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Policy Options and Challenges for Developing Asia - Mongolia: Debt Sustainability Analysis

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Economic growth has strengthened while inflation has remained moderate…

Real GDP and CPI Inflation
(Annual percentage change)

Sources: Mongolian authorities; and IMF staff estimates.
Fiscal performance also improved sharply...

Fiscal Balance
(In percent of GDP)

Sources: Mongolian authorities; and IMF staff estimates.
Rising copper prices contributed to increasing budget revenues

Copper Price and Mineral Revenue

Source: IMF, *World Economic Outlook*.
1/ US dollar per ton.
2/ Includes royalties, CIT, dividends, and the windfall tax, beginning in 2006.
Debt ratios have declined significantly since 2003 ...

Debt to GDP Ratio (In percent)

Sources: Mongolian authorities; and IMF staff estimates.
Debt service is low due to highly concessional debt …

External Debt Service
(In percent of exports of goods and services)

Sources: Mongolian authorities; and IMF staff estimates.
Outlook for 2007

- Growth is expected to remain strong, but

- A big fiscal deterioration is expected due to higher spending and tax cuts

- The fiscal stimulus will increase the burden on monetary policy to keep inflation on downward course
Challenges for the Medium Term

- Maintain sustained growth and promote diversification
- Maintain low inflation through prudent monetary policy
- Maintain fiscal discipline and stable fiscal regime
- Keep public debt on stable or declining trend, despite expected decline in copper prices
- Strengthen public infrastructure
The medium-term outlook under the baseline scenario is favorable, assuming

- Sustained output and export growth
- Appropriate demand policy
- External borrowings remain on concessional term
But, there are substantial risks …

If growth and fiscal performance revert to historical averages, debt ratios will deteriorate, breaching the thresholds
TOT are expected to worsen in the near term due to projected fall in copper prices.

Terms of Trade
(2006=100)

Sources: Mongolian authorities; and IMF staff estimates.
Public Debt Ratios

Source: IMF staff projections and simulations.
1/ Historical average for the past 10 years, including a primary deficit of 5 percent of GDP; a real GDP growth of 4.3 percent per year; and an 12 percent inflation rate.
2/ Revenue including grants.
External Debt Ratios

NPV of External Debt-to-GDP Ratio

NPV of External Debt-to-Exports Ratio

External Debt Service-to-Exports Ratio

Source: IMF staff projections and simulations.
1/ Historical average for the past 10 years, including real GDP growth of 4.3 percent per year, growth of GDP deflator (in U.S. dollar terms) at 2.2 percent per year, non-interest current account deficit at 3.1 percent of GDP per year, and net FDI inflows at 5.6 percent of GDP per year.
Policy implications

- Despite strong recent progress, there is need for continued vigilance on fiscal policy to avoid renewed rise in debt burden

- Prospective deterioration in terms of trade would contribute to risks

- Need to sustain structural reforms to support strong private sector investment and growth
Thank you!