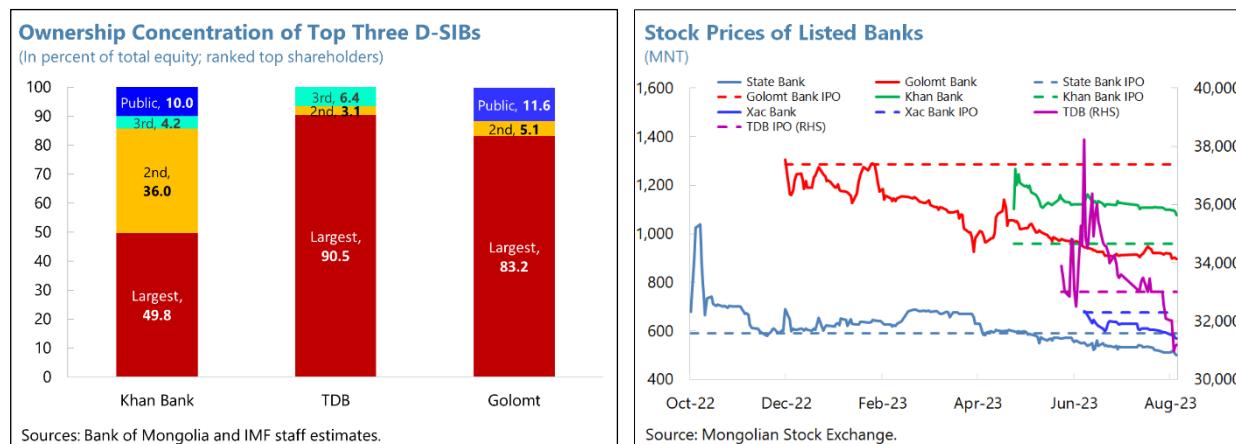


39. Sensitivity analyses indicate continued financial stability concerns. Banks' potential recapitalization needs could rise if downside risks materialize (Figure). Losses are distributed across D-SIBs under the scenarios consistent with the global financial crisis shock. Capital shortfalls could be larger in the event of weak bank capital quality, for example if the capital gaps identified by the 2019 forensic audit have not been fully addressed, or reversed, or aggravated.



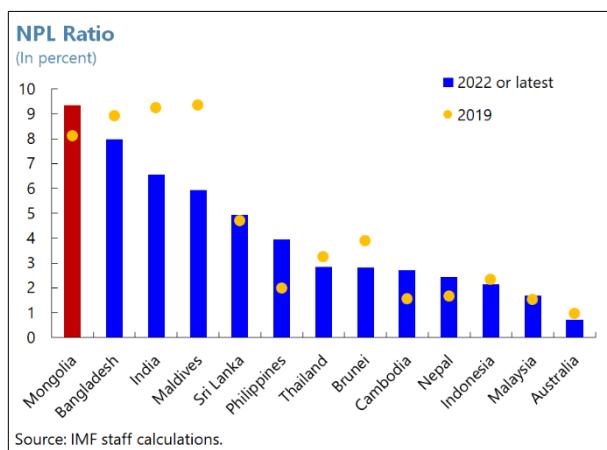
40. Banking supervision should be intensified, particularly for D-SIBs. In line with IMF technical assistance (IMF2023c), BOM supervision should prioritize high-risk banks and high-risk operations, taking a forward-looking and a holistic approach to risk assessment. The BOM should implement off-site supervision and DTSI ratios for banks more effectively; carry out full-scale on-site inspections for D-SIBs more frequently in the context of a supervisory plan for each D-SIB; avoid regulatory forbearance; and strengthen its credibility by ensuring that its actions are consistent with its communications. The BOM should promptly and effectively ensure that bank financial statements are accurate and in line with prudential norms to ensure that confidence in the IPO process is not undermined. Distressed assets should be recognized in line with prudential norms and the associated losses properly recorded in financial statements. In this regard, the BOM's intention to introduce Pillar 2 of the Basel Framework and continued efforts to enhance RBS process are welcome, but an effective implementation of current regulatory provisions is a necessary precondition for a successful transition to Pillar 2. The BOM should continue conducting and strengthening stress tests to assess banks' soundness under adverse scenarios and finalize revisions to the bank corporate governance regulations.

41. Sound implementation of the banking reform strategy remains critical. Parliament should recalibrate the end-2023 deadline for D-SIB shareholder diversification. The post-IPO volatility in bank share prices (Figure) due to the thin capitalization of the MSE underscores the persistent and widespread concerns regarding the ability of three D-SIBs to successfully achieve the 20-percent single shareholder limit by end-2023 in a sound manner (Figure). Rephasing the deadline would also be consistent with ensuring the BOM's operational independence, while giving banks more room to attract fit and proper investors. Raising shareholder limits for D-SIBs and smaller banks to attract investors that can help improve the effective management and operation of banks; allowing selected IFIs to invest in multiple banks; and aligning the withholding and capital gains tax with international norms, could help attract foreign financing while also helping to address broader external pressures. The BOM should urge the D-SIBs to develop time-bound plans for diversification and should clarify the implications, penalties, and contingency plans in the likely event that shareholder diversification cannot be achieved in the currently legislated timeframe. The BOM and FRC should ensure that new equity is sourced from bona fide new investors, that investors and their BOs meet fit and proper requirements in line with international standards (FATF and BIS/BCBS).



42. The BOM, FRC and GASR should improve their supervisory and implementation capacity.

- Improve NPL resolution.** Given elevated NPLs, the regulators should develop a strategy for NPL resolution, currently a lengthy and costly process. Insolvency and creditor rights need to be improved, as part of the ongoing insolvency reform (Section E). The regulators should work with the government, banks, and investors to improve the market for NPLs and collateral valuation and enforcement.
- Broaden creditor information.** The credit reporting system should be broadened to ensure that comprehensive creditor information is collected by the BOM, FRC, and the newly



established private credit information bureaus (CIBs) to improve risk management. Replacing the current BOM credit registry without fully operationalizing CIBs is risky.

- **Improve BOM financial policy analysis and communication.** The BOM's Financial Stability Report (FSR) should be sharpened and its internal and external communication, enhanced. In addition to banking sector analysis, the FSR should include in-depth assessments of macro-financial linkages (IMF 2023).
- **Enhance regulatory framework.** In addition to the ongoing enhancements of an RBS framework, and bank licensing and corporate governance regulations, the BOM should develop an assessment process for corporate governance that is integrated into the risk assessment cycle. The BOM should effectively implement the updated bank corporate governance regulations that are aligned with the Basel guidance and align the regulations with the FRC.
- **Strengthen the effective implementation of the AML/CFT framework.** GASR should align the definition of beneficial ownership (BO) with FATF standards, enhance BO registration and verification, especially of legal entities dealing with, or dependent on, the public sector, and improve access to BO information. AML/CFT supervision by BOM and FRC should be aligned with risks and developments, including in the NBFI sector, and also include thematic inspections for compliance related to politically exposed persons (PEPs) and BO of credit-seeking companies. Fit and proper measures should be effectively implemented to safeguard the integrity of the financial system.
- **Improve nonbank supervision.** The FRC should tighten NBFI lending standards and harmonize the macroprudential framework to that of the banking system to address regulatory arbitrage.³²

43. Bank resolution and crisis management frameworks should be strengthened. The Financial Stability Committee (FSC) should develop bank resolution strategies and procedures.

- The FSC should revamp the regulatory framework to enhance inter-agency information exchanges and coordination, especially between DICOM and BOM and especially in a crisis; expand BOM's resolution powers; and develop a comprehensive plan and capacity to execute the plan. The BOM should develop a manual on appropriate resolution policies and procedures. DICOM should conduct independent on- and off-site inspections, have full access to information, and take corrective actions as needed.
- Given limited fiscal space, preconditions for the use of government funding, guarantees, or indemnities in resolution should be established with appropriate safeguards to preserve fiscal integrity. The BOM should operationalize a line of credit from the MOF to ensure funding for bank resolutions. The MOF's powers to provide funding in crises should be expanded. The use of emergency funding arrangements in case of a bank insolvency should be well defined.

Authorities' Views

44. The BOM agreed with the banking sector assessment. Although banking sector vulnerabilities (measured by the banking sector composite index) increased slightly from end-2022,

³² The FRC introduced a 70 percent debt service to income limit (DSTI) for Fintech companies (which comprise 90 percent of the NBFI sector) in January, 2023.

the overall risk is below the historical average. It agreed that the main risks stem from credit concentration, credit, and market risk. The BOM's stress tests indicate that the banking system will be resilient to adverse stresses. The requested IMF TA on stress testing and on implementing the crisis resolution framework would be valuable. The BOM also places high priority in improving corporate governance of banks and banking supervision with ongoing IMF TA.

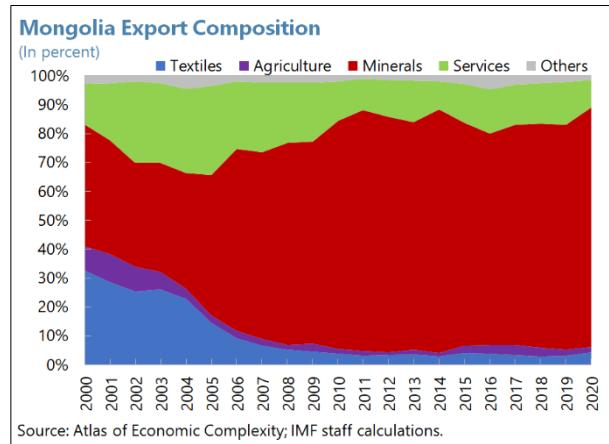
45. A crucial milestone on banking sector reform was achieved, though the shareholder diversification target will be difficult to achieve by end-2023. All D-SIBs met AQR-adjusted capital requirements and initiated IPOs, which were oversubscribed, boosting bank capitalization with new, high-quality capital. However, the BOM and D-SIBs expressed concerns about the feasibility of meeting the 20 percent single shareholder limit by year-end. The FRC is currently working on a draft NBFI law, which will introduce substantial regulations, particularly to safeguard consumers from over-borrowing. However, they were reluctant to harmonize the NBFI DSTI with that of the banking system. DICOM highlighted the importance of amending the Banking Law to allow better information sharing with the BOM and the FRC.

46. Progress on complying with all 40 FATF recommendations has strengthened the AML/CFT regulation. The new AML/CFT National Strategy for 2022–2030 includes plans to improve the legal and implementation framework, including on beneficial ownership. The authorities are receiving technical assistance from the Financial Services Volunteer Corps to expand access to CBRs with US banks.

E. Boosting Economic Potential³³

47. Mongolia's business climate should be improved to strengthen growth and external balances on a sustainable and equitable basis.

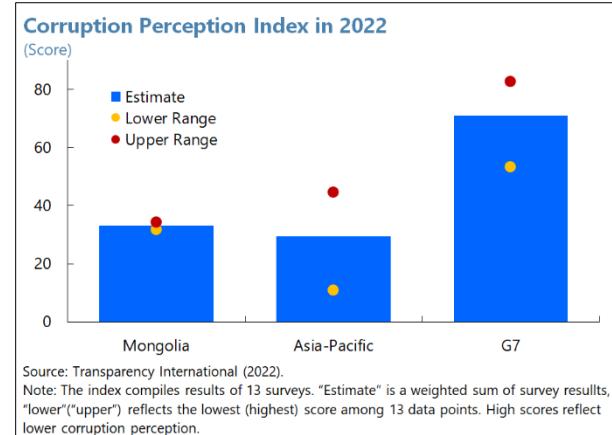
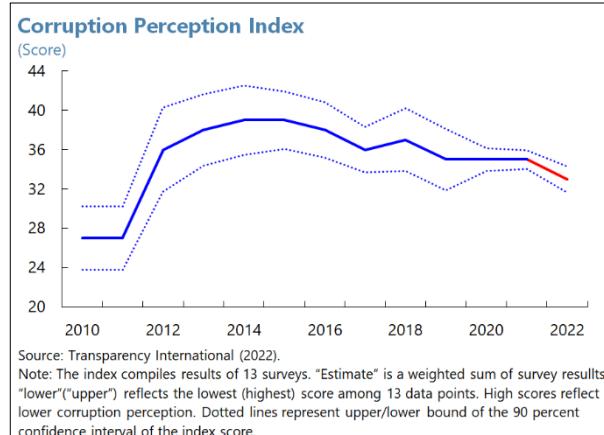
The mining- and state-dependent economy (Figure) should be diversified toward private-sector-led, higher value-added activities, especially in the services sector, in an externally and fiscally sustainable manner. Policies should aim to strengthen governance to attract productivity boosting FDI, support work incentives (reversing structural declines in female labor force participation³⁴) and reducing the state's economic footprint. In particular, it is critical to:



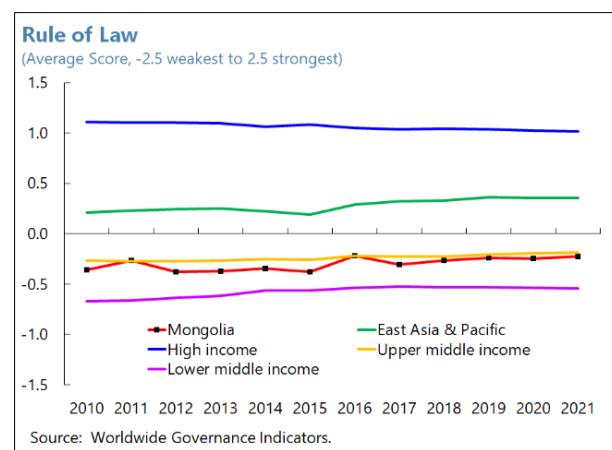
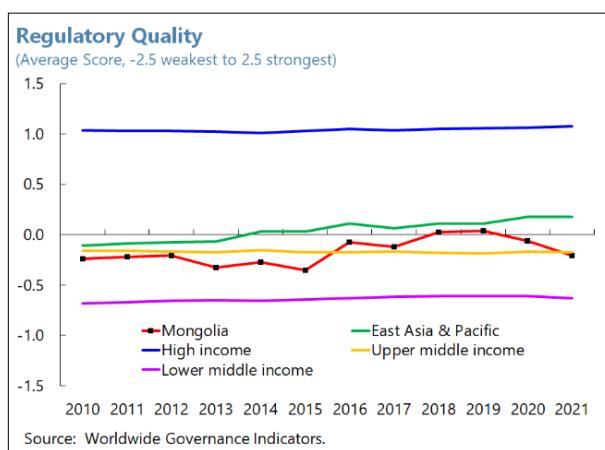
³³ A deeper assessment of policies for economic diversification will be conducted in future consultations. Following the analysis and discussions in the 2022 Article IV consultation, policies to strengthen climate resilience and reduce emissions will be revisited after the WB's Country Climate and Development Report for Mongolia is completed in FY2024.

³⁴ IMF (2022f): Selected Issues Paper: Female Labor Force Participation.

- **Address corruption and weak governance.** Despite new governance initiatives,³⁵ public perceptions have deteriorated (Figures) due to high-profile corruption cases (ETT, DBM) and delays in addressing structural weaknesses. Strengthened transparency, accountability, and oversight of the public sector and SOEs oversight including through greater transparency of contracts, checks and balances (see previous sections), and strengthened rule of law and judicial integrity, are vital for good governance. So would an enhanced monitoring of PEPs, including through the publication of asset declarations, and strengthened BO transparency. The draft Whistleblower Protection law should be passed without further delay.



- **Upgrade and enforce regulations.** While Mongolia should continue to strengthen the rule of law, upgrade its legal and regulatory framework with international assistance, enforcement—without political interference—should be strengthened (Figures). Notably, the strengthened Investment Law should be effectively and urgently implemented to reduce red tape, and efforts to overhaul the Minerals Law should be accelerated.



³⁵ The government declared 2023 as the year to combat corruption and initiated 5 operations: (i) whistle operation—to allow whistleblowers to report on corruption cases; (ii) broom operation—to prosecute public officials involved in corruption; (iii) bird operation—to seek repatriation of individuals that escaped investigation and court proceedings; (iv) repatriation operation—to identify and repatriate illegal assets and money; and (v) glass operation—to strengthen transparency of SOE governance.

- **Modernize the insolvency framework.** The draft laws before Parliament, reflecting IMF assistance, expedites insolvency proceedings and resolution and should be passed without further delay to support bank/corporate balance sheet repair, growth, and financial stability.

Authorities' Views

48. Boosting economic potential and economic diversification are key government priorities. The main objective is to create conditions for boosting exports and attracting more FDI, especially in non-mining sectors. The revised Investment Law submitted to Parliament has several provisions aimed at improving the investment climate and FDI inflows. Opening the banking sector to foreign investors would strengthen competition and boost financial development. Given low GIR, foreign financing of investments with high import component would reduce ER pressures in the short-term, while improving external competitiveness in the long-term. The expansion of vocational training would help enhance labor productivity, employment, and spread the benefits from economic expansion more widely across the population. Planned railroad projects in East and West Mongolia would enhance access to economic corridors and seaports, boosting exports.

STAFF APPRAISAL

49. Mongolia's economy has stabilized from a difficult position in 2022. After multiple global shocks and policy excesses, China's reopening, the government's successful efforts to facilitate exports and rollover external debt, greater ER flexibility and tighter domestic financial conditions gradually began to yield economic dividends. The external position stabilized by late-2022 but remained weaker than the level implied by medium-term fundamentals and desirable policies. GIR improved and inflation moderated through 2023H2, supported by stronger exports, and weaker global food and energy prices. The full operationalization of OT's underground copper mine in 2023Q1 was a major economic milestone. A supplementary budget for 2023 introduced large and permanent increases in wages, benefits, and pensions in anticipation large revenue gains from record high coal exports.

50. The procyclical fiscal stimulus is likely to boost near term growth and inflation but also increases risks of macroeconomic instability. With the stimulus, inflation is likely to rise, remaining high for longer, and external pressures could re-emerge. The economic boost from the fiscal stimulus is likely to be temporary and start fading as higher inflation erodes real incomes despite continued support to growth from the mining sector. Despite stronger exports, external buffers are likely to remain low in 2023–25, due to a terms of trade deterioration, stronger imports related to public sector infrastructure, FDI and consumer goods, and weaker net financing inflows due to tighter global financing conditions. Downside risks dominate, including tighter global financial conditions, commodity price volatility, slower growth in China and the risk of further domestic policy slippages. Should a subset of these risks materialize, and the government's ambitious coal export targets fall short, the economic implications could be significant.

51. Fiscal consolidation and adherence to fiscal rules are imperative to preserve

Mongolia's hard-won recent economic stabilization. An adjustment of 4 percent of GDP in 2023–24 underpinned by fiscal reforms could help achieve an orderly resolution of macroeconomic and external pressures, while improving debt dynamics. Such adjustments would be in line with the stated intentions to adhere to the FSL. Fiscal reforms should prioritize capital expenditures to projects with high returns and strong performance; contain the wage bill by reversing pay supplements, holding real wages constant for a few years and gradually rationalizing civil servants; reducing tax arrears and tax expenditures; targeting social assistance; allowing greater PIT progressivity; and undertaking pension reforms.

52. The BOM should continue to allow ER flexibility and opportunistically accumulate GIR.

Given tighter global financial conditions, the external liability management plans of domestic entities and their ability to raise adequate external financing to fund domestic operations and maintain credit lines with foreign banks should be closely monitored. The government should repay DBM's external liabilities through new external borrowing and ensure adequate enforcement of Mongolia's currency settlement law and SOE repatriation requirements.

53. Domestic financial conditions should be tightened to contain inflation. The effective enforcement and harmonization of macroprudential policies across banks and NBFIs could help contain salary-based consumer lending, as could the permanent cessation of quasi-fiscal operations. Domestic debt issuance through market auctions can help contain excess liquidity. While the current monetary policy stance remains appropriate, the BOM should stand ready to tighten further if inflationary pressures or dollarization increases. Strengthening BOM's operational autonomy and the monetary policy framework would help build credibility and improve policy transmission. While ending the BOM's quasi-fiscal operations is a welcome development, the outstanding balances should be transferred to the government without involving any state-owned intermediaries.

54. Though broadly stable, the financial sector could be vulnerable to macroeconomic pressures. Supervision should be strengthened across the financial sector and intensified for high-risk banks and operations. The key priorities are to ensure effective offsite supervision; more frequent onsite supervision of D-SIBs; avoid regulatory forbearance; and align supervisory actions with BOM communications. The end-2023 deadline for shareholder diversification should be delayed, to provide banks with more time to attract fit and proper investors. Raising shareholder limits to facilitate the improved management and operation of banks and aligning withholding and capital gains taxes with international norms, could be helpful. The BOM should urge D-SIBs to develop time-bound plans for diversification and clarify the penalties and contingency plans in case the deadline is not shifted. Aligning the AML/CFT framework with FATF requirements and enhanced implementation for high-risk sectors and activities, is crucial.

55. Policies to improve the business climate, address corruption and strengthen governance are critical to attracting FDI and strengthening economic resilience. The strengthened Investment Law should be urgently enacted and implemented effectively to cut red tape, the Minerals Law overhaul should be accelerated, and the insolvency framework modernized. The effective enforcement of SOE governance reforms, a decisive resolution of DBM's governance

challenges, and a strong judiciary would be important. The draft Whistleblower Law should be approved by Parliament without further delay.

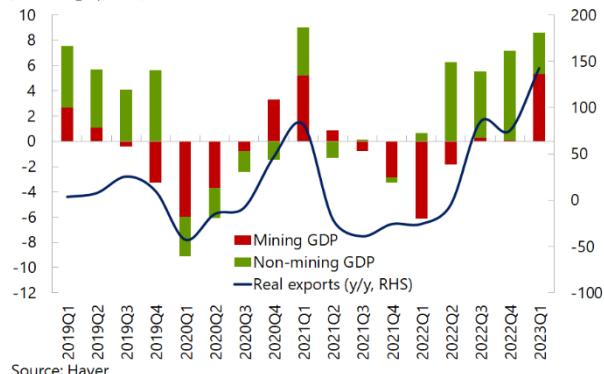
56. The next Article IV consultation is expected to take place on a standard 12-month cycle.

Figure 1. Mongolia: China's Reopening Spurs Strong Growth

China's sudden reopening helped boost Mongolia's exports and economy in 2022H2 and 2023Q1.

Mining Sector Contribution to GDP

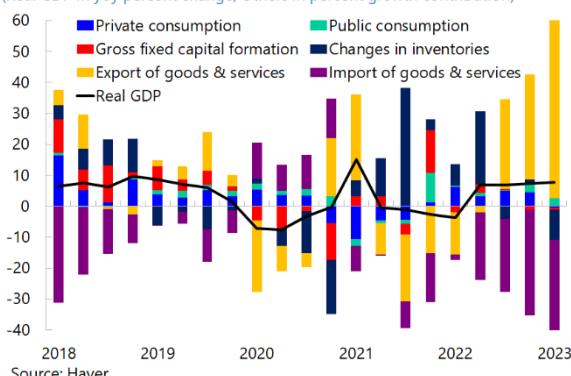
(Percentage points)



Private consumption was sustained...

Real GDP Growth Contributions

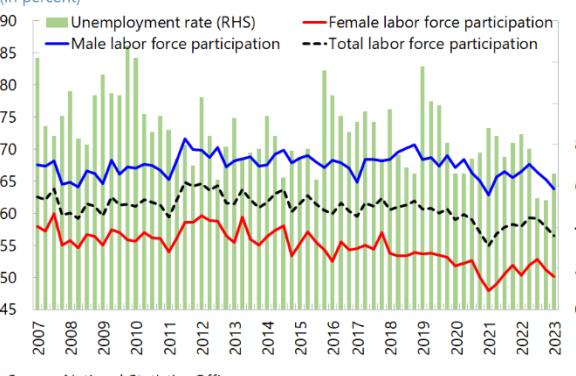
(Real GDP in yoy percent change; Others in percent growth contribution)



Labor force participation remains below pre-pandemic levels though unemployment is at historical lows.

Unemployment Rate and Labor Force Participation

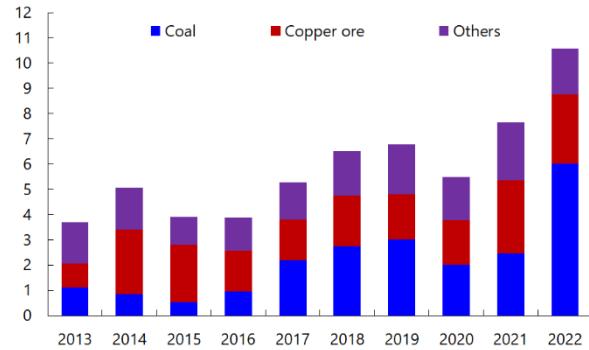
(In percent)



Coal exports to China increased significantly in 2022H2 and 2023Q1.

Mongolia's Export to China

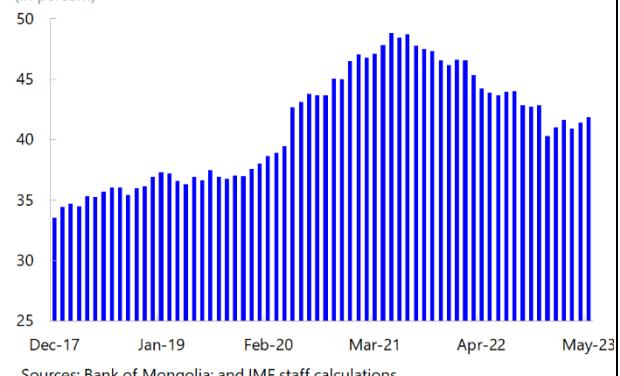
(In billion USD)



...by a significant drawdown of pandemic-era savings.

Individual Deposit in Total Banking Asset

(In percent)



The strong rise in real household incomes during the pandemic due to government transfers has dissipated.

Real National Income

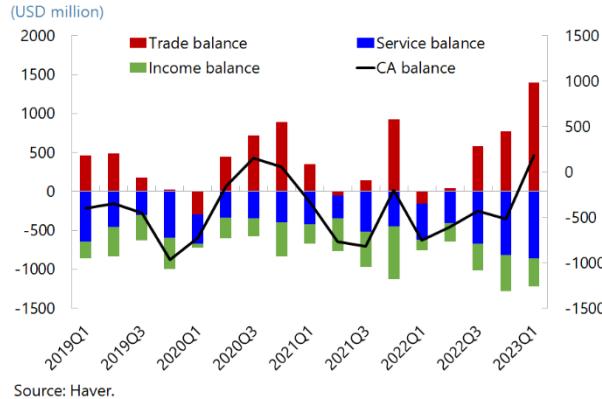
(Percentage change y/y)



Figure 2. Mongolia: External Imbalances Remain Large

China's reopening boosted exports in 2022H2 and 2023Q1 amidst structurally large deficits in services and income balances.

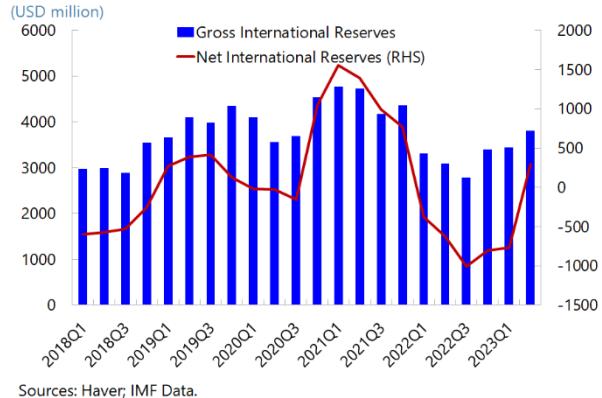
Current Account (USD million)



Source: Haver.

International reserves have improved after declining through most of 2022...

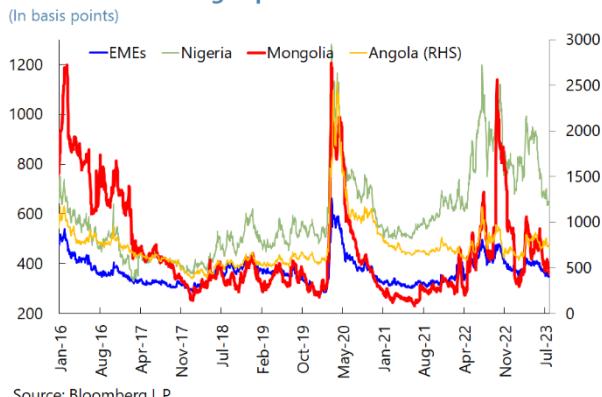
International Reserves (USD million)



Sources: Haver; IMF Data.

Sovereign spreads declined from distressed levels in late 2022.

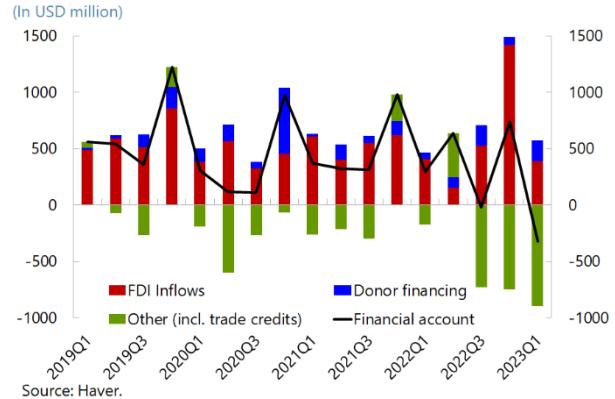
EMBI Global Sovereign Spreads (In basis points)



Source: Bloomberg L.P.

Net financial inflows has been dominated by FDI inflows.

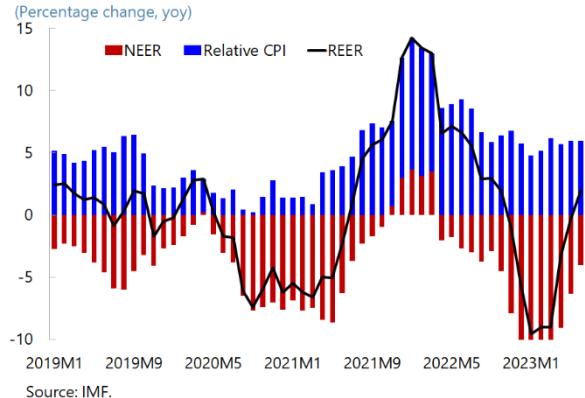
Financial Account (In USD million)



Source: Haver.

...while greater exchange rate flexibility and declining inflation contributed to REER depreciation.

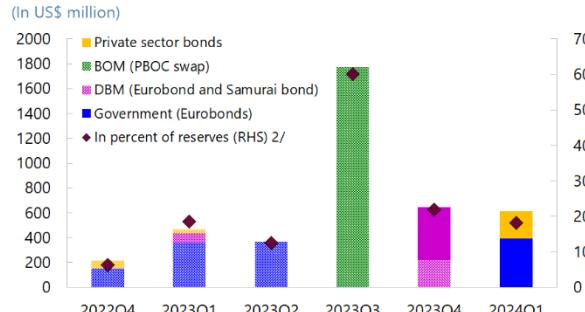
REER and NEER (Percentage change, yoy)



Source: IMF.

Rollover risk have been contained.

External Maturities 1/ (In US\$ million)



Source: Mongolian authorities; and IMF Staff Calculations.

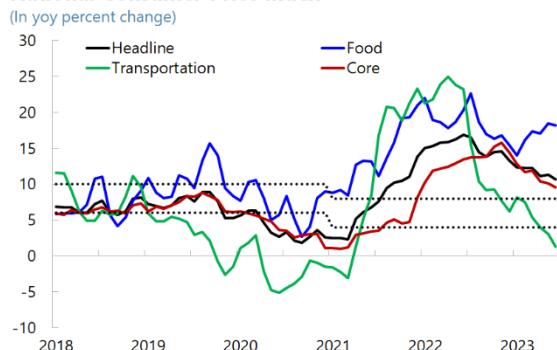
1/ Quarterly total. Shaded bars reflect the debt rolled over, repaid, or provisioned to be repaid. Solid bars reflect debt still to be rolled over.

2/ In percent of forecasted end-year gross international reserves.

Figure 3. Mongolia: Gradually Moderating Inflation

Headline inflation and survey-based 12-months ahead inflation expectations are falling.

National Consumer Price Index



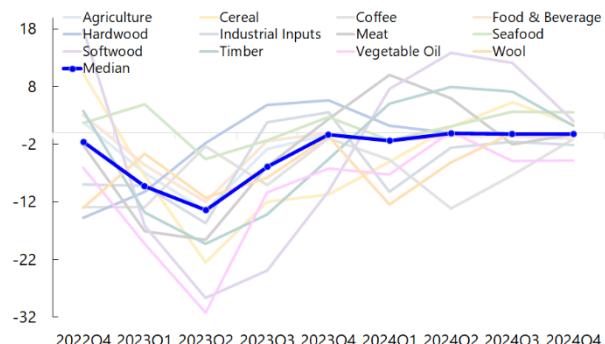
Sources: Haver; IMF Staff Calculations.

Note: Core CPI is defined as headline CPI excluding food and transportation CPI

Inflation is moderating largely due to falling global prices.

Major Commodity Prices

(In yoy percent change)

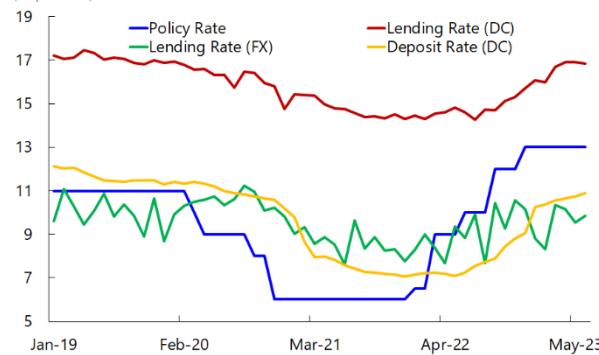


Sources: IMF staff estimates

Tighter policy rates and lending rates have also contributed...

Interest Rates

(In percent)

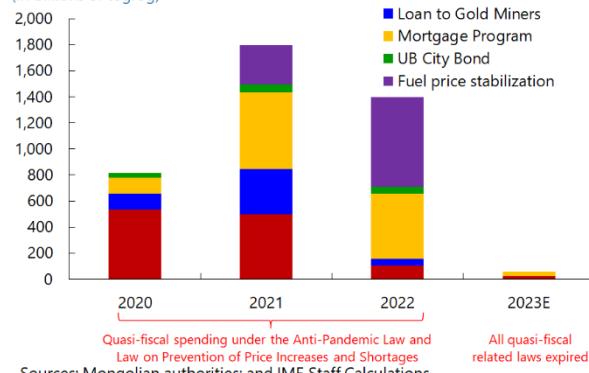


Sources: CEIC and Haver Analytics.

Large BOM's quasi-fiscal operations are expected to be sharply lower in 2023.

BOM's Quasi-Fiscal Operations

(In billions of togrog)

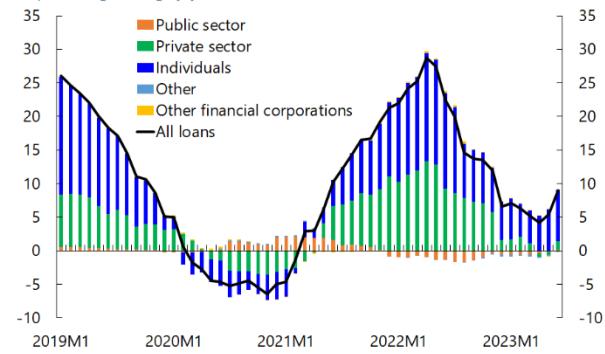


Sources: Mongolian authorities; and IMF Staff Calculations.

...as it has helped sharply slow down private sector credit.

Credit Growth by Sectors

(In percentage change y/y)

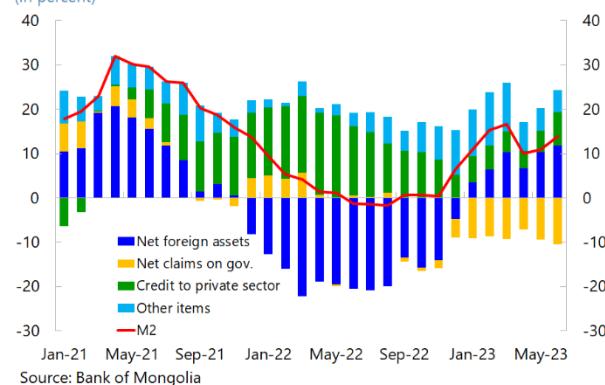


Source: The Bank of Mongolia.

Tight liquidity conditions and the decline in NFA have resulted in subdued growth in broad money.

Contributions to Money Supply Growth

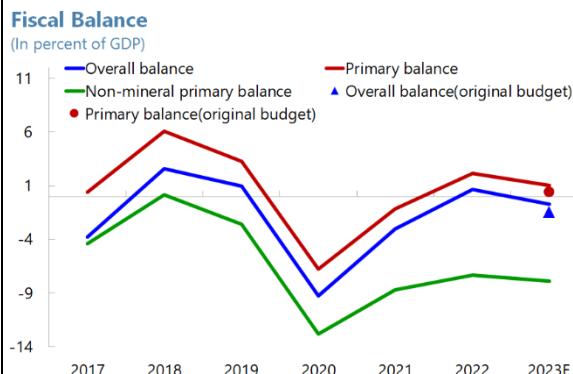
(In percent)



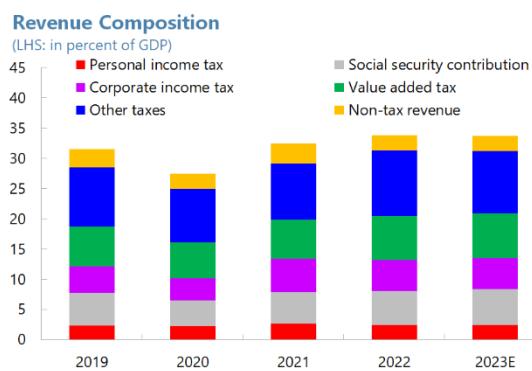
Source: Bank of Mongolia

Figure 4. Mongolia: Fiscal Policy Becomes Expansionary

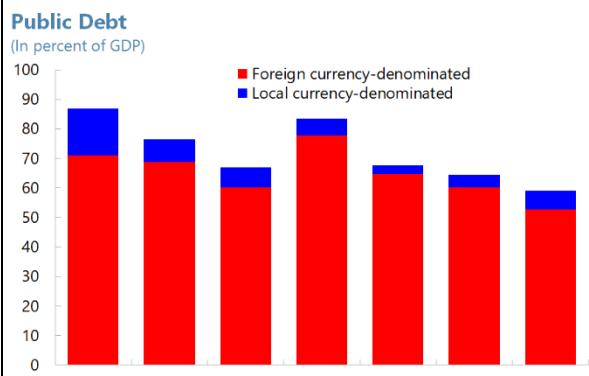
Overall and primary balances recorded surpluses in 2022–2023H1, but the nonmineral primary deficit exceeded pre-COVID levels.



Stronger revenues were largely driven by external factors while the contribution of PIT remains small.

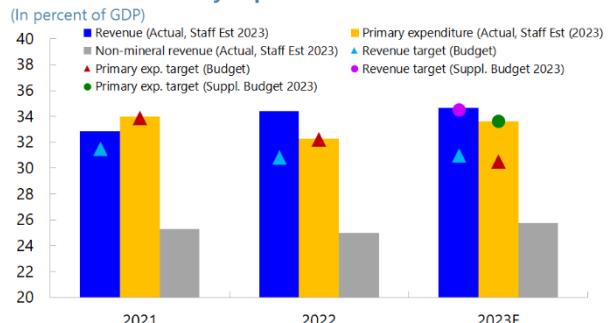


Public debt remains above 60 percent and highly vulnerable to FX depreciation.



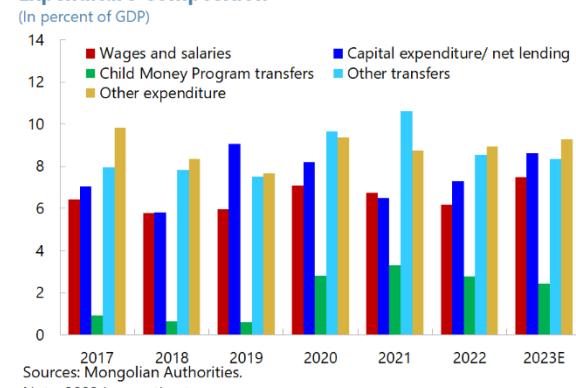
Mineral revenues outperformed budget targets while expenditure was contained in 2022 and 2023H1.

Revenue and Primary Expenditure



Capital expenditure has been rising while transfers remain above pre-COVID levels.

Expenditure Composition



Gross financing needs are expected to rise in 2023 and 2024.

Gross Financing Need

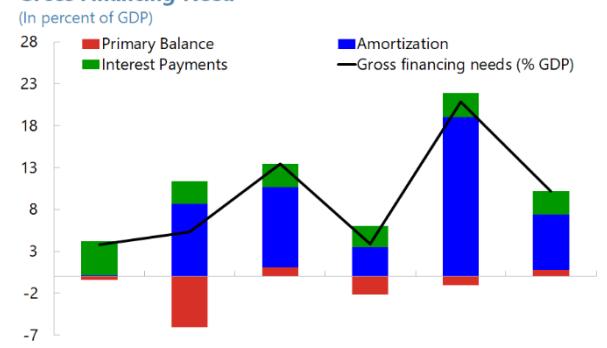
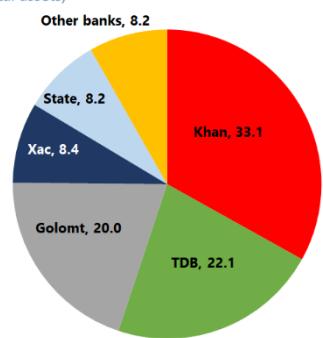


Figure 5. Mongolia: Broadly Stable Banking Sector

The banking system remains highly concentrated.

D-SIBs' and Other Banks' Relative Shares

(In percent of total assets)

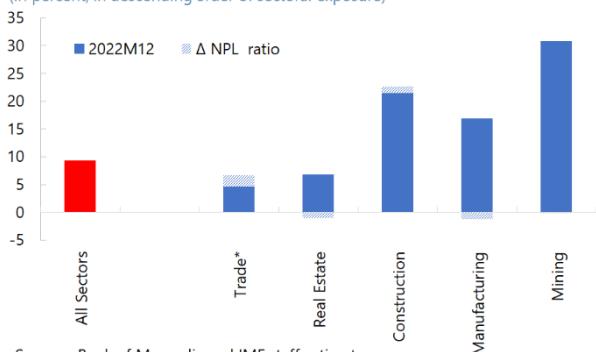


Sources: Bank of Mongolia and IMF staff estimates.

However, the banking sector remains exposed to the mining sector and, less so, to the manufacturing sector.

NPLs on Banks' Total Loans, by Sector

(In percent; in descending order of sectoral exposure)

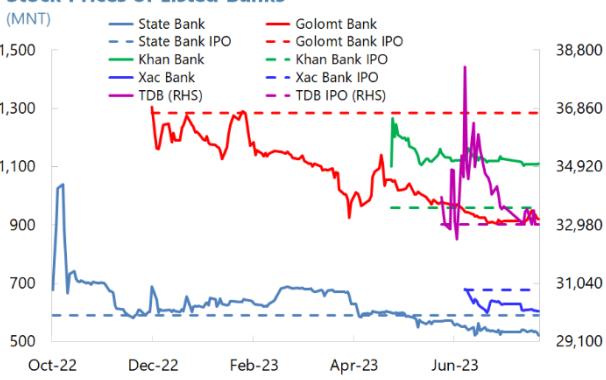


Sources: Bank of Mongolia and IMF staff estimates.

* Trade includes wholesale and retail trade.

Bank share prices have declined after IPO launch due to the thin capitalization of the stock exchange.

Stock Prices of Listed Banks

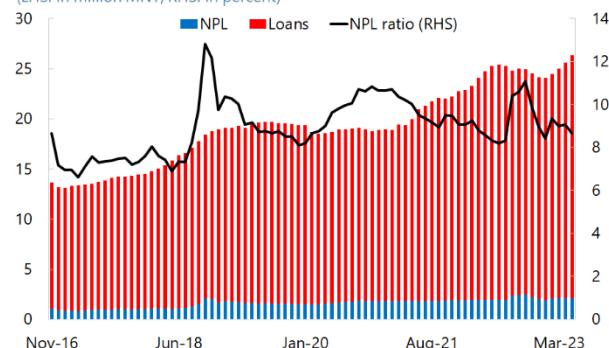


Source: Mongolian Stock Exchange.

NPLs have contracted.

Banking Sector NPL Ratio

(LHS: in million MNT; RHS: in percent)

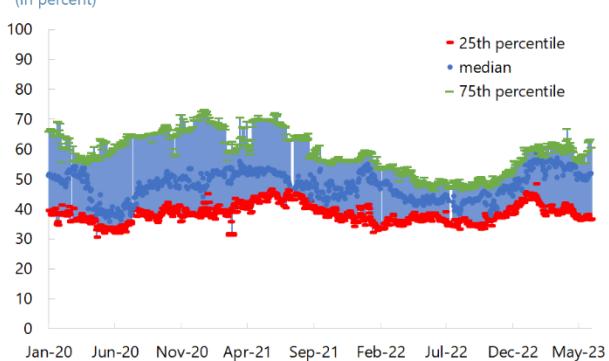


Sources: Mongolian Authorities and IMF Staff Estimates.

Banks comfortably meet liquidity requirements and their liquidity buffers have improved further.

Mongolia: Banking Sector Liquidity Ratio

(In percent)

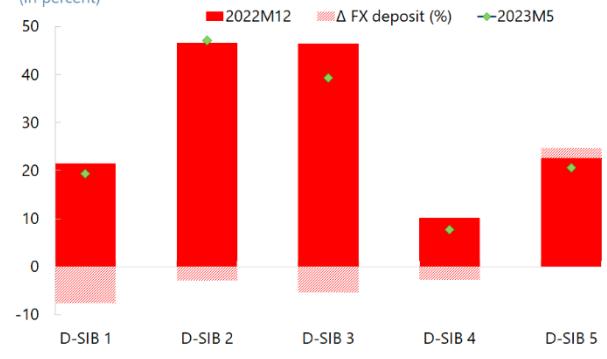


Sources: Bank of Mongolia and IMF staff estimates.

FX liquidity exposures have increased and remain large for some banks.

D-SIBs' FX Deposit to Total Deposit

(In percent)



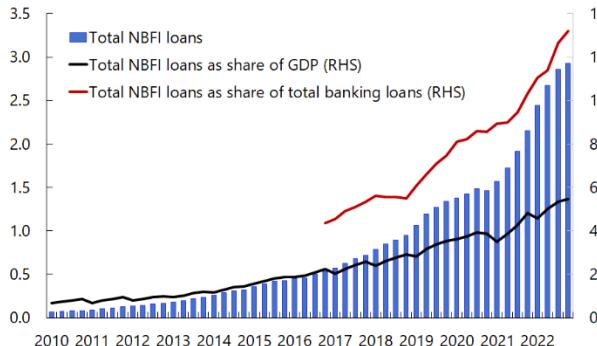
Sources: Bank of Mongolia and IMF staff estimates.

Figure 6. Mongolia: Emerging Concerns in Non-Bank Financial Institutions

The NBFI sector has emerged as an alternative source of financing but remains small.

Total NBFI Loans

(LHS: in trillion MNT; RHS: in percent)

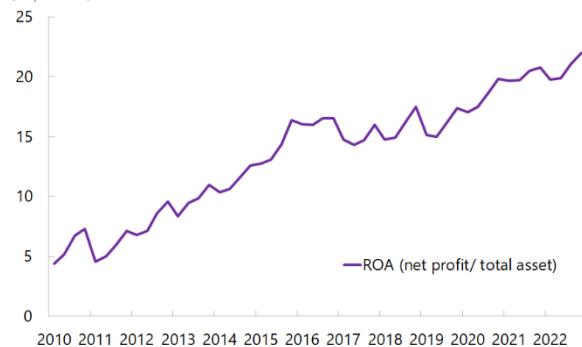


Sources: Mongolian Authorities and IMF Staff Estimates.

NBFIs are highly profitable.

NBFI Return on Asset

(In percent)

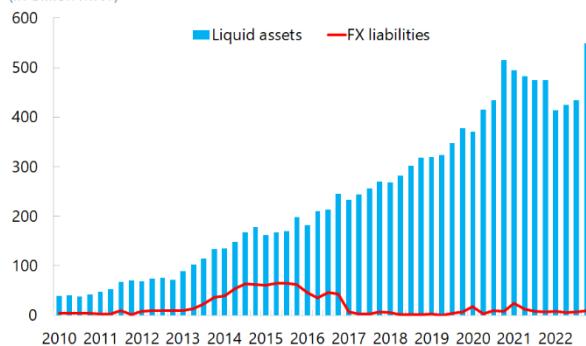


Sources: Mongolian Authorities and IMF Staff Estimates.

NBFIs have enough FX liquidity to meet FX liabilities.

FX Liquid Assets and FX Liabilities

(In billion MNT)

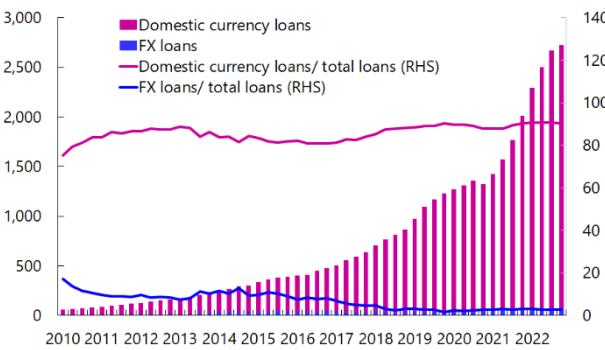


Sources: Mongolian Authorities and IMF Staff Estimates.

Lending is predominantly in domestic currency.

NBFI Loans in Domestic and Foreign Currency

(LHS: in billion MNT; RHS: in percent)

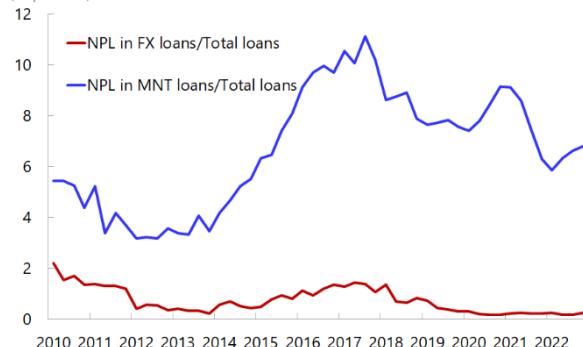


Sources: Mongolian Authorities and IMF Staff Estimates.

NPLs are trending down.

NBFI Non Performing Loans

(In percent)

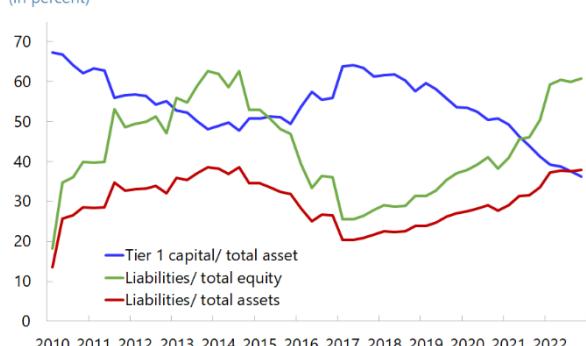


Sources: Mongolian Authorities and IMF Staff Estimates.

However, the NBFI sector is increasingly leveraged.

NBFI Leverage Ratios

(In percent)



Sources: Mongolian Authorities and IMF Staff Estimates.

Table 2. Mongolia: Selected Economic and Financial Indicators, 2020–27

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual			Projections				
(In percent of GDP, unless otherwise indicated)								
National Accounts								
Nominal GDP (in USD million)	13,313	15,286	17,146	18,782	19,552	19,648	20,074	21,122
Real GDP growth (percent change)	-4.6	1.6	5.0	5.5	4.5	3.5	3.5	3.5
Contributions to Real GDP (ppts)								
Domestic Demand	-12.8	17.6	12.9	6.9	3.5	-1.1	1.4	3.5
Exports of G&S	-2.7	-7.5	13.4	10.6	4.5	5.7	4.7	3.1
Imports of G&S	10.9	-8.5	-21.3	-12.0	-3.5	-1.1	-2.6	-3.2
Consumption	76.3	67.9	64.9	64.4	67.5	67.6	69.7	71.0
Private	60.5	53.0	51.3	50.6	52.8	52.9	54.9	56.1
Public	15.8	14.9	13.7	13.8	14.7	14.7	14.8	14.9
Gross Capital Formation	22.4	36.7	39.9	38.3	36.8	33.4	29.5	27.3
Gross Fixed Capital Formation	23.6	26.8	25.2	27.0	26.4	24.2	20.3	19.5
Public	8.1	6.8	7.1	8.9	8.6	8.4	8.1	7.9
FDI	12.7	13.5	14.2	14.9	14.6	13.1	9.4	8.7
Domestic Private (including SOEs)	2.8	6.5	4.0	3.3	3.2	2.7	2.8	2.9
Gross national saving	17.3	22.9	26.5	27.4	24.2	23.1	20.4	18.9
Prices								
Consumer Prices (Avg; percent change)	3.7	7.4	15.2	12.3	12.3	12.0	10.5	8.9
Consumer Prices (EoP; percent change)	2.6	13.9	13.2	11.7	12.8	11.2	9.8	8.0
Copper prices (US\$ per ton)	6175	9317	8829	8404	8191	8225	8250	8271
Coal prices (US\$ per ton) 1/	74	150	123	125	110	100	100	100
GDP deflator (percent change)	3.7	14.4	17.7	11.4	9.6	10.2	9.6	8.6
General government accounts								
Primary balance (IMF definition)	-6.7	-1.1	2.1	1.0	-0.7	-0.2	0.1	0.4
Total revenue and grants	27.9	32.8	34.4	34.7	34.2	34.3	34.2	34.2
Primary expenditure and net lending	34.6	34.0	32.3	33.6	34.9	34.5	34.1	33.7
Interest	2.5	1.9	1.5	1.7	2.1	2.3	2.7	3.1
Overall balance (IMF definition)	-9.2	-3.0	0.7	-0.7	-2.8	-2.5	-2.6	-2.6
Non-mineral primary balance (in percent of GDP)	-12.8	-8.7	-7.3	-8.7	-9.6	-9.2	-8.9	-8.1
Gross financing needs	15.9	13.4	3.9	20.9	10.2	9.1	24.5	17.1
General government debt 2/	83.4	67.7	64.5	59.1	61.5	63.3	65.8	67.5
Domestic	5.6	3.2	4.4	6.3	6.0	9.3	12.6	15.7
External	77.8	64.6	60.1	52.8	55.5	54.0	53.1	51.8
Monetary sector								
Broad money growth (percent change)	16.2	13.8	6.5	12.3	9.9	11.8	11.9	11.8
Reserve money growth (percent change)	-12.7	6.5	39.9	5.3	8.7	9.5	9.8	10.2
Credit growth (percent change)	-3.8	18.5	8.6	8.6	8.9	9.6	10.0	10.0
Balance of payments								
Current account balance	-5.1	-13.8	-13.4	-10.9	-12.6	-10.3	-9.1	-8.5
Exports of goods	52.5	53.2	57.5	63.0	59.3	60.6	61.0	60.9
Imports of goods	39.3	44.3	50.3	51.0	49.7	48.5	47.5	46.6
Gross official reserves (in USD million) 3/	4534	4366	3400	3005	3412	3692	4419	5112
(In months of imports)	5.9	4.3	3.0	2.7	3.1	3.3	3.8	4.3
(net of bank's FX deposits held at the BOM)	3651	3612	1949	1695.6
Net international reserves (NIR) 4/	1066	779	-797	-1196
Exchange rate								
Togrog per U.S. dollar (eop)	2850	2849	3445

Sources: Mongolian authorities; and IMF staff projections.

Note: The projections assume higher coal export volumes (47 million tons in 2023 and 50 million tons/year in 2024–27) reflecting government forecasts, OT's revised medium-term copper production and FDI plans, and updated information on SOE off-take contracts. The forecasts take the 2023 supplementary budget into account.

1/ Historical data from China General Customs Administration.

2/ Excludes BOM liabilities to PBOC. Domestic debt in 2022 includes government's liabilities to BOM related to the TDB settlement with regard to Erdenet as well as the DBM's borrowing from BOM. Assumes DBM Eurobond maturity in 2023 is financed through new external borrowing by the government while DBM Samurai bond is repaid without external refinancing. Assumes full rollover of the government's Eurobonds maturing in 2023–24.

3/ Gross official reserves includes drawings from the PBOC swap line rolled over in 2023, 2026 and IMF SDR allocation in 2021.

4/ NIR is defined as GIR excl. commercial banks' and government's US\$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.

Table 3a. Mongolia: Balance of Payments, 2020–27
(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual			Projections 1/				
(In millions of U.S. dollars, unless otherwise indicated)								
Current account balance (including official grants)	-675	-2,108	-2,303	-2,049	-2,455	-2,029	-1,832	-1,789
Trade balance	1,756	1,370	1,233	2,254	1,886	2,386	2,715	3,025
Exports	6,991	8,136	9,854	11,831	11,595	11,916	12,251	12,861
Mineral export	6,495	7,428	8,964	10,927	10,638	10,933	11,229	11,770
Non-mineral export	495	708	890	904	957	984	1,023	1,091
Imports	-5,235	-6,766	-8,622	-9,576	-9,709	-9,531	-9,536	-9,836
Services, net	-1,450	-1,675	-2,355	-2,474	-2,439	-2,315	-2,298	-2,406
Income, net	-1,253	-2,232	-1,615	-2,228	-2,320	-2,522	-2,678	-2,849
Current transfers	273	429	434	398	418	422	429	440
General government	85	261	315	214	222	223	228	240
Other sectors	188	168	120	185	195	198	201	200
Of which: Workers remittances	144	124	58	123	134	136	139	138
Capital and financial account	-1,136	1,648	1,383	-773	2,579	1,986	715	2,515
Capital account	103	114	154	131	137	138	120	127
Financial account	-1,238	1,534	1,229	-905	2,442	1,849	594	2,388
Direct investment	1,693	2,060	2,428	2,792	2,861	2,579	1,884	1,836
Portfolio investment 2/	-563	-25	-445	-537	-402	-107	520	548
Trade credits, net 3/	-156	-413	15	-637	-174	-271	-99	-93
Currency and deposits, net	-278	-245	-298	-266	-220	-168	-284	-334
Loans, net	-214	51	-482	-473	365	-195	441	419
Other, net 4/	-1,720	106	11	-1,783	11	11	-1,869	11
Errors and omissions	-146	-105	-175	0	0	0	0	0
Overall balance	-1,956	-565	-1,095	-2,822	123	-43	-1,117	725
Change in reserves	787	-222	-727	-395	407	280	728	693
Financing Gap 5/	2,743	344	368	2,428	284	323	1,844	-33
Fund credit	101	-3	-21	-59	-84	-60	-36	-33
Donor support	916	347	389	693	367	383	0	0
Of which: ADB	335	234	278	336	254	265	0	0
Of which: WB	225	99	52	188	59	75	0	0
PBOC Swap renewal	1,726	0	0	1,794	0	0	1,880	0
Memorandum items:								
Current account balance (in percent of GDP)	-5.1	-13.8	-13.4	-10.9	-12.6	-10.3	-9.1	-8.5
Gross official reserves (end-period) 4/	4,534	4,366	3,400	3,005	3,412	3,692	4,419	5,112
(In months of next year's imports of G&S)	5.9	4.3	3.0	2.7	3.1	3.3	3.8	4.3
(net of bank's FX deposits at the BOM)	3,651	3,612	1,949	1,696
Net international reserves (NIR) 6/	1,066	779	-797	-1,196
FHF deposits abroad (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	162	368
Coal price (in U.S. dollars per ton)	74.3	150.3	123.0	125.0	110.0	100.0	100.0	100.0
Terms of trade (index, percent change)	17	23	-15	-1	-9	-5	-2	-1
External debt (in percent of GDP)	243	221	194	202	207	213	218	215
Net IIP (in percent of GDP)	-280	-260	-248	-217	-221	-227	-231	-226
Nominal GDP (in millions of U.S. dollars)	13,313	15,286	17,146	18,782	19,552	19,648	20,074	21,122

Sources: Mongolian authorities; and IMF staff projections.

1/ The projections assume higher coal export volumes (47 million tons in 2023 and 50 million tons/year in 2024–27) reflecting government forecasts, better domestic coal transportation service, OT's revised medium-term copper production and FDI plans, and updated information on SOE off-take contracts.

2/ Assumes DBM Eurobond maturity in 2023 is financed through new external borrowing by the government while DBM Samurai bond is repaid without external refinancing, leading to a net DBM-related BOP outflow of US\$223 million; assumes full rollover of the government's Eurobonds maturing in 2023–24.

3/ Includes additional outflows to account for mining SOE off-trade investment financing.

4/ Gross official reserves includes drawings from the PBOC swap line rolled over in 2023, 2026 and IMF SDR allocation in 2021.

5/ Financing gap is based on donor commitments until 2025.

6/ NIR is defined as GIR excl. commercial banks' and government's US\$ deposits held at the BOM, the PBOC swap line, and liabilities to the

Table 3b. Mongolia: Balance of Payments, 2020–27
 (In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual			Projections 1/				
(In percent of GDP, unless otherwise indicated)								
Current account balance (including official grants)	-5.1	-13.8	-13.4	-10.9	-12.6	-10.3	-9.1	-8.5
Trade balance	13.2	9.0	7.2	12.0	9.6	12.1	13.5	14.3
Exports	52.5	53.2	57.5	63.0	59.3	60.6	61.0	60.9
Mineral export	48.8	48.6	52.3	58.2	54.4	55.6	55.9	55.7
Non-mineral export	3.7	4.6	5.2	4.8	4.9	5.0	5.1	5.2
Imports	-39.3	-44.3	-50.3	-51.0	-49.7	-48.5	-47.5	-46.6
Services, net	-10.9	-11.0	-13.7	-13.2	-12.5	-11.8	-11.4	-11.4
Income, net	-9.4	-14.6	-9.4	-11.9	-11.9	-12.8	-13.3	-13.5
Current transfers	1.0	2.0	2.2	1.5	1.5	1.5	1.4	1.4
General government	0.6	1.7	1.8	1.1	1.1	1.1	1.1	1.1
Other sectors	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
<i>Of which: Workers remittances</i>	1.1	0.8	0.3	0.7	0.7	0.7	0.7	0.7
Capital and financial account	-8.5	10.8	8.1	-4.1	13.2	10.1	3.6	11.9
Capital account	0.8	0.7	0.9	0.7	0.7	0.7	0.6	0.6
Financial account	-9.3	10.0	7.2	-4.8	12.5	9.4	3.0	11.3
Direct investment	12.7	13.5	14.2	14.9	14.6	13.1	9.4	8.7
Portfolio investment 2/	-4.2	-0.2	-2.6	-2.9	-2.1	-0.5	2.6	2.6
Trade credits, net 3/	-1.2	-2.7	0.1	-3.4	-0.9	-1.4	-0.5	-0.4
Currency and deposits, net	-2.1	-1.6	-1.7	-1.4	-1.1	-0.9	-1.4	-1.6
Loans, net	-1.6	0.3	-2.8	-2.5	1.9	-1.0	2.2	2.0
Other, net 4/	-13	1	0	-9	0	0	-9	0
Errors and omissions	-1.1	-0.7	-1.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-14.7	-3.7	-6.4	-15.0	0.6	-0.2	-5.6	3.4
Change in reserves	5.9	-1.4	-4.2	-2.1	2.1	1.4	3.6	3.3
Financing Gap 5/	20.6	2.2	2.1	12.9	1.5	1.6	9.2	-0.2
Fund credit	0.8	0.0	-0.1	-0.3	-0.4	-0.3	-0.2	-0.2
Donor support	6.9	2.3	2.3	3.7	1.9	1.9	0.0	0.0
<i>Of which: ADB</i>	2.5	1.5	1.6	1.8	1.3	1.3	0.0	0.0
<i>Of which: WB</i>	1.7	0.6	0.3	1.0	0.3	0.4	0.0	0.0
PBOC Swap renewal	13.0	0.0	0.0	9.6	0.0	0.0	9.4	0.0
Memorandum items:								
Current account balance (in percent of GDP)	-5.1	-13.8	-13.4	-10.9	-12.6	-10.3	-9.1	-8.5
Gross official reserves (end-period) 4/	4,534	4,366	3,400	3,005	3,412	3,692	4,419	5,112
(In months of next year's imports of G&S)	5.9	4.3	3.0	2.7	3.1	3.3	3.8	4.3
(net of bank's FX deposits held at the BOM)	3,651	3,612	1,949	1,696
Net international reserves (NIR) 6/	1,066	779	-797	-1,196
FHF deposits abroad (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	162	368
Coal price (in U.S. dollars per ton)	74.3	150.3	123.0	125.0	110.0	100.0	100.0	100.0
Terms of trade (index, percent change)	17	23	-15	-1	-9	-5	-2	-1
External debt (in percent of GDP)	243	221	194	202	207	213	218	215
Net IIP (in percent of GDP)	-280	-260	-248	-217	-221	-227	-231	-226
Nominal GDP (in millions of U.S. dollars)	13,313	15,286	17,146	18,782	19,552	19,648	20,074	21,122

Sources: Mongolian authorities; and IMF staff projections.

1/ The projections assume higher coal export volumes (47 million tons in 2023 and 50 million tons/year in 2024–27) reflecting government forecasts, better domestic coal transportation service, OT's revised medium-term copper production and FDI plans, and updated information on SOE off-take contracts.

2/ Assumes DBM Eurobond maturity in 2023 is financed through new external borrowing by the government while DBM Samurai bond is repaid without external refinancing, leading to a net DBM-related BOP outflow of US\$223 million; assumes full rollover of the government's Eurobonds maturing in 2023–24.

3/ Includes additional outflows to account for mining SOE off-trade investment financing.

4/ Gross official reserves includes drawings from the PBOC swap line rolled over in 2023, 2026 and IMF SDR allocation in 2021.

5/ Financing gap is based on donor commitments until 2025.

6/ NIR is defined as GIR excl. commercial banks' and government's US\$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.

Table 4. Mongolia: Monetary Aggregates, 2020–27

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual		Projections					
(In billions of togrog, end of period)								
Reserve Money 1/	4,516	4,808	6,727	7,085	7,702	8,432	9,260	10,205
Broad money	24,481	27,863	29,665	33,300	36,585	40,896	45,745	51,125
Currency	753	847	831	999	1,098	1,227	1,372	2,534
Deposits	23,728	27,016	28,834	32,301	35,488	39,669	44,372	48,592
Net foreign assets	5,171	3,189	1,875	2,234	2,109	2,032	2,111	2,196
BOM	6,472	4,892	4,104	3,490	6,441	8,977	14,393	18,633
Other Depository Corporations	-1,301	-1,703	-2,230	-1,257	-4,332	-6,944	-12,282	-16,438
Net domestic assets	19,310	24,675	27,790	31,067	34,476	38,864	43,634	48,930
Net Domestic credit	19,136	24,298	25,750	27,440	30,686	34,941	39,574	44,727
Net claims on government	-2,170	-1,089	-2,259	-1,460	-786	447	1,631	2,990
BOM	-1,114	-738	-1,775	-1,775	-1,555	-1,609	-1,665	-1,724
Other Depository Corporations	-1,056	-351	-485	314	769	2,056	3,296	4,714
Net claims on private sector	16,954	20,567	21,981	23,871	25,996	28,492	31,341	34,475
Net claims on other financial corporation	3,167	3,338	4,630	5,029	5,476	6,002	6,602	7,262
Other items, net	1,358	1,859	3,438	3,627	3,790	3,923	4,060	4,202
Memorandum items:								
Annual broad money growth	16.2	13.8	6.5	12.3	9.9	11.8	11.9	11.8
Velocity of Broad Money	1.53	1.56	1.82	1.90	1.98	2.02	2.05	2.04
Credit outstanding (Domestic credit+MBS) (In MNT bn) 2/	20,470	24,264	26,340	28,605	31,151	34,142	37,556	41,311
Credit to GDP ratio	54.7	55.7	48.9	45.2	43	41	40	39
Credit growth (percent)	-3.8	18.5	8.6	8.6	8.9	9.6	10.0	10.0

Sources: Mongolian authorities; and IMF staff projections.

1/ Reserve money in 2022 increased due to a large MNT381 million short-term loan to the DBM in December 2022, which is expected to be reversed in

2/ Includes mortgage-backed securities.

Table 5a. Mongolia: Summary Operations of the General Government, 2020–27
 (In billions of Togrogs)

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual			Projections				
Total revenue and grants	10,443	14,306	18,522	21,935	24,780	28,351	32,041	36,012
Current revenue	10,276	14,145	18,218	21,365	24,127	27,607	31,197	35,062
Tax revenue and social security contributions 1/	9,331	12,686	16,854	19,762	22,292	25,514	28,823	32,393
Income taxes	2,231	3,526	4,065	4,755	5,342	6,147	6,985	7,924
CIT	1,402	2,378	2,753	3,209	3,572	4,128	4,696	5,292
PIT	829	1,148	1,312	1,546	1,770	2,019	2,289	2,631
Social security contributions	1,586	2,286	3,038	3,769	4,515	5,149	5,840	6,567
VAT	2,209	2,838	3,946	4,724	5,309	5,957	6,659	7,480
Excise taxes	777	827	848	996	1,270	1,449	1,643	1,848
Customs duties and export taxes	741	939	1,256	1,494	1,736	2,034	2,259	2,490
Other taxes	1,787	2,270	3,701	4,024	4,119	4,779	5,438	6,086
Non-tax revenue	945	1,459	1,364	1,603	1,835	2,093	2,373	2,669
Capital revenue and grants	167	162	304	570	653	744	844	949
Total expenditure and net lending	13,904	15,630	18,168	22,371	26,836	30,428	34,502	38,774
Current expenditure	10,829	12,804	14,238	16,914	20,772	23,703	27,099	30,719
Wages and salaries	2,649	2,932	3,339	4,741	6,320	7,078	8,027	9,027
Purchase of goods and services	2,202	2,520	3,478	3,622	4,248	4,925	5,632	6,348
Subsidies	375	454	537	637	688	784	881	980
Transfers 2/ 3/	4,663	6,063	6,086	6,821	7,992	8,985	10,000	11,131
o/w Pension	2,175	2,301	3,031	3,729	4,630	5,114	5,622	6,230
o/w Child Money	1,053	1,440	1,488	1,534	1,577	1,836	2,091	2,330
Interest payments	939.2	835.7	797.8	1,094	1,525	1,930	2,559	3,233
Capital expenditure and net lending	3,075	2,826	3,930	5,457	6,063	6,725	7,404	8,055
Capital expenditure	3,034	2,982	3,803	5,616	6,235	6,921	7,626	8,304
Domestically-financed	2,065	2,116	2,699	4,332	4,749	5,203	5,656	6,074
Foreign-financed	969	866	1,105	1,285	1,486	1,718	1,970	2,230
Net lending	41	-156	127	-159	-172	-196	-222	-250
Overall balance (IMF definition)	-3,461	-1,324	353	-436	-2,056	-2,077	-2,462	-2,762
Primary balance (IMF definition)	-2,522	-488	1,151	657	-531	-147	97	471
Financing	3,461	1,324	-353	436	2,056	2,077	2,462	2,762
External	2,743	487	583	538	2,717	725	1,691	1,746
Disbursement	5,056	4,245	1,696	4,023	5,616	2,456	6,353	6,264
Amortization	-2,313	-3,759	-1,113	-3,485	-2,899	-1,731	-4,662	-4,518
Domestic (net)	717	837	-936	-102	-661	1,352	770	1,016
Government bonds (net issuance)	-263	-216	378	799	454	4,293	4,132	4,725
Other 4/	980	1,053	-1,314	-901	-1,115	-2,941	-3,362	-3,709
Memorandum items:								
Mineral revenue (in percent of GDP)	6.1	7.5	9.4	8.9	8.4	8.5	8.6	8.5
Non-mineral revenue (in percent of GDP)	21.8	25.3	25.0	25.8	25.9	25.8	25.6	25.7
Non-mineral primary balance (in percent of GDP)	-12.8	-8.7	-7.3	-8.7	-9.6	-9.2	-8.9	-8.1
Non-mineral overall balance (in percent of GDP)	-15.3	-10.6	-8.8	-10.4	-11.7	-11.5	-11.7	-11.1
Primary spending (change in percent)	19.6	14.1	17.4	22.5	19.0	12.6	12.1	11.3
Future Heritage Fund (in percent of GDP) 5/	4.2	5.8	5.0	5.2	6.4	9.1	11.0	12.7
Fiscal Stability Fund (in percent of GDP)	0.0	0.0	1.2	1.9	2.3	2.6	3.0	3.3
Public debt (in percent of GDP) 6/	83.4	67.7	64.5	59.1	61.5	63.3	65.8	67.5
Domestic debt (in percent of GDP)	5.6	3.2	4.4	6.3	6.0	9.3	12.6	15.7
External debt (in percent of GDP)	77.8	64.6	60.1	52.8	55.5	54.0	53.1	51.8

Sources: Mongolian authorities; and Fund staff projections.

Note: 2023 forecasts are based on IMF staff macroeconomic forecasts and 2023 supplementary budget tax policies and expenditures. 2024–27 forecasts assume unchanged revenue and expenditure measures based on historical fiscal outcomes and IMF staff macroeconomic forecast. 2024 forecast includes the full-year impact of wage and pension increases from the 2023 supplementary budget, growth of wages and purchases of goods and services in line with inflation, and elevated capex following the 2024 Annual Development Plan.

1/ Includes policy measures such as tax incentives for decentralization, reducing traffic congestion, and zero excise tax rate on diesel.

2/ Includes targeted 50 percent rebate on social security contributions (2022) and increase in minimum pension starting 2022. Pension forecasts are based on World Bank estimates as of January 2023 plus additional pension-related spending estimated in the 2023 supplementary budget.

3/ Performance-based spending on education, health and cultural sector reflected under wages and goods and services (GFSM Guidelines).

4/ Assumes smaller (50%) deposit buildup in government accounts (including FHF and FHF) in 2024 and full deposits buildup starting 2025.

5/ Assumes a new corporation starts managing the FHF and investing 10 percent of the outstanding stock on foreign safe assets from 2026.

6/ Excludes BOM liabilities to PBOC. Domestic debt in 2022 includes government's liabilities to BOM related to the TDB settlement with regard to Erdenet as well as the DBM's borrowing from BOM.

Table 5b. Mongolia: Summary Operations of the General Government, 2020–27
 (In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027
	Actual			Projections				
Total revenue and grants	27.9	32.8	34.4	34.7	34.2	34.3	34.2	34.2
Current revenue	27.4	32.5	33.8	33.8	33.3	33.4	33.3	33.3
Tax revenue and social security contributions 1/	24.9	29.1	31.3	31.2	30.8	30.9	30.8	30.7
Income taxes	6.0	8.1	7.5	7.5	7.4	7.4	7.5	7.5
CIT	3.7	5.5	5.1	5.1	4.9	5.0	5.0	5.0
PIT	2.2	2.6	2.4	2.4	2.4	2.4	2.4	2.5
Social security contributions	4.2	5.2	5.6	6.0	6.2	6.2	6.2	6.2
VAT	5.9	6.5	7.3	7.5	7.3	7.2	7.1	7.1
Excise taxes	2.1	1.9	1.6	1.6	1.8	1.8	1.8	1.8
Customs duties and export taxes	2.0	2.2	2.3	2.4	2.4	2.5	2.4	2.4
Other taxes	4.8	5.2	6.9	6.4	5.7	5.8	5.8	5.8
Non-tax revenue	2.5	3.3	2.5	2.5	2.5	2.5	2.5	2.5
Capital revenue and grants	0.4	0.4	0.6	0.9	0.9	0.9	0.9	0.9
Total expenditure and net lending	37.1	35.9	33.7	35.4	37.0	36.8	36.8	36.8
Current expenditure	28.9	29.4	26.4	26.7	28.7	28.7	28.9	29.2
Wages and salaries	7.1	6.7	6.2	7.5	8.7	8.6	8.6	8.6
Purchase of goods and services	5.9	5.8	6.5	5.7	5.9	6.0	6.0	6.0
Subsidies	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Transfers 2/ 3/	12.5	13.9	11.3	10.8	11.0	10.9	10.7	10.6
o/w Pension	5.8	5.3	5.6	5.9	6.4	6.2	6.0	5.9
o/w Child Money	2.8	3.3	2.8	2.4	2.2	2.2	2.2	2.2
Interest payments	2.5	1.9	1.5	1.7	2.1	2.3	2.7	3.1
Capital expenditure and net lending	8.2	6.5	7.3	8.6	8.4	8.1	7.9	7.6
Capital expenditure	8.1	6.8	7.1	8.9	8.6	8.4	8.1	7.9
Domestically-financed	5.5	4.9	5.0	6.8	6.6	6.3	6.0	5.8
Foreign-financed	2.6	2.0	2.1	2.0	2.1	2.1	2.1	2.1
Net lending	0.1	-0.4	0.2	-0.3	-0.2	-0.2	-0.2	-0.2
Overall balance (IMF definition)	-9.2	-3.0	0.7	-0.7	-2.8	-2.5	-2.6	-2.6
Primary balance (IMF definition)	-6.7	-1.1	2.1	1.0	-0.7	-0.2	0.1	0.4
Financing	9.2	3.0	-0.7	0.7	2.8	2.5	2.6	2.6
External	7.3	1.1	1.1	0.9	3.8	0.9	1.8	1.7
Disbursement	13.5	9.7	3.1	6.4	7.8	3.0	6.8	5.9
Amortization	-6.2	-8.6	-2.1	-5.5	-4.0	-2.1	-5.0	-4.3
Domestic (net)	1.9	1.9	-1.7	-0.2	-0.9	1.6	0.8	1.0
Government bonds (net issuance)	-0.7	-0.5	0.7	1.3	0.6	5.2	4.4	4.5
Other 4/	2.6	2.4	-2.4	-1.4	-1.5	-3.6	-3.6	-3.5
Memorandum items:								
Mineral revenue (in percent of GDP)	6.1	7.5	9.4	8.9	8.4	8.5	8.6	8.5
Non-mineral revenue (in percent of GDP)	21.8	25.3	25.0	25.8	25.9	25.8	25.6	25.7
Non-mineral primary balance (in percent of GDP)	-12.8	-8.7	-7.3	-8.7	-9.6	-9.2	-8.9	-8.1
Non-mineral overall balance (in percent of GDP)	-15.3	-10.6	-8.8	-10.4	-11.7	-11.5	-11.7	-11.1
Primary spending (change in percent)	19.6	14.1	17.4	22.5	19.0	12.6	12.1	11.3
Future Heritage Fund (in percent of GDP) 5/	4.2	5.8	5.0	5.2	6.4	9.1	11.0	12.7
Fiscal Stability Fund (in percent of GDP)	0.0	0.0	1.2	1.9	2.3	2.6	3.0	3.3
Public debt (in percent of GDP) 6/	83.4	67.7	64.5	59.1	61.5	63.3	65.8	67.5
Domestic debt (in percent of GDP)	5.6	3.2	4.4	6.3	6.0	9.3	12.6	15.7
External debt (in percent of GDP)	77.8	64.6	60.1	52.8	55.5	54.0	53.1	51.8

Sources: Mongolian authorities; and Fund staff projections.

Note: 2023 forecasts are based on IMF staff macroeconomic forecasts and 2023 supplementary budget tax policies and expenditures. 2024–27 forecasts assume unchanged revenue and expenditure measures based on historical fiscal outcomes and IMF staff macroeconomic forecast. 2024 forecast includes the full-year impact of wage and pension increases from the 2023 supplementary budget, growth of wages and purchases of goods and services in line with inflation, and elevated capex following the 2024 Annual Development Plan.

1/ Includes policy measures such as tax incentives for decentralization, reducing traffic congestion, and zero excise tax rate on diesel.

2/ Includes targeted 50 percent rebate on social security contributions (2022) and increase in minimum pension starting 2022. Pension forecasts are based on World Bank estimates as of January 2023 plus additional pension-related spending estimated in the 2023 supplementary budget.

3/ Performance-based financing of education, health and cultural sector reflected under wages and goods and services (GFSM Guidelines).

4/ Assumes smaller (50%) deposit buildup in government accounts (including FSF and FHF) in 2024 and full deposits buildup starting 2025.

5/ Assumes a new corporation starts managing the FHF and investing 10 percent of the outstanding stock on foreign safe assets from 2026.

6/ Excludes BOM liabilities to PBOC. Domestic debt in 2022 includes government's liabilities to BOM related to the TDB settlement with regard to Erdenet as well as the DBM's borrowing from BOM.

Table 6. Mongolia: Selected Financial Stability Indicators, 2019–23

	2019	2020	2021	2022	May-2023
Capital (in percent)					
Risk Weighted CAR	16.6	15.4	14.5	17.4	16.1
Asset quality					
Asset Growth (percent change from start of year)	7.9	1.8	12.5	12.2	1.6
Loan Growth (Net) (percent change from start of year)	3.6	-4.6	22.0	6.3	9.4
Loan share in total assets (in percent)	50.2	47.1	51.1	48.4	52.1
Non Performing Loan (in percent)					
Past-due to gross loans	5.9	9.6	6.6	5.8	5.9
NPL + Past due to gross loans	14.0	20.3	15.7	14.8	14.5
Provision/NPLs	84.5	87.0	83.8	94.9	94.6
Provision/NPL+Past due	48.9	45.6	48.4	57.6	56.3
NPLs net of provision /Capital	6.3	7.5	8.8	2.3	2.5
NPLs+Past due net of provision /Capital	36.1	59.4	48.6	31.2	33.7
FX lending to total lending	11.9	10.1	8.4	7.1	7.1
Interest Rate (in percent)	16.8	16.6	15.5	15.9	16.6

Source: Mongolian authorities.

Table 7. Mongolia: Indicators of Fund Credit Outstanding, 2023–27
 (In millions of SDR, unless otherwise indicated)

	2023	2024	2025	2026	2027
Existing and prospective Fund arrangements					
Stock 1/	165.02	102.67	58.38	32.18	8.30
Obligations 2/	34.37	71.88	50.23	30.37	26.72
Principal (repayments/repurchases)	31.18	62.36	44.28	26.21	23.88
Charges and interest	3.19	9.52	5.94	4.16	2.84
Stock of existing and prospective Fund credit 1/	165.02	102.67	58.38	32.18	8.30
In percent of quota	228.25	142.00	80.75	44.50	11.48
In percent of GDP	1.18	0.71	0.40	0.22	0.05
In percent of exports of goods and services	1.68	1.07	0.60	0.32	0.08
In percent of gross usable reserves	7.38	4.06	2.14	0.99	0.22
Obligations to the Fund from existing and prospective Fund arrangements	34.37	71.88	50.23	30.37	26.72
In percent of GDP	0.25	0.50	0.35	0.20	0.17
In percent of exports of goods and services	0.35	0.75	0.51	0.30	0.25
In percent of gross usable reserves	1.54	2.84	1.84	0.93	0.71

Sources: IMF Finance Department; and IMF staff estimates and projections.

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

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Annex I. Erdenes Tavan Tolgoi Off-take Agreements

Erdenes Tavan Tolgoi (ETT), Mongolia's largest coal exporting state owned enterprise, signed four off-take agreements amounting to US\$3.4 billion during 2019–22. These off-take agreements highlight governance issues related to ETT's operations and have exacerbated Mongolia's external pressures and heightened macroeconomic risks. Due to their large import content, these projects which are expected to continue until 2025, induced large drains in Mongolia's already low level of reserves. These agreements pose significant risks to Mongolia's external sustainability. They also heighten contingent liability risks for the government, should ETT's financial position deteriorate.

A. Context

- 1. Erdenes Tavan Tolgoi (ETT), Mongolia's largest coal exporting state owned enterprise, signed four off-take agreements during 2019–22.** The multi-year agreements cover the financing of four large infrastructure projects in the transportation and mining sectors, backed by ETT's coal export receipts and cash payments (Table 1). Furthermore, the contracts were originally protected by secrecy clauses and not submitted to Parliament for approval, nor disclosed to the public.
- 2. Public unrest related to alleged coal theft from ETT prompted greater transparency.** In December 2022, allegations about the embezzlement of revenues through illegal coal sales by ETT sparked protests. In response, the authorities took steps to improve ETT's operational transparency, by appointing the Ministry of Finance's State Secretary as full power representative of the government at ETT. The government also passed an emergency resolution to declassify ETT contracts and to hire an international audit firm to look into ETT's operations. Five contracts related to two infrastructure projects with a domestic contractor, Bodi International LLC, were declassified. However, the Chinese counterpart (China North Industries Corporation, NORINCO) denied the authorities' request to disclose the contracts for the other two projects, on account of the confidentiality clause. Nonetheless, the authorities have made public some basic information regarding the 2 Chinese projects.

B. Contracts Details and Implementation Status

- 3. The total amount of the four off-take agreements is US\$3.4 billion, over 2019–27** (22 percent of 2022 GDP; Table 1). The contracts are expected to be repaid by ETT in cash (US\$1.1 billion) and coal (US\$2.3 billion) over 2019–26, to a third-party buyer (most likely a Chinese company), nominated by the contractor.

Table 1. Mongolia: EFF Off-Take Contracts: Summary Table
(In US\$ million)

Project Name	Project Purpose	Year		Parties Involved Besides ETT	Implementation Status (end-2022)	Contract Amounts			Repayments (in percent of plan)	Remaining Payments ¹ (2023 to end of contract)
		Signed	Expiry			Total Cost	Cash Payment	Coal Payment		
Tavan Tolgoi-Gashuunsukhait (TT-GS) Railway	Rail connection from TT coal mines to China's border (GS).	2019	2024	Bodi Int'l LLC (Mongolian)	86% ; Ongoing Audit by Ministry of Finance and National Audit Office	1282	386	896	891	70%
Bogdkhan Railway	Bypass Rail to improve transport network for Ulaanbaatar and reduce congestion.	2022	2027	Bodi Int'l LLC (Mongolian)	Permanent suspension by Cabinet (Dec. 2022); Ongoing Audit by Special Government Representative	1405	670	735	41	3%
Tavan Tolgoi (TT) Coal Wash Plant	Facility for ETT to wash mined coal to increase sales value.	2022	2025	Norinco Int'l (Chinese)	21%	336	34	302	29	9%
Oil Refinery Pipeline	Pipeline between current oil fields and future oil refinery (financed by Indian FDI).	2022	2025	Norinco Int'l (Chinese)	8% (at end-January 2023). Construction ongoing but coal repayments temporarily suspended till project execution and cost estimates validated by NORINCO and ETT.	388	0	388	18	5%
Total						3410	1090	2320	979	2432^{2/}
<i>2022 Article IV</i>						1767	n.a.	n.a.	783	984

Sources: Mongolian authorities.

1/ Includes financing planned in contracts as well as financing under-executed in 2019-22.

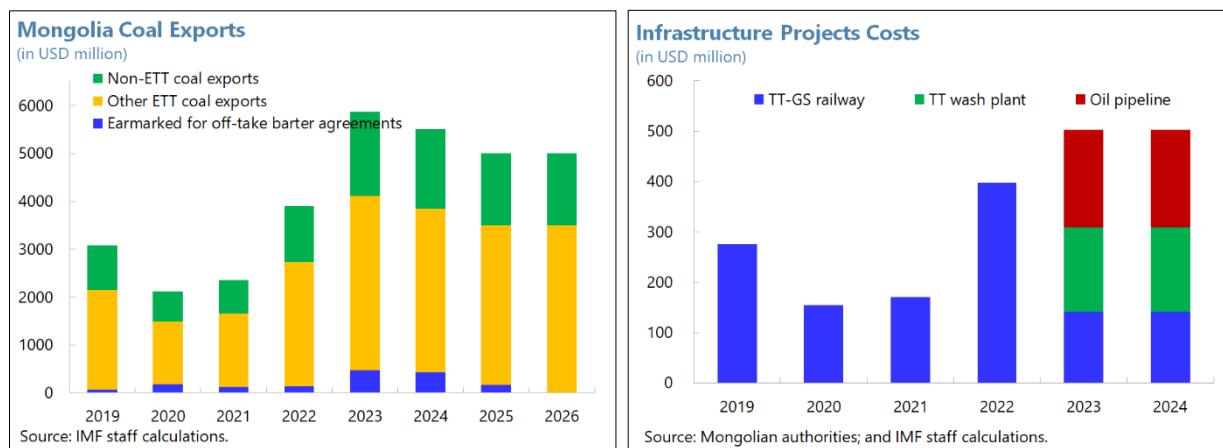
2/ US\$472 million of coal payment is planned for 2023 and US\$426 million for 2024.

4. The agreements include significant coal price discounts. Per the contracts, the price of coal is determined quarterly, based on an indexation of the weighted average of international coal prices.¹ In practice, the base price to which the indexation is applied is set at low levels, leading to an average coal price discount of around 10 percent compared to market prices across all projects, resulting in a revenue shortfall for ETT and low export inflows into Mongolia. As the repayment scheduled is fixed in US dollars, the quantity of coal to be exported to fulfill these contracts is determined on the basis of the quarterly price. A lower price means a higher quantity of ETT's coal is earmarked for repayment, and therefore a lower share of ETT's total coal production can be sold at market price.

5. However, ETT has effectively permanently suspended one of the off-take contracts. As part of the government's efforts to boost export receipts and gross international reserves (GIR), the authorities issued a permanent suspension notice for the Bogdkhan railway project to Bodi International. Efforts to renegotiate the contracts with Norinco International have had limited success.

6. Excluding the Bogdkhan railway project, an estimated US\$1.1 billion of the total contract amount remains to be executed over 2023–25 (Table 1). Almost all of the US\$1.1 billion is expected to be repaid in coal, thereby earmarking 10 percent of ETT's projected coal exports, on average, over the period (6.1 percent of Mongolia's total coal exports, 1.8 percent of GDP).

7. Construction is expected to peak in 2023–24. The implementation of these projects varies greatly across the three projects (Table 1). Factoring in the expected completion rates, and assuming that the Bogdkhan railway project will remain permanently suspended, the bulk of the projects are scheduled for completion in 2023 and 2024.



¹ The coal price index basket consists of the following indices: i) CR China Coal Price Index (weight 30%), ii) Metal Bulletin Coking Coal Index, Hard Coking Coal CFR Jingtang USD per tonne (weight 20%) iii) Hard Coking Coal 64 Mid Vol CFR China Daily Spot Price (weight 10%), iv) Shanxi Liulin Seam 4 Unwashed Clean Hard Coking Coal Price (weight 10%), and v) Production areas Primary Coking Average (weight 30%).

C. Macroeconomic Impact

8. The projects have the potential to boost Mongolia's economy over the long term.

Once completed, the projects could benefit economic activity, although the full impact is difficult to quantify at this stage. These investments could help raise Mongolia's potential output via increased production and export capacity and raise export value added. More efficient freight and passenger transportation could help raise productivity. These positive impacts could spill over to the external and fiscal sectors (through higher export volumes, lower oil and service imports and higher mineral tax revenues, respectively). However, the benefits may take several years to materialize and may require additional investments to fully materialize. For instance, in the case of the TT-GS railway, an additional investment is needed to connect the Mongolian and Chinese systems, to fully reap the benefits of project.

9. Meanwhile, the off-take agreements will have a significant impact on Mongolia's external position in the near term.

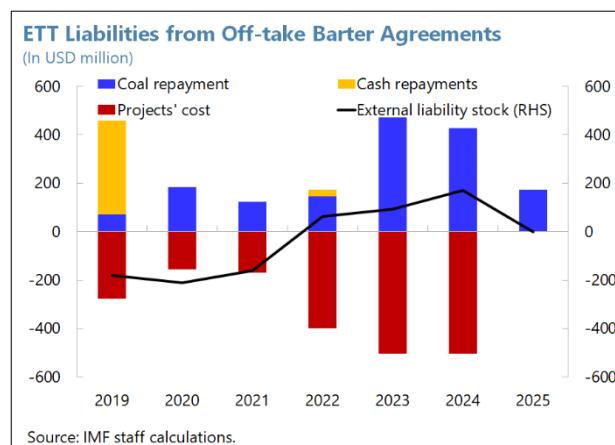
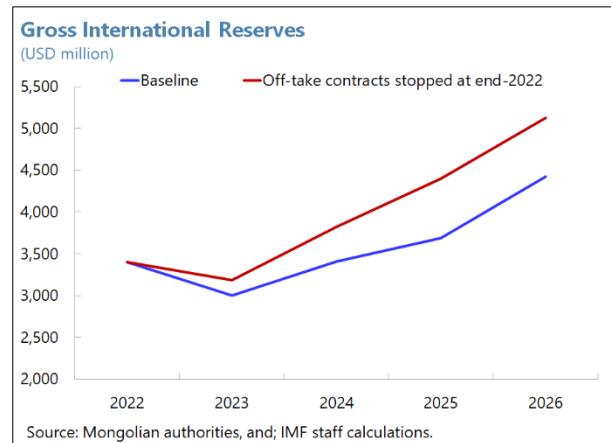
The contracts affect the balance of payments via two channels.

First, the price discount entails lower export values. Second, and more importantly, FX proceeds from these exports are used to finance infrastructure projects with large import content, and therefore do not contribute to GIR accumulation. Between 2019 and 2022, capital imports related to these agreements averaged 1.6 percent of GDP. As a result, the agreements contributed to a US\$800 million drain on GIR as of end-2022. Imports related to these contracts are projected to increase to 2.1 percent of GDP (5.2 percent of total imports) over 2023–24,

when project construction costs are expected peak. Drains on GIR from these projects are estimated at US\$179 million by end-2023, US\$233 million in 2024 and US\$295 million in 2025, adding pressure to Mongolia's already inadequate GIR reserves (Annex II). In the absence of these projects, all ETT coal exports proceeds would have generated FX inflows—rather than being used to finance project-related imports—leading to a US\$750 million GIR increase by end-2026 compared to the baseline forecasts (Figure)

10. The agreements are expected to raise ETT, and Mongolia's, external liabilities.

Mongolia's, external liabilities. The agreements are akin to collateralized debt instruments, since the contracted loans are collateralized by future coal export receipts, and the contracts allow for the repayment of the loan with cash or coal, (as defined in IMF-WB,



2020).² Given the large upfront cash repayments for two of the projects, ETT's external liabilities from the agreements have remained relatively low, estimated at US\$62 million at end-2022, but is expected to rise to around US\$200 million in 2024 (1.2 percent of Mongolia's non-FDI external debt).

11. The agreements have impacted ETT profitability and raised contingent liability risks for government debt. Since ETT is currently a profitable SOE with no explicit guarantees involving the government, these contracts are not included in Mongolia's public and publicly guaranteed debt stock aggregates at this stage.³ Nonetheless, the coal price discounts and sizeable cash payments included in the contracts are likely to have impacted ETT's profitability and reduced fiscal revenue, through lower dividends transferred to the budget. Should ETT become unprofitable at a future date (e.g., due to a decline of international coal prices), its liabilities could become government debt. Furthermore, limited transparency in some of the contracts contribute to uncertainty.

² IMF, 2020, "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers,".

³ Staff assessment on the basis of the Fund's SOE Health Check framework is that ETT is in the lowest risk category on all the profitability indicators (2022 Article IV SIP on Mongolia's State-Owned Enterprises: Performance and Fiscal Risks).

Annex II. External Sector Assessment

Overall Assessment: Mongolia's external position in 2022 was weaker than the level implied by medium-term fundamentals and desirable policies. At end-2022, gross international reserves (GIR) remained well below the ARA metric, leading to persistent external imbalances given Mongolia's high vulnerability to external shocks.

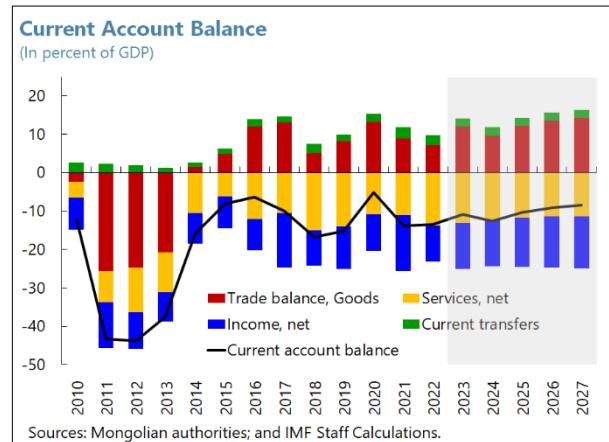
Potential Policy Responses: Strong fiscal consolidation is critical for building appropriate buffers which requires a reduction of public and SOE investments, greater progressivity in taxes and better targeted social spending. To tackle the structural drivers of external imbalances, Mongolia also needs to make progress on a broader development agenda to harness more FDI and private capital flows, develop domestic capital markets, and boost export performance as well as economic diversification.

Current Account

1. Mongolia's current account (CA) deficit remained wide at 13.4 percent of GDP in 2022 (Figure).

This can be attributed to increased imports related to infrastructure projects, as well as the release of pent-up demand for consumer durables and services financed by savings accumulated during the pandemic. Services and income balances also remained significant negative contributors to the CA deficit.

Disruptions at the Chinese border due to its zero-COVID policies reduced export volumes until the second half of 2022. Coal exports surged thereafter as China reopened its borders, helping to support the trade balance and averting a much worse CA outturn.



2. Mongolia is expected to continue to face persistent CA pressures during 2023–2027.

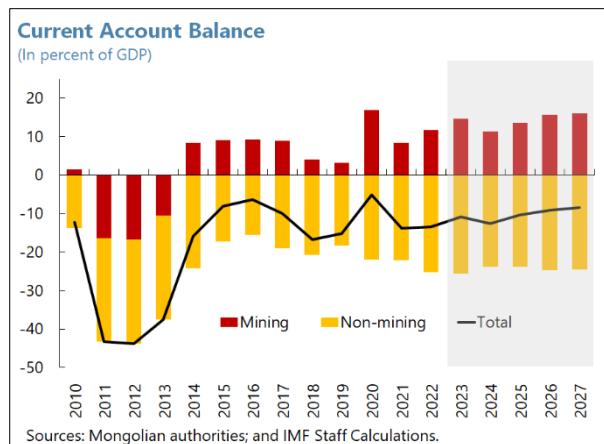
Mongolia will continue to benefit from China's reopening in the medium term; coal export volumes are projected to settle at new historical highs in 2023 and beyond in line with government targets which assume logistical benefits from enhanced transportation infrastructure and consistently Chinese demand for Mongolian coal.¹ The price of Mongolia's exported coal is expected to remain broadly stable with respect to 2022 due to idiosyncratic factors while declining gradually over the forecast horizon.² Copper production at the underground mine of Oyu Tolgoi (OT) commenced in

¹ Annual coal export volume is projected at 47 thousand tons in 2023 and 50 thousand tons over the medium term in the baseline, above the historical high of 36.5 thousand tons in 2019. Data for the first half of 2023 are consistent with the baseline assumption.

² Mongolia's BoP coal export price has been lower than the customs export price, reflecting previous non-transparent pricing practices in the sale of coal by the primary state coal-producing company, Erdenes Tavan Tolgoi (ETT). A shift in leadership at ETT in late 2022 and the adoption of an auction sale mechanism on a pilot basis has led to enhanced governance and transparency with a positive impact on the observed coal export prices.

March 2023, with peak production expected by 2028.³ The OT project will increase overall production levels and provide higher value added copper over time. While the mineral sector is expected to continue to provide major support to the external accounts, Mongolia's CA deficits are projected to remain sizable in the medium term due to import pressures associated with infrastructure projects and foreign direct investments, including the OT mining project, as well as due to the higher wages and transfers in the 2023 supplementary budget. Additionally, off-take agreements have earmarked a portion of coal export revenues for financing large investment projects, reducing foreign exchange inflows while still fueling capital imports (Annex I). In addition, high import dependence for services, despite some reorientation towards domestic transportation companies for coal exports, and a large negative IIP should continue to trigger persistent deficits in the services and income balances. Finally, the CA dynamics is particularly vulnerable to global shocks, especially developments in China, and domestic policy slippages. In the medium and long run, the global shift towards a zero-carbon economy is also a major source of CA uncertainty, given Mongolia's heavy reliance on coal exports.

3. Mongolia's external position is weak. The EBA-lite current account approach estimates the CA norm at -9.1 percent of GDP. The large negative IIP position explains a significant part of the negative CA norm (-6.9 percent of GDP), underscoring the structural nature of the large CA deficits. The CA gap is estimated at -3.3 percent of GDP, which translates into a 7.6 percent REER gap. The estimation incorporates price and volume adjustors for coal, which contributes to reducing the estimated REER gap, but does not alter the bottom-line external assessment. Regarding coal price adjustors, the strong rise in international coal prices observed during 2022 did not reflect the coal export price for Mongolia's exports which has remained broadly flat amid issues related to non-transparency in ETT's coal export pricing. The



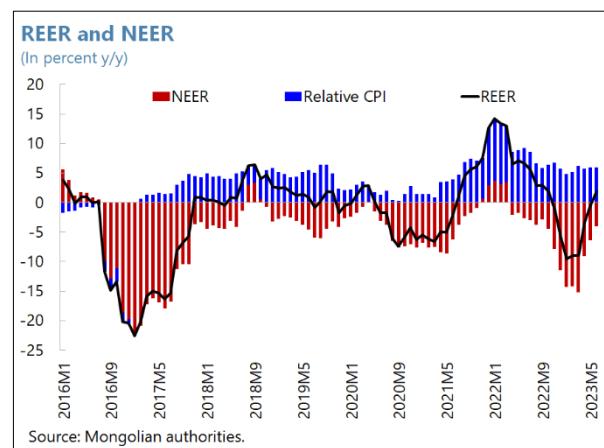
Mongolia: EBA-lite Model Results, 2022		
	CA model 1/	REER model 1/ (in percent of GDP)
CA-Actual	-13.4	
Cyclical contributions (from model) (-)	1.0	
COVID-19 adjustors (-) 2/	-0.7	
Additional temporary/statistical factors (-) 3/	-1.2	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	-12.4	
CA Norm (from model) 4/	-9.1	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	-9.1	
CA Gap	-3.3	-0.4
o/w Relative policy gap	3.7	
Elasticity	-0.4	
REER Gap (in percent)	7.6	1.0

1/ Based on the EBA-lite 3.0 methodology
 2/ Additional cyclical adjustment to account for the temporary impact of the tourism (0.63 percent of GDP).
 3/ China's zero-COVID policy in 2022 significantly impacted coal export volumes as evidenced by a skewed H2/H1 volume export ratio in the year (0.75), deviating from the 2011-2021 historical average (0.55). The temporary adjustor is conservatively calculated as half of the difference between the 2022 H1 volume (8 thousand tons) and the historical H1 average (11.2 thousand tons), valued at Mongolia's 2022 coal export price and nominal GDP, equating to a -2.4 percent of GDP temporary adjustment to the CA.
 4/ Cyclically adjusted, including multilateral consistency adjustments.

³ In December 2022, Rio Tinto completed the acquisition of 66 percent share of the OT project (the government of Mongolia holds the other 34 percent).

coal price used for the terms of trade gap calculation entering the cyclical component of the CA-model has therefore been recalculated to reflect the reality of non-increasing coal export prices during 2022 for Mongolia. Regarding coal volumes, an adjutor was also introduced to account for China's border closure in 2022H1 which significantly reduced coal export volumes. The magnitude of the adjutor (-1.2 percent of GDP) was derived by comparing historical ratios of coal volume exports in the first and second half of every year over the past decade. The effects of the war in Ukraine have also weighed on the CA, but this impact is hard

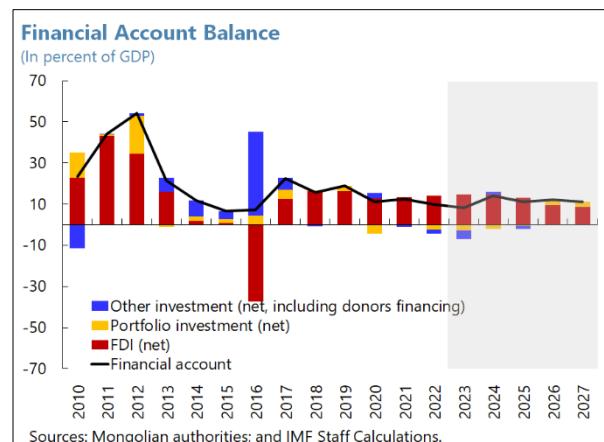
to quantify and is therefore not incorporated quantitatively into the assessment.⁴ The EBA-lite REER model points to a smaller REER overvaluation of 1 percent. The REER started to appreciate again in 2023Q2 after partly unwinding a strong overvaluation during 2022 and early 2023. Finally, the EBA-Lite External Sustainability (ES) approach, which calculates the external adjustment needed to stabilize the NIIP, does not point to REER misalignment since the NIIP is projected to improve in the medium term without REER adjustment.



Capital and Financial Accounts

4. Strong FDI inflows continued to keep the financial account (FA) in surplus in 2022 though the global financial environment is posing challenges.

FDI is projected to remain buoyant in the medium term as the OT project is executed. However, the global financial environment has become less supportive. Fortunately, Mongolia was able to take advantage of a window of opportunity in January 2023 to tap international capital markets and mitigate rollover risks.⁵ However, the turbulence in global financial markets and increased uncertainty that ensued after the shocks to the banking system of advanced economies in March of 2023 have weakened the outlook for financial flows. While global financial



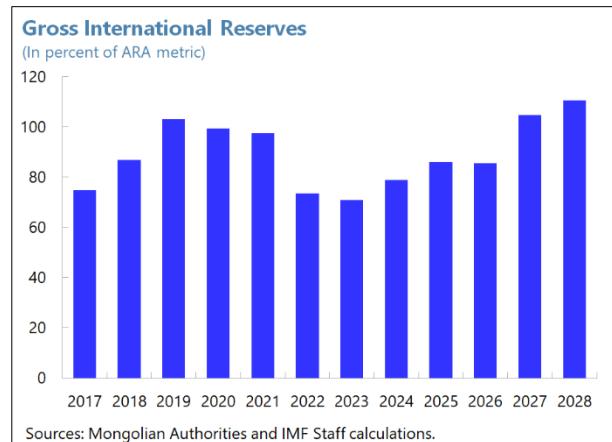
⁴ The effects of the war in Ukraine on Mongolia's CA include, for instance, the need to source intermediate goods from more expensive sources (for instance, explosives used in mining imported from Korea instead of Russia), advance oil imports and loss of FX revenues from the use of Mongolian airspace.

⁵ Mongolia's sovereign spreads experienced a significant decline from distressed levels (above 1,000 bps) in October 2022 to less than 350 bps in February 2023. The government skillfully leveraged this opportunity to reduce rollover risks in a way that would have seemed unattainable only a few months earlier. The Government of Mongolia issued a US\$645 million Eurobond at 8.95 percent in January 2023.

market stresses have eased recently, there are lingering uncertainties which pose risks given Mongolia's external refinancing needs in the coming months (see paragraph 6).

Reserves Levels

5. Reserve coverage is inadequate. GIR declined to US\$3.4 billion in 2022 from US\$4.3 billion in 2021. As a result, reserve coverage has fallen to 73 percent of the ARA metric in 2022, corresponding to 3 months of imports, and it is projected to remain below the recommended range over the forecast horizon and relative to other countries (Figures). GIR net of commercial bank's FX deposits at the BOM stood at US\$1.9 billion as of the end of 2022, posting a significant deterioration from the level observed at the end of 2021 (US\$3.6 billion). Following the deterioration in 2022, GIR net of commercial bank's FX deposits has been improving since October 2022 when it reached US\$1.5 billion and stands at US\$2.8 billion at end of July 2023.



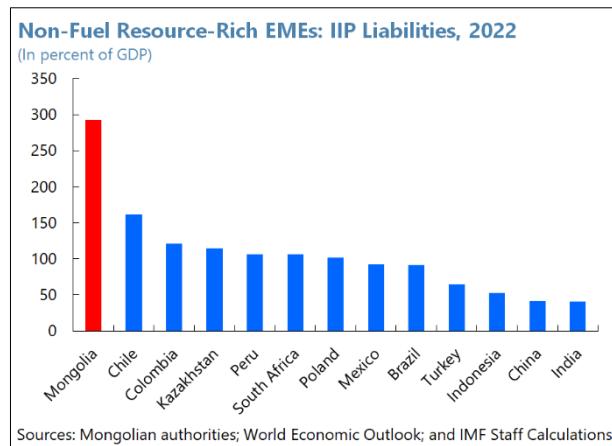
Stronger export inflows and greater exchange rate flexibility have been important factors in supporting the buildup in reserves. In addition, the sizeable disbursed PBOC swap line (US\$1.8 billion) has been rolled over in 2023 for another 3 years.

6. Major downside risks underscore the inadequacy of current reserve levels. Mongolia faces large public and private external repayment obligations totaling more than US\$3 billion in the second half of 2023 and throughout 2024.⁶ The conditions for refinancing these dues or seeking new external financing might prove more challenging than even currently anticipated. If so, the scheduled external repayments would have to be met through local financing and/or any available domestic currency cash reserves. This would cause a significant decrease in GIR and produce disruptive pressures on the ER. Additionally, spillovers from developments in China and Russia (including secondary impacts of sanctions related to the war in Ukraine) could adversely affect Mongolia.

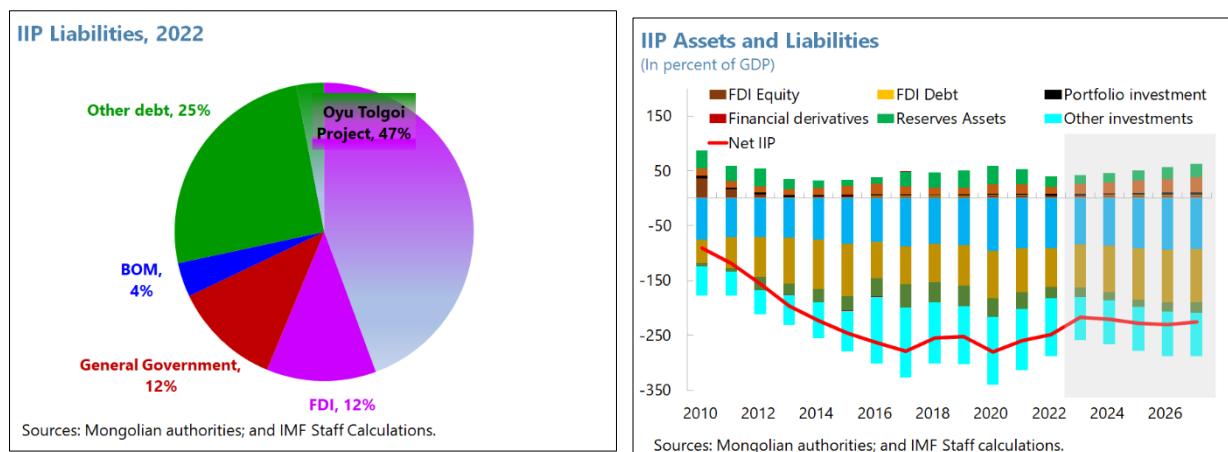
⁶ Public sector scheduled repayments include DBM external bonds totaling more than US\$700 million (due in second half of 2023) and Eurobonds totaling US\$391 million (due in early 2024). Scheduled repayments of non-OT private external loans and bonds in 2023 and 2024 totals nearly US\$2 billion.

Foreign Assets and Liabilities: Position and Trajectory

7. Mongolia's international investment position (IIP) liabilities remain exceptionally large. Mongolia IIP liabilities deteriorated during most of the last decade, due to large FDI in mining (Figure), rising public external debt and a bilateral swap arrangement with the PBOC in 2011 which has been repeatedly rolled over. In 2022, Mongolia's IIP liabilities improved to -288 percent of GDP from -313 percent of GDP in 2021 but remained much larger than any other resource rich EMEs and one of the most negative in the world as a share of GDP (Figures). IIP liabilities are largely denominated in U.S. dollars and are mostly composed of FDI (166 percent of GDP of which 126 percent of GDP is attributed to OT) and external loans (78 percent of GDP), and debt securities (19.5 percent of GDP). It includes the disbursed portion of the PBOC swap line (10 percent of GDP).



8. The large weight of FDI is a mitigating factor. FDI accounts for 56 percent of total liabilities, evenly split between debt and equity. OT liabilities alone account for 78 percent of FDI liabilities and, including a large external loan, are estimated to amount about 138 percent of GDP (48 percent of total liabilities). This reflects the project's sizeable upfront capital costs. The recent beginning of OT's underground project production helps mitigate the risks arising from the very large international liabilities, as OT's external liabilities are presumed to be financed by its earnings from copper exports. Moreover, in the event of stress, there is a presumption that these liabilities will be absorbed or financed by the parent company.



9. IIP liabilities are projected to remain very large, although declining. Mongolia's NIIP is projected to improve from -248 percent of GDP in 2022 to -226 percent in 2027.⁷ This is driven by

⁷ The NIIP is projected to decline to -US\$47.6 billion in 2027 from -US\$42.5 billion in 2022.

external debt repayment cushioned by modest fiscal consolidation, reduced reliance on off-balance sheet swaps by the BOM and greater domestic borrowing for budget financing. Strong FDI inflows led by OT investment should continue to pressure liabilities in the medium term.

External Position Assessment

10. Overall, Mongolia's external position is assessed to be weaker than implied by fundamentals and desirable policy settings. The assessment draws on Mongolia's large negative IIP position and the results from the EBA-Lite CA assessment. In response to the current external pressures, the exchange rate should continue to be allowed to act as a shock absorber and reflect market forces to a greater extent. The BOM should also opportunistically accumulate reserves, particularly if FX inflows surprise positively due to the materialization of coal export upside risks. In the near-term, given low GIR levels, the government should repay DBM's external liabilities through new borrowing abroad. Moreover, the government should reduce external pressures via fiscal consolidation and better prioritization of public and SOE investments along with structural reforms to reduce longer-term pressures. Over the medium and long-term, sustainably addressing external imbalances hinges on the implementation of policies that harness FDI and private capital inflows while gradually developing domestic capital markets and pursuing policies to promote export performance as well as economic diversification.

Annex III. Progress on Recommendations of the 2022 Article IV Consultation

2022 Article IV Recommendations	Progress
Fiscal Policy	
Implement strong, high quality fiscal consolidation	Although the overall fiscal balance recorded a surplus 0.7 percent of GDP in 2022, the NMPB continued to record a significant deficit (-7.4 percent of GDP in 2022). The 2023 budget targeted a small consolidation which was reversed by a supplementary budget approved in June 2023. The MTBF for 2024-26 envisages that the overall balance will improve supported by some consolidation after 2024.
Introduce revenue-enhancing progressivity in PIT	A small amount of progressivity was introduced in the 2023 budget: a three-tier PIT with rates of 10, 15 and 20 percent at income thresholds of MNT120 million, MNT180 million affecting only 0.1 percent of individuals.
Target CMP toward the vulnerable to reduce poverty	Partial targeting CMP was introduced in 2023 with the coverage of 91 percent of children on a voluntary basis. However, the 2023 supplementary budget reversed the partial targeting to universal support. A new household database is being developed which could help rationalize social spending.
Improve debt management, including by: (1) adopting a simplified fiscal framework; and (2) restarting domestic government bond issuance	The Medium-term Debt Management Strategy for 2023-25, approved in May 2022, left the NPV-term debt anchor unchanged. Discussions regarding the adoption of a new nominal debt anchor have not started. In 2022, the government issued MNT684 billion domestic bonds, albeit through private placement. The 2023 supplementary budget plans MNT2.3 trillion domestic debt issuance and the government plans to submit amendments to the Law on Securities Market in 2023H2 to increase secondary market trading in the Mongolia Stock Exchange, to attract long-term investors, and to enhance transparency and corporate governance of listed companies.
Revisit the proposal to reduce FHF revenue inflows to finance budget expenditures	Parliament amended the FHF law again in November 2022 to continue financing budget expenditures by the FHF in 2023 by suspending the transfer of mining royalty revenues to the FHF. Parliament will revisit the FHF Law in 2023H2 to decide whether to continue FHF financing of budget expenditures in the context of the 2024 budget.
Implement substantial cuts or delays in public capex	The planned capex spending in the 2023 supplementary budget remains high (9.3 percent of GDP) to complete ongoing projects.
Monetary and Exchange Rate Policies	
Maintain tight monetary policy to reduce inflation, calibrated to incoming data to avoid destabilizing the banking sector	Since the BOM raised the policy rate to 13 percent by 1 ppt in December 2023, the BOM has kept the policy rate unchanged. However, it reduced the policy corridor to ±1 percent (from ±2 percent) in March 2023 to ease tight MNT liquidity condition and removed FX reserve requirements for foreign borrowings to address the scarcity of FX and to mitigate exchange rate pressures. Given the expansionary fiscal policy under the 2023 supplementary budget, the June 2023 Monetary Policy Committee decided to stay on hold. The BOM is strengthening its analytical and forecasting capabilities with IMF assistance.

2022 Article IV Recommendations	Progress (continued)
Allow for much greater exchange rate flexibility to contain imports and capital outflows.	Following a 22 percent depreciation in 2022, the pace of MNT/USD exchange rate depreciated moderated through end-March 2023. The exchange rate appreciated in 2023Q2. The BOM relied on FX sales in the interbank market during 2022–2023Q2 relative to auction sales, largely due to FX scarcity, but has recently shifted to FX sales through auctions.
Discontinue the BOM's quasi-fiscal operations and strengthen the BOM's operational independence	Although the BOM stopped new quasi-fiscal operations from January 2023 given the APL expiration at end-2022, it pre-financed the subsidized mortgage financing in December 2022 to enable the program to continue till 2023H1 and recently instructed banks to use mortgage repayments to provide new mortgages instead of repaying the BOM. The 2023 MPG, approved by Parliament, requires the subsidized mortgage program to be transferred to the government by end-June 2023. To this end, a working group has been set up, which comprises of the BOM, MoF, Ministry of Construction, but no decision has been made as of end-July 2023. The BOM intends to address the dual mandate of exchange rate stability and price stability, but this is not likely to happen soon, given the need for a Constitutional amendment.
Boost foreign exchange reserves and improve investor confidence	GIR increased to US\$3.8 billion at end-July, 2023 helping to improve investor confidence.
Financial Sector Policy	
Ensure sound execution of the post-AQR banking reform strategy	All five D-SIBs initiated IPOs by June 2023. Share prices of all banks have fallen their IPO price due to thin trading volumes in the stock exchange. The 3 D-SIBs that are required to diversify their shareholdings are facing challenges in meeting the end-2023 deadline for diversifying single shareholder's concentration.
Augment NBFI supervision, given risks from the rapid expansion in NBFI lending	The FRC has gradually resumed its on-site nonbank supervision since January 2022, but its limited capacity has constrained its effective supervision. In January 2023, the FRC introduced a 70 percent DTI for Fintech companies (which account for 90 percent of NBFI).
Strengthen crisis preparedness and management	The BOM is currently preparing a crisis preparedness and management manual and has requested IMF assistance, with the intention to complete the manual by end-2023.
Improve banking supervision regulatory framework	The BOM is upgrading its corporate governance regulations since 2022H1, but progress has been limited so far. The BOM is enhancing its risk-based supervision framework with multi-year IMF and WB assistance.
Reform credit reporting system toward better dissemination of credit information	No progress has been made in addressing the weak credit reporting system.

2022 Article IV Recommendations	Progress (continued)
Structural Policy	
Accelerate pension reforms to reduce the state subsidy to the social insurance fund	Parliament approved in July 2023 a package of revised Social Insurance Laws which contained parametric reforms of pension insurance scheme.
Improve effectiveness of MTBF framework and fiscal transparency	Parliament adopted in July 2023, a fiscal reform plan to strengthen the MTBF and to improve transparency and oversight, as proposed by the Parliamentary Budget Standing Committee. The MoF is strengthening its medium-term macroeconomic framework with IMF assistance.
Improve public investment management	An IMF PIMA technical assistance mission assessed the PIM framework in July 2023. It concluded that some progress has been made in the areas of PIM information systems and regulations, though progress has been limited in the areas of fiscal framework, multi-year budgeting, and roles/responsibilities within government. Following the PPP law approval in December 2022, the authorities are preparing regulations to implement the PPP law, which comes into effect from January 2024, with assistance from the IMF and the WB.
Address DBM's balance sheet problems promptly to minimize fiscal and external pressures	The DBM's NPLs were lowered to 1.2 percent of GDP at end-2022. The DBM bought back US\$83 million Eurobond and secured funds to repay the Samurai bond due December 2023. However, the DBM's cash position remains inadequate to deal with external liabilities due in 2023.
Carefully design and implement the SOE privatization agenda to reduce contingent liabilities	In 2023, 26 SOEs are expected to offer up to 34 percent of shares to the public. At the same time, the government intends to further expand the list of SOEs going public in 2023 with large mining SOEs by amending the 2022 Parliamentary Resolution on SOE Privatization Guidelines for 2022-23. The July 2023 IMF PIMA mission concluded that SOE governance and oversight framework remains insufficient.
Modernize insolvency framework to address impaired corporate and financial sectors	A draft amendment to the Insolvency Law, reflecting IMF assistance, submitted to Parliament in April 2022, is expected to be discussed in 2023H2. Parliament has formed a working group, which plans to incorporate comments provided by stakeholders, including the IMF, in 2023H2. The authorities are considering a separate law to broaden the scope of the insolvency law to individual entrepreneurs which benefitted from IMF assistance in 2022H2.
Ensure smooth payment for Russian fuel imports	Fuel import payments are currently settled in CNY through one local bank with Chinese banks' assistance. In October 2022, Mongolia made a long-term contract with Russia for purchasing petroleum products through 2027 at a stable price and requested Russia to provide trade financing to secure gasoline import payments.
Pursue policies to encourage female labor force participation to unlock Mongolia's growth potential	The authorities implemented a women's employment promotion program in 2022, which includes: (1) extending up to MNT10 million financing to women operating childcare centers; and (2) conducting skill and remote work trainings for women. In 2023, the authorities plan to launch an employment promotion program for victims of family abuse (whose 90 percent is women).

2022 Article IV Recommendations	Progress (continued)
Strengthen resilience to climate change and diversify its carbon-intensive economy	To reduce the livestock headcount to sustainable levels, export quota for most of meat were temporarily lifted until October 2023. Electricity tariffs for legal entities were increased by 14-38 percent in November 2022. The National Committee on Climate Change approved the 2023 “one-billion-tree” strategy and action plan in March 2023 to help facilitate the reduction of greenhouse gas emission.
Governance and Anti-Corruption	
Strengthen SOE governance, including the DBM, and the transparency of contracts	SOE off-take contracts have been partially disclosed to the public since October 2022, and a government special representative was appointed to improve the financial performance of SOEs. Two draft laws, aimed at improving SOE governance, management of public assets, and contract transparency, were submitted to Parliament and Parliamentary discussions are expected in 2023H2. A Parliamentary working group issued recommendations to strengthen DBM’s corporate governance, but these recommendations lack details.
Ensure effective implementation of the existing anti-corruption legal framework	Effective implementation of the anti-corruption legal framework remains limited, including due to limited judicial integrity. However, prominent cases are ongoing (ETT’s coal theft scandal is currently under investigation by anti-corruption agencies and DBM is undergoing a court hearing in the context of anti-corruption efforts). To address corruption, the government identified 5 priority areas for reform: (i) protection of whistleblowers; (ii) prosecution of public officials involved in corruption; (iii) repatriation of individuals that escaped investigation and court proceedings; (iv) identification and repatriation of illegal assets; and (v) strengthened transparency of SOE governance. To this end, the Independent Authority Against Corruption submitted to Parliament a draft comprehensive national strategy in April 2023, which contains 10 goals, 45 objectives, and 224 targeted activities. The strategy is scheduled for Parliament discussion in 2023H2
Continue to upgrade the legal framework to protect whistleblowers	A draft Law on Whistleblower Protection is scheduled for Parliament discussion in 2023H2.
Accelerate the implementation of AML/CFT legal framework	The authorities are beginning to implement the AML/CFT framework, including by undertaking off-site and on-site supervision of certain entities, issuing guidelines on politically exposed persons for reporting entities, deploying the GoAML software for STR reporting, and increasing number of companies registering their beneficial ownership information.

Annex IV. Risk Assessment Matrix

Source and Likelihood of Risk		Expected Impact on Mongolia	Policies to Minimize Impact
Global and Regional Risks			
Escalation of Russia's war in Ukraine leads to escalation of sanctions and other disruptions.	High	High: Should any new CBR disruptions arise due to an escalation of sanctions on Russia, it could result in a significant impact on Mongolia's mining and energy sectors, which rely heavily on imports of Russian petroleum products. The economy could come to a near standstill, given limited scope for geographical diversification.	Continue to work with EU, UK, and US to ensure payments for Russian imports can continue to be made. Prepare contingency plans to respond to disruptions in the only remaining CBR, should they arise, including exploring alternative means for payments for imports from Russia. Continue efforts to address gaps in and improve the implementation of the AML/CFT framework.
Commodity price volatility	High		
Abrupt growth slowdown in China	Medium	High: Volatility in international copper and coal prices and/or growth deceleration in China could lead to significant uncertainty in the external and fiscal outlook. Lower prices and/or volumes of commodity exports would reduce export receipts and substantially weaken external imbalances, further eroding foreign reserves, raising exchange rate pressures, inflation, and rollover risks. Fiscal balances would deteriorate significantly raising rollover and debt sustainability risks. On the flip side, higher commodity prices can provide a potential upside and improve trade balances although high food prices would directly impact inflation with second-round effects on core inflation.	Build external buffers by allowing greater ER flexibility to act as a shock absorber. Prioritize strong and front-loaded fiscal consolidation to reduce public external debt, targeting support only to those facing economic hardship, reducing the wage bill, increasing progressivity in PIT, reducing tax expenditures and arrears and reprioritizing public and SOE investments (Annex VI). Further tighten the monetary policy stance if upside risks to inflation or broader dollarization materialize and strengthen the BOM's communication on inflation and ER developments. Issue domestic debt through market-based auctions to improve monetary policy transmission. Undertake fiscal, financial, and regulatory reforms and credibly adhere to fiscal rules to preserve investor confidence and improve macroeconomic stability. If commodity prices are higher, the BOM should undertake a faster pace of GIR accumulation to reach adequate level of reserves.
Sovereign debt distress due to higher global interest rates and/or disorderly debt events in some EMDEs	Medium	Tighter global financial conditions could increase external imbalances. External funding costs for the government and private companies could rise further hampering their ability to refinance their external debt and/or undertake new external borrowing. This could lead to a loss in international reserves. The ER could come under severe pressure with significant ER pass-through to inflation, contraction in growth, and the worsening of fiscal balances.	In addition to fiscal consolidation, reduce external financing needs through appropriate debt management, the use of domestic financing by resuming domestic bond issuance, and a credible commitment to fiscal prudence by adhering to the fiscal framework. The BOM should closely monitor the external liability management plans of domestic entities as well as their ability to raise adequate external financing abroad to fund their domestic operations and maintain credit lines with foreign banks. The authorities should adequately enforce the currency settlement law and repatriation requirements of state-owned enterprises and strengthen the investment environment to attract new FDI and portfolio inflows.
Systemic financial instability	Medium		

Source and Likelihood of Risk		Expected Impact on Mongolia	Policies to Minimize Impact
Domestic Risks			
Intensification of financial sector vulnerabilities	Medium	High: A sharp rise in non-performing loans due to a deterioration in credit risk due to higher inflation and a weaker economy could impair banks' capital adequacy and broader financial stability. An inadequate response to the failure of D-SIBs to meet shareholder diversification targets by the required deadlines could have a destabilizing impact on the financial sector with damaging spillovers to the real economy.	Ensure D-SIBs are well capitalized. Intensify bank oversight through effective offsite and more frequent onsite supervision. Recalibrate the end-2023 deadline for diversification of shareholders in 3 D-SIBs and develop contingency plans for banks failing to meet the new shareholder concentration limits. Ensure that bank capital quality is good and meets sound supervisory/regulatory requirements at all times.
Procylical and inflationary policies	Medium	High: Political pressure to undertake additional populist policies ahead of the June 2024 elections could further undermine macro-financial and external stability, debt sustainability and the integrity of Mongolia's institutions, while delaying reforms.	Undertake critical reforms such as wage bill rationalization, social assistance targeting, improved public investment management, progressive PIT, pension reforms, and strengthened SOE governance to improve public finances. The 2024 budget should adhere to the fiscal stability law and aim for strong fiscal consolidation based on high-quality measures that boosts efficiency and equity. Adopting a simplified fiscal framework with a nominal debt anchor can help boost investor confidence.
Intensification of governance challenges	Medium	High: Weaker governance can result in lower growth and productivity outcomes through inefficiency and corruption, worsen public debt dynamics and external imbalances, and weaken financial stability. It can adversely affect public and investor sentiments, and the investment climate.	Stronger public sector, SOE and BOM transparency, accountability and oversight including through greater contract transparency, checks and balances, effective enforcement of strengthened regulations, greater protection against political influence, and a strengthened rule of law and judiciary, are vital for good governance. Publication of asset declarations and strengthening BO transparency would enhance monitoring of PEPs. The draft Whistleblower Protection law should be passed without further delay.
Climate change	High	Medium: Frequent and intense weather shocks impact the agricultural sector, affecting rural income and increasing inequality. In the medium-term, a shift to a low-carbon global economy could reduce coal demand and price, with severe impacts on Mongolia's external position and public finances.	Accelerate the implementation of the national adaptation plan to improve the resilience of the agricultural sector to climate change and raise its productivity. Reduce livestock headcount to sustainable levels. Implement actions to advance the green transformation, including by reducing GHG emissions and air pollution and diversifying away from coal.
<p>"L" =Low; "M" =Medium; "H" =High. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.</p>			

Annex V. Sovereign Risk and Debt Sustainability Assessment

Mongolia faces a high risk of sovereign stress.¹ Public debt-to-GDP ratio is projected to increase over the 10-year forecast horizon and beyond due to rising pension liabilities, development spending needs, and the global transition toward lower emissions. The projected accumulation of government deposits, partially mandated by law, is a risk mitigator. The high proportion of foreign currency debt in the context of persistently large current account deficits and low international reserves is a key source of risk. Public debt could rise further upon the materialization of global and domestic downside risks, contingent liabilities, and macroeconomic shocks related to natural disasters. Current policies do not adequately address the difficult debt dynamics, and the 2023 supplementary budget reinforced risks of persistent public spending increases, calling for a more ambitious structural fiscal adjustment and a reorientation toward domestic debt financing. In addition, structural reforms that diversify exports, boost Mongolia's growth potential and the private sector's role, are essential for attracting private sector financing and sustainably reducing debt-related vulnerabilities.

1. Public debt: coverage, level, and profile. The public debt concept used in the analysis comprises the general government, a state-owned bank (Development Bank of Mongolia), public-private partnerships, and a US\$1.8 billion (12 percent of GDP) swap line between the People's Bank of China (PBOC) and the Bank of Mongolia (BOM), which has been rolled over in 2023 for another 3 years (Figure 2). Public debt reached 77.8 percent of GDP in 2022. Debt is projected to decline in 2023 but to increase thereafter reaching over 86.3 percent of GDP by year 10 of the projections (Figure 4). Debt is primarily external (94% of total public debt including the PBOC swap) and owed to official creditors on largely concessional terms. The debt predominantly consists of medium and long-term obligations, but the maturity of Eurobonds is concentrated in next five years (Figure 3).² Local currency debt is expected to grow incrementally over time, in line with growing financing needs, putting a premium on the development of domestic capital markets.

2. Mongolia's risk of sovereign stress is high. The Sovereign Risk and Debt Sustainability Framework (SRDSF) tools identify specific stress drivers across the assessment horizons (Figure 1). In the medium term, the country's history of economic volatility and vulnerability to external and natural disaster shocks generate significant downside risks to the projection of debt ratios. Significant financing pressures could emerge in the event macro financial shocks were to materialize, particularly those related to the domestic banking system (Figure 6). In the long run, debt-related

¹ The Sovereign Risk and Debt Sustainability Framework (SRDSF) provides two outputs: a sovereign risk assessment and a debt sustainability assessment. As a surveillance country, the debt sustainability assessment is optional for Mongolia, and it is not carried out in this analysis which focuses solely on the risk of sovereign stress. Even when sovereign stress risks materialize, debt will only be assessed as unsustainable if there are no feasible adjustment policies capable to stabilize the debt and achieve acceptably low rollover risk without restructuring or exceptional measures.

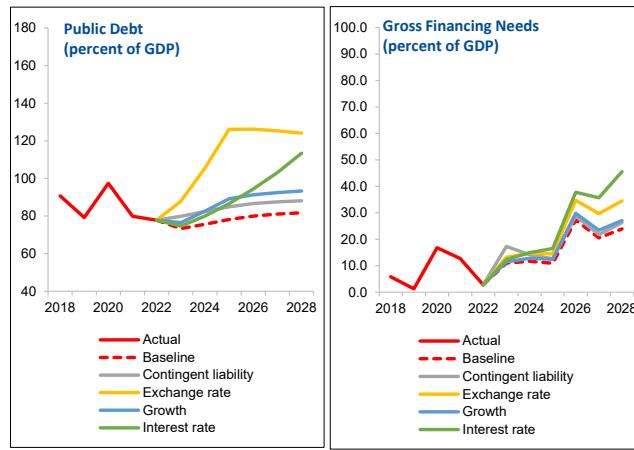
² Public sector maturities over the next 5 years are as follows: for 2023, US\$517 million Gerege bond (refinanced), US\$500 million DBM Eurobond, and US\$223 DBM Samurai bond; for 2024, US\$600 million Khuraldai bond; for 2026, US\$600 Nomad bond; for 2027, US\$500 million Century bond; for 2028, US\$650 million Century 2 bond. In January 2023 the government issued a US\$645 million Eurobond that was used towards refinancing requirements associated with the Gerege (2023) and Khuraldai bond (2024).

vulnerabilities arising from rising pension liabilities, development spending needs, and the global transition toward lower emissions also constitute an important source of risk.³

3. A host of qualitative factors along with customized stress tests further corroborate the high risk assessment.

Mongolia is an economically undiversified landlocked country bordered by China and Russia with a small domestic market. Economic developments in China as well as geo-economic rifts among major global powers, including expanding sanctions related to the war in Ukraine, can trigger shocks with significant impact on public debt dynamics. Domestically, limited policy levers and buffers amplify vulnerability. In order to assess the impact of potentially severe shocks emerging from the current global and country context,

customized shocks to debt ratios and gross financing needs (GFNs) are performed, complementing information from the shocks automatically triggered and parameterized in the SRDSF (Figure 6). The results highlight the significant vulnerabilities of public debt to sharp exchange rate depreciations and potential persistent increases in borrowing costs which could lead to a sustained loss of market access (Figures).⁴ Persistent overall fiscal deficits and a growing share of short-term domestic financing help to explain the projected increasing GFN pressures.



4. Comprehensive structural reforms are key to sustainably mitigate debt-related risks.

Strong structural fiscal reforms are necessary to rebuild buffers in light of Mongolia's vulnerability to shocks. However, broader productivity-enhancing structural reforms capable of attracting private financing, developing domestic capital markets and improving the country's export potential as well as economic diversification are essential to sustain growth and reduce debt-related risks.

³ The banking crisis and the natural disasters shocks were triggered in the medium-term module. The pensions, climate change adaptation and natural resource shocks were triggered in the long-term module.

⁴ The parameterization of the customized shocks are as follow: Contingent liability: one-period shock in 2023 amounting to 5.9 percent of GDP which covers the financial sector (2.8 percent of GDP) and SOEs (3.1 percent of GDP); growth: two period shock in 2023–24 amounting to 4.5 percentage points to real GDP growth per period which corresponds to one standard deviation of GDP growth; exchange rate: two period shock in 2023–24 amounting to 33 percent nominal exchange rate depreciation per period (equivalent to a 25 percent real depreciation based on a pass through of 0.25); interest rate/market access: five-period shock in 2023–27 of 700 bps per period (calibrated to reach the 1,200 bps peak sovereign spreads observed in late 2022).

Figure 1. Mongolia: Risk of Sovereign Stress**DSA Summary Assessment**

Mongolia faces a high risk of sovereign stress. The public debt-to-GDP ratio is projected to increase over the forecast horizon, after a brief decline in 2023. In addition, the baseline scenario faces considerable downside risks and there are limited policy instruments to address negative shocks should they arise. A history of pronounced macroeconomic volatility, along with susceptibility to global shocks, is a major contributor to the assessment across all time horizons. Although the projected accumulation of government deposits, partially mandated by law, acts as risk mitigator, current policies do not adequately rebuild buffers, calling for a more ambitious structural fiscal adjustment and measures to tackle long-term growth challenges in a fiscally and externally prudent manner. Implementing structural reforms that promote economic and export diversification, facilitate private sector financing, develop domestic capital markets, enhance public sector efficiency, and improve natural resource management is important for reducing stress risks.

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	High	The overall risk of sovereign stress is high reflecting debt-related vulnerabilities across the assessment horizons. The government successfully tapped into international capital markets in early 2023, mitigating sovereign rollover risks — rollover risks for other entities (e.g., the private sector) remain.. Medium-term risks arise from economic volatility and susceptibility to shocks. Long-term risks emerge from large amortizations, pension liabilities, the impact of global transition to lower emissions, and vulnerability to natural disasters.
Medium term	High	High	The medium-term risk is high, reflecting Mongolia's history of high economic volatility, elevated public debt levels, and weak institutions. There is a 25 percent probability that public debt could exceed 100 percent of GDP by 2028 as shown in the debt fan chart. The financeability module flags the limited capacity of the domestic banking sector to finance shocks to government's finances under a generalized stress scenario. In addition, GFNs and public debt ratios would increase significantly in a banking crisis scenario. Finally, GFNs present spikes every three years capturing the rollover requirements of the PBOC swap line which has been renewed 2023 until 2026.
Long term	...	High	The long-term risk is high, amplified by pension spending pressures and challenges related to the global transition to lower emission and vulnerability to natural disasters. Alleviating the long-term risk of stress ultimately depends on the government's capacity to effectively implement a comprehensive set of structural reforms to manage fiscal risks and enhance the growth outlook, including by efficiently and equitably exploiting its significant natural resource wealth. Coal dominates the country's export basket and serves as the primary energy source. However, as the global transition towards clean energy progresses, demand for coal is projected to decrease, although the prospects for copper exports could become brighter, offering a compensating factor.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	...
Debt stabilization in the baseline			No
Source: Fund staff.			
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.			
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.			
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.			

Figure 2. Mongolia: Debt Coverage and Disclosures

Debt coverage comprises the general government, a state-owned bank (Development Bank of Mongolia), public-private partnerships, and a US\$1.8 billion (12 percent of GDP) swap line between the People's Bank of China (PBOC) and the Bank of Mongolia (BOM) rolled over in 2023.

					Comments					
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other					
1a. If central government, are non-central government entities insignificant?				n.a.						
2. Subsectors included in the chosen coverage in (1) above:										
	Subsectors captured in the baseline				Inclusion					
CPS NFPS GG: expected CG	1 Budgetary central government				Yes					
	2 Extra budgetary funds (EBFs)				No					
	3 Social security funds (SSFs)				Yes					
	4 State governments				Yes					
	5 Local governments				Yes					
	6 Public nonfinancial corporations				Yes					
	7 Central bank				Yes					
	8 Other public financial corporations				Yes					
		Currency & deposits	Loans	Debt securities	Oth acct. payable 2/					
		IPSGSs 3/								
4. Accounting principles:										
	Basis of recording		Valuation of debt stock							
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/					
5. Debt consolidation across sectors:										
		Consolidated	Non-consolidated							
Color code: chosen coverage Missing from recommended coverage Not applicable										
Reporting on intra-government debt holdings										
	Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin.	Total
	Issuer									
CPS NFPS GG: expected CG	1 Budget. central govt									0
	2 Extra-budget. funds									0
	3 Social security funds									0
	4 State govt.									0
	5 Local govt.									0
	6 Nonfin pub. corp.									0
	7 Central bank									0
	8 Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

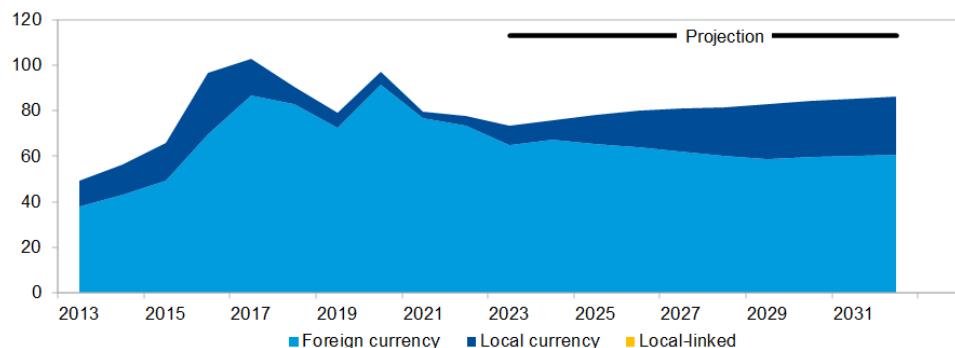
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Figure 3. Mongolia: Public Debt Structure Indicators

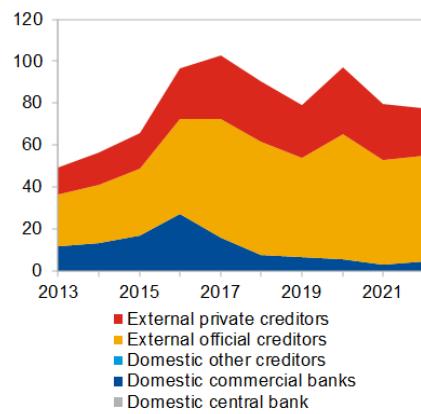
Public debt is primarily external (94% of total public debt including the PBOC swap) and owed to official creditors on concessional terms. The debt predominantly consists of medium to long-term obligations, but the maturity of Eurobonds is concentrated in next five years. Local currency debt is expected to grow incrementally over time, in line with the development of domestic capital markets.

Debt by currency (percent of GDP)



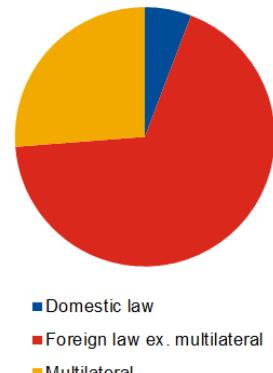
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



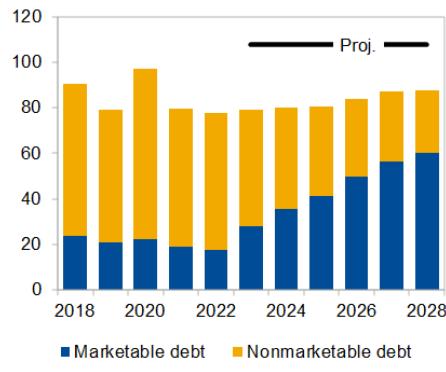
Note: The perimeter shown is general government.

Public debt by governing law, 2022 (percent)



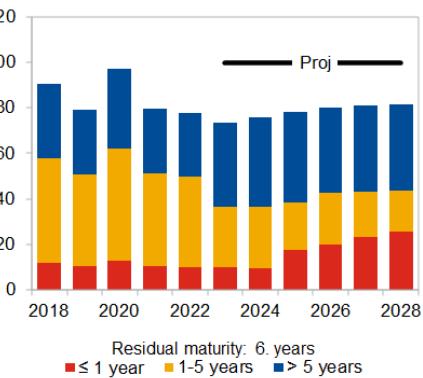
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Residual maturity: 6 years
■ ≤ 1 year ■ 1-5 years ■ > 5 years

Note: The perimeter shown is general government.

Figure 4. Mongolia: Baseline Scenario

The public debt-to-GDP ratio is projected to increase over the forecast horizon, with GDP growth contributing to containing further increases in the debt ratio. Baseline forecasts envision near-term primary fiscal deficits, with growing amortization needs impacting GFNs. Simultaneously, the government is expected to accumulate deposits in the treasury account, as well as in the Future Heritage Fund (FHF) and the Fiscal Stability Fund (FSF), all of which contribute to the rebuilding of domestic buffers, as illustrated below under other transactions. Despite the considerable accumulation of government deposits, a more robust fiscal adjustment is required to stabilize debt and lower the probability of sovereign stress.

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection							Extended projection			
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	76.3	71.9	74.3	76.8	78.6	79.6	80.4	81.8	83.1	84.2	85.0	
Change in public debt	-3.5	-4.4	2.4	2.5	1.8	1.0	0.7	1.4	1.3	1.1	0.8	
Contribution of identified flows	-3.1	-3.3	-0.5	1.7	1.5	1.3	0.9	1.1	1.0	0.5	0.4	
Primary deficit	-2.1	-1.0	0.7	0.2	-0.1	-0.4	-0.7	-0.2	-0.3	-0.8	-1.1	
Noninterest revenues	34.4	34.7	34.2	34.3	34.2	34.2	34.1	33.4	33.5	33.7	33.7	
Noninterest expenditures	32.3	33.6	34.9	34.5	34.1	33.7	33.4	33.2	33.2	32.9	32.7	
Automatic debt dynamics	-3.8	-3.7	-2.8	-2.0	-2.0	-1.8	-1.9	-1.8	-1.7	-1.6	-1.6	
Real interest rate and relative inflation	-0.1	0.3	0.3	0.5	0.6	0.9	1.1	1.2	1.3	1.4	1.3	
Real interest rate	-9.2	-5.1	-3.6	-4.1	-3.5	-2.8	-1.2	-0.7	-0.6	-0.5	-0.6	
Relative inflation	9.0	5.4	4.0	4.5	4.2	3.7	2.4	1.9	1.9	1.9	1.9	
Real growth rate	-3.8	-4.0	-3.1	-2.5	-2.6	-2.7	-3.1	-3.0	-3.0	-3.0	-3.0	
Real exchange rate	0.2	
Other identified flows	2.8	1.4	1.5	3.6	3.6	3.5	3.4	3.1	3.1	3.0	3.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other transactions	2.8	1.4	1.5	3.6	3.6	3.5	3.4	3.1	3.1	3.0	3.1	
Contribution of residual	-0.5	-1.1	2.8	0.8	0.3	-0.3	-0.1	0.3	0.3	0.6	0.4	
Gross financing needs	2.8	10.8	11.5	10.8	27.0	20.2	23.5	26.1	25.7	30.0	27.8	
of which: debt service	4.9	11.8	10.8	10.6	27.1	20.6	24.1	26.3	26.0	30.9	28.8	
Local currency	0.8	1.6	4.9	6.6	11.2	14.6	17.8	20.4	23.0	23.8	24.3	
Foreign currency	4.1	10.2	5.8	3.9	15.9	6.0	6.3	5.8	3.0	7.1	4.5	
Memo:												
Real GDP growth (percent)	5.0	5.5	4.5	3.5	3.5	3.5	4.0	3.9	3.8	3.8	3.7	
Inflation (GDP deflator; percent)	17.7	11.4	9.6	10.2	9.6	8.6	6.3	5.5	5.5	5.5	5.5	
Nominal GDP growth (percent)	23.6	17.5	14.5	14.0	13.4	12.4	10.6	9.6	9.6	9.5	9.4	
Effective interest rate (percent)	3.5	3.6	3.8	3.9	4.4	4.7	4.6	4.6	4.8	4.8	4.8	

Contribution to change in public debt

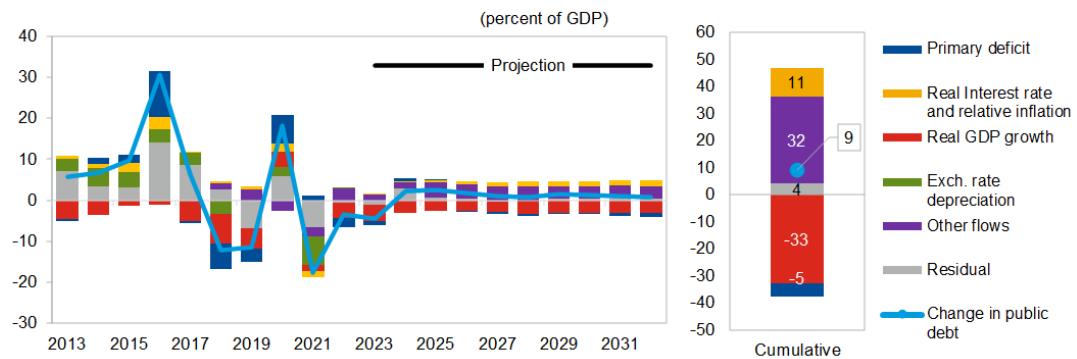
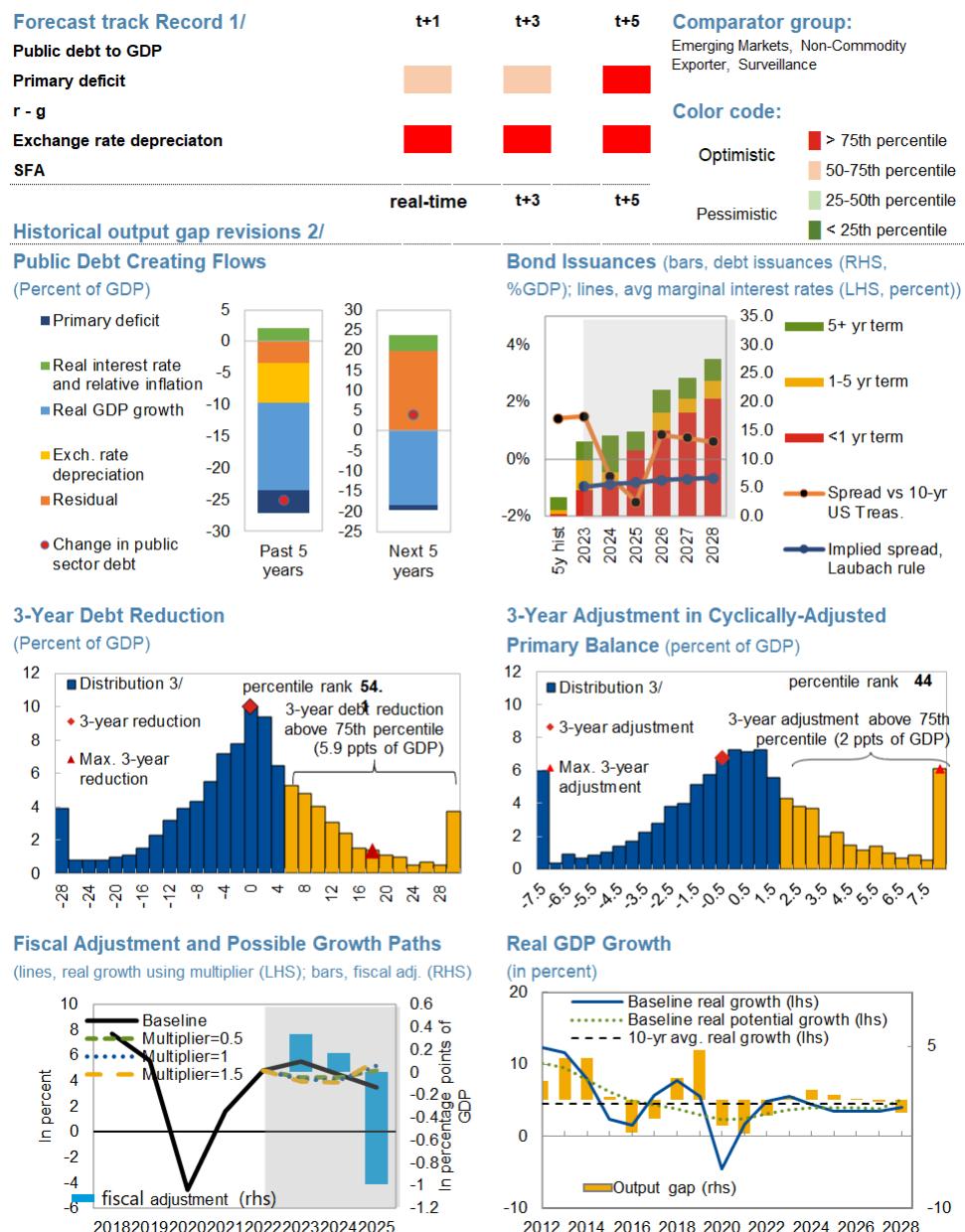


Figure 5. Mongolia: Realism of Baseline Assumptions

Historical forecast track records suggest that exchange rate depreciation and fiscal projections have exhibited an optimistic bias. There are no concerns about the realism of fiscal or debt projections. The large contribution of residuals to projected debt growth arises from the assumption of deposit accumulation in the baseline, while the historical negative contribution of exchange rate to debt dynamics can be attributed to exchange rate intervention in 2021 which led to the strong real appreciation of the currency.



Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual observations from 1990 to 2019 for 140 advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

Figure 6. Mongolia: Medium-Term Risk Analysis

A history of significant macroeconomic volatility and a high projected debt level, adjusted for institutional capacity, underlie concerns about the trajectory of the public debt ratio, which is forecasted to exceed 100 percent of GDP with a 25 percent probability by 2028. GFNs exhibit a distinct pattern of volatility influenced by the PBOC swap line (renewed in 2023 for another three-year period) around an increasing trend, while the domestic banking system would have a limited capacity to finance the government in a generalized stress scenario. Stress tests for banking crises significantly raise debt levels and GFNs, showcasing vulnerability to shocks.

Debt fanchart and GFN financeability indexes

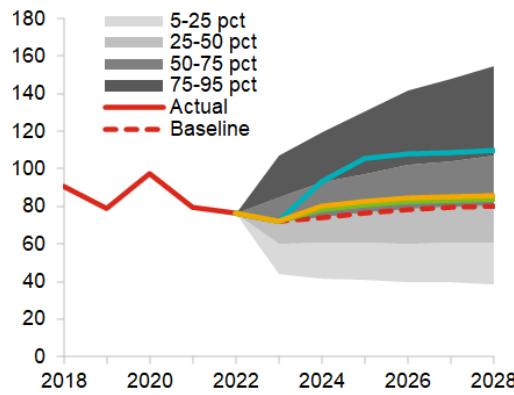
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Non-Commodity Exporter, Surveillance				
					0	25	50	75	100
Debt fanchart module	Fanchart width	116.2	1.7	...	■	■	■	■	■
	Probability of debt not stabilizing (pct)	15.3	0.1	...	■	■	■	■	■
	Terminal debt level x institutions index	55.0	1.2	...	■	■	■	■	■
Debt fanchart index		...	3.0	High					
GFN financeability module	Average GFN in baseline	15.8	5.4	...	■	■	■	■	■
	Bank claims on government (pct bank assets)	4.0	1.3	...	■	■	■	■	■
	Chg. in claims on govt. in stress (pct bank assets)	23.5	7.9	...	■	■	■	■	■
GFN financeability index		...	14.6	Moderate					

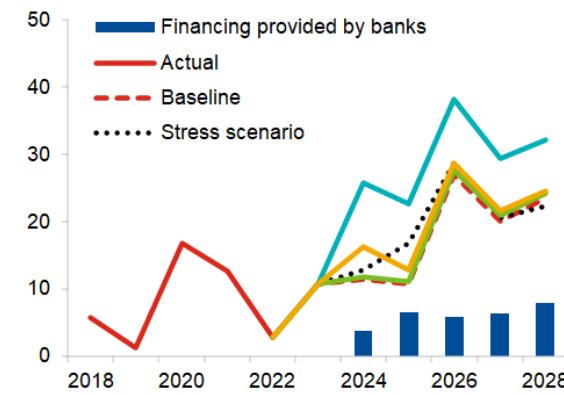
Legend:

■ Interquartile range ■ Mongolia

Final fanchart (pct of GDP)

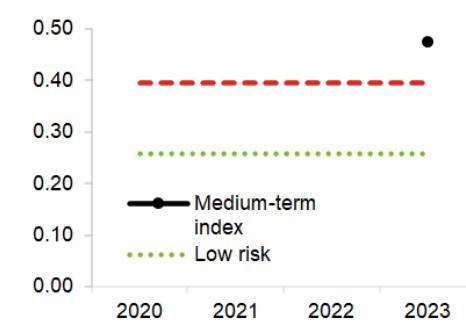


Gross Financing Needs (pct of GDP)



Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.7
GFN financeability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	...	0.5, High

Prob. of missed crisis, 2023-2028 (if stress not predicted): 54.5 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 3.4 pct.

Figure 7. Mongolia: Large Amortization Trigger

GFNs and public debt ratios are projected to remain at elevated levels over the long term, highlighting the need for structural reforms to mitigate the risk of sovereign stress materializing. These reforms should be comprehensive, addressing not only fiscal imbalances but also other impediments that adversely impact the country's growth potential and opportunities for economic diversification. Effective natural resource management is crucial for sustainably enhancing the country's economic and external outlook.

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

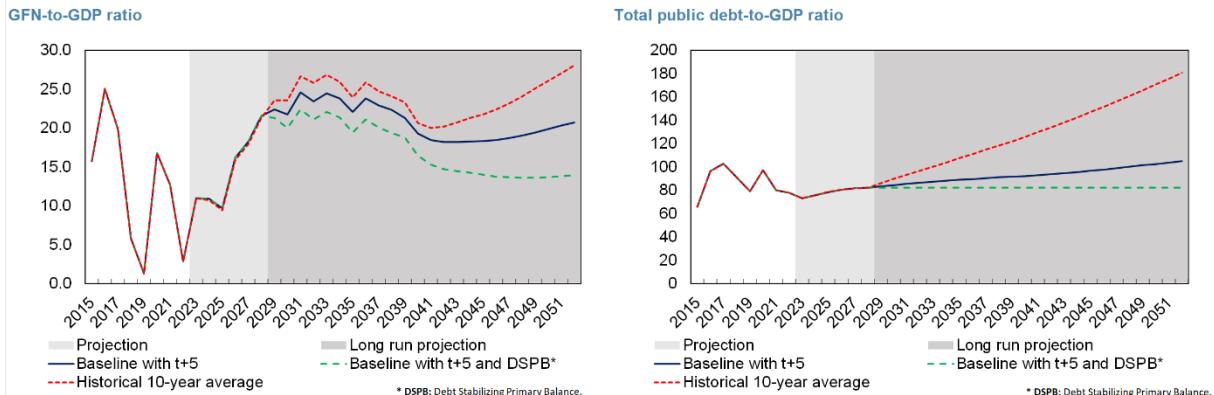


Figure 8. Mongolia: Alternative Baseline Long-Term Projections
 (Including Custom Scenario)

Mongolia's gross financing needs and public debt ratios are projected to increase over the long term, highlighting the need for structural reforms to mitigate the risk of sovereign stress. Reforms should address fiscal imbalances and institutions, and be geared toward improving Mongolia's growth potential and economic diversification. Effective natural resource management is crucial for sustainably enhancing Mongolia's economic and external outlook. The custom and (t+5) baselines differ solely due to the assumption of real exchange rate depreciation, emphasizing the crucial role of exchange rates in the evolution of sovereign debt-related risk, due to the composition of public debt.

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	4.0%	5.0%
Primary Balance-to-GDP	0.7%	-0.6%
Real depreciation	-1.3%	0.0%
Inflation (GDP deflator)	6.3%	6.1%

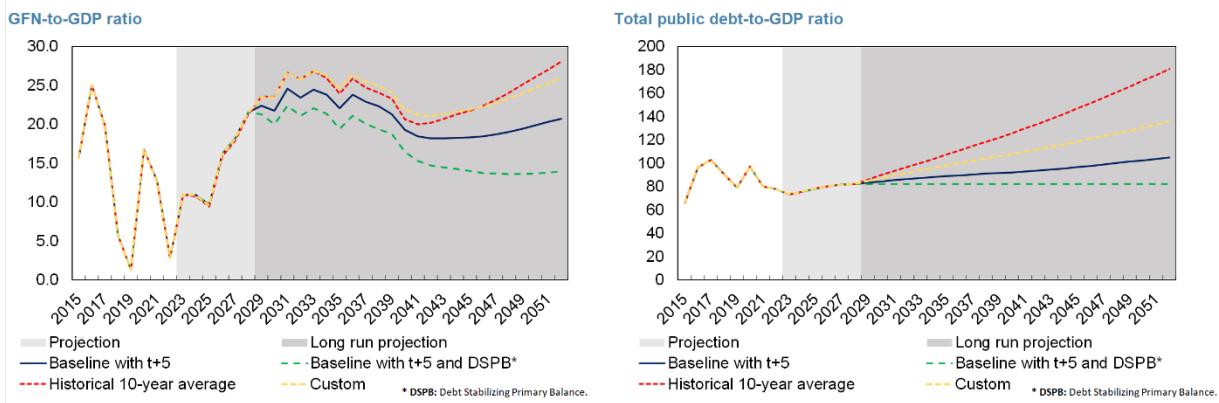


Figure 9. Mongolia: Demographics: Pension

The 2023 supplementary budget increased pension spending to address gap in pension benefits, adjust benefits by inflation and raise social welfare pension and benefits to disabled children. Based on World Bank actuarial financial projections updated in 2023, Mongolia's projected pension-related budget spending needs is expected to exert significant strains on public debt dynamics in the long term, due to growing deficits in the Retirement Pension Insurance Fund arising from an aging population and high average benefits per beneficiary. Consequently, implementing pension reforms is an essential structural change necessary to reduce long term risk of sovereign stress. In particular the automatic inflation indexation of pension benefits which could stabilize required state subsidy.

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	7.06%	10.56%	15.23%

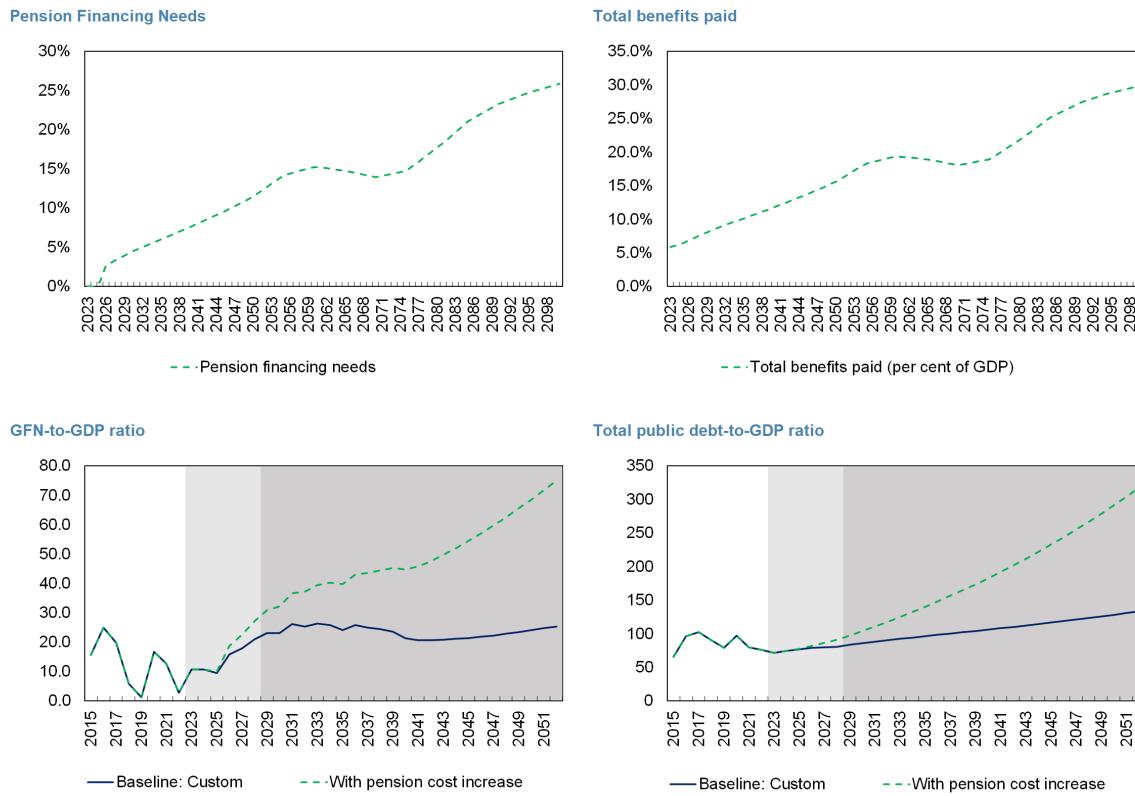


Figure 10. Mongolia: Climate Change: Adaptation

Climate adaptation challenges in Mongolia could generate important financing requirements and heighten the risk of sovereign stress in the long term, which highlights the crucial role of engaging the private sector to address climate-related issues. The simulations below are based on model estimates of adaptation costs which will be enriched and revisited following the World Bank's upcoming CCDR in the context of the next Article IV consultation.

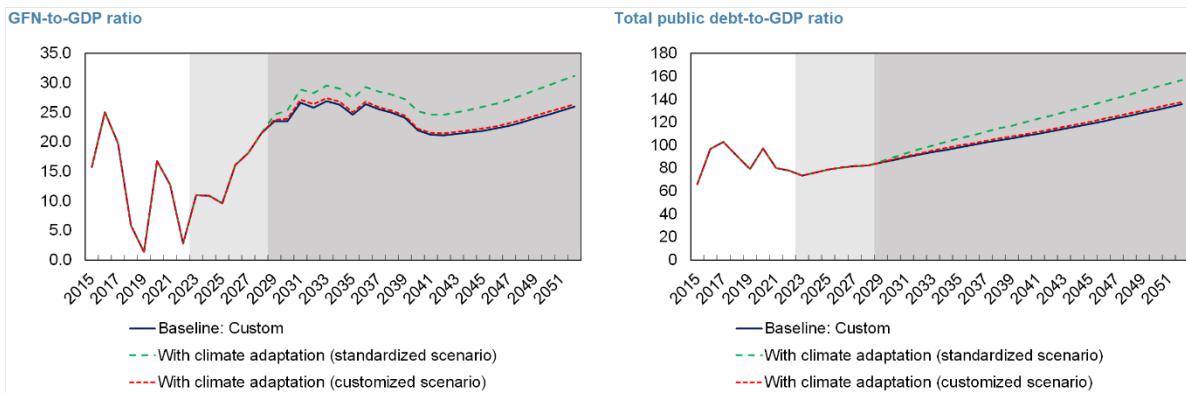
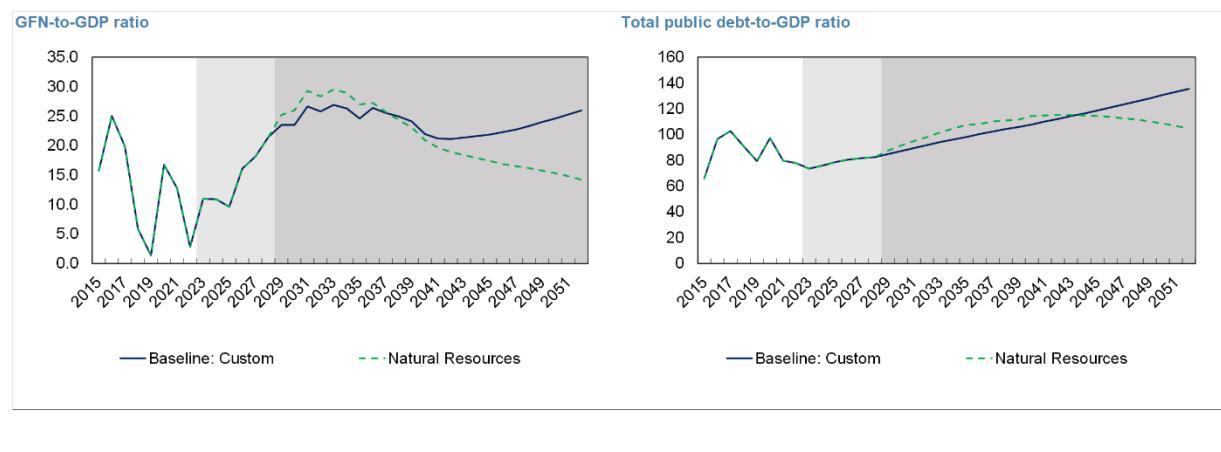


Figure 11. Mongolia: Natural Resources

Coal and copper mining and exports significantly influence Mongolia's long-term economic and external outlook with potentially important impact on risk of sovereign stress. Recent analysis demonstrates that a shift to a low-carbon global economy could have severe macroeconomic implications for Mongolia (IMF 2022f: Selected Issues Paper) for the 2022 Article IV consultation, raising public debt by 3.5-5 percentage points of GDP by 2030 under a global energy transition scenario. The illustrative simulation below models a scenario where coal export revenues decline sharply after 2035 in the context of a global transition towards clean energy (coal is treated as a "de facto" exhaustible resource, despite its abundant reserves in Mongolia). In addition, the scenario factors in the benefits from robust copper demand and price growth due to its essential role in clean energy generation. The phasing out of coal exports in 2035 initially raises gross financing needs and debt ratios despite positive developments related to copper export. However, over time, the assumed sustained rise in demand and prices of copper reduce gross financing needs and debt ratios. The findings are stylized and highly sensitive to the long-term parameterization of coal and copper prices and quantities, which are highly uncertain. Nonetheless, the exercise illustrated the impact of coal and copper developments on the evolution of debt-related risks under different assumptions.



Annex VI. Fiscal Reform Options for Mongolia

Mongolia needs stronger fiscal consolidation to address external pressures, contain inflation, and to keep public debt on a declining path. Several revenue and expenditure measures are available in the short- and medium term that could be used to achieve stronger fiscal consolidation. Key measures include the collection of large tax arrears, increasing the progressivity of the personal income tax system (PIT), rationalizing tax expenditures, reducing the wage bill, strengthening performance-based budgeting, an effective prioritization of capital expenditures, an automatic inflation indexation of pension benefits, and refining the methodology for a means-tested Child Money Program (CMP). The proposed measures help improve both the efficiency and equity of Mongolia's fiscal policy.

1. Context. The underlying fiscal stance is expected to remain lax in 2023–24, raising public debt. The 2023 supplementary budget introduced a large procyclical expansion in budget spending (3 percent of GDP compared with the 2023 original budget, a full-year impact of 6 percent of GDP in 2024) through permanent increases in current spending (wages, pensions, and social benefits). This expansion is likely to accelerate inflation and FX depreciation, increase imports, and decrease external buffers. Moreover, reforms introduced in the original 2023 budget did not go far enough. Specifically, a progressive PIT was introduced but covered only 0.1 percent of all taxpayers, which is thus, largely revenue neutral. CMP targeting introduced in the original 2023 budget restricted the CMP allowance to 91 percent of children, but this was reversed in the supplementary budget to a universal scheme retroactively from January 1, 2023.¹ While new investment projects were postponed to 2024, the size of on-going public investments in the 2023 budget is large (about 9 percent of GDP). Moreover, the Annual Development Plan for 2024 includes sizable Public Investment Plans (MNT13.6 trillion), including SOE investments and investments financed through PPPs. Parliament adopted a fiscal reform plan (an amendment to the Fiscal Stability Law (FSL) proposed by the Parliamentary Budget Standing Committee) to improve the credibility of the medium-term budget framework (MTBF), and budget transparency and oversight. The effective date of implementation of these reforms remains to be decided with MOF.

2. This annex lays out possible fiscal policy reform options with expected gains. The reform options summarized below (Table 1) could generate about 4 percent of GDP in fiscal gains in 2023–24 in terms of the primary balance. The measures to rein in fiscal spending should start in 2023, despite the political constraints posed by the 2024 Parliamentary elections. Deeper reforms should be phased in over time based on a feasible post-election fiscal reform strategy. Table 1 summarizes the list of possible measures, the estimated fiscal saving and the timeline.

¹ After the introduction of CMP targeting, there were public protests due to the outdated household income database and the discretionary criteria used for determining CMP eligibility.

Table 1. Summary of Reform Options and the Estimated Fiscal Saving

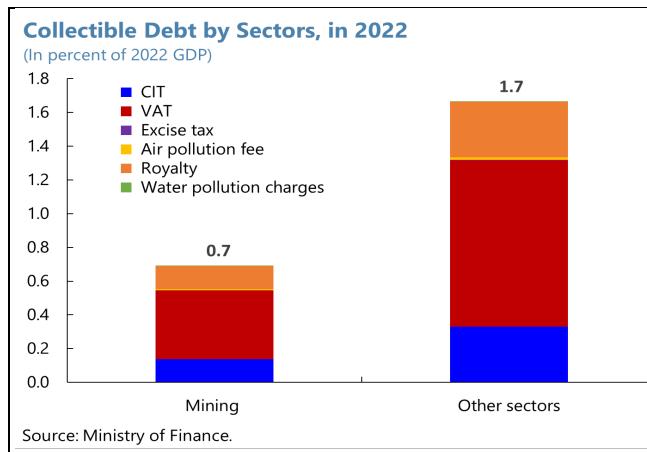
	In percent of GDP	Timeline
A. Revenue measures		
Reduction in tax arrears	1.0	2024–25
Rationalization of tax expenditure	0.9	2024–26
Tax administration measures	0.6	2024
Additional measures (new taxes on cigarette/multiple cars)	0.1	2024
B. Expenditure measures		
Consolidation of current expenditure		
Wage bill adjustment	1.4	2024–27
Reduction in energy and food subsidy	0.15	2025–26
Consolidation of capex		
Project reprioritization (PIMA)	0.5	2023–24
Reduction in public investment	1.2	2023–24
Price indexation of pension benefits	0.8	2024–27
CMP targeting	0.8	2025

Source: IMF staff calculations; Mongolian authorities.

A. Revenue Measures:

3. Collection of tax arrears: The 2022 TADAT report assesses Mongolia's performance on on-time payment and tax arrears collection to be "low" compared to international best practices (with TADAT ratings of "D" and "C"). Collectible tax arrears are estimated to be MNT1,244 billion (**2.4 percent of GDP**) in December 2022, comprising overdue payments of CIT (20 percent), VAT (59 percent), and royalty (20 percent) (Figure).

Large part of tax arrears are owed by SOEs with limited financial resources and some are disputed debt, resulting in lower recovery rate from arrears collection than the total outstanding amount.² The Mongolia Tax Authority (MTA) could further improve the efficiency of arrears collection by refining the classification of "uncollectible" debt based on the taxpayer's risk category (e.g., death, bankruptcy, liquidation) and introducing a clear write-off provision for existing debt. It is

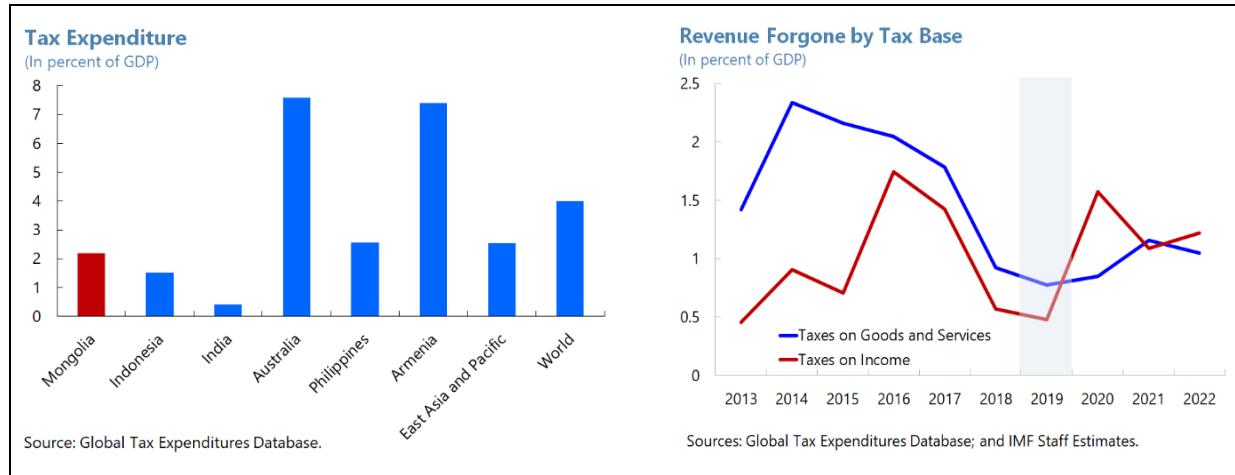


advisable to monitor aged schedule of debtors and classify current and non-current debt (shorter than or over 12 months) in line with the TADAT metric to set a reasonable timeline for an arrears collection plan. This would help the MTA more rigorously target the debt that is collectible. The dispute resolution process should also be improved to maintain trust from taxpayers in the MTA and attract investments in Mongolia.

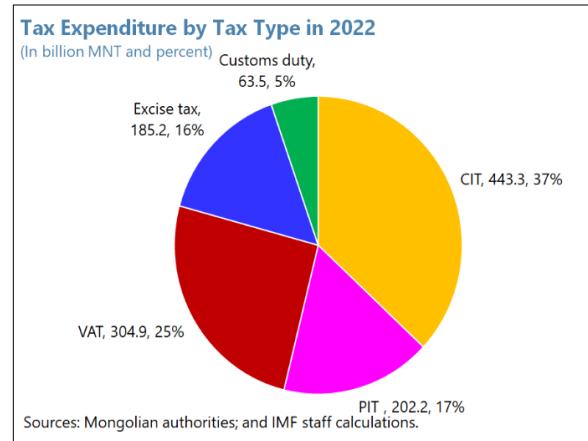
4. Rationalization of tax expenditure (TE) to pre-COVID levels: The cost of TE in Mongolia is estimated at 2.2 percent of GDP in 2022, comparable to that in East Asia and Pacific countries, on

² The reform scenario assumes only 60 percent of outstanding arrears are collectible with the three-year average for annual arrears collection rate estimated to be 39.1 percent (IMF, 2022a).

average (Figure). However, compared with the pre-COVID levels, total TEs have increased. Removing tax exemptions and tax credits (elaborated below) could create some efficiency gains and help reduce TE to pre-pandemic levels.

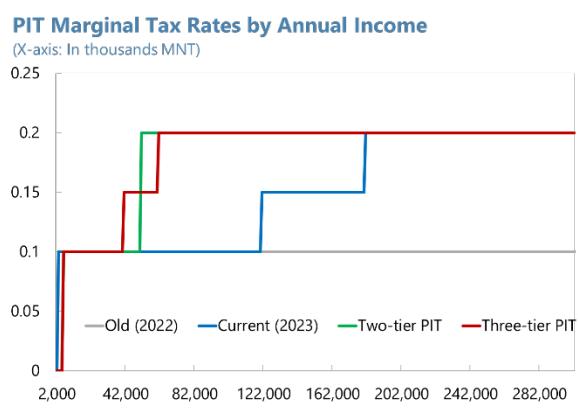
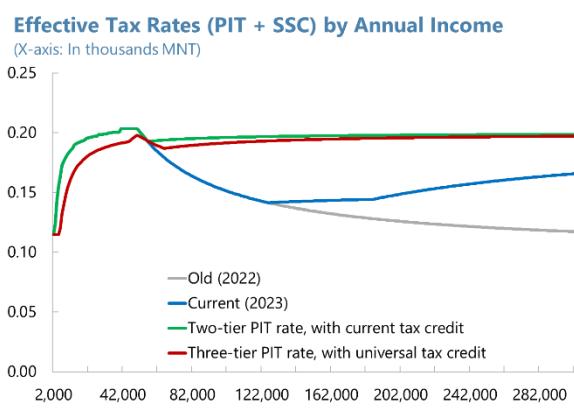
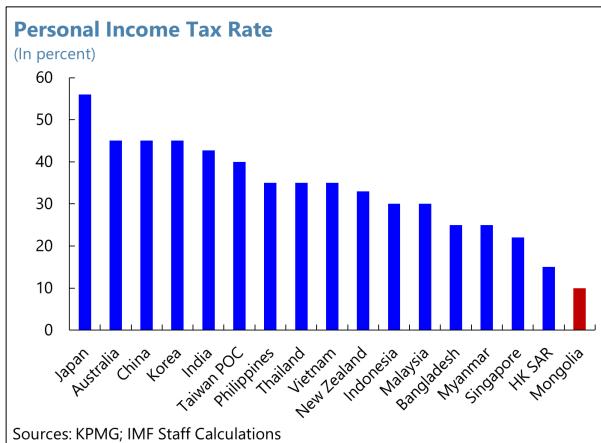


- **Direct TEs** increased from 0.5 percent in 2019 of GDP to 1.2 percent of GDP in 2022, reflecting COVID-19 related measures (e.g., temporary exemptions of PIT and CIT), policy responses to food supply shortages and high inflation, and tax incentives for growing domestic industries. While the COVID-related measures have already ended, there is scope for simplifying the direct tax structure by (a) reviewing the discounted PIT and CIT rates applied to the sales of immovable property; self-employed individuals (with taxable income less than MNT50 million); income from social activities (scientific, artistic, sports and art performance); and capital income; and (b) eliminating CIT exemptions for non-profit entities and education and health institutions. There is also scope to streamline tax credits for the first purchase of homes and for educational expenses, for example by introducing a cap on eligible tax credit per child.
- The size of **indirect TEs** provided under VAT, excise tax, and custom duties increased by up to 1.1 percent of GDP in 2022. VAT policy gaps include an exemption for food, educational and medical services, and gasoline and fuel.



5. Increased progressivity of PIT: Before the introduction of progressive PIT in 2023, a flat PIT rate of 10 percent was applied on residents for most income sources, which is the world's lowest level (Figure). Compulsory Social Insurance Contributions (SSCs) are capped at 10 times the minimum wage (MW), reducing effective PIT rate at the top 1 percent of the population with annual incomes above MNT47.5 million (Figure 3a). Since the top 1 percent of population holds about one-third of total taxable income, and is subject to significantly lower effective PIT rates, Mongolia's PIT system is highly regressive and generates large revenue losses. The 2023 PIT rate

structure slightly increased the effective PIT rates for high income groups, though the system is still regressive. Mongolia should introduce a two or three-tier PIT structure with the top PIT rate of 20 percent applied to taxpayers with taxable income above 10 times the MW (Figure 3b) (IMF, 2022b).³ Besides enhancing equity, this proposal would also improve the efficiency of Mongolia's tax system by harmonizing the mismatch of the CIT and PIT top rate, thereby reducing tax avoidance by corporations.⁴ On the basis of the PIT microsimulation analysis, the reform options (two or three-tier PIT system with some level of tax credits) would further equalize the effective tax burden between the rich and the poor, while possibly creating additional PIT revenues (the estimates of these additional revenue yields are not yet available).



Source: IMF staff's updates based on the analysis in IMF (2022b) "Mongolia: Individual Income Tax Progressivity"

³ Capping the SSC at some level of the minimum wage is a common practice in the world to limit future social security benefits for the rich. Although repealing the SSC cap may help mobilize revenues, this increases future pension payments under the current pension scheme (a mix of defined benefit and define contribution system, with the latter applied to cohorts born after 1978). Under the current Social Security Law, the Ministry of Labor and Social Protection has no plan to remove the SSC cap.

⁴ Mongolian corporations use tax planning techniques that transfer income from corporate to personal income to reduce their tax burdens.

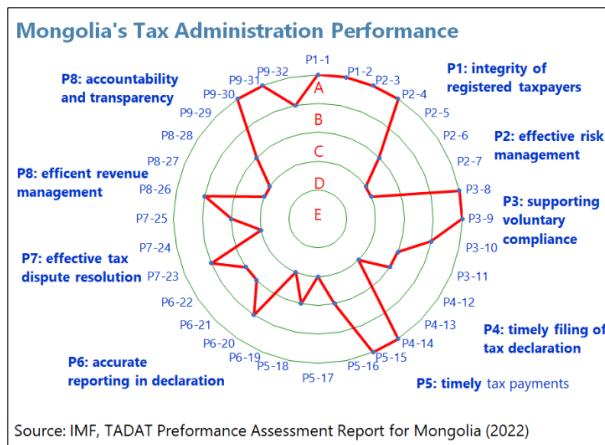
6. Continued progress on tax administration reforms and the customs regulatory framework

Mongolia's tax administration has strengthened, reflecting an improved quality of registered taxpayers; well-documented internal procedures and planning processes; digitalization of tax declarations and payments; and investments in risk management capacity and capability.⁵ However, several areas warrant continued improvement, notably effective operational risk management and business continuity; better enforcement to ensure filing and payment compliance; dispute resolution; and measures to facilitate voluntary compliance and refund processing.

Regarding customs administration, the priority should be to enhance compliance risk management and improve export and import procedures. The full utilization of the E-Barimt system and upgrades to the Customs and Tax interface would enhance tax compliance through the automation of goods and services registrations. In line with OECD international tax standard, Mongolia's progress in automatic exchange of financial information would help combat tax avoidance and contribute to stronger CIT collection. In total, revenue gains from the tax administration reform are estimated to amount to 0.6 percent of GDP in 2024.

7. Additional revenue measures:

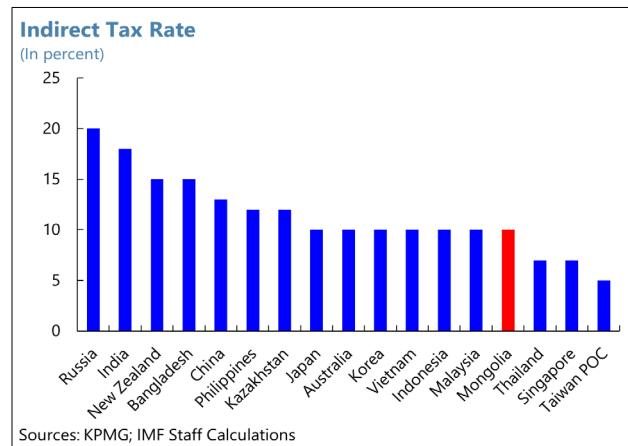
- **Revenue-boosting measures (proposed during the 2023 budget discussion)** should be reintroduced. The revenue gains from these measures were expected to be small in the draft original 2023 budget (about 0.1 percent of GDP from excise taxes on e-cigarettes, luxury consumption taxes, and higher tax rates on multiple car owners).⁶ On custom duty, the authorities plan to raise tariffs on agricultural goods (vegetable, fruit) over the next three years. There could be scope to enhance these measures to help reduce imports to alleviate external pressures.
- **Capital gains tax** on financial assets should be equally applied to residents and non-residents. Given a negligible size of foreign portfolio investment at this stage, the expected revenue impact would however be small.



⁵ Based on the 2022 Tax Administration Diagnostic Assessment Tool (TADAT) assessment for Mongolia.

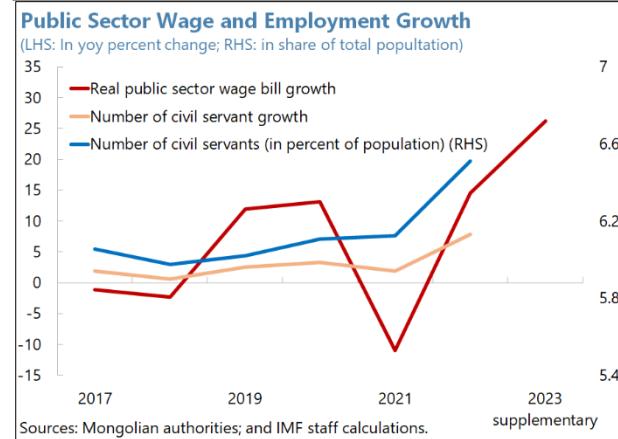
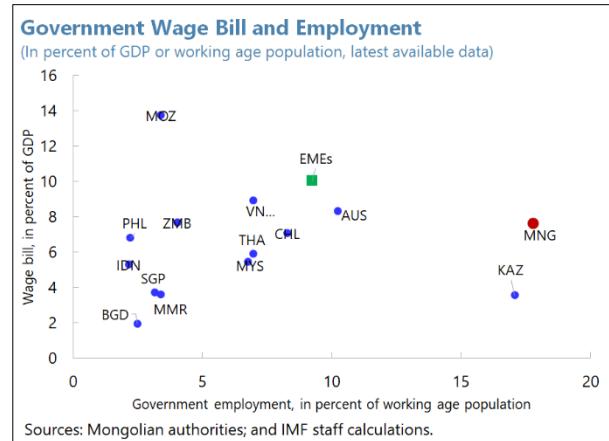
⁶ The measures were included in the 2023 original budget and postponed by the Cabinet. The MOF needs technical assistance to properly design new excise taxes on e-cigarette, luxury goods, and VAT on online trade (e-commerce).

- Moving to standard VAT tax base.** VAT gap analysis (IMF, 2023a) indicates a negative policy gap due to the non-standard VAT base design that overtaxes the mining sector and investment.⁷ This artificially boosts the tax base while discouraging investments. While Mongolia's VAT rate is lower than neighboring countries (Figure), moving to a standard VAT base should precede the VAT rate increase given the distortionary VAT base design. A VAT reform that appropriately zero-rates mineral exports and provides input tax credits against capital expenditure would narrow the tax base, which could be balanced by an increase in the VAT rate. As a result, the net effect is likely be revenue neutral.



B. Expenditure Measures:

- 8. Wage bill adjustments:** The public sector wage bill has grown rapidly due to the continued expansion of the number of civil servants (from 14 percent of the working population in 2018 to 17.8 percent in 2022) and large real increase in average civil servant wages. The 2023 supplementary budget (approved by the Parliamentary Resolution No. 48 on June 16, 2023) introduced another real hike in civil service base pay and pay supplements (such as overtime) (Figure). The pay supplements have expanded by six-fold since 2017, reaching almost 40 percent of total wage bill in 2023. To create permanent fiscal saving, the increase in pay supplements that was introduced in the 2023 supplementary budget (MNT238 billion) should be rolled back in the 2024 budget. The authority's expenditure projection under the MTBF intends to freeze public sector wages for the 2024 budget and to consolidate the share of civil servants (in working-age population) below 15 percent. FAD Expenditure Assessment Tool indicates that Mongolia's government

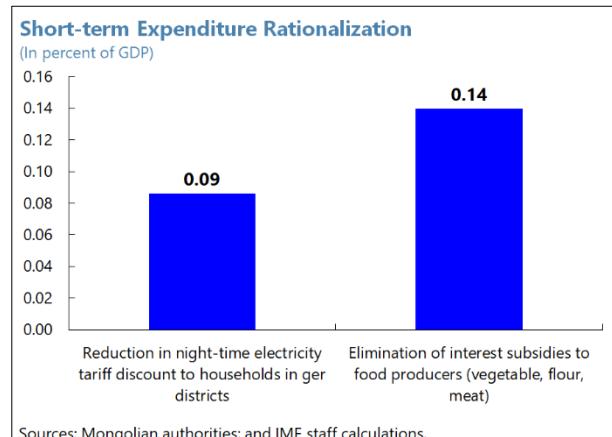


⁷ This occurs because mineral exports are exempt rather than zero-rated, thus not are provided input tax credits on capital investments and purchases made in the production of mineral exports.

employment is much larger than the average level of Emerging Market Economies (EMEs) (Figure). Given a rapid expansion since 2018, the size of the civil service should be rationalized to pre-COVID levels. Public sector real wages should be frozen at end-2023 levels for a few years, and the effectiveness of performance-based budgeting in education, health and culture/art sectors strengthened.

9. Consolidation in non-wage current expenditure:

The 2024 MTBF envisages some consolidation in current expenditure for 2024–25 through the introduction of performance/results-based budgeting, enhanced transparency and tighter control and accountability of the recurrent budget.⁸ On social transfers, as food and energy price inflation stabilizes, there would be scope for rationalizing food and energy subsidies (about 0.15 percent of GDP) (Figure).



10. Prioritization of capex and an improvement in public investment management (PIM):

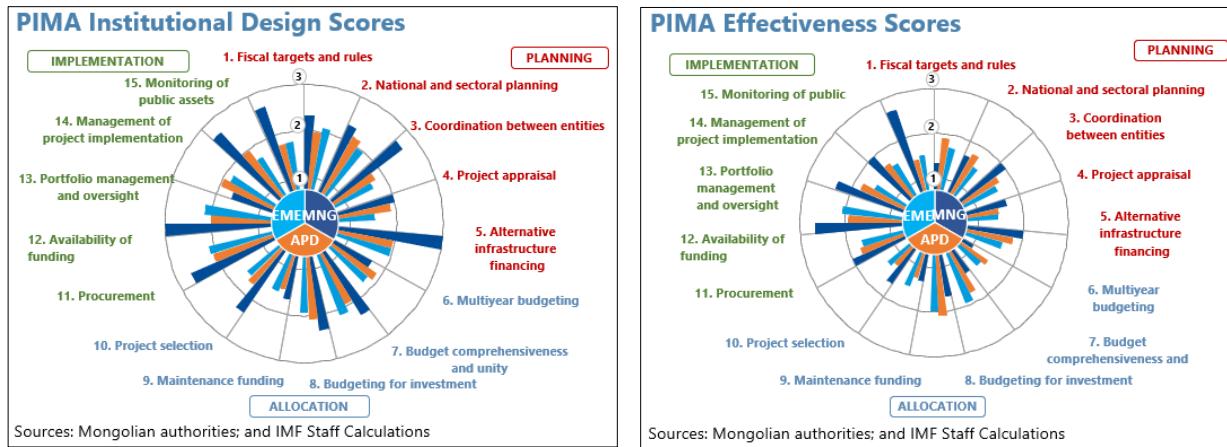
Delaying or canceling low priority public investment projects could create large short-term fiscal savings and significantly lessen external pressures. Strengthened PIM would help enhance fiscal transparency, improve efficiency, and reduce corruption. Raising maintenance spending to maintain the productive capacity of public infrastructure assets can be cost saving over time (Blazey et al, 2020). Priority measures include:

- **Building staff capacity** at the Ministry of Economy and Development's (MOED) which was established in January 2022 to improve fiscal transparency and PIM.
- **Improving project selection and management, and adherence to fiscal framework.** A comprehensive approach—with adequate safeguards—is needed to improve project appraisal, prioritization, and selection processes to address corruption and ensure fiscal prudence. This approach should include SOE infrastructure projects. Over the last few years, there has been progress in upgrading the PIM system, improving transparency and accountability by deploying the Public Investment Management Information System (PIMIS), and establishing detailed guidance on project prescreening and selection (left Figure). However, according to the 2023 Public Investment Management Assessment (PIMA), Mongolia still lags behind its peers in terms of multi-year budgeting, portfolio management and oversight (left figure). In terms of effectiveness, Mongolia should strengthen the implementation of fiscal targets and rules, multi-year budgeting, budget comprehensiveness and unity, budgeting for investment, and maintenance funding (right Figure).⁹ Going forward, in line with IMF TA advice, capex portfolio

⁸ The current expenditure-to-GDP ratio is assumed to follow gradual declining trend as envisaged under the MTBF (annual impact of about 0.1 percent of GDP).

⁹ See FAD TA report "Mongolia: Public Investment Management Assessment Update" (July 2023).

management and new project selection should be strengthened by fully utilizing performance indicators/scoring and multi-year project cost data in the PIMIS. Capex budgeting process should be simplified to a single-entry point with stronger link to national and sectoral development plans. Sectoral budget appropriation for capex should be in line with the performance on capex execution.¹⁰ SOE oversight should be strengthened by mandating that MED and MOF review (at arms-length) the investment plans and budgets of major SOEs. Investment projects should not be implemented unless they have gone through rigorous project appraisal and selection criteria.



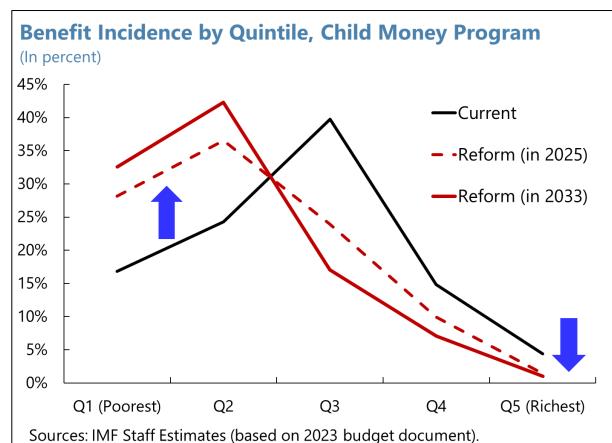
- **Upgrading institutional arrangements for PPP.** While the PPP law was approved in December 2022, the implementation has been postponed to January 2024 since the subordinate regulations to implement the PPP law are still under preparation with assistance from the IMF, World Bank, and Asian Development Bank. In addition, in line with international best practices, there is need to: (i) integrate PPPs in the PIM process, (ii) consolidate the PPP funding into the state budget; (iii) further strengthen the MOF's role as a gatekeeper to manage PPP-related fiscal risk; (iv) rigorously appraise all PPPs according to the new PPP law and (v) introduce mechanisms to limit unsolicited PPP proposals.

11. Pension reform: Mongolia's demographics present declining fertility rates with increasing lifespans. According to the United Nation's population projection, the elderly population is growing much faster than the working age population, increasing the old-age dependency ratio. Given this demographic trend, at the request of the Ministry of Labor and Social Protection (MLSP), the World Bank provided actuarial financial projections of the Mongolia's pension system using the Pension Reform Options Simulation Toolkit (PROST) in 2019. World Bank (2020) recommended several parametric pension reforms, including (a) an automatic indexation for pension benefits, (b) an increase in payroll contribution rates, (c) an increase in retirement age, and (d) the establishment of a linear accrual rate (of 2 percent per year). The PROST projection was updated to reflect recent increases in minimum pensions and presented to the MLSP in January 2023. The World Bank's latest PROST simulation points growing deficits in the Retirement Pension Insurance Fund and significant growth in the required state subsidy. World Bank recommends parametric reform on automatic

¹⁰ Over 2020-22, unspent funds equivalent to more than 10 percent of the budget were recorded as spent and transferred to the bank accounts of line ministries. The transferred funds were subsequently used without budget appropriation as extrabudgetary activities, which is a serious breach of budget governance principles (IMF2023b).

indexation for pension benefits (a mix of wage and price-based indexation) as the policy reform most amenable to the authorities. According to the latest projection, the introduction of automatic indexation of pension benefits to CPI inflation could create ***fiscal savings of 0.8 percent of GDP by 2027.***¹¹ Following Parliament's approval of the revised Pension Law (in July 2023), inflation indexation of pension benefits would be effective from January 2024, while other parametric reforms on retirement age and the vesting rules could be explored in line with World Bank recommendation to create further fiscal savings. In the 2023 supplementary budget, the MLSP reported some double counting of beneficiaries for social welfare pension and benefits. Such duplication of beneficiaries should be eliminated to rationalize social transfer programs.

12. Increasing CMP targeting and progressivity: Mongolia has many social transfer programs (mainly unconditional cash transfers through the CMP and Food Stamp Program) and spends about 6 percent of GDP annually on social transfers (excluding social pension). If spent efficiently, such spending could have a large impact on reducing poverty and inequality. However, Mongolia's poverty rate remains relatively high, largely reflecting low adequacy and benefit incidence of Mongolia's social assistance program at the lowest quintile of the population.¹² The MLSP has made significant progress in improving coverage in a new household income database with the support of an external expert. Using the new database, a means-tested CMP could be gradually introduced after the elections from 2025 onwards with a clear eligibility criterion to better target the CMP to the poor. A holistic review of the benefit level by each income bracket—which realigns monthly benefit payments closer to the pre-COVID level for the upper quintiles of income distribution while maintaining the benefit levels for the poor in real terms (as defined below in Table 2)—could contribute to ***fiscal savings of about 0.8 percent of GDP*** while improving the benefit incidence for the most vulnerable in the long-term (Figure).¹³



¹¹ The 2023 supplementary budget further increased pension spending (MNT394.6 billion) to address gaps in pension benefits across pensioners and to adjust benefits by inflation. Moreover, MNT89.8 billion was allocated to raise social welfare pension and benefits to disabled children and their care allowance. The actuarial projections will be updated in future to take these changes into account.

¹² See Mongolia: 2021 Article IV Consultation, Annex VIII "Evaluation of Mongolia's Social Safety Nets" for details.

¹³ As indicated in Table 4, monthly benefit level is assumed to be rationalized to MNT90,000, MNT60,000, MNT40,000, and MNT20,000 for the 2nd, 3rd, 4th, and 5th income quintile groups in 2025 under the reform scenario. Moreover, the benefit amount will be indexed to CPI inflation only for the bottom 40th income percentile, reducing benefits payments to the rich over time (as illustrated by downward shift of benefit incidence curve for upper income quintiles in 2033).

Table 2. CMP Benefit Structure: Current vs. Reform

Quintiles	Number of eligible children	Current	Reform	
		Monthly benefit amount (in MNT)	Monthly benefit amount (in MNT)	Indexation of benefit to inflation
1 (poorest)	200,600	100,000	100,000	Yes
2	289,600	100,000	90,000	Yes
3	473,900	100,000	60,000	No
4	176,700	100,000	40,000	No
5 (richest)	52,200	100,000	20,000	No
Total	1,193,000			

Source: Ministry of Finance (2023 budget document)

References

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MONGOLIA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department (in collaboration with other
departments)

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FUND RELATIONS

(As of July 31, 2023)

Membership Status: Joined: February 14, 1991; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	72.30	100.00
Fund Holdings of Currency	263.03	363.80
Reserve Position in Fund	5.54	7.67

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	118.05	100.00
Holdings	85.25	72.21

Outstanding Purchases and Loans:	SDR Million	Percent Quota
Emergency Assistance ¹	72.30	100.00
Extended Arrangements	123.90	171.37

Latest Financial Arrangements:				
Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	05/24/2017	05/23/2020	314.51	157.25
Stand-by	04/01/2009	10/01/2010	153.30	122.64
ECF ²	09/28/2001	07/31/2005	28.49	12.21

Latest Financial Outright Loans:				
Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	06/03/2020	06/05/2020	72.30	72.30

Overdue Obligations and Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal	31.18	62.36	44.28	26.21	23.88
Charges/interest	6.44	9.39	5.81	4.03	2.71
Total	37.62	71.74	50.09	30.23	26.59

¹ Emergency Assistance may include ENDA, EPCA, and RFI.

² Formerly PRGF.

Safeguards Assessment:

Safeguards assessments of the Bank of Mongolia (BOM) were conducted in 2002, 2003, 2009, 2017, and 2023. The 2023 safeguards assessment found that safeguards risks at the BOM remain elevated given the autonomy and governance weaknesses in the Central Bank Law that were not addressed in the previous round of amendments, and an increase in the BOM's quasi-fiscal role. This has contributed to a significant decline in the BOM's equity position which will need to be resolved. Reforms are also needed to strengthen the Central Bank law and governance arrangements and to prohibit quasi-fiscal activities.

Exchange Arrangement:

On March 24, 2009, the BOM instituted a foreign exchange auction allowing the determination of the exchange rate mainly by market forces. The de jure exchange rate arrangement is floating, and the de facto exchange rate arrangement is crawl-like, effective March 3, 2022.

Mongolia accepted the obligations of Article VIII, Sections 2, 3, and 4 on February 1, 1996. Mongolia maintains two multiple currency practices (MCPs) subject to Fund jurisdiction. First, the modalities of the multi-price auction system give rise to an MCP since there is no mechanism in place that ensures that exchange rates of accepted bids at the multi-price auction do not deviate by more than 2 percent. The Executive Board approved the multi-price auction MCP until June 22, 2010 (Decision No. 14365 of June 23, 2009), and its further extension until March 15, 2012 or the next Article IV consultation whichever is earlier (Decision No. 14669 of June 23, 2010 and Decision No. 14365 of March 16, 2011). The MCP, however, could not be resolved by March 15, 2012, and will continue as long as the multi-price foreign exchange auction mechanism remains in place. Therefore, this MCP remains to be approved, and since the criteria for approval of this MCP are not in place, staff do not recommend Executive Board approval of said measure.

In addition, Mongolia has an official exchange rate (reference rate) that is mandatorily used for government transactions (as opposed to the commercial market rate). Therefore, by way of official action, the authorities have created market segmentation. While the reference rate is determined based on the weighted average of all commercial bank's FX trades from 3:30 PM of the previous day to 3:30 PM of the current day, staff are of the view that this practice does not eliminate the market segmentation and the multiplicity of effective rates arising from it. Accordingly, in the absence of a mechanism to ensure that the commercial rates and the reference rate do not deviate by more than 2 percent, the way the reference rate is used in government transactions gives rise to an MCP subject to Fund approval. Since the criteria for approval of this MCP are not in place, it remains unapproved by the Executive Board.

Mongolia imposes exchange restrictions for security reasons in accordance with United Nations Security Council Resolution No. 92/757 concerning certain transactions with the Federal Republic of Yugoslavia (Serbia and Montenegro) that have been notified to the Fund under Decision 144 (11/4/94).

Article IV Consultation:

The 2022 Article IV consultation was concluded by the Executive Board on November 30, 2022. Mongolia is on a 12-month cycle.

ROSC Assessments:

The following ROSC assessments have been undertaken: Data Dissemination (May 2001), Fiscal Transparency Module (November 2001), Fiscal Update (May 2005), Data Dissemination (April 2008), Monetary and Fiscal Policy Transparency (September 2008), Banking Supervision (September 2008).

Recent Financial Arrangements:

A Rapid Financing Instrument in an amount of equivalent to SDR 72.30 million (100 percent of quota) was approved on June 3, 2020.

A 36-month Extended Fund Facility in an amount of equivalent to SDR 314.5054 million (435 percent of quota) was approved on May 24, 2017. The Executive Board completed the fifth review on October 31, 2018. The program expired on May 23, 2020.

FSAP Participation:

The first FSAP for Mongolia was conducted by the IMF and World Bank in 2007, with the final report issued in May 2008. IMF staff subsequently conducted a Financial Sector Stability Module in 2010 (report issued in May 2011), which was followed by a Development Module, conducted by the World Bank, in 2012.

Capacity Development:

Mongolia is an intensive recipient of IMF technical assistance (TA). Since the 2022 Article IV consultation, assistance has focused on public investment management, tax and customs administration, VAT-GAP analysis, banking supervision, banking resolution and crisis management frameworks, quality of macroeconomic statistics, and macro forecasting. A multi-year TA on tax and customs administration is ongoing via short-term expert visits and a resident advisor, supported by the Revenue Mobilization Thematic Fund. At the request of the BOM, the IMF has assisted the BOM in enhancing its banking supervision, notably risk-based supervision, corporate governance and licensing (June and September 2022, June 2023). At the request of the MOF, the IMF has agreed to provide multi-year technical assistance aimed at enhancing the macroeconomic analysis and forecasting capacity of the Financial and Fiscal Research Department (FFRD), beginning in August 2023. Besides these, IMF TA has focused on assisting the authorities in improving and developing new macroeconomic statistical indicators: GFS (December 2021, August 2022, July 2023), residential property price index (October 2021, April 2023) and national accounts (September 2022). IMF experts also conducted headquarters-based reviews of draft laws.

IMF TA Missions (August 2022–June 2023):

- Government financial statistics (CCAMTAC), December 2021, August–September 2022 and July 2023.
- Customs administration (FAD), January–February 2022 and October 2022
- VAT GAP Analysis (FAD), June-July 2022 and August–September 2022
- Central bank communications (MCM), August 2022
- Cross Border Transaction VAT (CCAMTAC), August-September 2022
- National accounts (CCAMTAC), September 2022
- Licensing process development (CCAMTAC), September–October 2022
- Individual insolvency framework (LEG), September 2022
- Customs laboratory (FAD), October 2022, February 2023
- Banking resolution and crisis management frameworks (MCM), November 2022
- VAT-GAP analysis (FAD), February 2023
- BOM's nowcasting and near-term forecasting system-virtual scoping mission (CCAMTAC/ICD), March 2023
- Customs change management and organizational risk (FAD), March-April 2023
- Prices statistics-residential property price index (STA), April 2023
- CIT-GAP analysis (FAD), April 2023
- Customs compliance risk management (FAD), May-June 2023
- Macroeconomic framework TA scoping mission and macroeconomic diagnostics training refresher TA (ICD), May-June 2023
- Public investment management assessment (FAD), June 2023
- Risk based supervision methodology development (CCAMTAC), June 2023
- GFS/PSDS (CCAMTAC), July 2023
- LEG review of draft Investment Banking Law, March 2023.
- FAD review of draft Amendments to Fiscal Stability Law and Integrated Budget Law, March 2023
- FAD review of draft Investment Law, April 2023

Resident Representative:

Since July 2023, Mr. Tigran Poghosyan has been the resident representative based in Ulaanbaatar.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <https://www.worldbank.org/en/country/mongolia>

Asian Development Bank: <https://www.adb.org/countries/mongolia/main>

STATISTICAL ISSUES

(As of August 2023)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision to the Fund is broadly adequate for surveillance, but some shortcomings exist in the estimation of GDP and treatment of missing observations in price indices. The priority areas for improvement are national accounts and price statistics, and also the migration of government finance statistics to a new methodology.</p>
<p>National Accounts: The National Statistics Office (NSO) currently publishes annual and quarterly GDP using the production and expenditure approaches. Annual supply-use tables are compiled and represent a significant quality improvement as part of Mongolia's implementation of 2008 SNA. The NSO implemented the 2015 rebasing and published the data on its website. The NSO is also working to chain-link its annual GDP series using the annual Supply Use Tables (SUTs), which are expected to be published in September 2024. A mission in March 2021 assisted the NSO in developing a Monthly Indicator of Economic Activity (MIEA). The NSO is independently improving the indicators used for agriculture, forestry and fishing, and construction and expected to publish the MIEA in June 2024.</p>
<p>Price Statistics: The NSO produces a monthly consumer price index (CPI) with weights from the 2015 household survey. The index covers prices of expenditures by both urban and rural households and the data is disseminated within two weeks from the reference month. The NSO publishes a monthly producer price index (PPI) for industrial activities and a quarterly PPI for services activities. An experimental quarterly residential property price index (RPPI) is produced for Ulaanbaatar following a mix-adjustment by stratification methodology. Technical assistance to implement an enhanced index compilation methodology with improved data sources is ongoing, with the goal of disseminating an improved RPPI in 2022.</p>
<p>Government Finance Statistics: Currently, the concepts, classifications, and definitions used to compile sub-annual and annual fiscal statistics for the consolidated general government operations series used by Fund Staff for surveillance generally follow the guidelines of the GFSM 1986. The authorities have been working to compile time series data based on the GFSM 2014 methodology. STA has been providing technical assistance (funded by Japan) aimed at developing annual General Finance Statistics (GFS) data for 2016 onward. A June 2019 GFS TA mission compiled a financial balance sheet and integrated presentation of stock and flows for the consolidated general government sector using the accrual (IPSAS-based) accounts maintained by the Ministry of Finance. In December 2018 the authorities began reporting public sector debt statistics (PSDS) to the World Bank for dissemination. Since 2021, CCAMTAC has been providing capacity development support on GFS and PSDS.</p>
<p>Monetary and Financial Statistics: The BoM reports regular monetary data using the IMF's recommended Standardized Report Forms (SRFs), covering the central bank balance sheet and other depository corporations. Mongolia's monetary and financial statistics (MFS) conform to the concepts and definitions of the <i>Monetary and Financial Statistics Manual and Compilation Guide</i>. The BOM also reports some basic data to the IMF's Financial Access Survey including mobile and internet banking, mobile money, gender-disaggregated series, and the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches per 100,000 adults and ATMs per 100,000 adults).</p>

Financial Sector Surveillance: Mongolia does not currently report Financial Soundness Indicators (FSIs) to the Fund for dissemination on the Fund's external website. The BoM is quite advanced in the compilation of FSIs, but needs to take necessary measures to facilitate the submission of the data and metadata to the IMF for external dissemination.

External Sector Statistics: The BOM compiles balance of payments and international investment position data quarterly, according to the latest statistical framework of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Priorities for improvement include addressing persistent negative net errors and omissions. Mongolia participates in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS). Mongolia started compiling external debt statistics and the Reserves Data Template (the International Reserves and Foreign Currency Liquidity Template) when it subscribed to the IMF's Special Data Dissemination Standard (SDDS) in 2019.

II. Data Standards and Quality

In April 2019, Mongolia subscribed to the Fund's Special Data Dissemination Standard (SDDS) and met all SDDS requirements at the time of subscription. The SDDS sets high standards for the timeliness and periodicity of dissemination of economic and financial data. Mongolia publishes data on its [National Summary Data Page \(NSDP\)](#). Metadata are posted on the [Dissemination Standards Bulletin Board](#).

Mongolia received a mission to produce a Data module of the Reports on Observance of Standards and Codes (data ROSC) in April 2008. In this report the IMF assesses in detail the quality of the statistical systems of its member countries. The ROSC report for Mongolia can be accessed [here](#).

Table 1. Mongolia: Common Indicators Required for Surveillance
(As of August 2023)

	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶	Memo Items:	
						Data Quality-Methodological soundness ⁷	Data Quality – Accuracy and Reliability ⁸
Exchange rates	8/2023	8/2023	D	D	D		
International reserve assets and reserve liabilities of the Monetary Authorities ¹	7/21/2023	7/24/2023	W	W	W		
Reserve/base money	7/2023	8/2023	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Broad money	7/2023	8/2023	M	M	M		
Central bank balance sheet	7/2023	8/2023	M	M	M		
Consolidated balance sheet of the banking system	7/2023	8/2023	M	M	M		
Interest rates ²	7/20/2023	7/20/2023	D	D	D		
Consumer price index	7/2023	8/2023	M	M	M	O, LO, O, O	LO, LO, LO, O, O
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	7/2023	8/2023	M	M	M	LO, LNO, LO, O	LO, O, LO, LO, LNO
Stocks of general government and general government-guaranteed debt ⁵	2023Q1	6/13/2023	Q	Q	Q		
External current account balance	5/2023	7/18/2023	M	M	M	O, O, O, LO	LO, O, LO, LO, LO
Exports and imports of goods	6/2023	7/24/2023	M	M	M		
GDP/GNI	2023Q1	5/21/2023	Q	Q	Q	O, LNO, O, LO	O, LO, LO, LO, LNO
Gross external debt	2023Q1	5/31/2023	Q	Q	Q		
International investment position	2023Q1	6/23/2023	Q	Q	Q		

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

⁷ Reflects the assessment provided in the data ROSC or the Substantive Update (published in April 2008, and based on the findings of the mission that took place during September 1–28) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

⁸ Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

MAIN DATA WEBSITES

National Statistics Office (www.1212.mn)

- National Accounts
- Consumer Price Inflation
- Agricultural and Industrial Production
- Petroleum Imports
- Electricity Production and Consumption
- Coal Production
- Retail Prices
- Employment
- Exports and Imports
- Securities Market Data

Bank of Mongolia (www.mongolbank.mn)

- Monetary Survey
- Consolidated Balance Sheet of Commercial Banks
- Distribution of Bank Credit to the Nongovernment Sector
- Net Credit to Government
- Interest Rates
- Balance of Payments
- Services and Income Accounts
- Official Reserves of the Bank of Mongolia
- Selected Indicators of Commercial Bank Foreign Exchange Operations
- Nominal and Real Exchange Rates
- Government Budget Accounts

Ministry of Finance (www.mof.gov.mn)

- Government Budgetary Operations

National Development Agency (www.nda.gov.mn)

- Long- and medium-term development strategy
- Economic and social policies
- Investment policy coordination

Financial Regulatory Commission (www.frc.mn)

- FRC decisions
- Total assets of regulated entities (insurance companies, securities and broker firms, non-bank financial institutions, savings and credit unions)
- Consolidated income statements of regulated entities (insurance companies, securities and broker firms, non-bank financial institutions, savings and credit unions)