



MONGOLIA

2026 ARTICLE IV CONSULTATION DISCUSSIONS— PRESS RELEASE; AND STAFF REPORT

August 2026

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of 2026 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 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 July 17, 2026.
- An **Informational Annex** prepared by the IMF staff.

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IMF Executive Board Concludes 2026 Article IV Consultation with Mongolia

FOR IMMEDIATE RELEASE

Washington, DC – August 6, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Mongolia and endorsed the staff appraisal without a meeting on a lapse-of-time basis.² The authorities have consented to the publication of the Staff Report prepared for this consultation.³

Despite a sharp decline in coal prices, Mongolia's macroeconomic outcomes in 2025 were better than expected. A strong recovery in agricultural output and solid mining production supported growth, while higher copper exports and softer import demand helped narrow the current account deficit. Buoyant mining activity underpinned strong GDP growth through April 2026 (7.8 percent y/y), although underlying growth momentum remained subdued. Inflation has risen since March 2026 following several months of moderation, driven by surging meat and energy prices and reaching 12.0 percent y/y in June.

Growth is projected to remain robust in 2026 despite headwinds from higher energy prices and global uncertainty. Strong mining activity is expected to help offset weaker non-mining growth and further improve the current account balance, although growth is projected to moderate from the high level recorded in 2025 as the boost from agricultural base effects fades. Inflation is projected to remain elevated at around 10 percent by year-end amid high food and fuel prices, before easing gradually thereafter. The outlook remains subject to significant downside risks, including domestic policy slippages amid social and populist pressures ahead of the elections, as well as Mongolia close links to developments in global commodity markets and external demand.

Executive Board Assessment

Despite multiple shocks, Mongolia's economy has remained resilient. In 2025, economic activity benefited from a sharp recovery in agriculture and strong mining activity, notwithstanding declining coal prices. The current account deficit narrowed as surging copper

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 The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

³ Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Mongolia page.

exports and moderating imports more than offset weaker coal exports. Nevertheless, the external position in 2025 is assessed to remain weaker than implied by fundamentals and desirable policy settings. Strong growth continued into early 2026, supported by buoyant mining production, but is projected to moderate owing to base effects. Headline inflation started rising again amid higher food and fuel prices and is expected to remain elevated throughout the year.

Vulnerabilities remain elevated, with the balance of risks to the outlook tilted to the downside. Key downside risks stem from a potential deterioration in external financing conditions due to fiscal slippages and higher debt, given political pressures to further reduce non-mining taxes and increase current spending, especially wages and pensions. External risks include heightened geopolitical tensions, including adverse spillovers from the Middle East conflict and Russia's war in Ukraine, as well as uncertainty about prospects for coal exports to China and commodity prices.

Fiscal policy should prioritize rebuilding buffers and safeguarding sustainability. The submission of a supplementary budget to Parliament is a priority, to avoid end-year cash shortages as in 2025. The recently approved tax package should be reconsidered given its adverse impact on non-mining revenues. Efforts should instead focus on tax policy and administrative reforms to strengthen them. Higher non-mining revenue, together with greater efficiency in current spending, would create space for much-needed development spending and rebuilding buffers. Public financial management and fiscal transparency need to be strengthened to enhance the credibility of the budget, including through a well-defined MTFF, more realistic budget formulation, and stronger governance of mining funds. Mongolia has benefited from the fiscal rules, and policy measures that undermine their credibility should be avoided, including the selective exclusion of public investment projects. Fiscal measures in response to higher fuel prices should be temporary and well-targeted, while preserving price signals. Reducing reliance on external financing would strengthen fiscal resilience.

The BOM should maintain a tight monetary policy stance while standing ready to tighten further if risks of unanchored inflation expectations and significant second-round effects emerge. Strengthening the BOM's operational and legal autonomy, forbidding quasi-fiscal activities, and addressing its weak balance sheet are critical to enhancing its effectiveness and credibility.

Higher FX reserves and greater exchange rate flexibility would strengthen Mongolia's resilience to external shocks. While GIR have increased markedly, they remain below adequacy thresholds. The BOM should continue pursuing opportunistic reserve accumulation when market conditions allow. The BOM should also gradually phase out its role as a structural provider of FX to the market and reduce its dominance in providing FX hedging instruments to banks by fostering the development of the domestic FX derivatives market.

The macroprudential framework needs further improvement. The BOM should strengthen the institutional separation between macroprudential and monetary policy, expand its macroprudential toolkit, and enhance coordination with the FRC. Incorporating pension-backed loans into the DSTI framework would help prevent excessive indebtedness among pensioners. Continued progress in risk-based supervision, alongside reforms to credit information, insolvency, and resolution frameworks, would further enhance financial sector resilience. The proposed increase in bank shareholder limits, together with allowing international financial institutions to invest in multiple banks, is welcome and could facilitate bank shareholder diversification.

Structural reforms remain essential to achieving sustainable and inclusive growth.

Priorities include improving the business environment to support investment and attract FDI, strengthening governance and the rule of law, and moving toward a more diversified and private sector-led growth model. The revised Foreign Investment Law, amendments to the SOE Law and the Mineral Law, and the draft Whistleblower Law should be finalized and enacted promptly.

Table 1. Mongolia: Selected Economic and Financial Indicators, 2023–31

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Actual			Projections					
(In percent of GDP, unless otherwise indicated)									
National Accounts									
Real GDP growth (percent change)	7.4	5.1	6.8	5.8	5.6	5.6	5.1	5.0	5.0
Nominal GDP (in USD million)	20,315	23,795	25,370	...	...	...	...	...	...
Contributions to Real GDP (ppts)									
Domestic Demand	5.6	21.2	1.8	10.4	8.5	8.2	7.2	7.4	7.3
Exports of G&S	17.9	0.5	4.0	2.1	4.2	2.1	1.6	2.5	2.7
Imports of G&S	-16.2	-16.6	1.1	-6.7	-7.1	-4.7	-3.8	-4.9	-5.0
Consumption	57.5	64.9	66.1	59.7	61.1	60.8	62.6	63.0	64.6
Private	44.5	49.4	51.5	45.7	45.9	45.7	47.5	47.8	49.3
Public	13.0	15.5	14.6	14.0	15.2	15.1	15.2	15.2	15.3
Gross Capital Formation	33.9	35.5	31.4	29.5	28.7	30.5	29.9	30.3	29.3
Gross Fixed Capital Formation	25.3	27.2	28.0	29.1	27.0	26.7	24.9	24.3	23.3
Public	7.4	9.8	7.9	8.4	7.7	8.1	7.0	7.0	6.8
Private (including SOEs)	18.0	17.3	20.1	20.6	19.2	18.6	17.8	17.3	16.6
Gross national saving	34.5	25.1	23.1	25.0	24.2	25.2	24.0	23.7	22.4
Prices									
Consumer Prices (Avg; percent change)	10.4	6.2	8.6	8.8	9.5	8.3	7.2	6.8	6.7
Consumer Prices (EoP; percent change)	7.7	8.3	7.5	10.0	9.0	7.5	6.9	6.7	6.6
Copper prices (US\$ per ton)	8,491	9,142	9,947	13,527	13,889	13,837	13,805	13,801	13,814
Bituminous coal prices (US\$ per ton)	131.4	107.3	66.5	73.4	79.2	76.3	76.3	76.4	76.4
GDP deflator (percent change)	21.8	8.9	4.4	14.3	9.5	8.0	7.3	6.8	6.5

General government accounts

Primary balance (IMF definition)	4.3	2.7	3.2	-0.3	-3.0	-4.2	-3.2	-3.0	-2.8
Total revenue and grants	34.6	38.9	36.3	31.8	30.3	29.1	28.8	28.8	28.7
Primary expenditure and net lending	30.3	36.2	33.1	32.2	33.3	33.3	32.0	31.8	31.5
Interest	1.6	1.5	1.7	1.9	2.2	2.4	2.7	3.0	3.3
Overall balance (IMF definition)	2.7	1.3	1.5	-2.2	-5.2	-6.6	-5.9	-5.9	-6.1
Non-mining primary balance (in percent of GDP)	-5.7	-8.8	-5.6	-8.2	-10.6	-11.4	-10.1	-9.6	-9.2
Gross financing needs	9.0	4.7	3.0	5.1	9.5	13.3	13.1	14.1	16.5
General government debt 1/	46.7	44.1	45.1	47.0	50.5	55.9	59.1	61.3	63.7
<i>Domestic</i>	3.3	3.1	3.2	4.9	6.3	7.8	8.8	9.3	10.8
<i>External</i>	43.4	41.0	41.9	42.1	44.3	48.1	50.2	52.0	52.8

Monetary sector

Broad money growth (percent change)	24.2	15.5	10.6	20.3	17.5	14.1	12.7	12.4	12.1
Reserve money growth (percent change)	7.4	51.9	39.5	20.3	17.5	14.1	12.7	12.4	12.1
Credit growth (percent change)	22.0	30.3	19.8	17.0	16.5	15.1	13.7	13.1	12.8

Balance of payments

Current account balance	0.6	-10.4	-8.4	-4.5	-4.5	-5.3	-5.9	-6.6	-7.0
Exports of goods	68.5	62.0	60.5	67.3	65.3	61.7	58.9	56.7	54.8
Imports of goods	46.1	49.0	44.7	46.6	44.5	44.0	42.3	41.8	40.9
Gross official reserves (in USD million)	4,922	5,510	7,005	7,234	7,230	7,234	7,254	7,264	7,285
(In months of imports)	3.6	4.1	4.4	4.3	4.2	4.0	3.9	3.7	3.6
(net of bank's FX deposits held at the BOM)	3,491	4,233	5,094	...	...	...	...	...	...
Net international reserves (NIR) 2/	1,152	1,768	2,517	...	...	...	...	...	...

Exchange rate

Togrog per U.S. dollar
(eop)

3,411 3,420 3,557

Sources: Mongolian authorities; and IMF staff projections.

1/ Includes DBM's total debt, explicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

2/ 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 2026 ARTICLE IV CONSULTATION

July 17, 2026

KEY ISSUES

Context. Mongolia has benefited from a multi-year mining boom, strong growth, and decreasing external and fiscal vulnerabilities. Yet the economy remains exposed to commodity price shocks. Lower coal prices since early 2025 have already led to revenue shortfalls, and political pressures to raise expenditure are intense. The fiscal position is projected to deteriorate, given large public wage and pension increases, and non-mining tax cuts, reversing recent gains in reducing vulnerabilities. Political uncertainty and risks of policy slippages will likely increase ahead of the 2027–28 presidential and parliamentary elections.

Policies. The priority is to safeguard fiscal sustainability and lower vulnerabilities.

- **Fiscal policy.** With strong growth, weaker mining revenues, and large permanent increases in public wages and pensions, corrective measures to rebuild fiscal buffers and safeguard sustainability are a priority. The recently approved tax cuts should be reconsidered. Instead, fiscal policy should prioritize tax reforms to boost non-mining revenue, alongside measures to rationalize spending, strengthen public financial management, and improve adherence to fiscal rules. Any fiscal support in response to the energy shock should be temporary and well targeted, and allow price signals to function.
- **Monetary and exchange rate policies.** Monetary policy should remain tight. The Bank of Mongolia (BOM) should stand ready to tighten further if current food and fuel price shocks raise risks of second-round effects and drifting inflation expectations. Strengthening the BOM's operational autonomy, phasing out quasi-fiscal activities, and allowing for greater exchange rate flexibility would enhance its policy effectiveness, reserve accumulation, and macroeconomic stability.
- **Macroprudential and financial sector policies.** The macroprudential framework should be further strengthened by introducing new tools and enhancing coordination among regulators. Further progress in risk-based supervision, together with reforms to improve the frameworks for credit information, insolvency, and resolution would support financial stability.
- **Structural policies.** Diversifying the economy beyond mining, reducing the state's footprint, improving the investment climate, and strengthening governance, including state-owned enterprise (SOE) oversight and anti-corruption frameworks, are essential to raise potential growth and enhance resilience.

Approved By
Thomas Helbling
(APD) and Jay Peiris
(SPR)

An IMF staff team visited Ulaanbaatar, Mongolia, during June 10–23, 2026. The team included Tahsin Saadi Sedik (Head), Tigran Poghosyan (outgoing Resident Representative), Marshall Mills (Senior Resident Representative for China and Mongolia), Teresa Daban Sanchez, Yi Wu (all APD), Huy Nguyen (FAD), and Kenya Kitano (MCM). Seungmoon Park (OEDAP) participated in the discussions. Jiyoung Choi (OEDAP) joined the concluding meetings. The team received excellent support from Ardak Bazarbai, Enkhbat Baasandorj, and Gerelmaa Baatarchuluun (Resident Representative's Office), as well as Paige Brewer and Ruihua Yang (both APD). The mission met with Prime Minister N. Uchral, Speaker of Parliament S. Byambatsogt, Finance Minister Z. Mendsaikhan, Bank of Mongolia Governor S. Narantsogt, Chairman of the Economic Standing Committee B. Zayabal, Chairman of the Budget Standing Committee N. Naranbaatar, other members of key parliamentary committees, and other senior officials.

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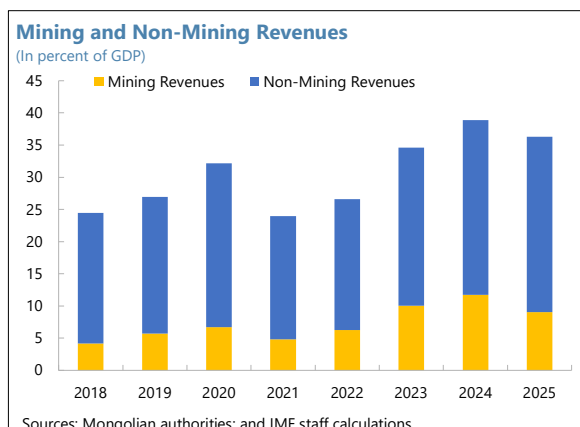
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CONTEXT

1. Fiscal pressures are increasing despite a mining boom. Government mining revenues declined markedly in 2025 due to a steep drop in coal prices, with export prices down 38 percent y/y, more than offsetting record-high export volumes and stronger-than-expected growth in copper exports. At the same time, fiscal policy has accommodated rising social and populist pressures, including through sizable public wage increases for teachers and healthcare workers approved for 2026–27, increased pensions starting 2027, as well as a tax package over 2027–28 that would substantially reduce non-mining revenues. Risks of further social and populist demands remain, which pose challenges to prudent policymaking in the runup to the 2027 presidential and 2028 parliamentary elections.



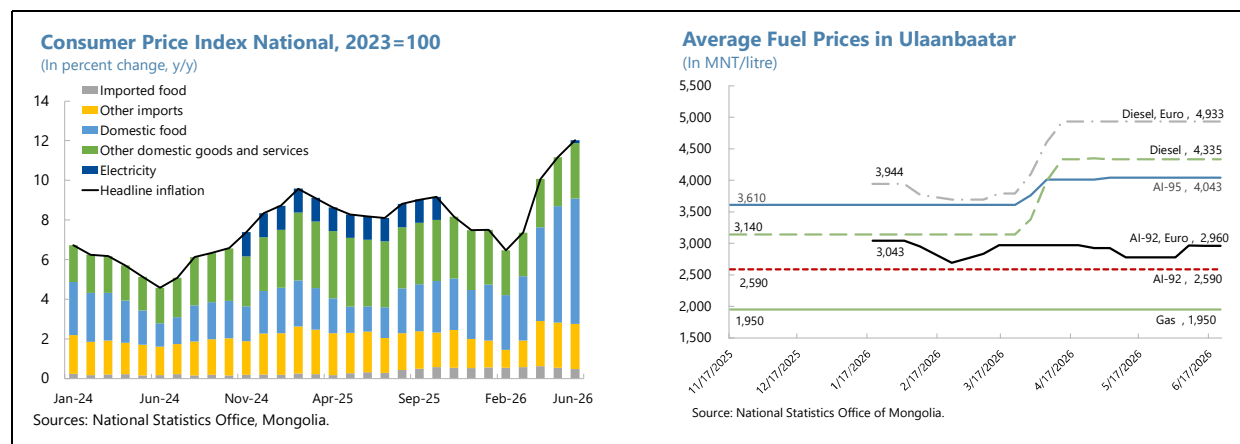
Text Table 1. Selected Economic Indicators, 2023-25

	2023	2024	2025
(In percent of GDP, unless otherwise indicated)			
Real GDP growth (percent change)	7.4	5.1	6.8
Government revenue and grants	34.6	38.9	36.3
of which, mineral revenue	10.0	11.7	9.0
Government expenditure	32.0	37.6	34.8
Overall balance	2.7	1.3	1.5
Current account balance	0.6	-10.4	-8.4
Exports of goods	68.5	62.0	60.5
Imports of goods	46.1	49.0	44.7
Gross official reserves (in USD million)	4922	5510	7005

RECENT DEVELOPMENTS

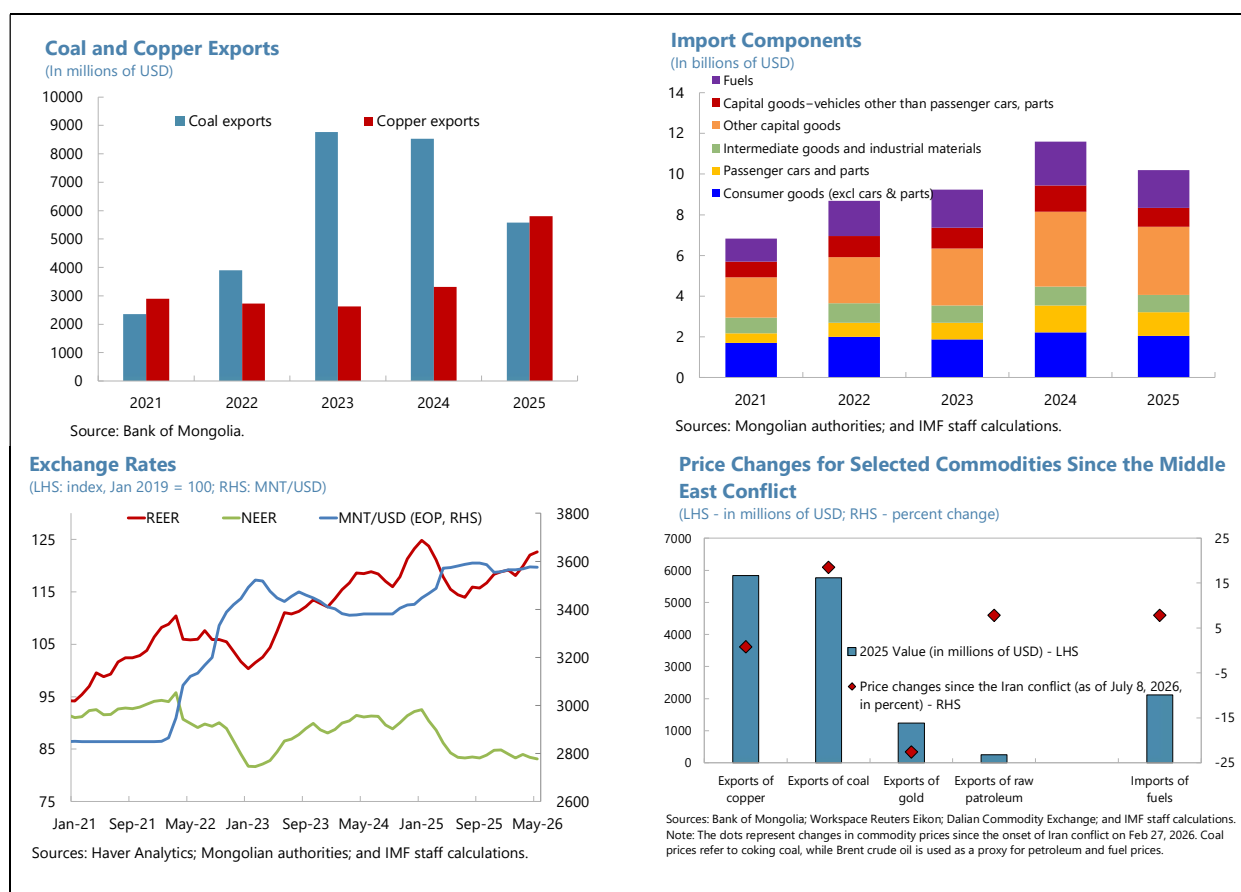
2. Strong growth continued into early 2026, mainly driven by buoyant mining activity. Growth reached 6.8 percent in 2025, underpinned by a sharp recovery in agriculture, alongside robust mining activity, supported by the production of higher-grade copper concentrate production at the Oyu Tolgoi (OT) mine. In contrast, non-agriculture, non-mining growth decelerated, reflecting contractionary fiscal and tight monetary policies. Domestic demand growth weakened, reflecting base effects after exceptionally strong growth last year, but also a contraction in public spending, in particular capital spending. Flash data suggest that growth remained strong in early 2026, at 7.3 percent y/y through May, driven mainly by a renewed surge in mining activity.

3. Inflation rebounded, driven by higher food and fuel prices. After falling to 6.5 percent (y/y) in February 2026, headline inflation rose to 12.0 percent in June, above the BOM's 6 ± 2 percent target range. The meat price increased by 50.9 percent in June, reflecting reduced reserve buffers, supply logistics constraints, and export-related pressures. Regarding fuel prices, the price of AI-92 gasoline (the main fuel used by the households) has remained stable, supported by long-term supply agreements with Russia, while prices of other fuels have risen markedly as a result of the Middle East conflict. In response, the government reduced customs duty rates from 5 percent to zero in April and exempted fuel products from excise taxes, for a period of six months.



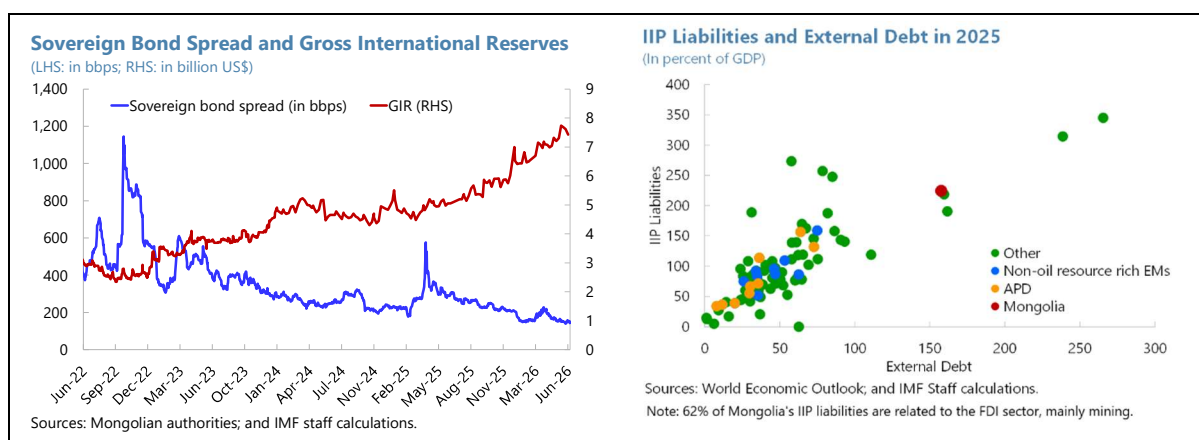
4. External vulnerabilities moderated in 2025 as the current account deficit narrowed and gross international reserves (GIR) increased, but they remain significant.

- Copper exports surged by 75 percent y/y in 2025, reaching parity with coal exports. This helped offset most of the decline in coal export values and, together with higher gold exports, contributed to an increase in total exports. However, the net contribution of the copper sector to the overall balance of payments was moderated by increased financial outflows by OT. Imports declined moderately, driven mainly by lower imports of heavy-duty trucks and passenger cars. As a result, the current account deficit narrowed to 8.4 percent of GDP from 10.4 percent in 2024. The real effective exchange rate (REER) depreciated by 3.3 percent in 2025, and the EBA-lite models suggest that the external position in 2025 remains weaker than implied by fundamentals and desirable policy settings (Annex II). Both coal and, in particular, copper exports grew strongly through May 2026.

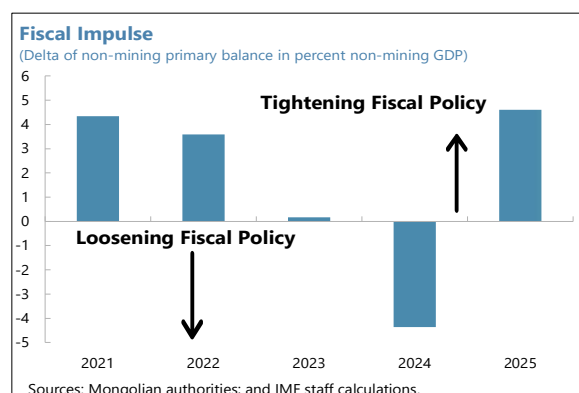


- GIR rose to US\$7.5 billion in mid-June 2026 (4.5 months of imports), also reflecting higher monetary gold valuation and strong private sector external borrowing. However, reserves remain below adequacy thresholds under the IMF's Assessing Reserve Adequacy (ARA) metric: as of mid-June 2026, GIR were equivalent to 84 percent of the ARA metric under the fixed exchange rate classification.¹ Net international reserves, excluding BOM's FX liabilities, are significantly lower. The BOM also faces substantial exchange rate risk due to its large stock of non-deliverable FX swaps with banks, which rose markedly in 2025 following increased external borrowing by banks, and reached US\$3.7 billion as of June 2026. Mongolia's vulnerability to external shocks also stems from its high external debt and negative international investment position, although this is mitigated by the high share of FDI and intercompany loans. Both Fitch and S&P upgraded Mongolia's credit rating (to B+ and BB-, respectively). The authorities successfully issued US\$500 million bonds in March 2026 at historically low sovereign spreads. In June 2026, the US\$2.2 billion swap line with the People's Bank of China (PBOC) was renewed until 2029.

¹ While Mongolia's de jure exchange rate is classified as floating, the de facto exchange rate arrangement is classified as stabilized. GIR were equivalent to 118 percent of the ARA metric under the floating exchange rate classification.



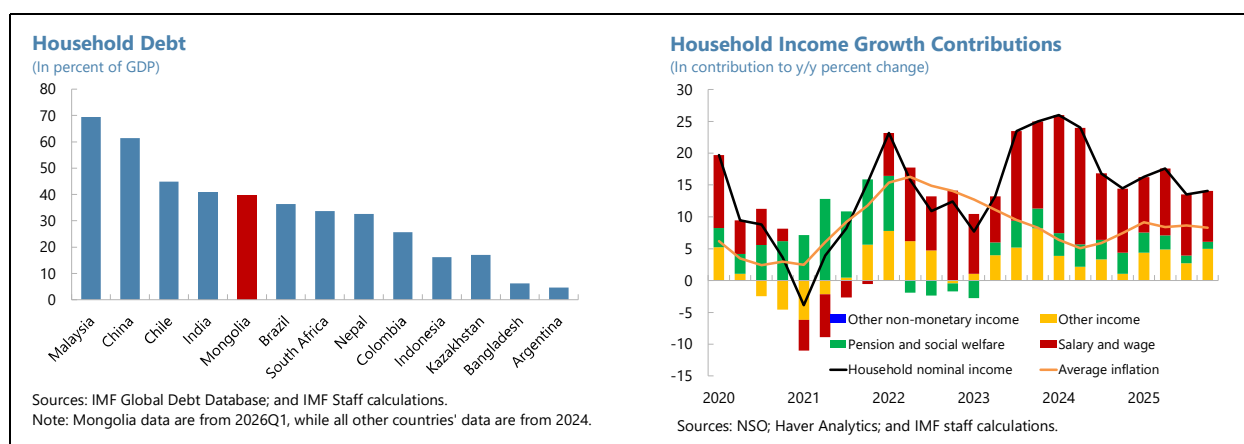
5. The authorities responded to revenue shortfalls in 2025 with sharp spending cuts and unconventional and one-off revenue measures. The supplementary budget issued in July 2025 cut spending by 2.0 percent of GDP relative to the original budget, while revenue outturns continued to underperform.² In response, the authorities resorted to postponing payments in an amount of 1 percent of GDP (expected to be paid in 2026) and unconventional and one-off revenue measures totaling 2.2 percent of GDP, which allowed to report an overall fiscal surplus of 1.5 percent of GDP and meet the structural deficit target. As a large portion of these measures was recorded as accrued revenue, the government faced large cash shortages, prompting the use of the Fiscal Stability Fund to finance spending. The fiscal stance in 2025 is assessed as having been tight.³ Measured by the change in the non-mining primary deficit relative to non-mining GDP, fiscal policy provided strong contractionary impulse in 2025, with a large adjustment equivalent to 4.6 percentage points of non-mining GDP, mostly from cutting capital spending.



6. Fiscal pressures continued into early 2026 but started to ease in May. Mining revenues performed better than expected, increasing by 35 percent y/y, reaching 46 percent of the annual budget target by May, while non-mining revenues underperformed, mainly reflecting lower-than-projected imports, reaching 36 percent of the budget target. Expenditure increased by 19 percent, mostly driven by higher pensions and wages, with current expenditure already accounting for 45 percent of the annual target. Although the fiscal balance improved in May, it remained below the budgeted level.

² The impact of copper exports on fiscal revenue remained moderate due to OT's fiscal regime, which prioritizes government equity ownership over royalties.

³ The fiscal stance is assessed by comparing the primary fiscal deficit – adjusted for the business cycle impact and a transitory component in the mining revenue – to its neutral level.

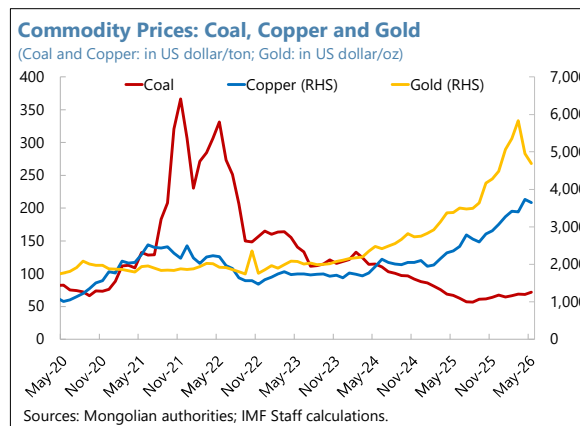


7. Credit growth declined markedly since early 2025 following the tightening of monetary and macroprudential policies (Figure 5). Consumer credit growth decelerated substantially at banks and even more sharply at nonbank financial institutions (NBFIs). Corporate lending growth also moderated. However, growth in pension-backed loans accelerated after the authorities removed, under public pressure in July 2025, a recently introduced measure subjecting such loans to the debt service-to-income (DSTI) limit, pushing growth to 55 percent y/y in 2026Q1. Overall credit growth stood at 17.1 percent y/y for the banking sector as of May 2026 and 22.8 percent y/y for NBFIs at 2026Q1. In early 2026, the BOM further raised reserve requirement ratios (RRRs) and tightened the DSTI limit for consumer loans to contain credit growth and inflation. The Financial Regulatory Commission (FRC) also tightened the DSTI limit for consumer loans.

OUTLOOK AND RISKS

8. Growth is projected to moderate to 5.8 percent in 2026 without positive agricultural base effects. Growth is expected to be supported by strong mining activity and government spending, including large wage increases and the frontloading of two mega projects. Inflation is projected to stay elevated in 2026, reflecting recent large spikes in meat and fuel prices before easing slightly in 2027, but still above the upper bound of the new target (5 ± 2 percent) by end-2028. The fiscal position is expected to deteriorate markedly over 2026–27, reflecting wage and pension increases, including the recently approved pension package, negative impact of the tax package, and the frontloaded execution of the two mega projects excluded from fiscal rules. Over the medium term, growth is projected to converge to its 5 percent potential, underpinned by sustained domestic demand, reflecting more expansionary fiscal policy. By 2031 public debt, as defined by staff, is projected to rise to about 63.7 percent of GDP, while general government debt (the one monitored under the fiscal rules) will reach 60.8 percent of GDP, just above the fiscal rule ceiling of 60 percent of GDP.

9. The current account deficit is expected to decline in 2026 but increase over the medium term. Stronger copper and coal exports are expected to reduce current account deficit in 2026. Coal export volumes are also expected to rise gradually over the medium term, underpinned by anticipated infrastructure improvements and continued robust demand from China. Nevertheless, coal export values are expected to remain below the high levels reached in 2023–24, reflecting lower prices. The current account deficit is expected to widen over the medium term amid moderating mining export growth and strong domestic demand, reflecting the high import intensity of investment projects and consumer goods imports.



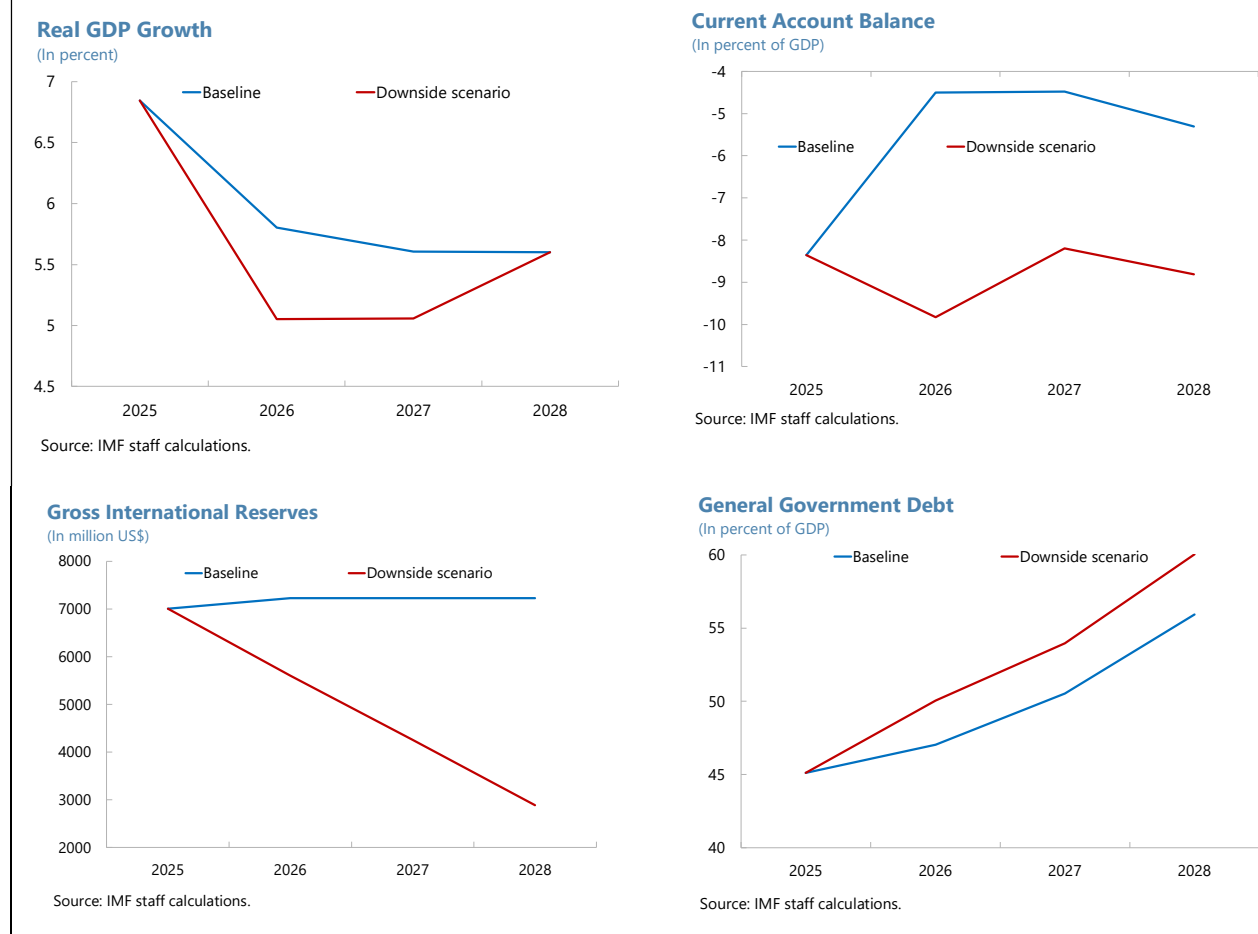
10. The outlook is subject to large uncertainty, with the balance of risks tilted to the downside (Annex III). Near-term downside risks stem mainly from domestic policy slippages amid social and populist pressures ahead of the elections which could raise risks to fiscal stability. External risks include heightened geopolitical tensions, spillovers from the Middle East conflict, disruption in the provision of fuel from Russia, with a large negative impact on mining companies, uncertainty about China's coal demand, and commodity price volatility. Over the medium to long term, a slowdown in China's economy would weigh on exports and growth, while decarbonization could lead to an earlier reduction in coal exports than currently envisaged.⁴ Upside risks include faster-than-expected improvements in border infrastructure that could help lift coal export volumes, while technological acceleration could further increase demand for Mongolia's critical minerals.

11. An illustrative downside scenario underscores Mongolia's vulnerability to commodity price shocks. The downside scenario assumes that (i) petroleum prices are 10 percent higher than the baseline in 2026 before returning to baseline levels in 2027–28; (ii) one-year inflation expectations increase by 90 bps; and (iii) corporate premiums increase by 100 bps and sovereign spreads increase by 50 bps. The tightening in financial conditions fades in 2027. In addition, coal and copper export prices are assumed to fall by 10 percent relative to the baseline over 2026–28. Absent policy responses, Mongolia's economic outlook would deteriorate materially under these shocks. This would lead to a significant deterioration in the current account (Figures below). Without policy adjustments, GIR could fall to less than 2½ months of import coverage by 2028, and widening fiscal deficits would result in a sizeable increase in public debt to GDP ratio. The exercise indicates that, even under plausible adverse shocks, fiscal and external positions could deteriorate markedly. Given the limited fiscal and external buffers, a subsequent disorderly adjustment of external and internal imbalances cannot be ruled out under the adverse scenario, which could necessitate significant fiscal adjustment. This highlights the importance of building buffers.

⁴ See IMF Country Report No. 25/265, Annex XII for an analysis on the impact of coal transition on Mongolia.

12. Policy slippages could amplify the impact of these shocks. A weakening of fiscal discipline would erode already limited fiscal and external buffers, heighten financing needs, and intensify exchange rate and inflation pressures. Given Mongolia's reliance on external financing, these dynamics could render the shocks more persistent and their effects more severe. Higher spreads and exchange rate depreciation could increase financial stability risks by increasing banks' rollover risks, especially given their reliance on FX funding (30.8 percent of total liability as of 2026Q1).

Text Figure 1. Illustrative Downside Scenario



Authorities' Views

13. The authorities were more optimistic about the medium-term outlook, citing stronger growth, revenue prospects, and faster disinflation as supply shocks dissipate. For 2026, they concurred that the current account would improve, driven by strong copper and coal exports, while acknowledging uncertainty around fuel prices, imports, and downside risks. They noted ongoing measures to secure fuel supply and mitigate price pressures.

POLICY DISCUSSIONS

The overriding policy priority is to safeguard fiscal sustainability and reduce vulnerabilities amid costly new policy initiatives.

A. Fiscal Policy

14. Despite stronger-than-expected mining revenue through May, the 2026 budget outturns will likely fall short of targets, given the weak performance of non-mining revenues.

Expenditure targets also appear not achievable. The budget envisages a large increase in capital spending (20 percent relative to the 2025 execution) and in wages and pensions (18 percent). However, the budget does not include all the salary increases agreed with healthcare workers (0.2 percent of GDP) and bonuses for both teachers and healthcare workers (0.7 percent of GDP). In addition, the across-the-board cuts in other expenditure will be difficult to achieve, as evidenced by the outcomes through May. As a result, the overall surplus of 2.1 percent of GDP and structural deficit of 1 percent of GDP are unlikely to be achieved, underscoring the urgent need for a supplementary budget (see text table).

Text Table 2. Fiscal Performance in 2024-26
(In percent of GDP)

	2024	2025	2025	2025	2026	2026
	Outcome 2024	Staff Report Sept 2025	Outcome 2025	Outcome 2025 Adjusted by Staff 1/	Approved 2026 Budget	Staff Proj. 2026
Total Revenues	38.9	35.1	36.3	34.1	32.4	31.8
<i>of which unconventional revenues</i>						
Tax and Mining Royalty Prepayments	...	...	1.1	...	...	...
Settlement Tax Arrears	...	...	0.7	...	...	...
Other "Ad Hoc" Non Tax Revenues	...	...	0.4	...	...	...
Adjusted Revenues 1/	...	...	...	36.3	...	...
Total Expenditure	37.6	35.5	34.8	34.8	30.3	34.1
Non-Mining Balance (percent non-mining GDP)2/	-12.4	-11.2	-7.8	-7.8	-5.1	-10.9
Overall Balance	1.3	-0.4	1.5	-0.7	2.1	-2.2

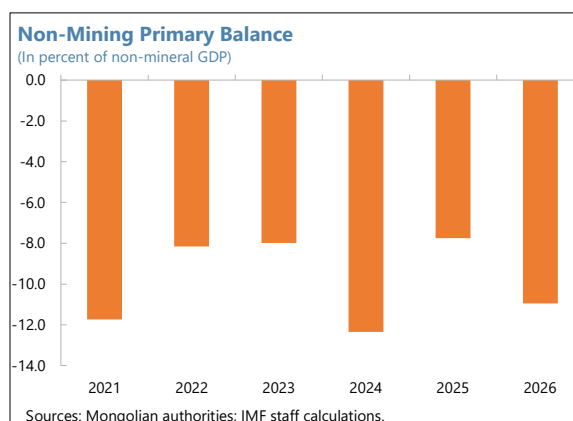
Source: Mongolian Authorities and IMF's Staff Estimations

1/ The adjustment conducted by authorities adds to the "conventional" revenue collections of 2025 the total of unconventional and one-off revenue measures mobilized in late 2025 in an amount of 2.2 percent of GDP.

2/ Unconventional revenues in 2025 pertained to mining revenues. Therefore, non-mining deficit in 2025 is not affected.

15. The staff team's baseline projections are built on more realistic and updated assumptions.

Revenues are forecast to be about 0.6 percentage points of GDP lower than the budget, mostly reflecting weaker non-mining revenue, in line with performance through May 2026. Moreover, the projections incorporate the full salary increase for healthcare workers and associated higher bonuses. Staff also assume the front-loaded execution of the two mega projects excluded from the fiscal rules (1.8 percent of GDP), a modest execution of domestically financed capital spending, and smaller across-the-board cuts in operational spending, in line with the 2025



experience. With these projections, the overall budget deficit would amount to 2.2 percent of GDP and the corresponding fiscal stance in 2026 will be looser than neutral. In contrast with authorities' budget, an expansionary fiscal impulse will take place in 2026, measured as an increase in the non-mining primary deficit of 3.2 percentage points of non-mining GDP. The projections also imply that the budget outcome, even after excluding the 1.8 percent of GDP expected execution of the two mega projects, would not comply with the statutory structural deficit ceiling of 2 percent of GDP, unless additional spending cuts or revenue-mobilization measures in the order of 1.5 percent of GDP were implemented.

16. With weaker mining revenue, lower fiscal buffers, and a large, permanent increase in wages and pensions, the recently approved non-mining tax cuts should be reconsidered.

Political pressure to provide tax relief remains elevated. The new government withdrew the tax package prepared by the previous government, which envisaged a large cumulative fiscal cost of 2.5 percent of GDP over 2027-28, including an increase of VAT rebates from 2 to 5 percent starting in 2026Q4 (at a cost of 1.5 percent of GDP). Given tightening fiscal constraints, the government requested Parliament to roll back the increase in the VAT rebates⁵. Instead, Parliament approved a new tax package mostly focused on reductions in PIT and CIT rates with a lower fiscal cost (about 1.7 percent of GDP cumulative over 2027-28)

⁵ This is in line with staff's assessment, which finds that the impact of higher VAT rebates on reducing inequality is likely to be marginal (Annex VII) and less cost-effective than targeted social programs.

Text Table 3. Estimated Impact Tax Package

	2027	2028
Total Impact (in MNT billion)	-1,106.0	-1,206.0
<i>In percent of GDP</i>	<i>-0.9</i>	<i>-0.8</i>
PIT (e.g., lower rates, higher deductions)	-840.0	-960.0
VAT (e.g., increase in threshold)	-161.0	...
CIT (e.g., change in income tax brackets & rates)	...	-246.0
2 percent Tax on Real Estate Sales (e.g., exempt owner-occupied houses)	-105.0	...
Sources: Mongolian Authorities and IMF staff calculations		

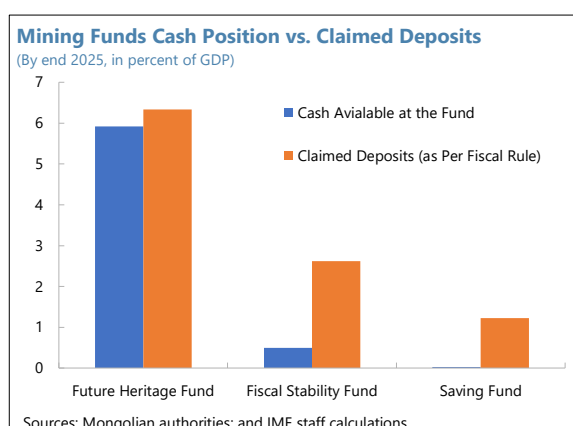
17. Any further fiscal support in response to the Middle East conflict should be temporary, well-targeted, and designed to allow price signals to function. The measures implemented so far, mainly excises and customs duty exemptions on selected petroleum products, are timebound and expected to entail limited fiscal costs and to not interfere with price signaling. However, they are not well targeted. Targeted transfers to vulnerable households are generally preferable to broad price-suppressing measures or generalized tax reductions and exemptions, given their greater efficiency, lower fiscal costs, and reduced distortions.

18. Ensuring effective fiscal management and compliance with fiscal rules will require strengthening public financial management (PFM) and fiscal transparency operational frameworks. The original and supplementary 2025 budgets envisaged overly optimistic revenue projections and the ensuing large revenue shortfall posed significant challenges for complying with fiscal rules. The recent legal approval to exempt two mega projects from the fiscal rules poses new challenges and may require measures to ensure timely reporting in line with good international practices. These challenges reflect a lack of operational guidance, escape clauses and corrective mechanisms, and a medium-term perspective in budget planning. The following PFM enhancements are critical:

- *Formulating a set of resolutions (e.g., secondary legislation)* to (i) clarify relevant operational aspects of the fiscal rules, such as the methodology and accounting rules (e.g., cash versus accrual basis) that must be used in computing fiscal indicators; and (ii) enhance the reporting of compliance with the fiscal rules in budget documents, in line with the recent Fiscal Transparency Evaluation (FTE). This should include reporting on the execution of the two mega projects that have been excluded from fiscal rules. Ongoing GFS 2014 technical assistance (TA) by CCAMTAC could contribute to this effort.
- *Realistic budget formulation*, guided by a well-defined medium-term fiscal framework (MTFF). The current mandate to prepare an MTFF is welcome, but implementation should be strengthened by including projections (e.g., through stress tests) and identifying contingency plans. The MTFF will also need to report on the expected execution of the two mega projects excluded from the fiscal rules. The FTE finds that Mongolia's MTFF is aggregate, weakly

integrated, and insufficiently transparent, with credibility weakened by repeated ex post amendments and weak enforcement.

- Strengthening the timeliness of *budget execution assessment and monitoring*, supported by strong cash and commitment management mechanisms, to facilitate the prompt adoption of supplementary budgets and avoid abrupt end-of-year fiscal adjustments as recommended by the FTE.
- *Enhancing transparency and strengthening governance of mining funds*. The current regulatory framework lacks key features, including regular public disclosure, and robust oversight arrangements, as emphasized by the FTE. Rules governing the management and withdrawals from the Fiscal Stability Fund need to be put in place.
- *Developing well-designed medium-term sectoral expenditure plans* (e.g., for education, health, and public investment) and strengthening coordination with subnational governments. These plans should include all public investment projects, including those excluded from fiscal rules, selected according to the availability of external financing, underpinned by robust feasibility assessments, and implemented in line with sound public investment management practices. These efforts could be supported by the 2023 PIMA recommendations and the Fund's TA on wages and pensions.
- *Formulating a comprehensive medium-term tax strategy to broaden and diversify non-mining tax revenues*. The strategy would include measures to streamline tax incentives, reduce VAT exemptions, address tax arrears, and enhance tax and customs administrations. An updated TADAT assessment scheduled for 2026 could help strengthen tax administration and boost collection amid rising arrears.
- *A well-devised strategy to replenish fiscal buffers*. Mongolia's main fiscal buffer is the foreign-currency denominated Future Heritage Fund, amounting to 5.8 percent of GDP at end-2025. The Saving Fund, accounting for 1.2 percent of GDP, is not available as it has been lent to banks to finance subsidized mortgage loans. The Fiscal Stability Fund (FSF), which has been used in the face of the 2025 revenue shock, needs to be replenished.



19. Mongolia would also benefit from formulating a comprehensive strategy to mitigate fiscal risks, which remain material. Key risks include: (i) large contingent liabilities stemming from SOEs and PPPs, as well as the BOM's large negative equity position; (ii) the predominance of foreign currency-denominated public debt, notwithstanding the resumption of domestic government debt issuance in 2025; (iii) the increasing assertiveness of local governments, reflected in their growing

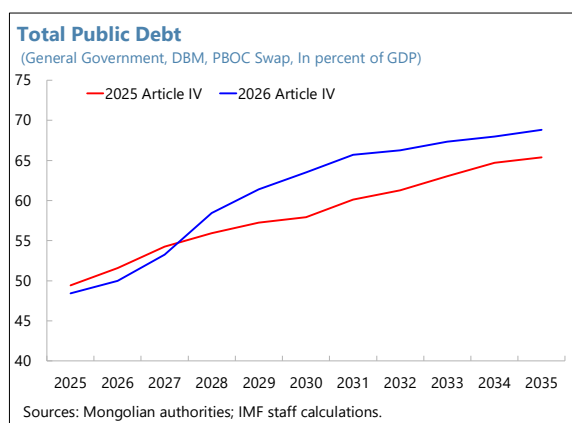
role in capital spending (accounting for about 45 percent of total general government capital spending) and their increased issuance of bonds (with a total stock of debt accounting for around 3 percent of GDP by end 2025). The inclusion of a fiscal risk statement in the 2026 budget supported by the Fund's TA is a positive step forward, although its analysis remains uneven and narrow, with limited quantification of PPP risks, government financial assets, natural resources, and climate shocks.

20. Mongolia's sovereign risk remains moderate in the near term and high in the medium to long term (SRDSF; Annex IV). The sovereign public debt trajectory is slightly more favorable in the near-term relative to the 2025 SRDSF,

reflecting the strong fiscal consolidation outcome in 2025, the postponement of payments amounting to about 1 percent of GDP, the use of a sizeable portion of the Fiscal Stability Fund and the lower recourse to borrowing in the face of the 2025 large revenue shortfall, and a less costly tax package relative to previous expectations.

These factors partially compensate for the frontloaded execution of the two mega projects excluded from the fiscal rules and the implementation of the recently approved pension

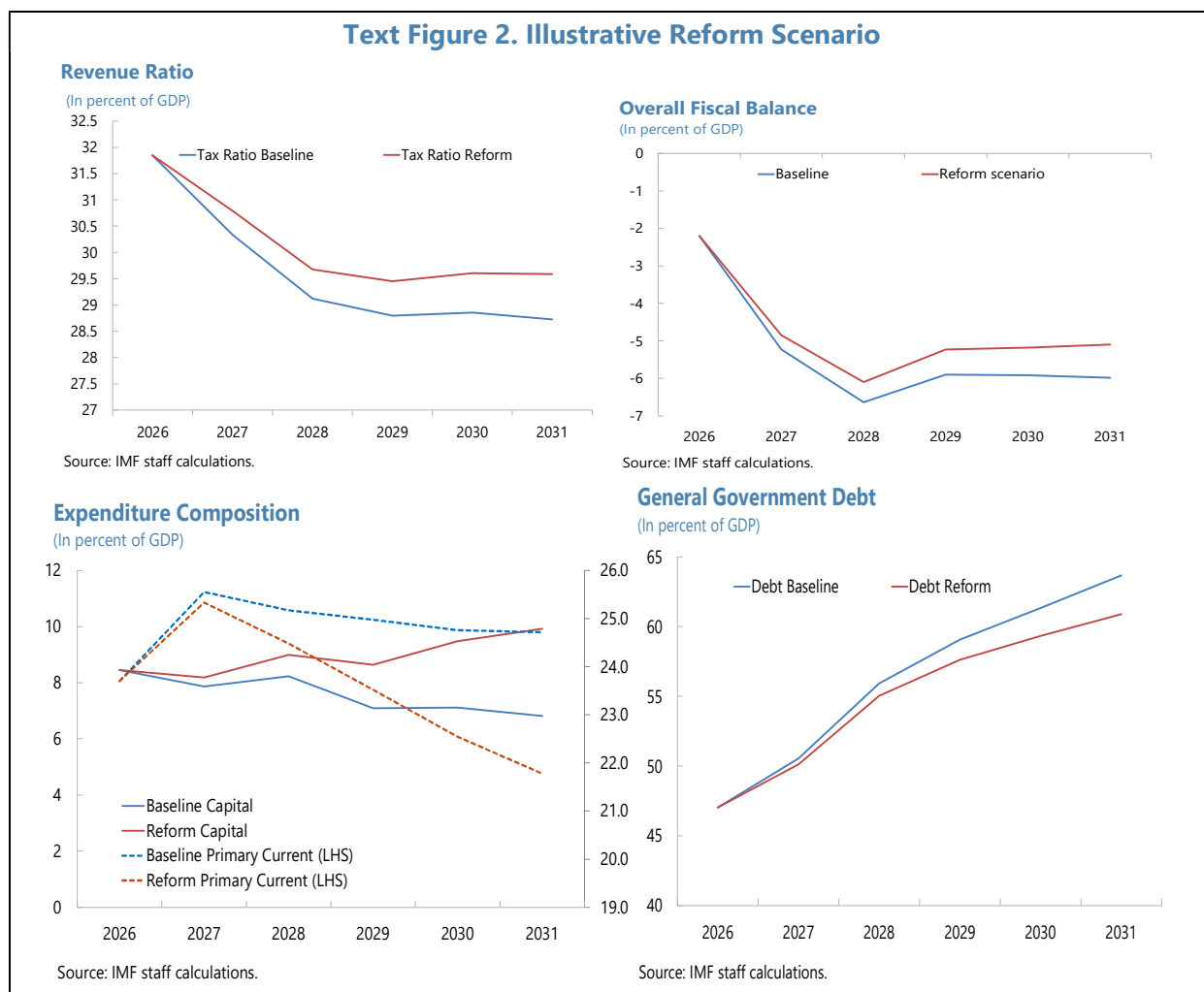
package. Over the medium term, the debt trajectory ends up converging to higher levels, mostly reflecting permanent increases in wages and pensions.



21. Under an illustrative reform scenario incorporating staff's policy recommendations, Mongolia could achieve a more sustainable and resilient fiscal path. The scenario assumes that:

(i) the tax package is rescinded and replaced with a tax reform package that would raise revenue collections by 0.5 percent of GDP per year relative to the baseline scenario; (ii) general government wage stabilizes at around 8 percent of GDP after the large increase in 2026-27 through civil service rationalization, in line with the recent FAD TA; (iii) a proxy means-testing system is established to increase the efficiency of social assistance programs generating savings of 0.22 percent of GDP per year, as estimated in the 2025 World Bank Public Finance Review; (iv) capital expenditure increases relative to the baseline by an amount equivalent to the reduction in primary current spending; and (v) the FSF is gradually replenished thanks to a lower deficit and greater access to domestic borrowing. Under this scenario, debt would be lower than in the baseline and fiscal outcomes would remain in compliance with fiscal rules. These reforms could also help provide a permanent source of revenue to finance the recently approved pension package and rebuild fiscal buffers. Improved fiscal balance would also help reduce the external imbalance identified in the external sector assessment (Annex II).

Text Figure 2. Illustrative Reform Scenario



Authorities' Views

22. The authorities agreed on the need for a supplementary budget and continued fiscal structural reforms. The supplementary budget would address revenue shortfalls and expenditure overruns while remaining consistent with fiscal rules. They also emphasized reforms to strengthen fiscal frameworks, public financial management, and fiscal risk oversight.

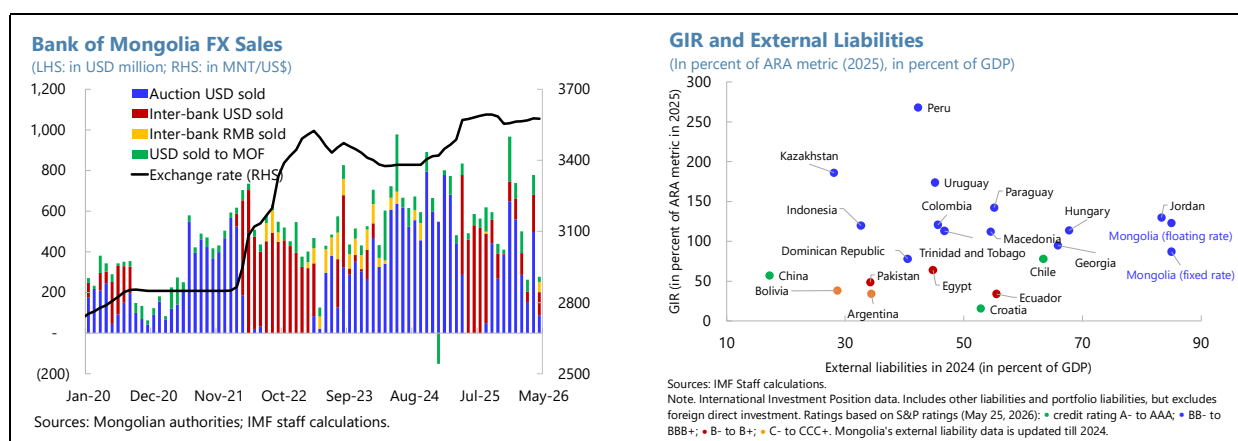
23. The authorities disagreed with staff recommendations on fiscal rule exclusions and tax relief. They expected debt to remain on a more favorable trajectory despite the front-loaded execution of the mega projects. They considered the oil refinery and Erdeneburen Hydropower Plant to be so essential to strengthening energy security and reducing costs that their exclusion from fiscal rules could be justified. Tax relief was critical to cushioning households from rising inflation and supporting businesses. The authorities considered the pension reforms, which aimed at replacing the current pay-as-you-go defined benefit scheme with a funded defined contribution system and introducing a minimum guaranteed pension, critical to ensuring the system's sustainability and providing a poverty-alleviation mechanism for pensioners, while acknowledging that budget costs needed to be assessed carefully.

B. Monetary and Exchange Rate Policies

24. The BOM should maintain tight financial conditions to keep inflation anchored.

Headline inflation remains volatile and is exposed to spikes in food and fuel prices, which have been accentuated by the Middle East conflict. Moreover, the increases in public sector wages and pensions over 2026–27 may trigger broader wage increase for both the public and private sectors, adding to inflationary pressures. The BOM's tightening of reserves requirements and macroprudential measures in early 2026 will help maintain tight domestic financial conditions and assist monetary policy with keeping inflation expectations anchored and bringing inflation gradually toward its lower target range, from 6 ± 2 to 5 ± 2 percent by 2027. If the current food and fuel price shocks elevate risks of unanchored inflation expectations and of second-round effects, the BOM should stand ready to tighten monetary policy further.

25. The BOM should modernize the monetary policy framework to transition toward a more forward-looking policy.⁶ Reforms are needed to strengthen the BOM's operational independence, policy formulation and decision-making, and domestic and foreign exchange operations and communications. A gradual reduction in the BOM's role as an intermediary and structural provider of FX to the market would support more effective price discovery. The BOM should recalibrate its monetary policy instruments by relying less on reserve requirements and more on the policy rate. It should also foster the development of the domestic FX derivatives market.



26. Allowing for greater exchange rate flexibility and pursuing opportunistic accumulation of reserves will strengthen resilience against external shocks. GIR remain inadequate by ARA metrics for fixed exchange rate regime, underscoring the need to prioritize reserve buildup, particularly given higher buffer needs for commodity exporters than suggested by the ARA metric. With the external position assessed to be weaker than fundamentals and a positive

⁶ The BOM has requested IMF's technical assistance, which will evaluate the monetary policy framework and inform recommendations on its modernization.

REER gap, greater exchange rate flexibility will assist in safeguarding external reserve buffers and reducing misalignment.

27. There is a need to strengthen BOM's mandate, autonomy and its governance structure, prohibit quasi-fiscal activities, and establish a framework for BOM recapitalization.

Despite some progress, these reforms, which were prioritized in the recommendations of the 2023 safeguards assessment and reinforced by Fund's 2024 TA, have yet to be fully implemented. Especially important is to strengthen GIR management through a comprehensive reserve management framework aligned with leading practices. Moreover, the amendments to the BOM Act, still under discussion, should be finalized and submitted to Parliament:

- Parliament currently exercises strong influence over the operations of the BOM. The amendments to BOM Act should clarify Parliament's role within monetary policy framework and introduce overarching provisions to safeguard the BOM's functional and institutional autonomy, consistent with Fund's TA. The amendments should also establish a clear hierarchy of BOM's objectives.
- Amendments to the BOM Act should eliminate its power to conduct developmental operations, as well as fully relieve the BOM of quasi-fiscal operations, which have contributed to its significant negative equity, as recommended by Fund's TA. The lending of the Savings Fund (MNT 1.1 trillion, 1.2 percent of GDP) to banks for them to provide subsidized mortgage loans and the commitment of the government to compensate the BOM for the rate differential is a step in the right direction. However, further actions are needed. As a priority, the government should proceed with the stalled takeover of the BOM's subsidized mortgage program. The proposal to establish a mortgage bank to take over the program should follow sound international practices, with any subsidies transparently reflected in the budget. The BOM's decision to refrain from providing banks with long-term financing for petroleum product importers, as allowed by law, is welcome.
- The BOM Act should include a recapitalization clause with an appropriate transitional provision. The Ministry of Finance and BOM need to agree on a memorandum of understanding outlining a gradual recapitalization strategy.
- The BOM's governance structure should be strengthened through the establishment of an internal, independent Board with oversight and policy formulation responsibilities, and by enhancing collegial decision-making for executive management and policy decisions.

Authorities' Views

28. The authorities agreed on the need to maintain a tight monetary policy stance, preserve exchange rate flexibility, and strengthen reserve adequacy. They also agreed that the recent rise in inflation mainly reflects temporary meat and fuel price shocks and stood ready to respond should these shocks risk de-anchoring inflation expectations. The BOM stated that foreign exchange purchases were intended to accumulate reserves rather than target a specific exchange

rate. The authorities also assess that the exchange rate is not overvalued. The BOM highlighted ongoing efforts to strengthen the monetary policy framework through amendments to the Central Bank Law, initially focusing on clarifying price stability as the primary objective, prohibiting quasi-fiscal activities, and strengthening the BOM's balance sheet.

C. Macprudential and Financial Sector Policies

29. Systemic financial risks from rapid credit growth have declined, but vulnerabilities remain, given banks' increased FX funding and declining quality of salary loans. Overall bank profitability has weakened following last year's increase in reserve requirements, although it remains high (Figure 5). The nonperforming loan (NPL) ratio for individual loans has continued its gradual upward trend since 2024Q3, driven mainly by salary-backed loans. The corporate NPL ratio has declined but remains elevated and could worsen under less favorable macroeconomic conditions. The current high level of reserve requirements—by both historical and international standards—and the transfer of exchange rate risk to the BOM through FX swaps have incentivized banks to borrow externally, which increased substantially (185 percent increase since March 2024), raising FX and rollover risks over the medium term. The BOM's inclusion of 25 percent of banks' newly raised non-resident FX borrowing of 360 days to 3 years in the FX reserve requirement base (Order A-113, effective October 2026) is assessed as a pre-emptive capital flow management measure/macprudential measure on inflows under the IMF's Institutional View on the Liberalization and Management of Capital Flows, given its differentiation by counterparty residency. Staff considers it a broadly appropriate, targeted response to systemic risks from banks' external FX liabilities and maturity mismatches. The BOM also increased capital buffer requirements for domestic systemically important banks aimed at enhancing financial sector resilience.

30. High borrower vulnerability from pension-backed loans poses social and potential financial stability risks. At present, pension-backed loans account for about 9 percent of individuals' MNT-denominated loans. On average more than 80 percent of borrowers' income is spent on loan repayments, leaving many with disposable income below the subsistence minimum. The BOM excluded pension-backed loans from the reserve requirement base and reduced the risk weight on pension loans from 150 percent to 100 percent (to align it with other consumer loans). The BOM also allowed banks to extend the maturity of pension loans by allowing a one-time maturity extension (up to 36 months) without triggering reclassification. While this could provide short-term relief by lowering monthly repayments, it does not address underlying structural issues. It could also incentivize banks to expand such lending, leading to higher indebtedness among pensioners. It is therefore important to incorporate pension-backed loans into the DSTI framework and strengthen financial literacy to prevent over-indebtedness. The recently proposed draft Law on Financial Consumer Protection is a welcome step.

31. NBFI lending growth has slowed markedly after regulatory tightening, but risks remain elevated (annex VIII). Mongolia's NBFIs are dominated by fintech lending firms. Their rapid application processing and loan disbursement have contributed to the sector's rapid expansion. Although NBFIs' loan growth has slowed down (22.8 percent y/y), the NPL ratio for NBFI loans rose

significantly in 2026Q1 (8.9 percent, +2.8 percentage points y/y). The number of individuals borrowing from both banks and NBFIs has also increased sharply, heightening spillover risk. Following the introduction of a provision prohibiting NBFIs from obtaining funding from domestic banks, large NBFIs have significantly increased external borrowing, heightening exchange rate risks. The FRC should strengthen data collection for NBFIs, especially for large firms, to address existing data gaps and support more robust surveillance, regulation, and supervision.

32. There is a need to further strengthen the macroprudential framework. This will require clearer institutional separation between macroprudential and monetary policy (formulation and implementation), a broader macroprudential toolkit, enhanced systemic risk monitoring, and stronger coordination across regulatory agencies, supported by the Fund's long-term resident advisor at the BOM.

- The BOM's decision to convene dedicated Monetary Policy Committee (MPC) meetings focused on financial stability and macroprudential issues, along with the establishment of a dedicated Financial Stability Department is welcome. However, the MPC continues to make decisions on macroprudential matters while the BOM Act still includes prudential ratios as monetary policy instruments.
- The BOM should also deploy a broader set of capital- and liquidity-based macroprudential tools, including capital add-ons, the counter-cyclical capital buffer, the liquidity coverage ratio, and the net stable funding ratio. Existing supervisory and reporting tools also need to be strengthened to enhance the effectiveness of DSTI regulations, including by ensuring the timely collection and accurate classification of loan data, and by closing gaps in borrower income information.
- Mongolia lacks an official mechanism to coordinate macroprudential policies across banks and NBFIs, which results in regulatory arbitrage. As a practical solution, the Financial Stability Council (FSC) could be designated as the formal coordination body for macroprudential policies between the BOM and the FRC. The FRC should tighten the DSTI for NBFIs further to align with that of banks and ensure effective enforcement.

33. Progress is ongoing on adopting risk-based supervision and Basel III standards, as well as IFRS9 framework. The BOM should also strengthen its stress testing framework, integrating additional risk factors into the solvency framework, and institutionalizing regular top-down stress-testing exercises.

34. Broad reforms are needed to enhance financial sector stability and efficiency, and improve access to credit for viable entities, including small and medium-sized enterprises.

- The proposed increase in bank shareholder limits, along with allowing international financial institutions to invest in multiple banks, is welcome and would support diversification of shareholders. Furthermore, adopting clear criteria for vetting controlling interests and complex ownership structures would help mitigate risks from connected and related-party lending.

- Amendments to the Credit Information Law and the Insolvency Law are crucial to enabling financial institutions to address NPLs more effectively. Additional reforms should focus on strengthening collateral valuation, contract enforcement, foreclosure procedures, and oversight of loan restructuring to help reduce credit losses and lending costs.
- Bank resolution frameworks should be strengthened. The FSC needs to establish clear crisis management arrangements with effective inter agency coordination. The BOM should issue a resolution manual and develop institution specific resolution plans. A backup credit line between the Deposit Insurance Corporation and the Ministry of Finance should also be established.

Authorities' Views

35. The authorities agreed on the need to strengthen financial sector policies and highlighted reforms under BOM's medium-term strategy. These include amending the Banking Law to reduce ownership concentration, strengthen governance, and facilitate foreign bank entry; enhancing Financial Stability Council coordination across banks and NBFIs; and strengthening risk-based supervision and the debt-resolution framework, including through reforms to the laws on enforcement of court decisions and insolvency.

D. Structural Policies

36. Improving Mongolia's business climate and governance remain critical for achieving strong and sustainable growth. The recently launched Investor Protection Center is welcome, though its effectiveness has yet to be demonstrated. In June 2026, Parliament approved the Economic Freedom Law aimed at streamlining government licensing and permitting requirements, among other things. The revised Foreign Investment Law should be enacted promptly to reduce red tape and enhance the investment climate. Amendments to the Mineral Law, including measures to ease licensing procedures and bring royalties in line with international benchmarks, should be finalized promptly. Strengthening of governance and transparency, as well as anti-corruption framework, in the public sector, including SOEs, is also needed. Legislative priorities include amendments to the SOE Law and the draft Whistleblower Law. Expediting the publication of asset declarations and strengthening contract enforcement and judicial independence are also critical. Ensuring effective implementation of the AML/CFT framework, especially by enhancing transparency of beneficial ownership information, could help prevent illicit financial flows and strengthen tax collections. The authorities are preparing for the 2029 Mutual Evaluation.

37. A shift from a natural resources- and state-dependent model toward a more diversified and private sector-led economy would benefit long-term growth prospects (Annex IX). In the mining sector, diversification includes expanding the range of major mineral production, broadening export markets, and increasing value addition. In parallel, Mongolia could expand its agribusiness production, especially regarding meat, dairy and wool products. Tourism and the Information & Communication Technology sectors also offer Mongolia promising diversification options. Sizeable infrastructure, logistics, institutional and governance weaknesses would need to be addressed.

Authorities' Views

38. The authorities reaffirmed their commitment to structural reforms to improve the business climate, attract FDI, and strengthen governance. They highlighted that recent legislations, including the Law on Business Freedom and the draft Minerals Law, would simplify licensing, reduce bureaucratic barriers, enhance public service delivery, and strengthen the investment climate. They also highlighted efforts to strengthen the AML/CFT ahead of the 2029 Mutual Evaluation, improve debt resolution and creditor recovery, and strengthen market conduct, transparency, and independent dispute resolution through the Financial Consumer Protection Law. They stressed the importance of the Whistleblower Protection Law for anti-corruption efforts, while noting that the draft law requires further deliberation.

STAFF APPRAISAL

39. Despite multiple shocks, Mongolia's economy has remained resilient. In 2025, economic activity benefited from a sharp recovery in agriculture and strong mining activity, notwithstanding declining coal prices. The current account deficit narrowed as surging copper exports and moderating imports more than offset weaker coal exports. Nevertheless, the external position in 2025 is assessed to remain weaker than implied by fundamentals and desirable policy settings. Strong growth continued into early 2026, supported by buoyant mining production, but is projected to moderate owing to base effects. Headline inflation started rising again amid higher food and fuel prices and is expected to remain elevated throughout the year.

40. Vulnerabilities remain elevated, with the balance of risks to the outlook tilted to the downside. Key downside risks stem from a potential deterioration in external financing conditions due to fiscal slippages and higher debt, given political pressures to further reduce non-mining taxes and increase current spending, especially wages and pensions. External risks include heightened geopolitical tensions, including adverse spillovers from the Middle East conflict and Russia's war in Ukraine, as well as uncertainty about prospects for coal exports to China and commodity prices.

41. Fiscal policy should prioritize rebuilding buffers and safeguarding sustainability. The submission of a supplementary budget to Parliament is a priority, to avoid end-year cash shortages as in 2025. The recently approved tax package should be reconsidered given its adverse impact on non-mining revenues. Efforts should instead focus on tax policy and administrative reforms to strengthen them. Higher non-mining revenue, together with greater efficiency in current spending, would create space for much-needed development spending and rebuilding buffers. Public financial management and fiscal transparency need to be strengthened to enhance the credibility of the budget, including through a well-defined MTFF, more realistic budget formulation, and stronger governance of mining funds. Mongolia has benefited from the fiscal rules, and policy measures that undermine their credibility should be avoided, including the selective exclusion of public investment projects. Fiscal measures in response to higher fuel prices should be temporary and well-targeted, while preserving price signals. Reducing reliance on external financing would strengthen fiscal resilience.

42. The BOM should maintain a tight monetary policy stance while standing ready to tighten further if risks of unanchored inflation expectations and significant second-round effects emerge. Strengthening the BOM's operational and legal autonomy, forbidding quasi-fiscal activities, and addressing its weak balance sheet are critical to enhancing its effectiveness and credibility.

43. Higher FX reserves and greater exchange rate flexibility would strengthen Mongolia's resilience to external shocks. While GIR have increased markedly, they remain below adequacy thresholds. The BOM should continue pursuing opportunistic reserve accumulation when market conditions allow. The BOM should also gradually phase out its role as a structural provider of FX to the market and reduce its dominance in providing FX hedging instruments to banks by fostering the development of the domestic FX derivatives market.

44. The macroprudential framework needs further improvement. The BOM should strengthen the institutional separation between macroprudential and monetary policy, expand its macroprudential toolkit, and enhance coordination with the FRC. Incorporating pension-backed loans into the DSTI framework would help prevent excessive indebtedness among pensioners. Continued progress in risk-based supervision, alongside reforms to credit information, insolvency, and resolution frameworks, would further enhance financial sector resilience. The proposed increase in bank shareholder limits, together with allowing international financial institutions to invest in multiple banks, is welcome and could facilitate bank shareholder diversification.

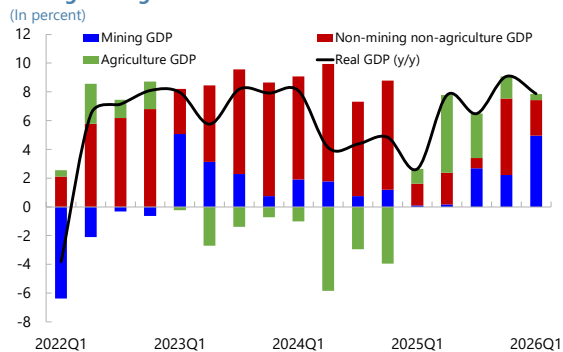
45. Structural reforms remain essential to achieving sustainable and inclusive growth. Priorities include improving the business environment to support investment and attract FDI, strengthening governance and the rule of law, and moving toward a more diversified and private sector-led growth model. The revised Foreign Investment Law, amendments to the SOE Law and the Mineral Law, and the draft Whistleblower Law should be finalized and enacted promptly.

46. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Agriculture Recovery Underpinned Strong Growth in 2025

Strong growth in 2025 was underpinned by a sharp recovery in agriculture and a rebound in mining production in H2.

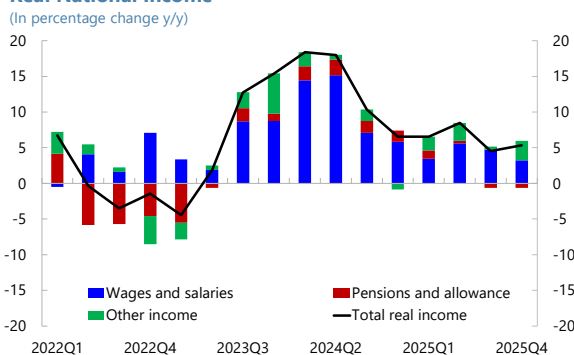
Mining and Agricultural Sectors Contribution to GDP



Sources: Haver Analytics; and IMF Staff calculations.

...despite a moderation in income...

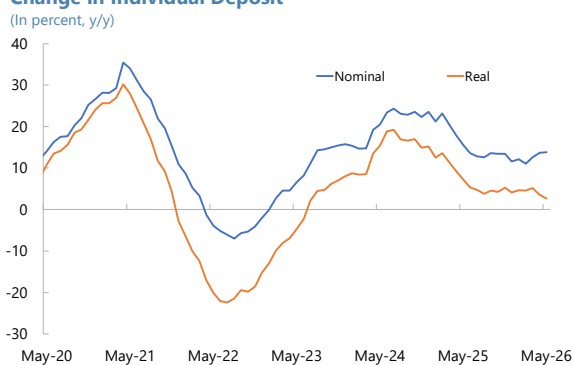
Real National Income



Sources: National Statistics Office; Haver; IMF staff calculations.

...as households deposit growth declined.

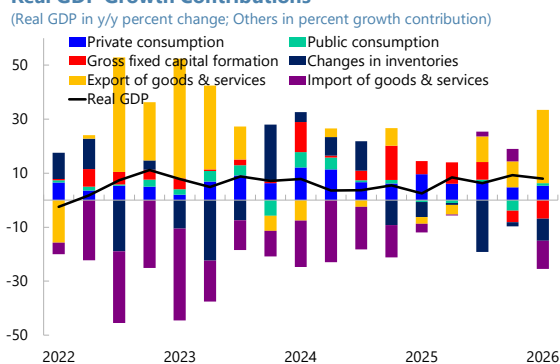
Change in Individual Deposit



Sources: Bank of Mongolia; and IMF staff calculations.

While public spending declined, household spending remained strong...

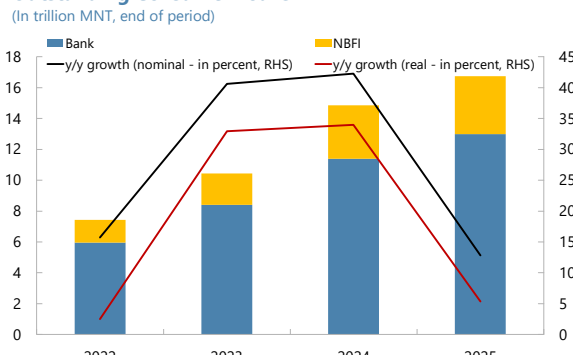
Real GDP Growth Contributions



Sources: Haver Analytics; and IMF Staff calculations.

...and consumer borrowing growth...

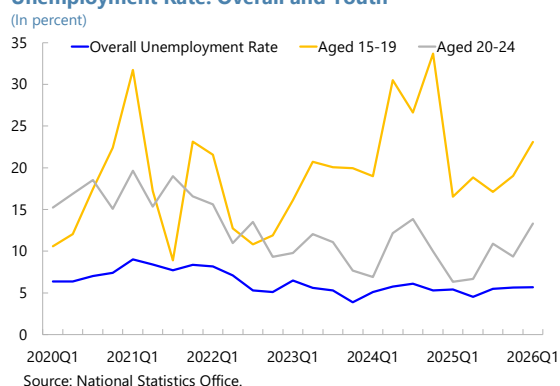
Outstanding Consumer Loans



Sources: Mongolian authorities; Haver Analytics; and IMF Staff calculations.

The unemployment rate is at a historically low level.

Unemployment Rate: Overall and Youth



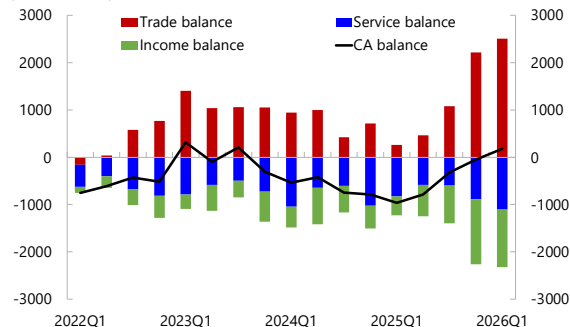
Source: National Statistics Office.

Figure 2. Balance of Payments Improved

The current account deficit moderated in 2025...

Current Account

(In USD million)

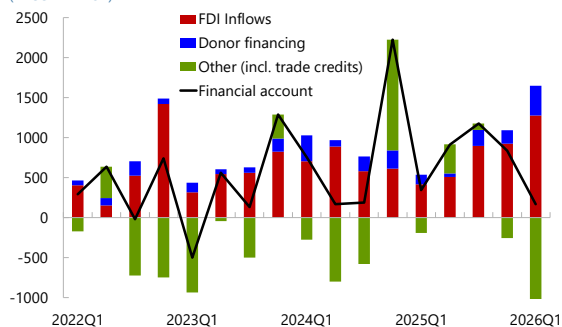


Sources: Haver Analytics; and IMF Staff calculations.

...financial inflows also remained robust...

Financial Account

(In USD million)

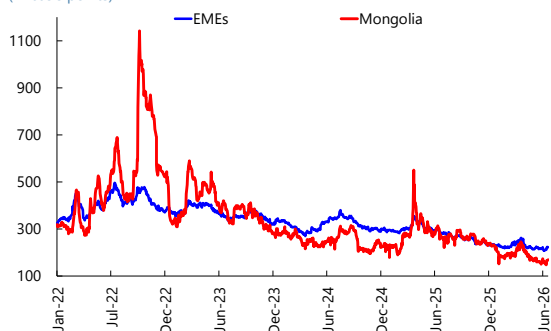


Sources: Haver Analytics; Mongolian authorities; and IMF Staff calculations.

Sovereign spread fell to historically low levels.

EMBI Global Sovereign Spreads

(In basis points)

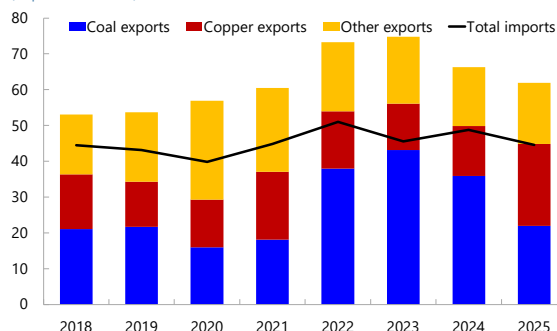


Source: Bloomberg L.P.

...as higher copper exports help offset weaker coal exports and imports moderated...

Total Exports

(In percent of GDP)



Sources: Trade Map and IMF Staff calculations.

....helping raise GIR to record levels.

International Reserves

(In USD million)



Sources: Haver, Mongolian authorities, and IMF staff calculations.

However, BOM's FX swaps with commercial banks increased markedly as a result of higher bank FX borrowings.

Bank of Mongolia's Non-deliverable FX Swaps with Commercial Banks

(In millions of USD)



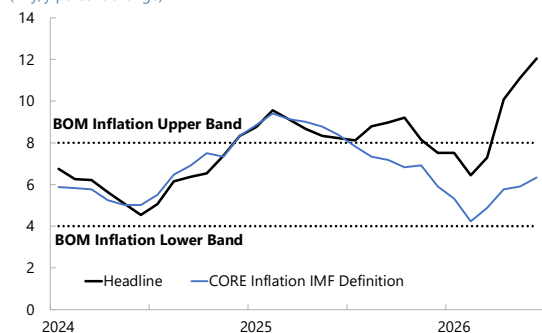
Source: Bank of Mongolia.

Figure 3. Inflation Is on the Rise Again

The Middel East conflict and food price shocks are reversing the decline in inflation.

National Consumer Price Index

(In y/y percent change)

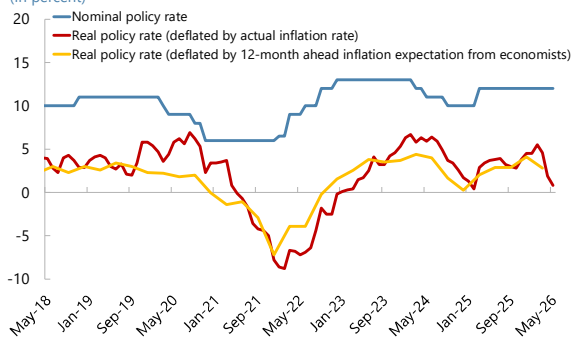


Sources: Haver; IMF Staff Calculations.

...the tightening in monetary conditions maintained during 2025...

Nominal and Real Policy Rate

(In percent)

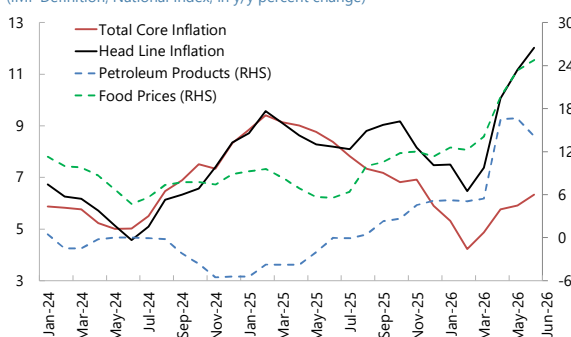


Sources: Haver Analytics; Mongolian authorities and IMF Staff calculations.

The recent increase mostly reflects higher petroleum and meat prices...

Petroleum and Food Products Inflation 2023=100

(IMF Definition, National Index, in y/y percent change)

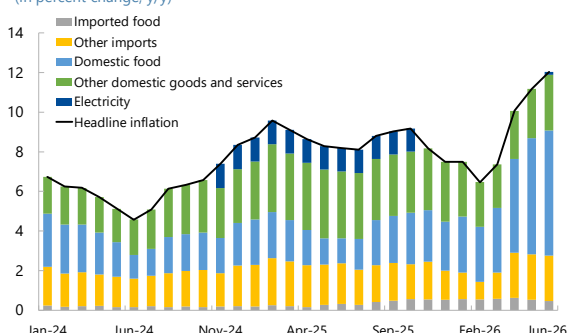


Sources: Mongolian Authorities and IMF Staff Estimates.

The decline mostly reflected domestic factors, including the phasing out of the increase in electricity tariffs of late 2024...

Consumer Price Index National, 2023=100

(In percent change, y/y)

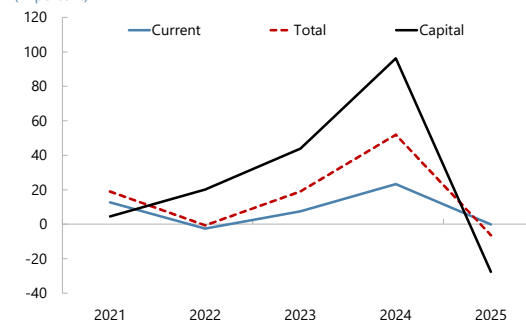


Sources: National Statistics Office, Mongolia.

...and large reductions in primary spending in real terms under the 2025 supplementary budget.

Growth of Real Primary Expenditure

(In percent)

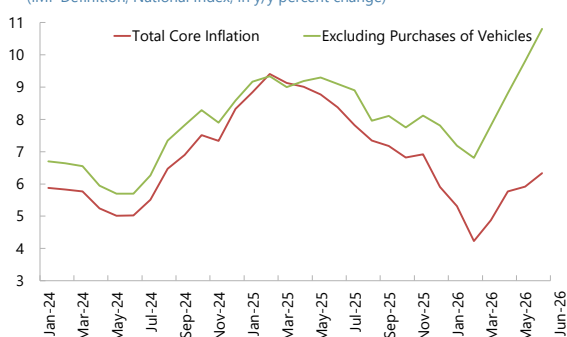


Sources: Mongolian authorities; IMF staff calculations.

...with core inflation being very sensitive to regulations of UB City regarding registration for used cars.

Core Inflation 2023=100

(IMF Definition, National Index, in y/y percent change)



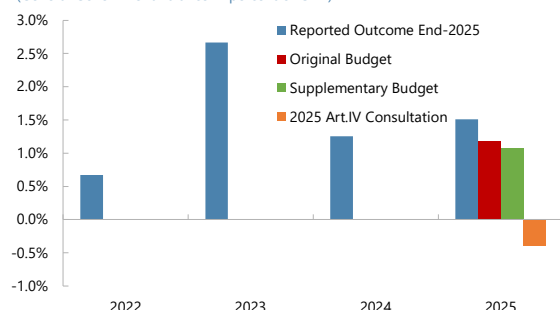
Sources: Mongolian Authorities and IMF Staff Estimates.

Figure 4. Fiscal Budget Faced a Major Revenue Shortfall

In 2025 fiscal balance improved significantly, beyond the budget and staff's projections...

Fiscal Deficit

(General Government Balance in percent of GDP)

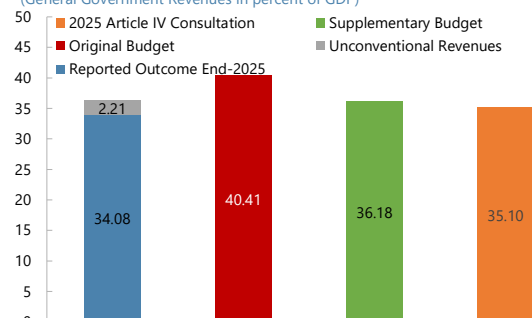


Sources: Mongolian authorities; IMF staff calculations.

...and the resort a large mobilization of mining revenues through unconventional and one-off measures.

Total Revenues in 2025

(General Government Revenues in percent of GDP)

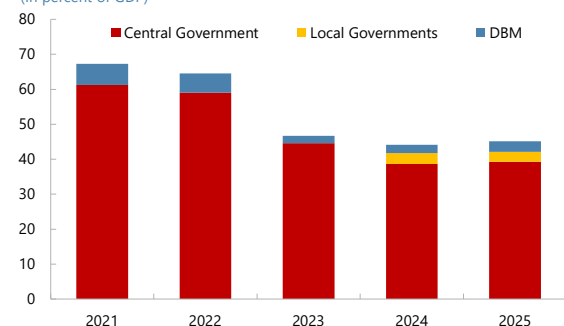


Sources: Mongolian authorities; IMF staff calculations.

General government debt continued to improve, despite debt increasing by local governments and DBM...

Total Public Debt: General Government + DBM

(In percent of GDP)

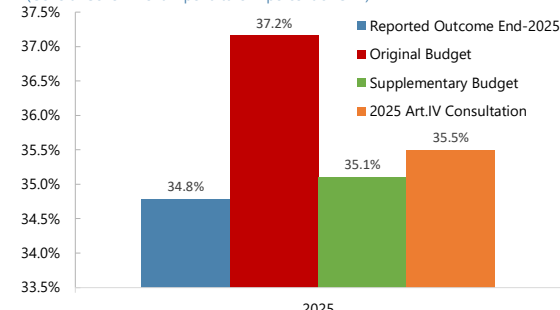


Sources: Mongolian authorities; IMF staff calculations.

...reflecting the significant contraction in expenditures implemented via the July 2025 supplementary budget...

Total Expenditure in 2025

(General Government Expenditure in percent of GDP)

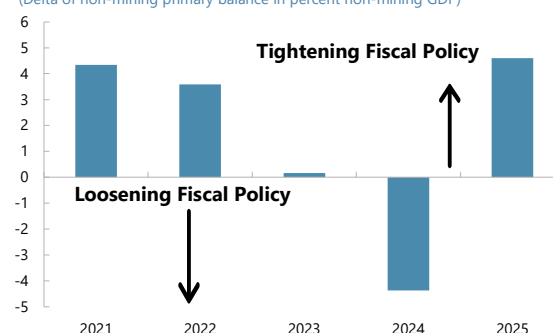


Sources: Mongolian authorities; IMF staff calculations.

When mining revenues are excluded, fiscal policy in 2025 is assessed as significantly tight.

Fiscal Impulse

(Delta of non-mining primary balance in percent non-mining GDP)

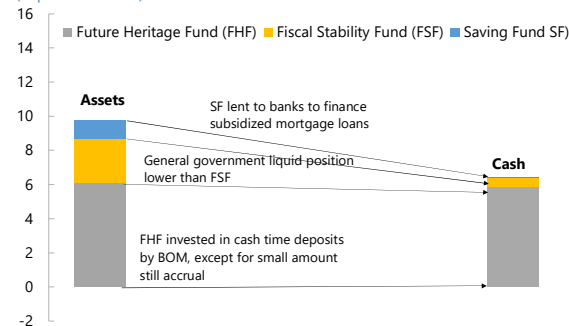


Sources: Mongolian authorities; and IMF staff calculations.

...and cash position of mining funds eroded, as they were used to support social policies and liquidity shortages.

Mongolia: Sovereign Mining-Related Funds Stock in 2025

(In percent of GDP)



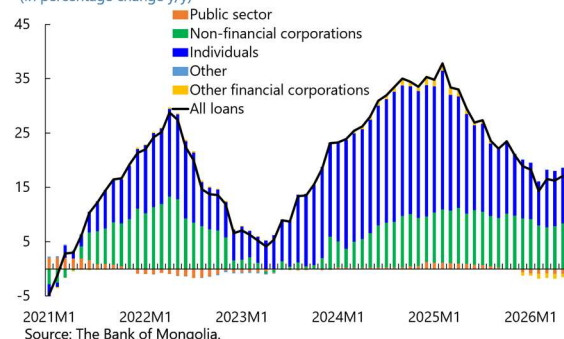
Sources: Mongolian authorities; IMF staff calculations.

Figure 5. Slowing Credit Growth and Deteriorating Salary Loan Quality

Lending to individuals has slowed, while lending to corporate remains robust.

Credit Growth by Holders

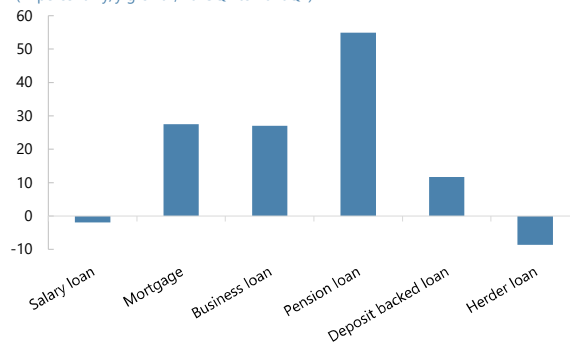
(In percentage change y/y)



Growth in salary loans has stalled.

Outstanding Loan to Individuals by Type

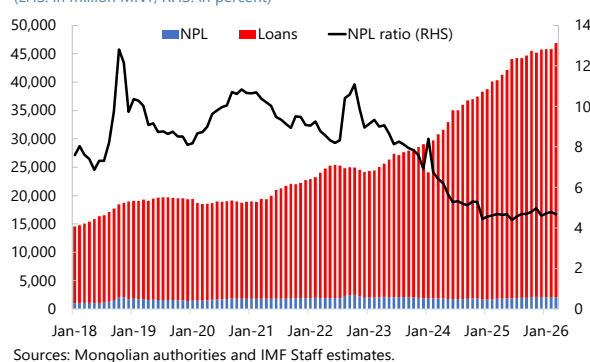
(In percent - y/y growth, 2025Q1 to 2026Q1)



The overall NPL ratio remains at a low level.

Banking Sector NPL Ratio

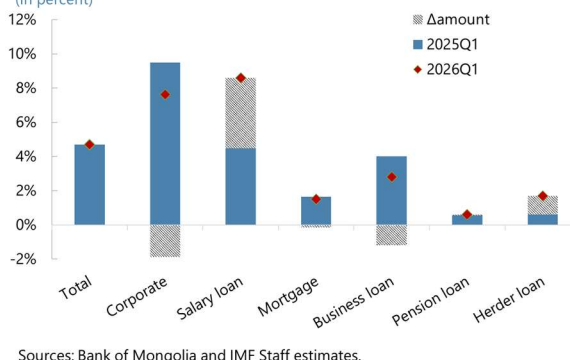
(LHS: in million MNT; RHS: in percent)



Divergent Trends in NPLs: A Surge in Salary Loans.

NPL ratio of Loans by Type

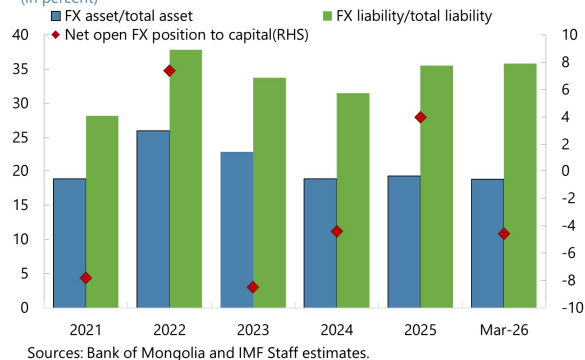
(In percent)



Despite sizable FX liabilities, net open positions remain limited.

FX Exposure in Banking Sector

(In percent)



Capital is stable, and high profitability is maintained.

Bank Capital and Profitability

(In percent)

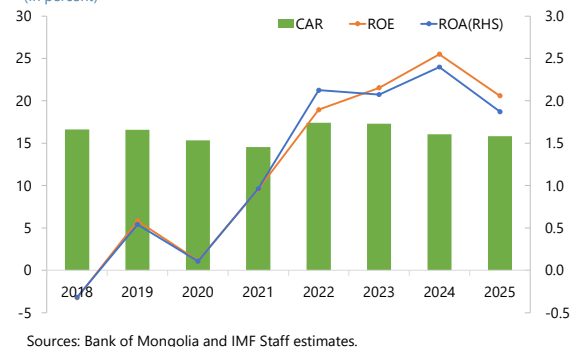
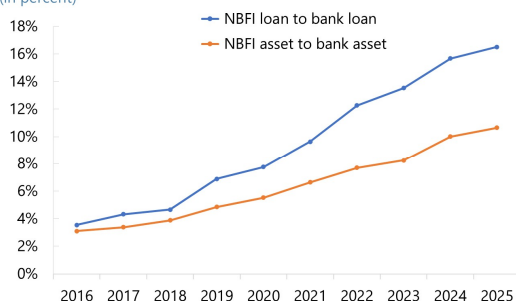


Figure 6. Slower Growth, but Rising Systemic Importance of NBFIs

The presence of NBFIs continues to grow.

NBFIs' Assets and Loans Relative to Banks

(in percent)

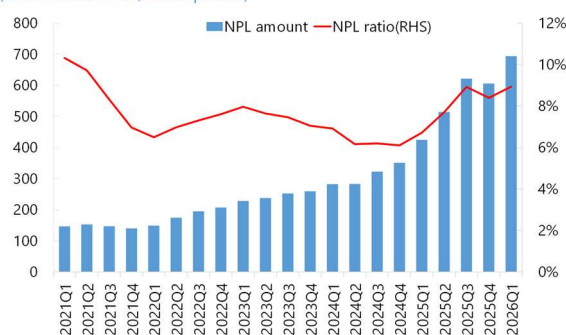


Source: Regulatory Authorities and IMF staff estimates.

The NPL ratio is rising.

NBFIs NPLs

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

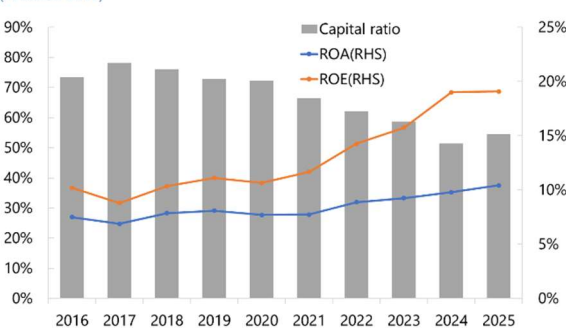


Source: Regulatory Authorities and IMF staff estimates.

Leverage has risen, but capital and profitability remain high.

NBFIs Capital and Profitability

(In Billion MNT)

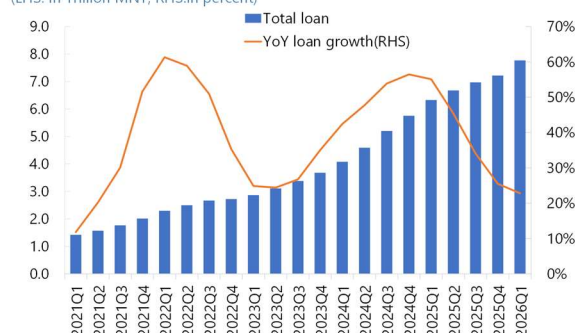


Source: Regulatory Authorities and IMF staff estimates.

NBFI credit growth has decelerated.

NBFIs Total Loans

(LHS: In Trillion MNT; RHS: in percent)

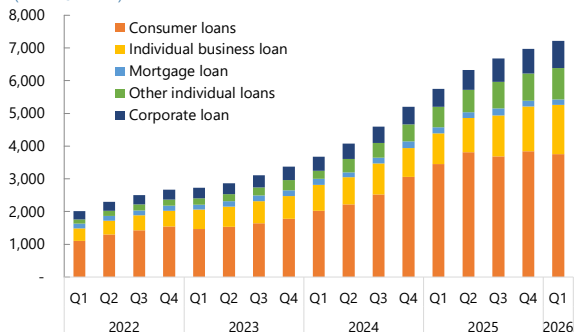


Source: Regulatory Authorities and IMF staff estimates.

Consumer lending has stalled, while individual business loans support growth.

NBFIs Loans by Category

(In Billion MNT)

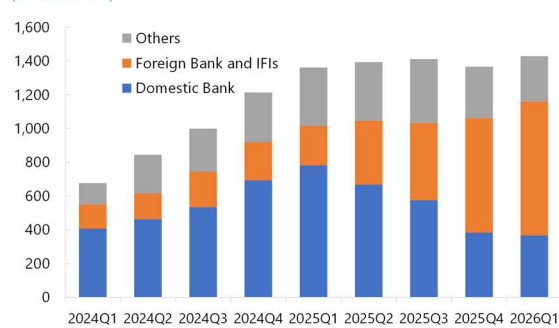


Source: Regulatory Authorities and IMF staff estimates.

Foreign borrowing surged following restriction on domestic banks.

NBFIs Borrowing Source

(In Billion MNT)



Source: Regulatory Authorities and IMF staff estimates.

Table 1. Mongolia: Selected Economic and Financial Indicators, 2023–31

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Actual			Projections					
	(In percent of GDP, unless otherwise indicated)								
National Accounts									
Real GDP growth (percent change)	7.4	5.1	6.8	5.8	5.6	5.6	5.1	5.0	5.0
Nominal GDP (in USD million)	20,315	23,795	25,370	...	...	...	...	...	...
Contributions to Real GDP (ppts)									
Domestic Demand	5.6	21.2	1.8	10.4	8.5	8.2	7.2	7.4	7.3
Exports of G&S	17.9	0.5	4.0	2.1	4.2	2.1	1.6	2.5	2.7
Imports of G&S	-16.2	-16.6	1.1	-6.7	-7.1	-4.7	-3.8	-4.9	-5.0
Consumption	57.5	64.9	66.1	59.7	61.1	60.8	62.6	63.0	64.6
Private	44.5	49.4	51.5	45.7	45.9	45.7	47.5	47.8	49.3
Public	13.0	15.5	14.6	14.0	15.2	15.1	15.2	15.2	15.3
Gross Capital Formation	33.9	35.5	31.4	29.5	28.7	30.5	29.9	30.3	29.3
Gross Fixed Capital Formation	25.3	27.2	28.0	29.1	27.0	26.7	24.9	24.3	23.3
Public	7.4	9.8	7.9	8.4	7.7	8.1	7.0	7.0	6.8
Private (including SOEs)	18.0	17.3	20.1	20.6	19.2	18.6	17.8	17.3	16.6
Gross national saving	34.5	25.1	23.1	25.0	24.2	25.2	24.0	23.7	22.4
Prices									
Consumer Prices (Avg; percent change)	10.4	6.2	8.6	8.8	9.5	8.3	7.2	6.8	6.7
Consumer Prices (EoP; percent change)	7.7	8.3	7.5	10.0	9.0	7.5	6.9	6.7	6.6
Copper prices (US\$ per ton)	8,491	9,142	9,947	13,527	13,889	13,837	13,805	13,801	13,814
Bituminous coal prices (US\$ per ton)	131.4	107.3	66.5	73.4	79.2	76.3	76.3	76.4	76.4
GDP deflator (percent change)	21.8	8.9	4.4	14.3	9.5	8.0	7.3	6.8	6.5
General government accounts									
Primary balance (IMF definition)	4.3	2.7	3.2	-0.3	-3.0	-4.2	-3.2	-3.0	-2.8
Total revenue and grants	34.6	38.9	36.3	31.8	30.3	29.1	28.8	28.8	28.7
Primary expenditure and net lending	30.3	36.2	33.1	32.2	33.3	33.3	32.0	31.8	31.5
Interest	1.6	1.5	1.7	1.9	2.2	2.4	2.7	3.0	3.3
Overall balance (IMF definition)	2.7	1.3	1.5	-2.2	-5.2	-6.6	-5.9	-5.9	-6.1
Non-mining primary balance (in percent of GDP)	-5.7	-8.8	-5.6	-8.2	-10.6	-11.4	-10.1	-9.6	-9.2
Gross financing needs	9.0	4.7	3.0	5.1	9.5	13.3	13.1	14.1	16.5
General government debt 1/	46.7	44.1	45.1	47.0	50.5	55.9	59.1	61.3	63.7
Domestic	3.3	3.1	3.2	4.9	6.3	7.8	8.8	9.3	10.8
External	43.4	41.0	41.9	42.1	44.3	48.1	50.2	52.0	52.8
Monetary sector									
Broad money growth (percent change)	24.2	15.5	10.6	20.3	17.5	14.1	12.7	12.4	12.1
Reserve money growth (percent change)	7.4	51.9	39.5	20.3	17.5	14.1	12.7	12.4	12.1
Credit growth (percent change)	22.0	30.3	19.8	17.0	16.5	15.1	13.7	13.1	12.8
Balance of payments									
Current account balance	0.6	-10.4	-8.4	-4.5	-4.5	-5.3	-5.9	-6.6	-7.0
Exports of goods	68.5	62.0	60.5	67.3	65.3	61.7	58.9	56.7	54.8
Imports of goods	46.1	49.0	44.7	46.6	44.5	44.0	42.3	41.8	40.9
Gross official reserves (in USD million)	4,922	5,510	7,005	7,234	7,230	7,234	7,254	7,264	7,285
(In months of imports)	3.6	4.1	4.4	4.3	4.2	4.0	3.9	3.7	3.6
(net of bank's FX deposits held at the BOM)	3,491	4,233	5,094	...	...	...	...	...	...
Net international reserves (NIR) 2/	1,152	1,768	2,517	...	...	...	...	...	...
Exchange rate									
Togrog per U.S. dollar (eop)	3,411	3,420	3,557	...	...	...	...	...	...

Sources: Mongolian authorities; and IMF staff projections.

1/ Includes DBM's total debt, explicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

2/ 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 2a. Mongolia: Balance of Payments, 2023–31
(In Millions of US Dollars)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Projections			Projections					
(In millions of U.S. dollars, unless otherwise indicated)									
Current account balance (including official grants)	121	-2,485	-2,120	-1,331	-1,434	-1,826	-2,176	-2,606	-2,960
Trade balance	4,549	3,081	4,012	6,132	6,669	6,100	6,146	5,914	5,895
Exports	13,914	14,750	15,346	19,904	20,900	21,246	21,767	22,460	23,242
Mining exports	12,710	13,694	14,227	18,208	19,101	19,352	19,774	20,361	21,031
Non-mining exports	1,204	1,056	1,118	1,696	1,799	1,895	1,993	2,099	2,211
Imports	-9,366	-11,668	-11,333	-13,772	-14,231	-15,146	-15,621	-16,546	-17,347
Services, net	-2,592	-3,317	-2,890	-3,251	-3,723	-3,463	-3,730	-3,645	-3,717
Income, net	-2,233	-2,671	-3,555	-4,595	-4,782	-4,884	-5,032	-5,340	-5,634
Current transfers	398	421	357	383	401	420	439	464	496
General government	279	329	282	329	356	383	411	440	471
Other sectors	119	93	75	55	46	38	28	24	25
<i>Of which: Workers remittances</i>	67	36	35	13	3	-6	-17	-22	-23
Capital and financial account	1,032	2,748	2,960	467	76	708	1,780	2,432	2,895
Capital account	135	171	121	109	118	127	136	146	156
Financial account	897	2,576	2,839	359	-42	581	1,644	2,287	2,739
Direct investment	2,172	2,727	2,740	3,569	3,473	3,524	3,406	3,355	3,320
Portfolio investment	-818	1,105	824	1,179	199	753	1,627	1,850	2,068
Trade credits, net	-54	-70	42	-27	-18	-1	-16	-12	-10
Currency and deposits, net	-354	-1,075	-877	-1,906	-2,319	-2,851	-2,737	-2,135	-2,459
Loans, net	-50	-123	117	-2,449	-1,369	-836	-630	-764	-174
Other, net	2	13	-7	-7	-7	-7	-7	-7	-7
Errors and omissions	-276	-393	-238	0	0	0	0	0	0
Overall balance	878	-131	602	-864	-1,357	-1,118	-397	-173	-65
Change in reserves	1,457	622	1,034	228	-3	3	20	11	21
Fund credit	-59	-82	-60	-36	-33	-11	0	0	0
Donor support	579	753	432	1,128	1,387	1,133	417	184	86
<i>Of which: ADB</i>	204	280	72	418	555	279	295	98	86
<i>Of which: WB</i>	44	37	31	34	165	104	19	19	0
Memorandum items:									
Current account balance (in percent of GDP)	0.6	-10.4	-8.4	-4.5	-4.5	-5.3	-5.9	-6.6	-7.0
Gross official reserves (end-period)	4,922	5,510	7,005	7,234	7,230	7,234	7,254	7,264	7,285
(In months of next year's imports of G&S)	3.6	4.1	4.4	4.3	4.2	4.0	3.9	3.7	3.6
(net of bank's FX deposits at the BOM)	3,491	4,233	5,094	...	...	...	...	...	...
Net international reserves (NIR) 1/	1,152	1,768	2,517	...	...	...	...	...	...
Terms of trade (index, percent change)	-3.1	-6.0	-6.0	17.6	2.0	-0.4	-1.7	-1.1	-1.2
External debt (in percent of GDP)	170	156	159	145	144	144	143	141	139
Net IIP (in percent of GDP)	-205	-184	-182	-161	-156	-148	-143	-140	-137

Sources: Mongolian authorities; and IMF staff projections.

1/ 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 2b. Mongolia: Balance of Payments, 2023–31
(In Percent of GDP)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Actual			Projections					
	(In percent of GDP, unless otherwise indicated)								
Current account balance (including official grants)	0.6	-10.4	-8.4	-4.5	-4.5	-5.3	-5.9	-6.6	-7.0
Trade balance	22.4	13.0	15.8	20.7	20.8	17.7	16.6	14.9	13.9
Exports	68.5	62.0	60.5	67.3	65.3	61.7	58.9	56.7	54.8
Mining exports	62.6	57.6	56.1	61.6	59.7	56.2	53.5	51.4	49.6
Non-mining exports	5.9	4.4	4.4	5.7	5.6	5.5	5.4	5.3	5.2
Imports	-46.1	-49.0	-44.7	-46.6	-44.5	-44.0	-42.3	-41.8	-40.9
Services, net	-12.8	-13.9	-11.4	-11.0	-11.6	-10.1	-10.1	-9.2	-8.8
Income, net	-11.0	-11.2	-14.0	-15.5	-14.9	-14.2	-13.6	-13.5	-13.3
Current transfers	1.6	1.6	1.3	1.3	1.2	1.2	1.2	1.2	1.2
General government	1.4	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other sectors	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Of which: Workers remittances	0.3	0.2	0.1	0.0	0.0	0.0	0.0	-0.1	-0.1
Capital and financial account	5.1	11.5	11.7	1.6	0.2	2.1	4.8	6.1	6.8
Capital account	0.7	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Financial account	4.4	10.8	11.2	1.2	-0.1	1.7	4.4	5.8	6.5
Direct investment	10.7	11.5	10.8	12.1	10.9	10.2	9.2	8.5	7.8
Portfolio investment	-4.0	4.6	3.2	4.0	0.6	2.2	4.4	4.7	4.9
Trade credits, net	-0.3	-0.3	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Currency and deposits, net	-1.7	-4.5	-3.5	-6.4	-7.2	-8.3	-7.4	-5.4	-5.8
Loans, net	-0.2	-0.5	0.5	-8.3	-4.3	-2.4	-1.7	-1.9	-0.4
Other, net	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.4	-1.7	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.3	-0.6	2.4	-2.9	-4.2	-3.2	-1.1	-0.4	-0.2
Change in reserves	7.2	2.6	4.1	0.8	0.0	0.0	0.1	0.0	0.0
Fund credit	-0.3	-0.3	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Donor BoP support	2.9	3.2	1.7	3.8	4.3	3.3	1.1	0.5	0.2
Of which: ADB	1.0	1.2	0.3	1.4	1.7	0.8	0.8	0.2	0.2
Of which: WB	0.2	0.2	0.1	0.1	0.5	0.3	0.1	0.0	0.0
Memorandum items:									
Current account balance (in percent of GDP)	0.6	-10.4	-8.4	-4.5	-4.5	-5.3	-5.9	-6.6	-7.0
Gross official reserves (end-period)	4,922	5,510	7,005	7,234	7,230	7,234	7,254	7,264	7,285
(In months of next year's imports of G&S)	3.6	4.1	4.4	4.3	4.2	4.0	3.9	3.7	3.6
(net of bank's FX deposits held at the BOM)	3,491	4,233	5,094	...	...	...	...	...	...
Net international reserves (NIR) 1/	1,152	1,768	2,517	...	...	...	...	...	...
Terms of trade (index, percent change)	-3.1	-6.0	-6.0	17.6	2.0	-0.4	-1.7	-1.1	-1.2
External debt (in percent of GDP)	170	156	159	145	144	144	143	141	139
Net IIP (in percent of GDP)	-205	-184	-182	-161	-156	-148	-143	-140	-137
Sources: Mongolian authorities; and IMF staff projections.									
1/ 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 3. Mongolia: Monetary Aggregates, 2023–31
(In Billions of Togrogs)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Actual			Projections					
	(In billions of togrog, end of period)								
Reserve Money	7,227	10,980	15,313	18,423	21,647	24,692	27,833	31,295	35,096
Broad money	36,832	42,551	47,077	56,636	66,548	75,910	85,567	96,210	107,893
Currency	906	978	999	1,699	1,996	2,277	2,567	2,886	3,237
Deposits	35,926	41,573	46,078	54,937	64,551	73,633	83,000	93,324	104,656
Net foreign assets	8,452	8,327	8,415	9,370	9,435	9,226	8,482	7,787	6,918
BOM	10,633	15,096	20,989	24,341	26,123	28,031	29,810	31,580	34,585
Other Depository Corporations	-2,181	-6,769	-12,574	-14,970	-16,689	-18,805	-21,328	-23,793	-27,668
Net domestic assets	28,380	34,224	38,661	47,265	57,113	66,685	77,084	88,423	100,975
Net Domestic credit	29,106	35,343	43,291	50,894	60,966	70,775	81,403	92,980	105,784
Net claims on government	-4,323	-7,099	-7,329	-6,910	-6,356	-6,691	-6,691	-6,691	-6,691
BOM	-3,335	-5,711	-5,363	-5,674	-5,992	-6,328	-6,328	-6,328	-6,328
Other Depository Corporations	-987	-1,388	-1,967	-1,236	-364	-364	-364	-364	-364
Net claims on private sector	27,108	36,005	43,453	50,843	59,215	68,138	77,487	87,670	98,931
Net claims on other financial corporation	5,151	5,116	5,949	6,961	8,107	9,328	10,608	12,002	13,544
Other items, net	443	202	-3,411	-3,629	-3,852	-4,090	-4,319	-4,557	-4,809
Memorandum items:									
Annual broad money growth	24.2	15.5	10.6	20.3	17.5	14.1	12.7	12.4	12.1
Velocity of Broad Money	1.91	1.90	1.91	1.92	1.89	1.9	1.9	1.9	1.9
Credit outstanding (Domestic credit+MBS) (In MNT bn) 1/	32,014	41,710	49,956	58,452	68,076	78,335	89,083	100,790	113,737
Credit to GDP ratio	45.4	51.7	55.5	53.8	54.1	54.6	55.1	55.6	56.1
Credit growth (percent)	22.0	30.3	19.8	17.0	16.5	15.1	13.7	13.1	12.8

Sources: Mongolian authorities; and IMF staff projections.

1/ Includes mortgage-backed securities.

Table 4a. Mongolia: Summary Operations of the General Government, 2023–31 1/
(In Billions of Togrogs)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Actual			Projections					
Total revenue and grants	24,387	31,375	32,646	34,633	38,126	41,744	46,562	52,299	58,248
Current revenue	24,028	30,933	32,296	34,276	37,713	41,273	46,031	51,704	57,582
Tax revenue and social security contributions	22,160	28,662	29,220	31,952	35,043	38,228	42,598	47,855	53,277
Income taxes	5,795	9,125	8,658	9,734	10,256	10,324	11,492	12,772	14,112
CIT	3,975	6,560	5,784	6,348	7,287	7,896	8,756	9,704	10,680
PIT	1,820	2,565	2,875	3,385	2,970	2,427	2,736	3,068	3,432
Social security contributions	3,951	4,700	5,624	6,447	7,457	8,506	9,588	10,753	12,026
VAT	4,777	5,864	6,224	6,673	7,256	8,283	9,367	10,790	12,088
Excise taxes	790	1,098	955	921	1,065	1,215	1,370	1,536	1,718
Customs duties and export taxes	1,465	1,792	1,849	2,133	2,330	2,660	2,925	3,468	4,057
Other taxes	5,382	6,083	5,909	6,045	6,678	7,239	7,856	8,534	9,276
Non-tax revenue	1,868	2,270	3,076	2,324	2,670	3,045	3,433	3,849	4,305
Capital revenue and grants	359	442	350	357	413	471	531	595	666
Total expenditure and net lending	22,509	30,365	31,289	37,051	44,659	51,253	56,164	63,074	70,530
Current expenditure	17,091	22,067	24,186	27,852	34,902	39,601	44,761	50,317	56,805
Wages and salaries	4,465	6,341	7,306	9,784	12,699	14,128	15,925	17,859	19,974
Purchase of goods and services	3,160	4,609	4,503	4,400	5,008	5,573	6,218	6,906	7,661
Subsidies	580	955	799	738	758	867	957	1,050	1,151
Transfers 2/ 3/	7,737	8,967	10,021	10,848	13,670	15,542	17,303	19,096	21,357
o/w Pension	3,729	4,741	4,929	6,406	8,759	10,149	11,420	12,692	14,179
o/w Child Money	1,534	1,541	1,550	1,574	1,594	1,608	1,617	1,621	1,800
Interest payments	1,150	1,195	1,557	2,081	2,768	3,491	4,359	5,405	6,662
Capital expenditure and net lending	5,418	8,299	7,103	9,198	9,757	11,652	11,403	12,756	13,725
Capital expenditure	5,188	7,924	7,090	9,184	9,740	11,633	11,382	12,733	13,699
Domestically-financed	4,140	4,140	5,558	6,362	7,506	9,077	9,788	11,052	12,444
Foreign-financed	1,048	3,784	1,532	2,823	2,234	2,557	1,593	1,680	1,255
of which megaprojects	...	...	...	1,960	1,156	2,841	224	234	...
Net lending	229	374	12	14	16	19	21	24	26
Overall balance (IMF definition)	1,878	1,009	1,357	-2,418	-6,533	-9,508	-9,602	-10,774	-12,282
Primary balance (IMF definition)	3,028	2,204	2,914	-337	-3,765	-6,017	-5,243	-5,369	-5,620
Financing	-1,881	-510	-907	2,418	6,533	9,508	9,602	10,774	12,507
External	1,132	1,592	493	5,684	6,517	8,191	8,718	9,168	10,759
Disbursement	5,450	3,735	3,144	7,298	9,192	10,284	13,630	15,124	18,797
Amortization	-4,318	-2,143	-2,651	-1,614	-2,676	-2,093	-4,912	-5,956	-8,038
Domestic (net)	-3,013	-2,102	-1,400	-3,267	16	1,317	884	1,606	1,748
Government bonds (net issuance)	-801	363	483	2,436	2,907	3,292	3,085	2,687	2,840
Other 4/	-2,211	-2,465	-1,883	-5,703	-2,891	-1,975	-2,200	-1,081	-1,092
Memorandum items:									
Mining revenue (in percent of GDP)	10.0	11.7	9.0	7.9	7.6	7.2	6.9	6.6	6.4
Non-mining revenue (in percent of GDP)	24.6	27.2	27.3	24.0	22.7	21.9	21.9	22.2	22.3
Non-mining primary balance (in percent of GDP)	-5.7	-8.8	-5.6	-8.2	-10.6	-11.4	-10.1	-9.6	-9.2
Non-mining overall balance (in percent of GDP)	-7.3	-10.3	-7.3	-10.1	-12.8	-13.8	-12.8	-12.6	-12.5
Primary spending (change in percent)	23.0	36.6	1.9	17.6	19.8	14.0	8.5	11.3	10.8
Future Heritage Fund (in percent of GDP)	4.6	4.4	5.8	6.9	7.4	7.5	7.4	7.1	6.8
Public debt (in percent of GDP) 5/	46.7	44.1	45.1	47.0	50.5	55.9	59.1	61.3	63.7
Domestic debt (in percent of GDP)	3.3	3.1	3.2	4.9	6.3	7.8	8.8	9.3	10.8
External debt (in percent of GDP)	43.4	41.0	41.9	42.1	44.3	48.1	50.2	52.0	52.8

Sources: Mongolian authorities; and Fund staff projections.

1/ Projections include the latest version of the tax package currently under discussion at Parliament with impact in 2027–2028.

2/ Pension forecasts are based on the preliminary World Bank PROST estimates as of September 2024 plus additional pension-related spending estimated in the 2026 approved budget.

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

4/ It includes Future Heritage Fund, Stability Fund, Saving Fund, and TSA.

5/ Includes DBM's total debt, explicit and implicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

Table 4b. Mongolia: Summary Operations of the General Government, 2023–31 1/
(In Percent of GDP)

	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Actual			Projections					
Total revenue and grants	34.6	38.9	36.3	31.8	30.3	29.1	28.8	28.8	28.7
Current revenue	34.1	38.3	35.9	31.5	30.0	28.8	28.5	28.5	28.4
Tax revenue and social security contributions	31.5	35.5	32.5	29.4	27.9	26.6	26.3	26.4	26.3
Income taxes	8.2	11.3	9.6	9.0	8.2	7.2	7.1	7.0	7.0
CIT	5.6	8.1	6.4	5.8	5.8	5.5	5.4	5.4	5.3
PIT	2.6	3.2	3.2	3.1	2.4	1.7	1.7	1.7	1.7
Social security contributions	5.6	5.8	6.3	5.9	5.9	5.9	5.9	5.9	5.9
VAT	6.8	7.3	6.9	6.1	5.8	5.8	5.8	5.9	6.0
Excise taxes	1.1	1.4	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Customs duties and export taxes	2.1	2.2	2.1	2.0	1.9	1.9	1.8	1.9	2.0
Other taxes	7.6	7.5	6.6	5.6	5.3	5.0	4.9	4.7	4.6
Non-tax revenue	2.7	2.8	3.4	2.1	2.1	2.1	2.1	2.1	2.1
Capital revenue and grants	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure and net lending	32.0	37.6	34.8	34.1	35.5	35.7	34.7	34.8	34.8
Current expenditure	24.3	27.4	26.9	25.6	27.7	27.6	27.7	27.7	28.0
Wages and salaries	6.3	7.9	8.1	9.0	10.1	9.8	9.8	9.8	9.8
Purchase of goods and services	4.5	5.7	5.0	4.0	4.0	3.9	3.8	3.8	3.8
Subsidies	0.8	1.2	0.9	0.7	0.6	0.6	0.6	0.6	0.6
Transfers 2/ 3/	11.0	11.1	11.1	10.0	10.9	10.8	10.7	10.5	10.5
o/w Pension	5.3	5.9	5.5	5.9	7.0	7.1	7.1	7.0	7.0
o/w Child Money	2.2	1.9	1.7	1.4	1.3	1.1	1.0	0.9	0.9
Interest payments	1.6	1.5	1.7	1.9	2.2	2.4	2.7	3.0	3.3
Capital expenditure and net lending	7.7	10.3	7.9	8.5	7.8	8.1	7.1	7.0	6.8
Capital expenditure	7.4	9.8	7.9	8.4	7.7	8.1	7.0	7.0	6.8
Domestically-financed	5.9	5.1	6.2	5.9	6.0	6.3	6.1	6.1	6.1
Foreign-financed	1.5	4.7	1.7	2.6	1.8	1.8	1.0	0.9	0.6
of which megaprojects	...	...	...	1.8	0.9	2.0	0.1	0.1	...
Net lending	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (IMF definition)	2.7	1.3	1.5	-2.2	-5.2	-6.6	-5.9	-5.9	-6.1
Primary balance (IMF definition)	4.3	2.7	3.2	-0.3	-3.0	-4.2	-3.2	-3.0	-2.8
Financing	-2.7	-0.6	-1.0	2.2	5.2	6.6	5.9	5.9	6.2
External	1.6	2.0	0.5	5.2	5.2	5.7	5.4	5.1	5.3
Disbursement	7.7	4.6	3.5	6.7	7.3	7.2	8.4	8.3	9.3
Amortization	-6.1	-2.7	-2.9	-1.5	-2.1	-1.5	-3.0	-3.3	-4.0
Domestic (net)	-4.3	-2.6	-1.6	-3.0	0.0	0.9	0.5	0.9	0.9
Government bonds (net issuance)	-1.1	0.4	0.5	2.2	2.3	2.3	1.9	1.5	1.4
Other 4/	-3.1	-3.1	-2.1	-5.2	-2.3	-1.4	-1.4	-0.6	-0.5
Memorandum items:									
Mining revenue (in percent of GDP)	10.0	11.7	9.0	7.9	7.6	7.2	6.9	6.6	6.4
Non-mining revenue (in percent of GDP)	24.6	27.2	27.3	24.0	22.7	21.9	21.9	22.2	22.3
Non-mining primary balance (in percent of GDP)	-5.7	-8.8	-5.6	-8.2	-10.6	-11.4	-10.1	-9.6	-9.2
Non-mining overall balance (in percent of GDP)	-7.3	-10.3	-7.3	-10.1	-12.8	-13.8	-12.8	-12.6	-12.5
Primary spending (change in percent)	23.0	36.6	1.9	17.6	19.8	14.0	8.5	11.3	10.8
Future Heritage Fund (in percent of GDP)	4.6	4.4	5.8	6.9	7.4	7.5	7.4	7.1	6.8
Public debt (in percent of GDP) 5/	46.7	44.1	45.1	47.0	50.5	55.9	59.1	61.3	63.7
Domestic debt (in percent of GDP)	3.3	3.1	3.2	4.9	6.3	7.8	8.8	9.3	10.8
External debt (in percent of GDP)	43.4	41.0	41.9	42.1	44.3	48.1	50.2	52.0	52.8

Sources: Mongolian authorities; and Fund staff projections.

1/ Projections include the latest version of the tax package currently under discussion at Parliament with impact in 2027-2028.

2/ Pension forecasts are based on the preliminary World Bank PROST estimates as of September 2024 plus additional pension-related spending estimated in the 2026 approved budget.

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

4/ It includes Future Heritage Fund, Stability Fund, Saving Fund, and TSA.

5/ Includes DBM's total debt, explicit and implicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

Table 5. Mongolia: Selected Financial Stability Indicators, 2022–26
(In Percent)

	2022	2023	2024	2025	Mar-2026
Capital (in percent)					
Risk Weighted CAR	17.4	17.3	16.1	15.8	15.3
Asset quality					
Asset Growth (percent change from start of year)	12.2	23.8	25.4	19.7	21.6
Loan Growth (Net) (percent change from start of year)	6.3	22.4	35.2	19.1	16.3
Loan share in total assets (in percent)	48.4	47.9	51.6	51.3	52.8
Non Performing Loan (in percent)					
NPL to gross loans	9.0	6.9	4.4	4.6	4.7
Past-due to gross loans	5.8	4.7	3.4	3.3	3.3
NPL + Past due to gross loans	14.8	11.7	7.8	7.9	8.0
Provision/NPLs	94.9	108.2	121.0	104.1	104.0
Provision/NPL+ Past due	57.6	64.2	68.9	61.9	61.1
NPLs net of provision /Capital	2.3	-2.8	-5.1	-1.1	-1.1
NPLs+Past due net of provision /Capital	31.2	20.7	13.3	17.6	18.5
FX lending to total lending	7.1	6.9	7.8	6.3	5.6
Earnings and Profitability (in percent)					
Return on assets	2.0	2.1	2.4	1.9	1.6
Return on equity	20.7	21.5	25.5	20.6	16.0
Interest income to gross income	78.2	82.1	83.6	84.0	83.8
Interest expenses to gross income	34.9	43.4	46.9	54.2	57.5
Non-interest expenses to gross income	100.4	69.1	37.4	27.2	26.8
Personnel expenses to Non-interest expenses	10.1	13.6	16.4	33.7	32.4
Liquidity (in percent)					
Liquid assets to total assets	34.2	36.2	35.1	32.4	34.8
Liquid assets to short-term liabilities	70.1	67.2	71.4	69.4	73.1
FX deposit to total deposits	33.8	27.9	20.4	21.8	22.0
Liquidity ratio	42.3	44.0	38.7	39.8	40.8
Loan to deposit	80.6	73.3	84.5	90.2	89.2
Source: Mongolian authorities.					

Table 6. Mongolia: Indicators of Fund Credit Outstanding, 2026–31
(In Millions of SDR, unless otherwise indicated)

	2026	2027	2028	2029	2030	2031
Existing Fund arrangements						
Stock 1/	32.18	8.30	0.00	0.00	0.00	0.00
Obligations 2/	29.51	26.37	10.07	1.55	1.55	1.55
Principal (repayments/repurchases)	26.21	23.88	8.30	0.00	0.00	0.00
Charges and interest	3.30	2.49	1.77	1.55	1.55	1.55
Of which:						
GRA Basic Charges	1.80	0.94	0.22	0.00	0.00	0.00
Surcharges	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Level-based	0.00	0.00	0.00	0.00	0.00	0.00
Time-based	0.00	0.00	0.00	0.00	0.00	0.00
(In case of SLL, Non-refundable commitment fees)	...	...	...	...	...	...
Stock of existing Fund credit 1/	32.18	8.30	0.00	0.00	0.00	0.00
In percent of quota	44.51	11.48	0.00	0.00	0.00	0.00
In percent of GDP	0.15	0.04	0.00	0.00	0.00	0.00
In percent of exports of goods and services	0.20	0.05	0.00	0.00	0.00	0.00
In percent of gross usable reserves	0.61	0.16	0.00	0.00	0.00	0.00
Obligations to the Fund from existing Fund arrangements	29.51	26.37	10.07	1.55	1.55	1.55
In percent of GDP	0.14	0.11	0.04	0.01	0.01	0.01
In percent of exports of goods and services	0.19	0.16	0.06	0.01	0.01	0.01
In percent of gross usable reserves	0.56	0.50	0.19	0.03	0.03	0.03

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

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

Annex I. Progress on Recommendations of the 2025 Article IV Consultations

2025 Article IV Recommendations	Progress
Fiscal Policy	
Address fiscal vulnerabilities and create fiscal space for capital projects by containing the wage bill, better targeting social assistance, strengthening non-mining tax collections, and developing domestic debt markets.	In 2025, in the face of the large revenue shortfall, and to comply with the fiscal rules, the authorities cut spending, postponed payments, and resorted to unconventional and one-off revenue measures. The government resumed the issuance of domestic government securities. In 2026, the 2026 budget envisages a large increase in the wage bill and pensions. A tax cut package and a pension package were approved in June 2026. The pension package aims at introducing much needed parametric reforms but also to implement a minimum pension at a high fiscal cost.
Reconsideration of the mid-2025 draft tax package.	A tax cut package has been approved by Parliament, though with lower fiscal cost than originally envisaged.
Strengthening the SOE and PPP legal frameworks and enhancing fiscal risks monitoring.	A new PPP law was approved in late 2025, yet it hampers the MOF from vetting PPP projects. Draft legislation on SOE and the DBM still under discussion. MOF has created a new Division to assess fiscal risks. It has attached a Fiscal Risks Statement to the 2026 budget for the first time.
Execute large capital projects within the fiscal rule framework.	A law proposing the exclusion of the execution of two mega projects of the budget and fiscal rules perimeter was approved by Parliament. This exclusion was not in line with staff recommendations.
Monetary and Exchange Rate Policies	
Keeping monetary policy stance tight.	The BOM has kept its monetary policy stance tight. Inflation and credit growth have declined from last year's high levels.
Discontinue BOM's involvement in conducting quasi-fiscal operations and transferring outstanding balances to the government.	No progress in transferring to the MOF's balance sheet the Housing Mortgage Program and residential mortgage-backed securities held by BOM. In June 2026, the government submitted to Parliament a draft law on the creation of a Housing Financing Bank which would take over the subsidized mortgage program. The government has lent the whole balance of the Saving Fund by end 2025 (1.2 percent of GDP) to banks at a 2 percent rate to subsidize mortgage loans.
Amending the BOM's Act.	A new set of draft amendments to the BOM Act has been published for public consultation. They aim at (i) establishing price stability as the BOM's sole primary objective; (ii) prohibiting quasi-fiscal activities; (iii) adopting an automatic recapitalization mechanism; and (iv) adopting an IT regime and a fiscal expenditure ceiling to ensure monetary policy effectiveness.
Strengthening external buffers.	While GIR rose significantly, they remained below adequacy thresholds.
Financial Sector Policy	
Strengthening banking supervision and bank resolution frameworks.	Progress is ongoing on (i) adopting risk-based supervision and Basel III standards and the IFRS9 framework; and (ii) drafting a Resolution Manual. Regulation on Recovery Plan is approved.

2025 Article IV Recommendations	Progress
Implementation of bank shareholder diversification.	A proposal to amend the Bank Act is under discussion to extend the current deadline of end 2026, increase bank shareholder limits, and allow international financial institutions to invest in multiple banks.
Reducing regulatory gap between banks and NBFIs.	Macroprudential gap between banks and NBFIs persists.
Strengthening the macroprudential framework. Separating macroprudential and monetary policy decision-making.	Creation of a new Financial Stability Department at the BOM. Progress in separating macroprudential and monetary policy decision-making via BOM convening separated Monetary Policy Committee meetings dedicated to each subject. No expansion in the set of macroprudential tools, except for the inclusion of forex-denominated borrowing by banks (360 days to up to 3 years) in the reserve requirements.
Bolster the financial sector's ability to lend to creditworthy entities.	Progress in modernizing Mongolia's credit information system, including the adoption of a credit scoring framework and the transition toward real-time credit information reporting. No progress in the areas of collateral valuation assessments, contract enforcement, foreclosure processes, and regulatory oversight of loan rescheduling and restructuring. The draft Insolvency Law and the draft amendments to the Credit Information Law have not been approved yet.
Structural Policy	
Legal reforms to reduce red tape, facilitate licensing and taxation, expedite insolvency resolution and clarify the use of land.	In June 2026, Parliament approved an umbrella Economic Freedom Law aimed at reducing State's footprint in the economy. It also made progress with the amendments to Minerals Law to ease exploration licensing and other regulatory aspects of mining activities.
Increasing judicial efficiency and transparency and ensuring consistent regulatory enforcement, including in tax administration are critical.	No significant progress in this area, except for the drafting of legislation, such as the revised Foreign Investment Law.
Governance	
Address corruption vulnerabilities in revenue institutions, strengthening transparency and accountability of public procurement and SOE.	The Whistleblower Protection Law is still pending in Parliament. Progress on the publication of asset declaration and enhancement of beneficial ownership is also lacking.
Accelerate the implementation of AML/CFT legal framework.	Mongolia has implemented the 40 technical recommendations made by FATF under the Mutual Evaluation of 2017. Mongolia remains in enhanced follow-up by Asia/Pacific Group. Preparatory work to ensure effectiveness has commenced.

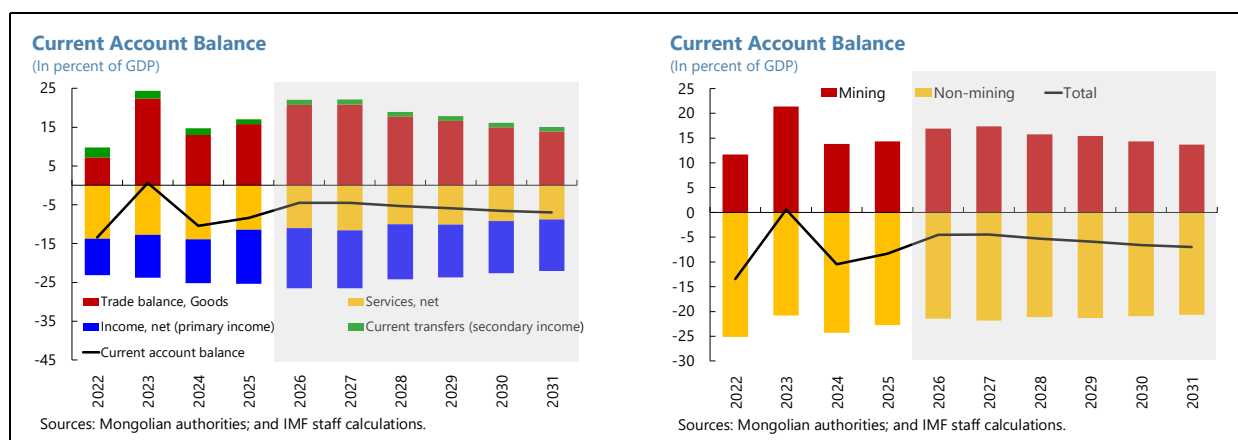
Annex II. External Sector Assessment

Overall Assessment: Mongolia's external position in 2025 was weaker than implied by fundamentals and desirable policy settings, with GIR remaining below the ARA metric.

Potential Policy Responses: Fiscal consolidation will help build buffers and reduce the current account deficit by containing domestic demand and imports. To reduce external imbalances, Mongolia should also continue to strengthen export capacity and export diversification beyond mining, further improve the business environment to attract more FDI, and develop domestic capital markets. At the same time, the BOM should allow for more exchange rate flexibility so that its level can better reflect external conditions and function as a shock absorber, particularly in the face of external volatility.

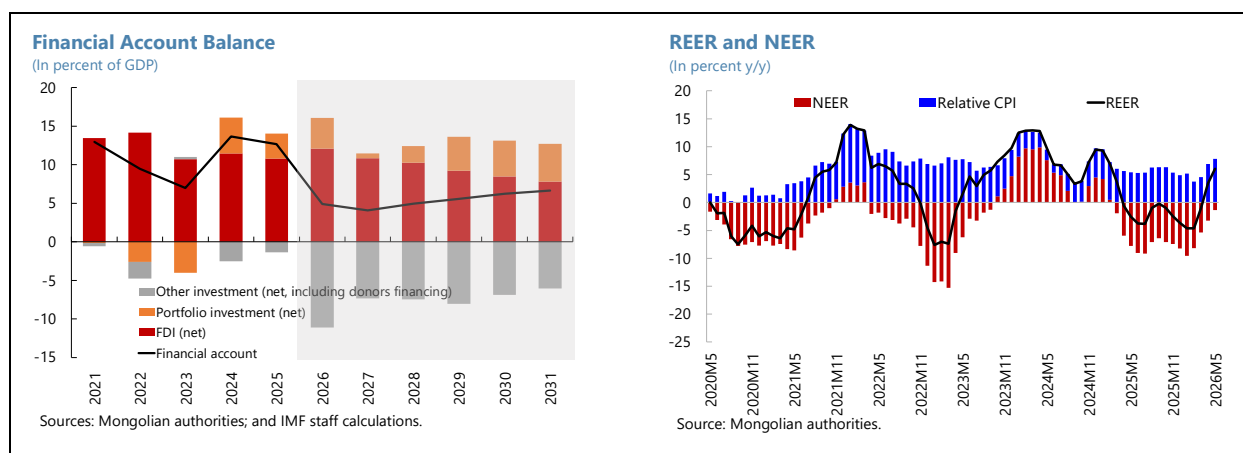
Current Account

1. Mongolia's current account (CA) deficit narrowed moderately to 8.4 percent of GDP in 2025. Record copper exports—reflecting both higher prices and increased production of higher-grade copper concentrate at OT—helped offset much of the decline in coal exports caused by lower prices. Together with higher gold exports, this led to an increase in total exports. However, the contribution of copper to the overall balance of payments was smaller, mainly because of increased financial outflows by OT. The auction-based coal sale mechanism, which accounted for 24 percent of coal exports in 2025, helped enhance governance and transparency. After strong growth in 2024, imports declined moderately in 2025, reflecting lower imports of heavy-duty trucks amid a significant decline in coal trucking profitability, as well as reduced passenger cars imports following restrictions on the registration of vehicles more than 10 years old in Ulaanbaatar. Tourism receipts grew robustly.



2. The CA deficit is expected to remain elevated over the medium term despite strong exports. Coal export prices are projected to recover markedly in 2026, and export volume is expected to grow gradually over the medium term, supported by sustained demand from China and improved transportation infrastructure. Copper prices are projected to increase strongly in 2026 and stay high over the medium term. Although mining exports are expected to remain strong,

Mongolia's CA deficits are projected to stay elevated over the medium term, reflecting strong import demand driven by infrastructure projects, foreign direct investment, and continued robust consumer spending. In addition, high overseas travel spending—which has increased markedly in recent years—and continued reliance on imported transportation services, despite some reorientation towards domestic providers for coal exports, are expected to contribute to persistent deficits in the services account. The large negative IIP will continue to imply sizable income account deficits. Mongolia's external position remains vulnerable to commodity demand and price shocks, and the global transition towards a low-carbon economy poses a significant medium- to long-term risk given the country's heavy reliance on coal exports, although rising global demand for copper provides a partial offset.



3. Mongolia's external position in 2025 was weaker than fundamentals and desirable policies. The EBA-lite current account approach estimates the CA norm at -5.4 percent of GDP. The large negative IIP position explains most of the negative CA norm (-4.6 percent of GDP), underscoring the structural nature of the large CA deficits. The CA gap is estimated at -2.9 percent of GDP, suggesting an external position weaker than fundamentals and desirable policies.

Annex II. Text Table 1. EBA-lite Model Results, 2025

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	-8.4	
Cyclical contributions (from model) (-)	0.2	
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	-8.3	
CA Norm (from model) 2/	-5.4	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-5.4	
CA Gap	-2.9	-3.1
o/w Relative policy gap	2.5	
Elasticity	-0.4	
REER Gap (in percent)	6.5	7.1

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

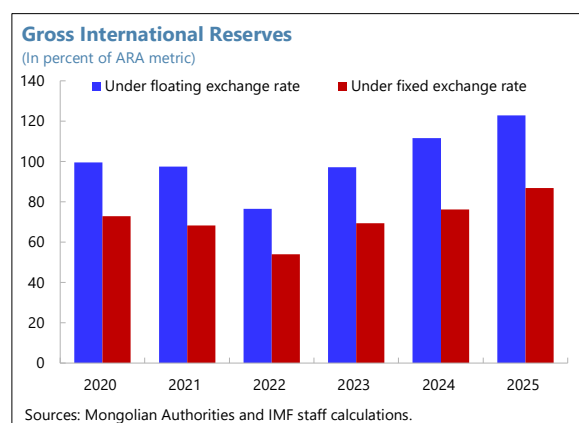
4. Mongolia's real exchange rate in 2025 is assessed to be overvalued. The CA gap of -2.9 percent of GDP translates into a 6.5 percent REER gap. The EBA-lite REER model points to a slightly larger REER overvaluation of 7.1 percent. Mongolia's trade-weighted REER depreciated by 3.3 percent in 2025, primarily due to the depreciation of the nominal effective exchange rate (NEER), by 8.3 percent. In 2026, the REER appreciated slightly through May.

Capital and Financial Accounts

5. Higher external borrowing by banks supported an increase in gross capital inflows in 2025. FDI is projected to remain robust over the medium term, which will be supported by the Zuuvch-Ovoo uranium project. Well-executed external debt refinancing and the BOM's repayment of half of the outstanding swap line with the People's Bank of China have helped reduce external debt risks. Sovereign spreads have remained at historically low levels, and both S&P and Fitch upgraded Mongolia's credit rating.

FX Intervention and Reserve Level

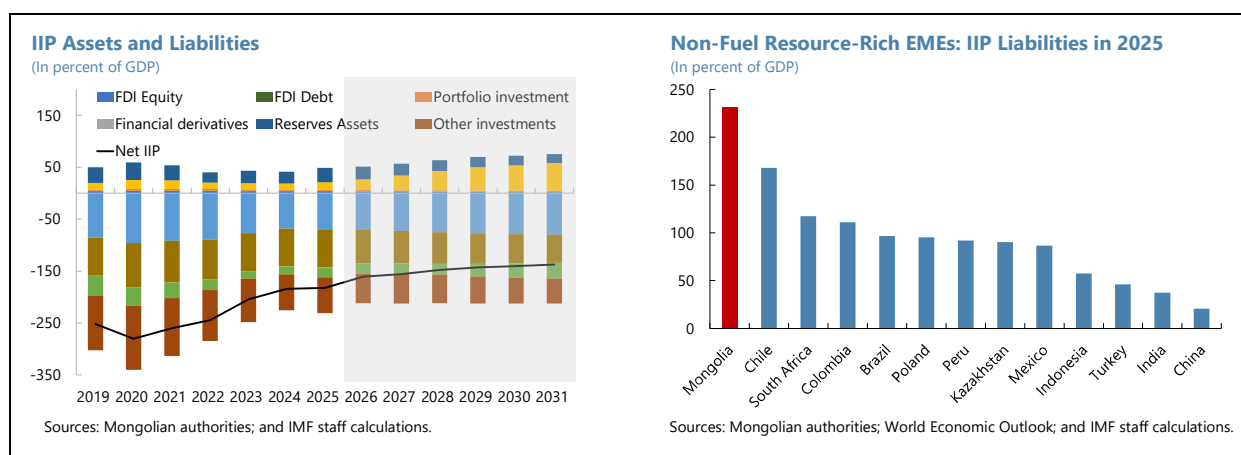
6. GIR increased markedly in 2025 but remain below the ARA metrics under fixed exchange rate classification. GIR reached US\$7.0 billion at end-2025, up from US\$5.5 billion in 2024, covering 4.4 months of imports of goods and services and is equivalent to 28 percent of GDP. This represents 87 percent of the ARA metric for fixed exchange rate regimes, the relevant metric given the current de facto stabilized arrangement.¹ NIR, which excludes all BOM's FX liabilities, stands lower at US\$2.5 billion at the end of 2025. Additionally, the BOM has significant exchange rate risk exposure due to its large FX swaps with banks, which increased significantly in 2025, reaching \$3.7 billion at end-2025. GIR is expected to remain below the recommended range under the fixed exchange rate classification over the forecast period. The BOM is the structural provider of FX to the market: mining SOEs are required to sell their FX to the BOM, while gold produced by local mining companies is usually sold to the BOM; in turn, the BOM supplies FX to banks and the MOF. BOM FX sales in 2025 remained broadly in line with 2024 levels and were significantly higher than in 2023.



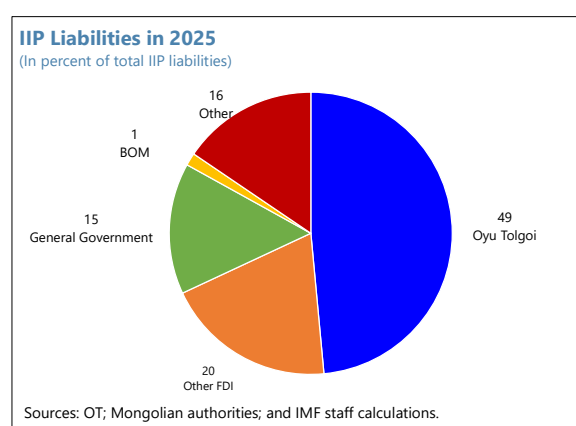
Foreign Assets and Liabilities: Position and Trajectory

7. Mongolia's IIP liabilities as a percentage of GDP have significantly declined in recent years, yet they remain exceptionally high. After peaking at 340 percent in 2020, the ratio of IIP liabilities to GDP fell to 231 percent by 2025. Despite this improvement, Mongolia's IIP liabilities are still among the highest globally and surpass those of other resource-rich emerging market economies. These liabilities are predominantly in US dollars and mainly consist of FDI (142 percent of GDP), debt securities (18.7 percent of GDP), and external loans (58 percent of GDP). The BOM has repaid half of the outstanding PBOC swap line, reducing the outstanding balance to 3.4 percent of GDP. Although net IIP (in percent of GDP) has also improved markedly in recent years, it remains deeply negative, at -181 percent of GDP as of 2025.

¹ The coverage is 123 percent of the ARA metric under a floating exchange rate regime (de jure).



8. The significant share of FDI in total liabilities serves as a mitigating factor. As of 2025Q4, FDI represents 62 percent of total liabilities, roughly split between debt and equity. Liabilities related to OT alone account for 68 percent of FDI liabilities. The start of underground production at OT in 2023 has boosted exports, helping reduce the risks associated with these large international liabilities, as OT's external obligations are expected to be serviced through its export revenues.



9. IIP liabilities as a share of GDP are expected to decrease over the medium term. They are projected to decline from 231 percent of GDP in 2025 to about 212 percent by 2031, with the net IIP improving from -182 percent to -137 percent of GDP over the same period. Staff also anticipates increased reliance on domestic borrowing to finance the budget. However, continued robust FDI inflows—particularly from the Zuuvch-Ovoo uranium project would keep external liabilities high 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. This assessment is based on the EBA-Lite CA analysis and the large negative IIP position. Should external pressures intensify, the exchange rate should be allowed to function as a shock absorber. Reserve levels remain below adequate thresholds, and given volatile commodity exports, a higher buffer is warranted. The BOM should aim to build reserves opportunistically. In parallel, the government can help ease external pressures through fiscal prudence and better prioritization of public investments. Over the medium to long term, addressing external imbalances in a sustainable way will require policies that support economic diversification and export growth, attract FDI, and develop domestic capital markets.

Annex III. Risk Assessment Matrix

Source and Likelihood of Risk	Expected Impact on Mongolia	Policies to Minimize Impact
Global and Regional Risks		
High Commodity price volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High Volatility in coal and copper prices could lead to significant uncertainty in external and fiscal outlook. Lower prices would weaken external imbalances, further eroding foreign reserves, raising exchange rate pressures, and inflation. Fiscal balances would deteriorate, raising rollover and debt sustainability risks. Further fuel price increases would push inflation higher and weaken household purchasing power.	Build external buffers by allowing greater ER flexibility. Avoid procyclical fiscal policy. Fiscal consolidation would help reduce public external debt, reconsidering the tax package, containing the wage bill, strengthening collection of non-mining revenue, reprioritizing public and SOE investments, and targeting support only to those facing economic hardship. Maintain tight monetary policy stance to keep inflation anchored. Undertake fiscal, financial, and regulatory reforms and credibly adhere to fiscal rules to preserve investor confidence and improve macroeconomic stability. If exports inflows are higher, the BOM should accelerate the accumulation of GIR to reach adequate levels. Fiscal support in response to higher fuel prices should be well targeted and temporary.
High Trade-related Risks/Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation.	Medium Higher trade barriers owing to escalating protectionism would reduce global trade and cause supply disruptions.	Build fiscal and external buffers to mitigate risks as discussed above.
High Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, additional financial frictions and market volatility.	Medium Intensification of Russia's war in Ukraine could negatively affect Mongolia's imports of Russian petroleum products and/or lead to new disruptions to correspondent banking relationship (CBR).	Increase fuel reserves as planned and diversify sources of fuel imports. If there are CBR disruptions relating to Russian fuel imports, work with partners to ensure that payments can continue to be made and explore alternative means for payments.
High Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and	Medium Tighter global financial conditions and higher interest rates could increase external funding costs for the government and private companies.	In addition to fiscal consolidation, reduce external financing needs through appropriate debt management, the use of domestic financing by expanding the issuance of domestic securities, and a credible commitment to fiscal prudence by adhering to the fiscal framework. The authorities should adequately enforce the currency settlement law and repatriation requirements of SOEs and

Source and Likelihood of Risk	Expected Impact on Mongolia	Policies to Minimize Impact
investment that exacerbate adverse debt dynamics.		strengthen the investment environment to attract new FDI inflows.
Domestic Risks		
High Policy slippages amid populist pressures ahead of the elections.	High Political pressure to undertake additional populist policies could undermine fiscal and external stability and weaken debt sustainability.	Maintain fiscal prudence. Undertake critical reforms such as wage bill rationalization, social assistance targeting, improved public investment management, pension reforms, and strengthened SOE governance to improve public finances.
Medium Credit risks in the financial sector.	Medium A sharp deterioration in economic conditions could lead to a further increase in NPLs, impairing capital adequacy and posing risks to broader financial stability.	Financial sector supervision should remain vigilant on emerging risks, notably credit risk, given the still-strong credit growth in the banking and non-banking financial sectors. Effective enforcement and harmonization of DSTI limits across banks and NBFIs and comprehensive creditor information sharing are needed to contain excessive consumer lending.
Medium Intensification of governance challenges.	High Weaker governance can lead to lower growth and productivity through inefficiency and corruption, worsen public debt dynamics and external imbalances, and undermine financial stability. It can also negatively affect public and investor sentiments, as well as the overall investment climate.	Stronger transparency, accountability, and oversight in the public sector, SOE and BOM—including through greater contract transparency, checks and balances, effective enforcement of regulations, greater protection against political influence, and a strengthened rule of law and judiciary—are essential for good governance. Publishing asset declarations and strengthening beneficial ownership transparency would enhance monitoring of politically exposed persons. The draft Whistleblower Protection law should be passed without further delay.
High Climate change.	Medium More frequent and severe weather shocks negatively affect the agricultural sector. Over the long run, a transition to a low-carbon global economy could reduce coal demand and prices, with significant implications for Mongolia's external position and public finances.	Accelerate the implementation of the national adaptation plan to improve the resilience of the agricultural sector in the face of climate change. Advance the green transformation, including by reducing greenhouse gas emissions and air pollution and diversifying exports away from coal.
"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.		

Annex IV. Sovereign Risk and Debt Sustainability Assessment

Overall sovereign risk is assessed to be moderate, broadly in line with the 2025 assessment, with risks assessed as high over the medium and long term based on judgment. Staff's assessment of high medium-term risk is predicated on (i) the large and permanent increase in current spending resulting from the recently approved pension and wage increases; (ii) lower fiscal buffers than in 2025 following the depletion of the Fiscal Stability Fund (FSF) and the lending of resources from the Saving Fund to banks to support the provision of subsidized mortgage loans; and (iii) elevated tail risks from commodity price and exchange rate shocks. Long-term risks remain high, reflecting aging-related spending pressures, declining coal demand, rising gross financing needs, and climate adaptation costs. Nonetheless, the overall moderate rating is supported by expected strong mining exports, notably copper, the higher GIR buffers, the continued accumulation of savings in the Future Heritage Fund (6 percent of GDP by end-2025, or US\$1.6 billion), and Mongolia's good track record of timely and proactive debt-profile management.

1. Relative to the 2025 assessment, Mongolia's public debt trajectory has shifted, with a lower near-term path but somewhat higher medium-term levels (Figure 4).

- **As a starting point, public debt¹ stood at 48.4 percent of GDP in 2025, below the 49.4 percent of GDP projected in the 2025 DSA.** The smaller-than-expected increase in the debt ratio in 2025 reflects a lower-than-expected recourse to borrowing in 2025, the large fiscal consolidation under the July 2025 supplementary budget, which curtailed expenditure in response to underperforming revenue, the postponement of payments in an amount of 1 percent of GDP, and the use of the Fiscal Stability Fund to cover for the cash shortages arising from large revenue shortfall. These factors more than offset other debt-increasing developments such as the increase of borrowing by provincial governments, SOE, and the Development Bank of Mongolia (DBM) (US\$500 million bond², 1 percent of GDP).
- **Over the medium term, public debt is projected to increase more sharply than in the 2025 assessment, stabilizing at somewhat elevated levels.** Public debt is projected to rise from

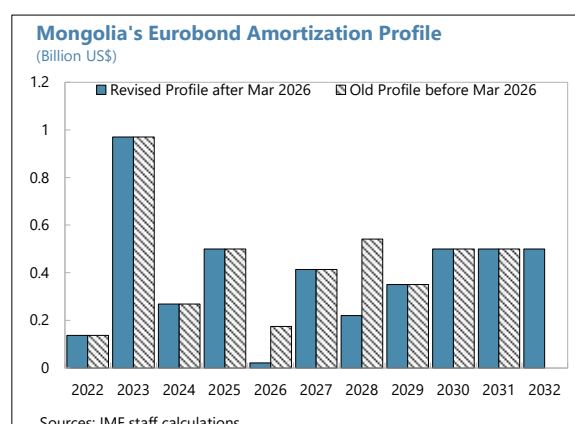
¹ The coverage of public debt used in this Sovereign Risk Debt Sustainability Assessment (SRDSA) framework is broader than the one used for the Mongolia's macro framework presented in Tables 4a and 4b. The difference is driven by the inclusion in the SRDSA of the swap of the BOM with PBOC, which on average adds 2-3 percentage points of GDP to the debt level used in the macro framework. The debt definition used for Mongolia's macro framework in Tables 4a and 4b focuses on general government's debt, plus DBM debt, SOE debt guarantees, and Trade and Development Bank (TDB) legacy debt.

² The bond was issued in March 2026 at a coupon rate of 5.95 percent with a six-year maturity, and proceeds were used to buy back US\$475.9 million of higher-cost outstanding bonds, including US\$321.6 million of the Century-2 bond (8.65 percent coupon, maturing 2028) and US\$154.3 million of the Nomad bond (5.125 percent, maturing 2026), yielding estimated annual interest savings of about US\$14.5 million. Future Eurobond rollovers over the projection period are assumed at comparable terms. The Development Bank of Mongolia (DBM) successfully raised US\$500 million in June 2026 through a 5-year senior bond, priced at a coupon of 6.9 percent and a yield of 7.2 percent. Also in June 2026, the US\$2.2 billion swap line with the People's Bank of China (PBOC) was renewed until 2029.

48.4 percent of GDP in 2025 to about 65.7 percent by 2031 and to stabilize around 69 percent by 2036. The main driver of debt dynamics is the projected deterioration in the primary balance, despite favorable mining export prospects. In 2026, this reflects a large increase in civil servants' salaries together with the front-loaded execution of the two mega projects excluded from the fiscal rules, and the weaker-than-expected performance of non-mining revenue, which will not be fully offset by the higher-than-expected mining-revenue from stronger copper and coal prices and volumes. From 2027, the deterioration in primary balance is driven by the recently approved tax cut package (mostly focused on reductions in PIT and CIT rates at a cost of 1.8 percent of GDP), and the newly approved pension package (requiring a spending increase of about 1.3 percent of GDP annually from 2027 onward). Other debt-increasing factors, though not directly linked to the general government primary deficit, include DBM international bond rollovers (e.g., the US\$500 million 5-year bond issuance in June 2026). Stronger nominal GDP growth, supported by robust mining exports (especially copper), partly contains the rise in the debt-to-GDP ratio.

2. Gross financing needs (GFN) over 2026–31 remain manageable despite rising debt levels yet reaching elevated levels from 2032 onward. This reflects proactive liability

management, notably the issuance by the central government of an US\$500 million international bond in 2026, which was used to partially pre-finance and repurchase portions of bonds maturing in 2026 and 2028, smoothing the near-term amortization profile, and the issuance of a US\$500 million 5-year bond by the DBM, also used to refinance outstanding bonds. From 2027, GFN related to local-currency debt increase, reflecting resumed domestic borrowing and the authorities' intentions to develop domestic debt markets. GFN are projected to increase from 3.4 percent of GDP in 2026 to 10.3 percent in 2027 and 17.8 percent by 2031, driven predominantly higher local-currency denominated debt as Mongolia makes progress in developing its government securities domestic market. Foreign currency debt service is also expected to increase yet more gradually, partially offset by the authorities' continued proactive debt operations to manage refinancing risk.



3. Realism indicators do not flag material optimism in the baseline projections (Figure 5)³. The forecast track record indicators show a systematically conservative projection bias: across all metrics, the projections fall below the 25th percentile of the emerging-market comparator groups. Historical output gap revisions are similarly conservative. The noticeable differences observed between historical and projected debt-creating flows reflect recent exceptional shocks not expected to recur, notably large exchange rate swing, the COVID-19 pandemic, and commodity price volatility following Russia's invasion of Ukraine. The bond issuances tool does not flag realism concerns but

³ Please note the data required for estimating implied spread is not available for Mongolia.

indicates a gradual increase in sovereign spreads, in line with rising debt and primary deficits. The three-year debt reduction tool and CAPB adjustment are broadly in line with peer experience ranges, indicating credible baseline fiscal assumptions. Fiscal adjustment embedded in the baseline is mixed over the medium-term, indicating a modest tightening in 2026, near neutral stance in 2027 and loosening from 2028 as the newly approved pension package takes effect followed by only limited adjustment thereafter. Projected real GDP growth remains within historical ranges.

4. Medium-term sovereign vulnerabilities remain elevated, reflecting significant downside risks around debt dynamics and financing needs (Figure 6). Stress scenarios indicate significant tail risks. Adverse shocks, particularly exchange rate shocks, could increase debt to around 78 percent of GDP and GFN to about 21 percent of GDP by 2031, while weaker commodity prices would raise debt to 76 percent of GDP, underscoring Mongolia's exposure to external and commodity-related shocks. While recent liability management operations have improved near-term financing conditions and ease 2026 refinancing risks, these gains are more than offset over the medium-term by (i) permanent new spending from the recently approved pension and wage increases, compounded by the front-loaded execution of the two mega projects excluded from the fiscal rules; (ii) lower liquid fiscal buffers following the depletion of the Fiscal Stability Fund and the lending of the Saving Fund to banks to support the provision of subsidized mortgages loans, and; (iii) elevated tail risks from commodity price and exchange rate shocks. Contingent liability risks from the central bank's negative equity position⁴ lie outside the DSA perimeter but would ultimately fall on the sovereign under a recapitalization and reinforce these vulnerabilities. As these factors are not properly captured by the mechanical signal, staff assess Mongolia's medium-term sovereign risk as high on a judgment basis. These medium-term drivers reflect tail risks and structural vulnerabilities that manifest beyond the 5-year overall-rating horizon; they are more than offset at the overall-rating level by robust near-term mining exports, the Future Heritage Fund, higher GIR buffers, and demonstrated capacity for proactive debt-profile management, which anchor the overall assessment at moderate.

5. Long-term sovereign risks are assessed as high (Figure 7–10). The Large Amortization module signals elevated rollover risks in the outer years (Figure 7), GFN rising markedly under standard refinancing assumptions, despite a gradual convergence of fiscal policy toward a small primary deficit. Pension spending is projected to rise sharply over the medium term, from about 5½ percent of GDP in 2026 to just above 7 percent by 2027, and remain at an average 8 percent of GDP over the longer term, following the recently approved pension package, which add to transition dynamics costs identified in recent IMF technical assistance and in line with World Bank long-term actuarial projections, reflecting demographic pressures. This illustrates that without further reform, budgetary transfers to the pension system would need to be raised significantly, placing sustained pressure on public debt (Figure 8). Climate-related risks further exacerbate long-term debt dynamics (Figure 9). The climate-change adaptation module is calibrated using World Bank climate diagnostics for Mongolia, which suggest economy-wide adaptation needs of about US\$3.5 billion over the

⁴ The BOM's negative equity position is not included in the debt perimeter of this SRDSA framework. Please see footnote 1 for details on debt coverage.

medium to long term (roughly 0.4 – 0.6 percent of GDP on average annually), incorporated in the DSA as gradually rising fiscal costs. Under both standard and customized scenarios, climate adaptation costs materially worsen the debt trajectory. Finally, Mongolia's dependence on natural resource dependence remains a key long-term vulnerability (Figure 10), with declining coal demand, particularly from China's decarbonization objectives toward 2040, posing a substantial risk to fiscal revenues and public debt sustainability.

Annex IV. Figure 1. Risk of Sovereign Stress

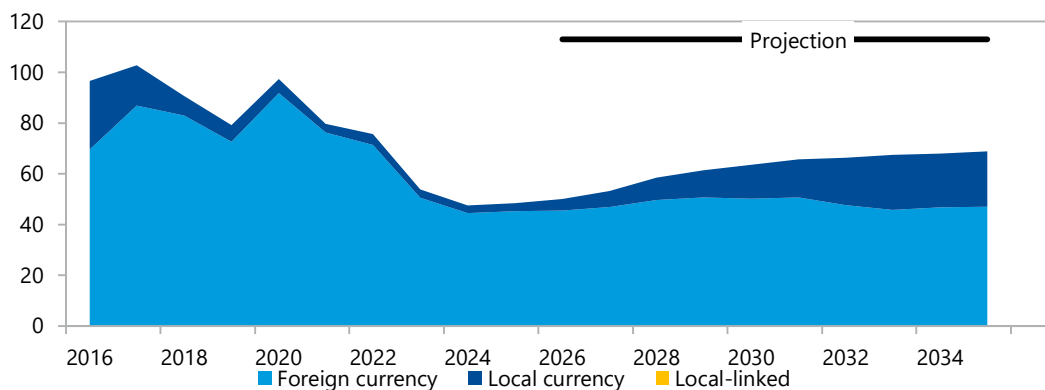
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Overall sovereign risk is assessed as moderate. Public debt starts from a more favorable near-term position than in the 2025 assessment before stabilizing at somewhat higher elevated levels over the medium term, but vulnerabilities persist due to high reliance on mining revenues, deviations from fiscal rules, foreign-currency debt exposure, limited effective buffers, and contingent liabilities.
Near term 1/			
Medium term	Moderate	High	Medium-term risk is assessed as high on a judgment basis. The mechanical moderate signal is overridden to reflect (i) permanent new spending from the recently approved pension package and legislated wage increases, (ii) elevated commodity and FX tail risks, and (iii) thinner contingency reserves after the depletion of the Fiscal Stability Fund and the lending of the Saving Fund.
Fanchart	High	...	
GFN	Low	...	
Stress test	Comm. Prices FX rate Nat. Diast.	...	
Long term	...	High	Long-term risks are high, driven by rising aging-related pension pressure, climate-adaptation investment needs, and declining coal-related revenues as global decarbonization, particularly in China, reduces demand.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No
DSA Summary Assessment			
Mongolia's overall debt risk is assessed as moderate. In the near term, public debt edges up modestly as weak non-mining revenues and legislated 2026–27 wage increases more than offset mining-revenue gains. Medium-term risks are high, reflecting the permanent impact of the newly approved pension package, commodity price volatility, elevated foreign-currency debt, repeated deviations from the fiscal rules, thinner contingency reserves, and rising financing needs from 2027. Long-term risks are also high, driven by aging-related pension pressures, climate-adaptation needs, rising outer-year financing needs, and declining coal revenues as global decarbonization accelerates. These risks call for stronger spending composition, sustained fiscal discipline, deeper economic diversification, a greater private-sector role, and continued efforts to attract foreign direct investment. 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.			

Annex IV. Figure 2. Debt Coverage and Disclosures

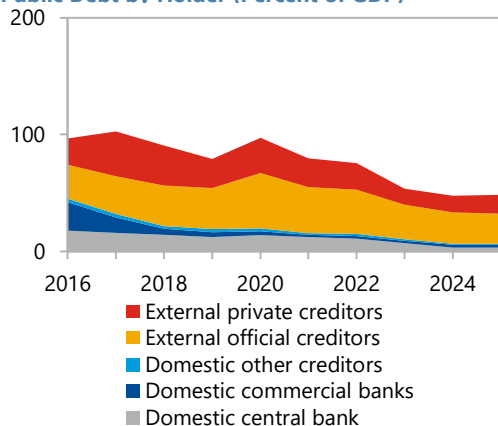
						Comments							
1. Debt coverage in the DSA: 1/													
	CG	GG	NFPS	CPS	Other								
1a. If central government, are non-central government entities insignificant?						n.a.							
2. Subsectors included in the chosen coverage in (1) above:													
Subsectors captured in the baseline						Inclusion							
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes							
				2	Extra budgetary funds (EBFs)	No	Not applicable						
				3	Social security funds (SSFs)	Yes							
				4	State governments	Yes							
				5	Local governments	Yes	Ulaanbataar City & Provincial Gov.						
				6	Public nonfinancial corporations	Yes	Debt by SOE and SOE Guaranteed D						
				7	Central bank	Yes	PBOC Swap						
				8	Other public financial corporations	Yes	Development Bank of Mongolia						
3. Instrument coverage:													
	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													
Issuer		Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
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. Debt coverage includes the general government (including Ulaanbaatar City), the Development Bank of Mongolia, and the outstanding portion of the PBOC-BOM swap line (US\$822 million, out of the original US\$2.1 billion). Explicit SOE guarantees and legacy of MoF to BOM are included. There is no PPP-related liabilities at present.													

Annex IV. Figure 3. Public Debt Structure Indicators

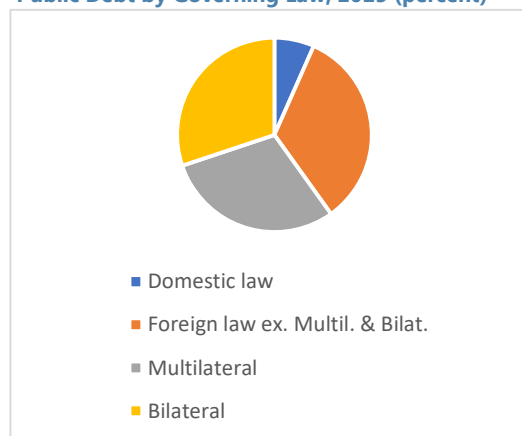
Debt by Currency (Percent of GDP)



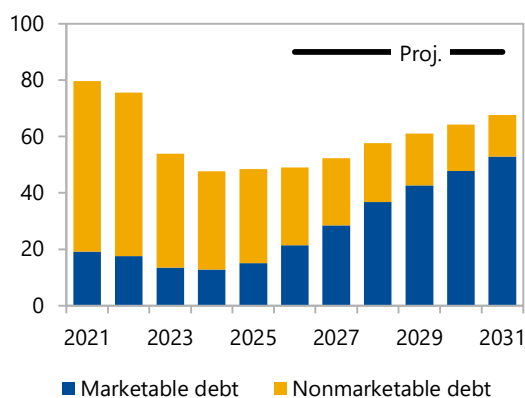
Public Debt by Holder (Percent of GDP)



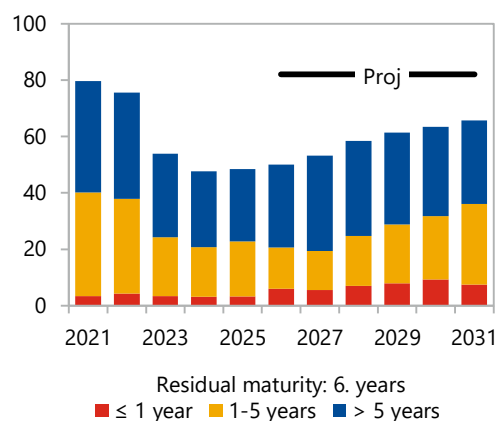
Public Debt by Governing Law, 2025 (percent)



Debt by Instruments (Percent of GDP)



Public Debt by Maturity (Percent of GDP)

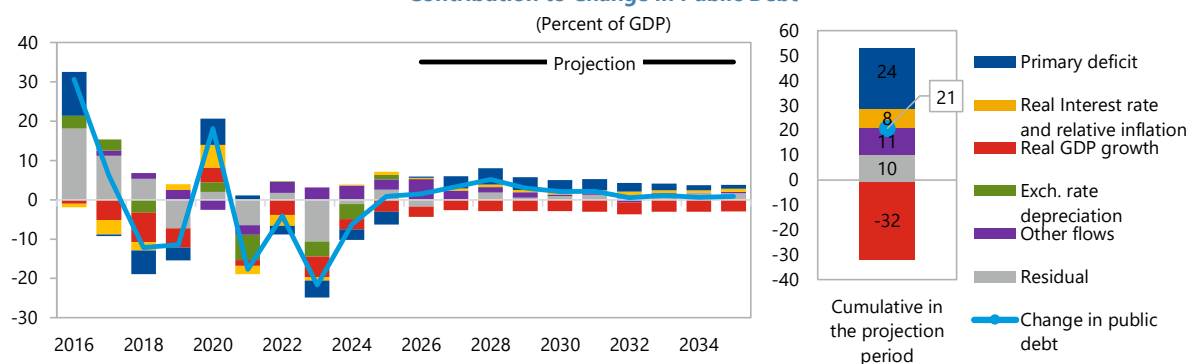


Public debt fell sharply through 2024 and has since gradually risen. On external debt, the long-maturity structure, with residual maturity of about 6 years and more than half owed to official creditors, mitigates near-term rollover risks; however, the shift toward shorter-maturity domestic issuance from 2027 raises gross financing needs and refinancing pressures over the medium term.

Annex IV. Figure 4. Baseline Scenario

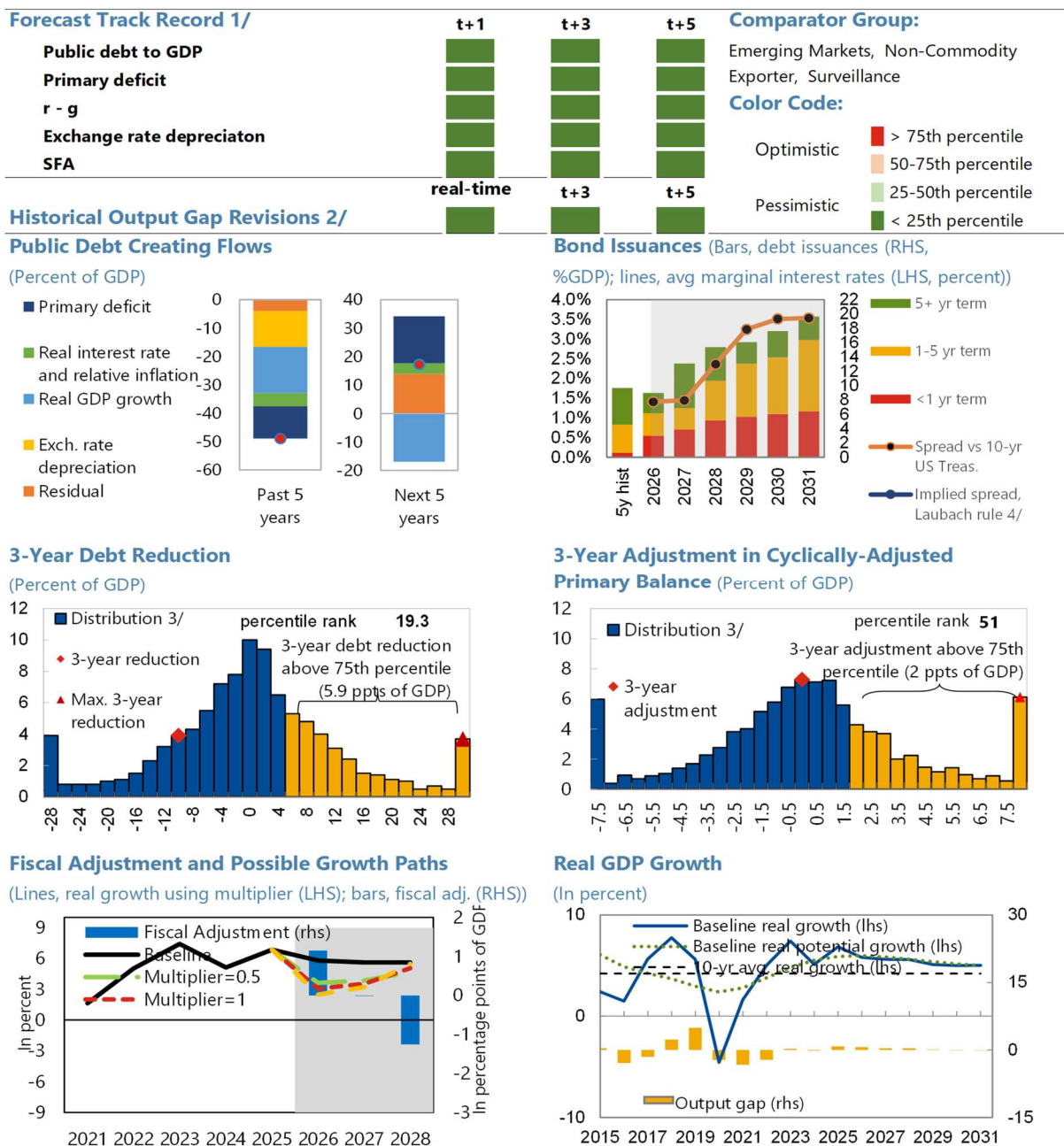
	Actual	Medium-term projection							Extended projection				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	
Public debt	48.4	50.0	53.3	58.4	61.4	63.5	65.7	66.2	67.3	68.0	68.8	69.2	
Change in public debt	0.9	1.5	3.3	5.2	2.9	2.1	2.2	0.6	1.1	0.7	0.8	0.4	
Contribution of identified flows	-1.7	3.2	3.3	3.3	2.4	1.2	1.0	-0.6	-0.4	-1.0	-0.9	-1.1	
Primary deficit	-3.2	0.3	3.0	4.2	3.2	3.0	2.8	2.2	1.7	1.3	1.0	1.1	
Noninterest revenues	36.3	31.8	30.3	29.1	28.8	28.8	28.7	29.0	29.0	28.8	28.7	28.8	
Noninterest expenditures	33.1	32.2	33.3	33.3	32.0	31.8	31.5	31.2	30.7	30.1	29.7	29.9	
Automatic debt dynamics	-1.0	-2.3	-2.0	-2.3	-2.2	-2.2	-2.2	-2.1	-2.3	-2.4	-2.2	-2.1	
Real interest rate and relative inflation	0.8	0.3	0.6	0.6	0.6	0.7	0.8	0.9	0.7	0.6	0.8	0.9	
Real interest rate	0.1	-4.2	-2.4	-1.9	-1.7	-1.4	-1.2	-1.2	-1.2	-1.2	-1.0	-0.9	
Relative inflation	0.6	4.5	3.0	2.5	2.3	2.1	2.0	2.1	1.9	1.8	1.8	1.8	
Real growth rate	-3.0	-2.7	-2.7	-2.8	-2.8	-2.9	-3.0	-3.1	-3.0	-3.0	-3.0	-3.0	
Real exchange rate	1.2	...	...	...	...	...	...	...	...	...	...	...	
Other identified flows	2.6	5.2	2.3	1.4	1.4	0.4	0.4	-0.7	0.2	0.1	0.3	-0.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other transactions	2.6	5.2	2.3	1.4	1.4	0.4	0.4	-0.7	0.2	0.1	0.3	-0.1	
Contribution of residual	2.6	-1.7	0.0	1.9	0.5	0.9	1.2	1.2	1.5	1.7	1.7	1.5	
Gross financing needs	2.3	3.4	10.3	11.7	13.8	16.0	17.8	17.8	18.1	18.9	19.7	20.5	
of which: debt service	5.5	3.1	7.4	7.5	10.6	13.1	15.1	15.6	16.4	17.6	18.7	19.4	
Local currency	0.6	0.2	3.3	3.6	5.2	6.0	6.7	7.4	8.2	9.3	10.0	10.4	
Foreign currency	4.9	2.9	4.1	4.0	5.4	7.1	8.4	8.2	8.2	8.4	8.7	9.0	
Memo:													
Real GDP growth (percent)	6.8	5.8	5.6	5.6	5.1	5.0	5.0	4.9	4.8	4.7	4.6	4.5	
Inflation (GDP deflator; percent)	4.4	14.3	9.5	8.0	7.3	6.8	6.5	6.6	6.4	6.3	6.3	6.2	
Nominal GDP growth (percent)	11.5	20.9	15.7	14.1	12.7	12.1	11.8	11.8	11.6	11.4	11.1	11.0	
Effective interest rate (percent)	4.7	3.8	3.9	3.9	4.0	4.2	4.4	4.6	4.5	4.4	4.6	4.7	

Contribution to Change in Public Debt



Public debt is projected to rise gradually in the near term before reaching about 69 percent of GDP by 2036, driven by weak non-mining revenues, the recently approved wage and pension packages, and the recently approved tax package, partly offset by strong nominal GDP growth. Gross financing needs rise sharply from 2027, reaching about 18 percent of GDP by 2031, driven mainly by higher local-currency debt service as domestic borrowing scales up.

Annex IV. Figure 5. Realism of Baseline Assumptions



The realism analysis yields mixed results. The projected three-year debt increase and fiscal loosening sit at the 19th and 51st percentiles of peer experience respectively, indicating a somewhat larger-than-average debt build-up but a broadly median fiscal adjustment path relative to peers. The large projected residual and disappearance of exchange rate depreciation as a debt-reducing factor reflect the unwinding of exceptional historical dynamics rather than conservative baseline assumptions.

Source : IMF Staff.

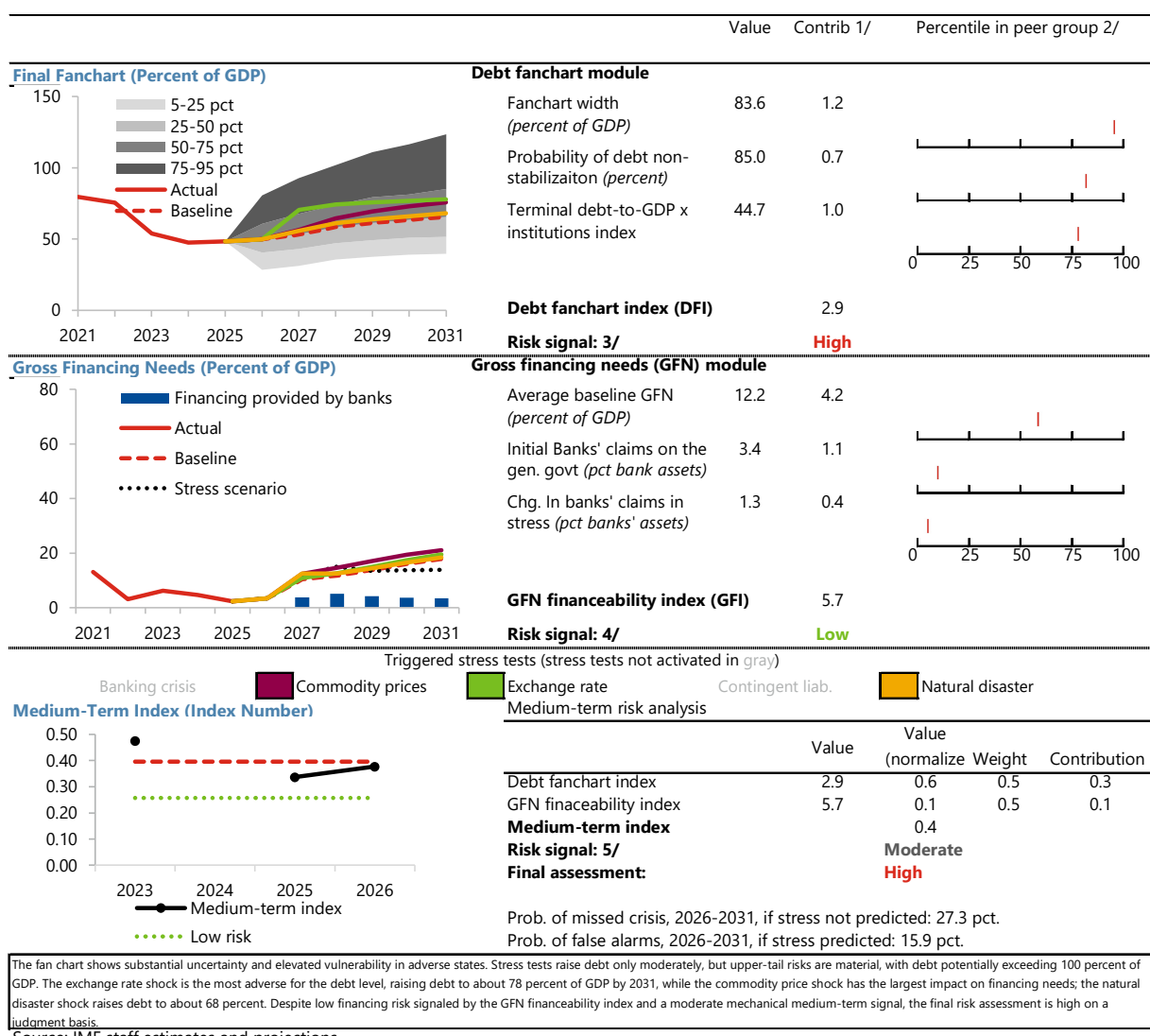
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex IV. Figure 6. Medium Term Risk Analysis



1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

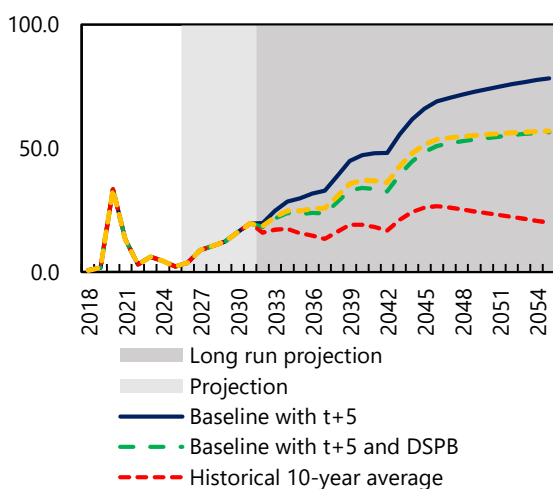
Annex IV. Figure 7. Large Amortization

Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

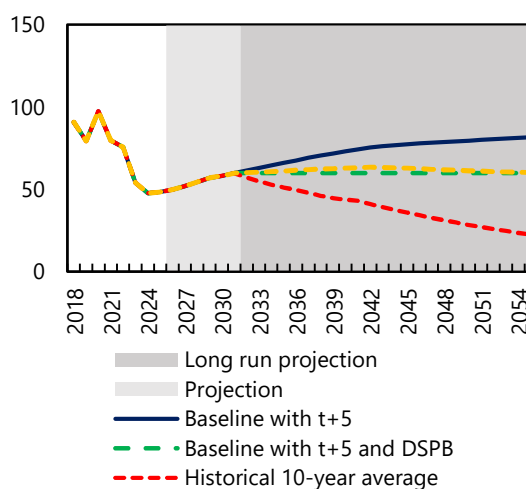
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP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

Variable	2031	2035 to 2039 average	Custom Scenario
Real GDP growth	5.0%	4.7%	5.0%
Primary Balance-to-GDP ratio	-3.3%	-2.1%	-2.0%
Real depreciation	-1.9%	-1.7%	-1.9%
Inflation (GDP deflator)	6.5%	6.4%	6.5%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



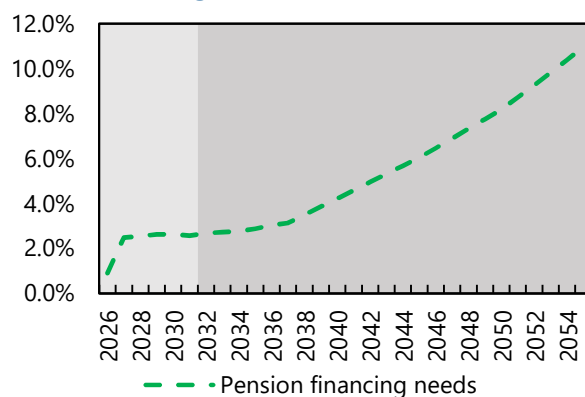
Overall long-term risk is high across all indicators. Improved debt management lowers projected debt relative to historical averages but does not offset elevated amortization, pension, climate, and resource-related risks.

Annex IV. Figure 8. Demographics: Pensions

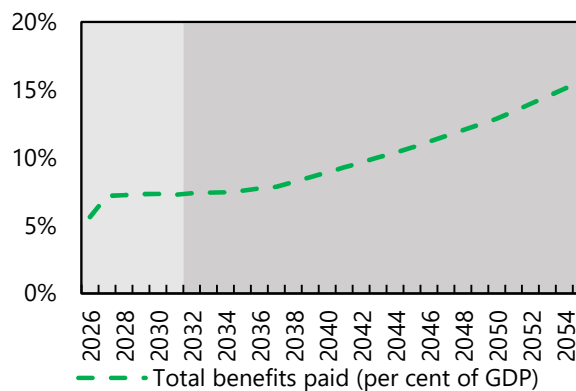
Permanent adjustment needed in the pension system to keep pension assets positive for:

	30 years	50 years	Until 2100
(pp of GDP per year)	5.7%	8.7%	12.6%

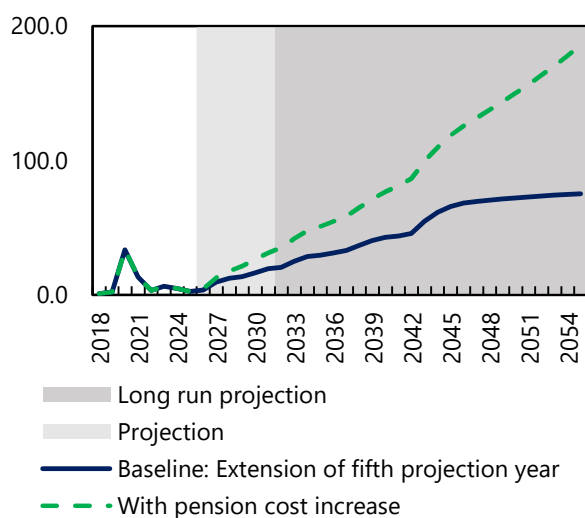
Pension Financing Needs



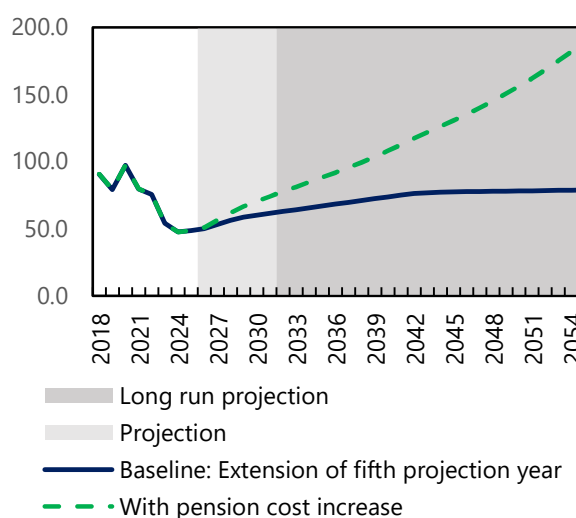
Total Benefits Paid



GFN-to-GDP Ratio



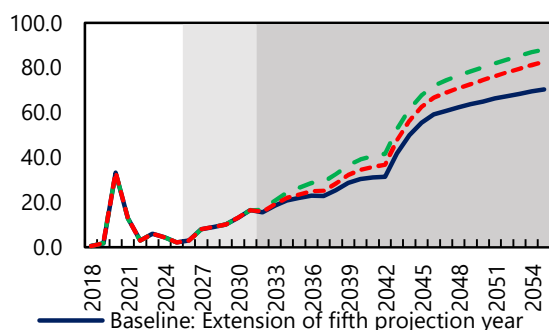
Total Public Debt-to-GDP Ratio



The projections underscore the urgent need for pension reform. Absent adjustment, pension-related financing needs rise steadily, with fiscal costs increasing from about 6 percent of GDP in 2025 to around 15½ percent by 2050, reflecting demographic aging and the permanent effect of the newly approved pension package. This is materially higher than recent IMF and World Bank estimates. Sustaining positive pension assets would require sizable and permanent fiscal adjustments over the long term.

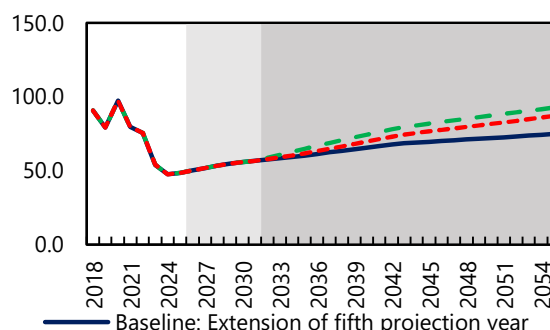
Annex IV. Figure 9. Climate Change: Adaptation

GFN-to-GDP Ratio



- With climate adaptation (standardized scenario)
- With climate adaptation (customized scenario)

Total Public Debt-to-GDP Ratio



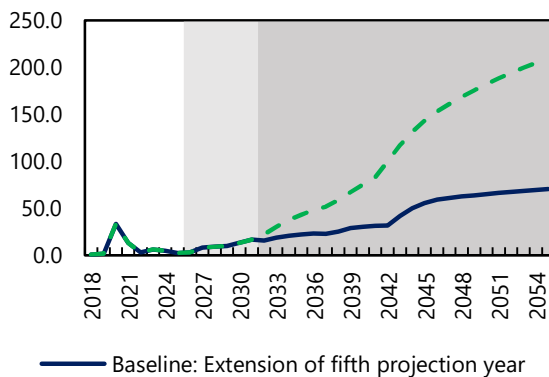
- With climate adaptation (standardized scenario)
- With climate adaptation (customized scenario)

Climate-adaptation investment needs materially worsen debt dynamics relative to the baseline. Calibrating the primary balance to World Bank estimates of adaptation costs (US\$3.5 billion, about 0.4 percent of GDP per year) leads to slightly higher public debt and gross financing needs under both standard and customized scenarios, adding to an already strained baseline.

Annex IV. Figure 10. Natural Resources

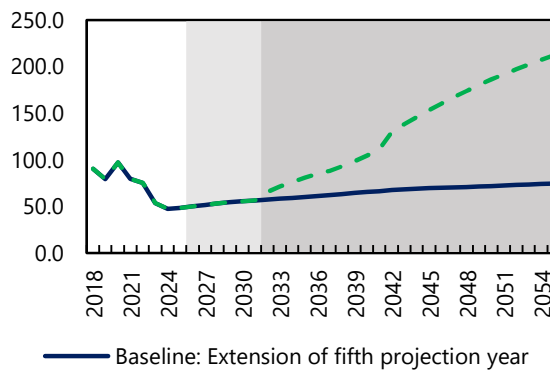
Natural Resources

GFN-to-GDP Ratio



- Natural Resources

Total Public Debt-to-GDP Ratio



- Natural Resources

Under the natural-resource scenario, long-term debt and financing pressures rise markedly. While resource depletion is not immediate, a projected decline in coal extraction from around 2040, consistent with World Bank assumptions and weaker demand from China, leads to significantly higher public debt and gross financing needs relative to the baseline.

Annex V. Data Issues

Table 1. Mongolia: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating ¹							
B							
Questionnaire Results ²							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Intersectoral Consistency	Median Rating
	B	B	B	A	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	B		
Granularity ³	B		B	A	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	A	A	C		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.							
¹ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.							
² The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i> , January 2024, Appendix I).							
³ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
Rationale for staff assessment. Data provision to the Fund is broadly adequate for surveillance, but some shortcomings exist in the areas of national accounts, fiscal and financial statistics. There is no breakdown of investment data in national accounts between public and private. There are remaining inconsistencies between the national accounts and BOP trade data. The negative errors and omissions in BOP amounted to 0.9 percent of GDP in 2025, suggesting a possible overreporting of current account balance or the unrecorded accumulation of assets in the financial account. The authorities provide financial soundness indicators data to the team upon request; however, they should move forward with regular submission of financial soundness indicators data to the Fund's Statistics Department.							
Changes since the last Article IV consultation The NSO released preliminary chain-linked time series of GDP by production and expenditure in January 2026. The official transition to chain-linked GDP is expected around August 2026. On government finance statistics (GFS), following the 2024 CCAMTA TA mission progress was made on compiling GFSM 2014 based statistics. The authorities have submitted to the Fund 2023 fiscal tables based on GFSM2014 format. However, the authorities are still using the old GFS format for official budget formulation and policy discussions. There are no plans to officially transit to GFSM 2014 format in the near future.							
Corrective actions and capacity development priorities Authorities are working on improving the quality of their statistics, including with technical assistance (TA) from the Fund on national accounts and fiscal accounts (GFS). On the real sector, the main action is to increase staff resources to allow publication of newly developed chain-linked GDP series from 2026. On the fiscal sector, the main action is to develop a political will to transit to a new GFSM 2014 presentation of government accounts, which will have implications for measuring fiscal indicators prescribed in the fiscal rule (deficit, debt, structural revenues, expenditure ceiling). The technical work has already been done.							

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. For nominal and real effective exchange rate (NEER and REER) data staff uses Fund calculated data instead of authorities' as the methodology used is consistent for all member countries.

Other data gaps.

Table 2. Mongolia: Data Standards Initiatives

Mongolia subscribes to the Special Data Dissemination Standard (SDDS) since April 2019 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Mongolia: Table of Common Indicators Required for Surveillance

As of July 1, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Expected Frequency ^{7,8}	Announced Frequency ⁹	Expected Timeliness ^{7,8}	Announced Timeliness ⁹
Exchange Rates	2026-6-30	2026-6-30	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2026-05	2026-05	W	W	M	M	1W	1M
Reserve/Base Money	2026-04	2026-05	M	M	M	M	2W	1M
Broad Money	2026-05	2026-05	M	M	M	M	1M	1M
Central Bank Balance Sheet	2026-05	2026-06	M	M	M	M	2W	1M
Consolidated Balance Sheet of the Banking System	2026-05	2026-06	M	M	M	M	1M	1M
Total assets of other depository corporations ²	2026-04	2026-05	M	M	M	M	1M	1M
Total credit from other depository corporations ²	2026-04	2026-05	M	M	M	M	1M	1M
Interest Rates ³	2026-05-27	2026-05-27	D	D	D	...	...	...
Consumer Price Index	2026-05	2026-06	M	M	M	M	1M	1M
Revenue, Expenditure, Balance and Composition of Financing ⁴ -General Government ⁵	2026-05	2026-06	M	M	A	M	2Q	1M
Revenue, Expenditure, Balance and Composition of Financing ⁴ -Central Government	2026-05	2026-06	M	M	M	M	1M	5M
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	2026-03	2026-06	Q	Q	Q	Q	1Q	45D
Total stock of General Government Debt ⁵	2026-03	2026-06	Q	Q	Q	...	4M	...
External Current Account Balance	2026-03	2026-05	M	M	Q	M	1Q	45D
Exports and Imports of Goods and Services	2026-04	2026-05	M	M	M	M	8W	10D
GDP/GNP	2026-03	2026-05	Q	Q	Q	Q	1Q	2M
Gross External Debt	2026-03	2026-05	Q	Q	Q	Q	1Q	2M
International Investment Position	2026-03	2026-05	Q	Q	Q	Q	1Q	2M

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic non-bank financing.

Table 3. Mongolia: Table of Common Indicators Required for Surveillance**(concluded)**

⁵ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

⁶ Including currency and maturity composition.

⁷ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁸ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

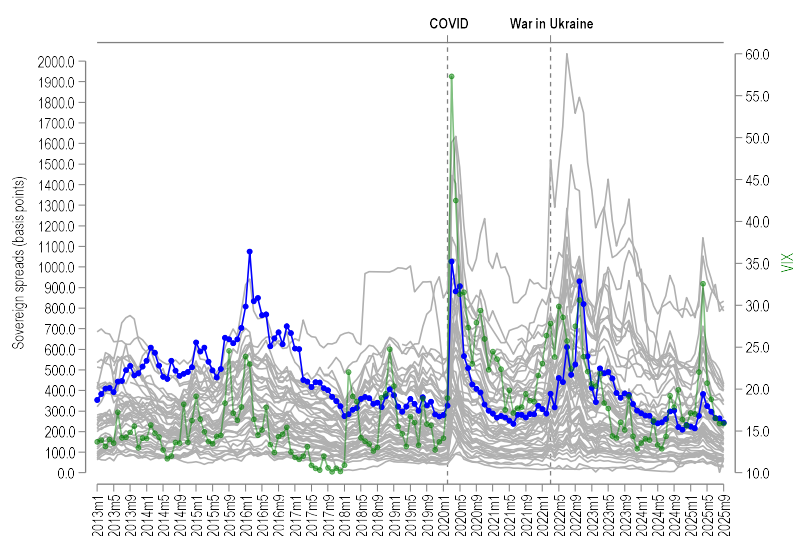
⁹ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex VI. Do FX Reserves Help Insulate Sovereign Bond Spreads from Global Financial Turbulence?¹

Emerging and frontier markets face recurrent bouts of global financial turbulence. In response, accumulating FX reserves has become a key policy strategy to mitigate such vulnerabilities. This annex provides an empirical assessment of whether higher FX reserves help insulate sovereign bond spreads from global financial turbulence. Based on a panel of 57 countries over the past two decades, staff finds that adequate FX reserves dampen sovereign spreads during periods of global financial turbulence. For Mongolia, the policy implication is that if its FX reserves as percent of the IMF's ARA metric were 0.12 points higher, the increase in its sovereign bond spreads would be 21 basis points lower during the next 10 basis points VIX shock.

1. Foreign exchange (FX) reserves serve as a critical self-insurance mechanism against external shocks. Substantial reserve buffers can lower rollover risk, bolster investor confidence, and compress sovereign bond spreads. This note examines whether higher FX reserves helped contain spikes in sovereign bond spreads in a group of countries following the COVID-19 pandemic and the war in Ukraine, with policy implications for Mongolia.

Annex IV. Figure 1. Sovereign Bond Spreads in a Selected Group of Countries
(Monthly, 2013-2025)



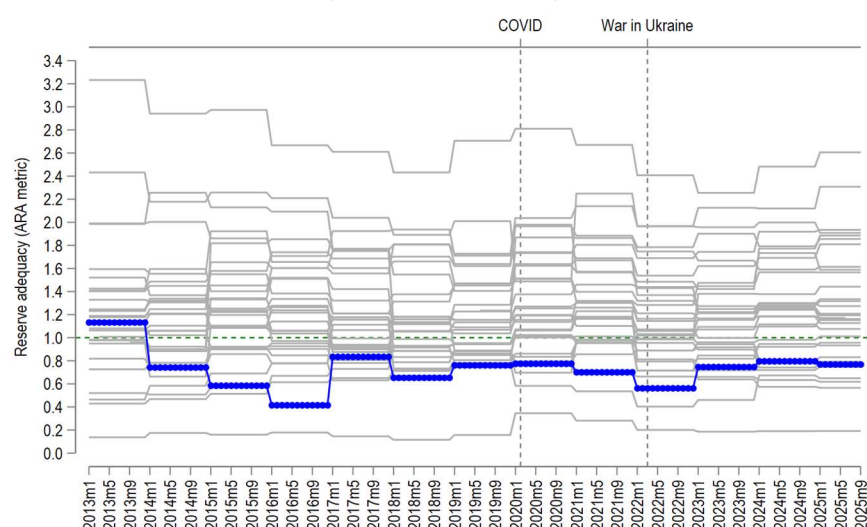
Source: IMF Sovereign Debt Monitor, taken from Bloomberg LLC.

Note: The sample includes 57 countries with sovereign spreads not exceeding 2000 basis points. USD-denominated bonds are underlying the spread curves for most countries, with those spreads calculated over U.S. Treasury yields. For the spread curves based on euro-denominated bonds, spreads are calculated over German government yields. The blue line shows the spreads for Mongolia, while the green line shows the VIX index (right axis).

¹ This Annex was prepared by Tigran Poghosyan.

2. Sovereign spreads tend to spike sharply during periods of global stress. Figure 1 plots sovereign bond spreads for a group of countries from 2013 to 2025. The figure also displays the dynamics of the VIX index as a measure of global volatility (green line, right axis). Two prominent spikes correspond to the onset of the COVID-19 pandemic in early 2020 and the outbreak of the war in Ukraine in early 2022. Mongolia's spreads closely track the overall cross-country trend but are consistently higher than average and more volatile, reflecting the country's narrower export base and greater sensitivity to external financing conditions. Following these global shocks, spreads remained elevated for several months before gradually declining, suggesting that external vulnerabilities persisted even as investor sentiment partially recovered.

Annex IV. Figure 2. FX Reserves Using the IMF's ARA Metric
(Annual, 2013-2025)



Source: IMF.

Note: The ARA metric measures the adequacy of a country's reserves against potential balance-of-payments needs. A value above 1 suggests adequate buffers. The blue line shows the ARA metric for Mongolia.

3. Mongolia's FX reserves have persistently hovered below the adequacy threshold of 1.

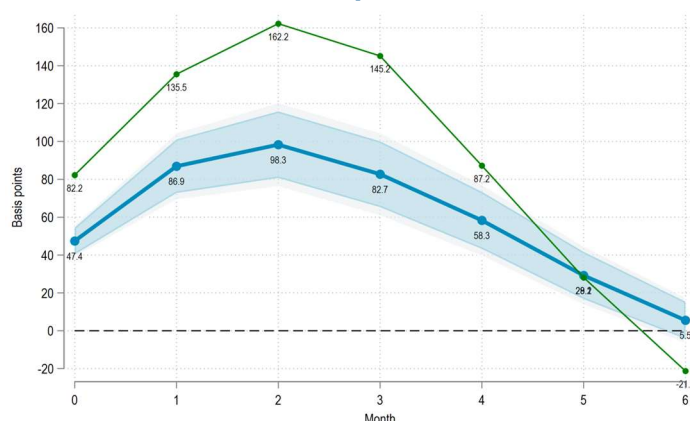
Figure 2 displays FX reserve adequacy ratios for the same group of countries with available data, measured using the IMF's Assessing Reserve Adequacy (ARA) metric. While reserve adequacy across countries has generally remained within a range of 1 to 2, Mongolia's reserves have been generally lower. This implies relatively limited external buffers compared to the IMF's benchmark. The shocks in 2020 and 2022 led to temporary declines in reserve adequacy for several countries, but Mongolia's ratio remained low and stable, underscoring its structural vulnerability and constrained self-insurance capacity.

4. Following Lang et al. (2023)², staff employs a local projection methodology to assess the impact of global shocks on sovereign bond spreads. The empirical specification is:

$$\Delta Spr_{c,t+h} = \beta^h Shock_t + \sum_{k=1}^{12} \alpha_k Spr_{c,t-k} + \gamma_c + \varepsilon_{c,t+h} \quad (1)$$

where the dependent variable denotes the cumulative change in sovereign bond spreads (Spr) of country c from month t to $t+h$, $Shock$ is a dummy that equals 1 during the 6-month windows of the COVID-19 period (February–July 2020) and the war in Ukraine (March–August 2022). Country fixed effects are captured by γ_c , and ε is an i.i.d. error term. Lagged values of the sovereign spread (up to 12 months) control for mean reversion and persistence. The coefficient of interest, β^h , traces the impact of global shocks on sovereign bond spreads over $h=6$ months after the shock.

Annex IV. Figure 3. Impulse Response Function: The Impact of Global Shocks on Sovereign Bond Spreads



Source: IMF staff calculations.

Note: The impulse response function traces the impact of global shocks on sovereign bond spreads for up to six months after the shock. The blue line shows the impulse response function and the associated 90 and 95 percent confidence intervals for the panel of 57 countries. The green line shows the impulse response function for Mongolia.

5. For the average country (blue line), a global shock causes a statistically significant increase in spreads, peaking at about 100 basis points in the second month before gradually returning to baseline within six months (Figure 3). In contrast, Mongolia's response (green line) is significantly larger and more persistent, with spreads peaking around 160 basis points and remaining elevated for longer. This confirms that Mongolia is substantially more sensitive to shifts in global risk sentiment, consistent with its higher external financing dependence and lower reserve buffers. The results indicate that while global shocks affect all countries, their impact is amplified in more vulnerable economies like Mongolia.

6. Staff substitutes the shock variable with changes in the VIX index to assess how sovereign bond spreads respond to broader episodes of global financial turbulence. Given that

² Lang, V., Mihalyi, D., and Presbitero, A. (2023). Borrowing costs after sovereign debt relief. *American Economic Journal: Economic Policy*, 15(2): pp. 331-358.

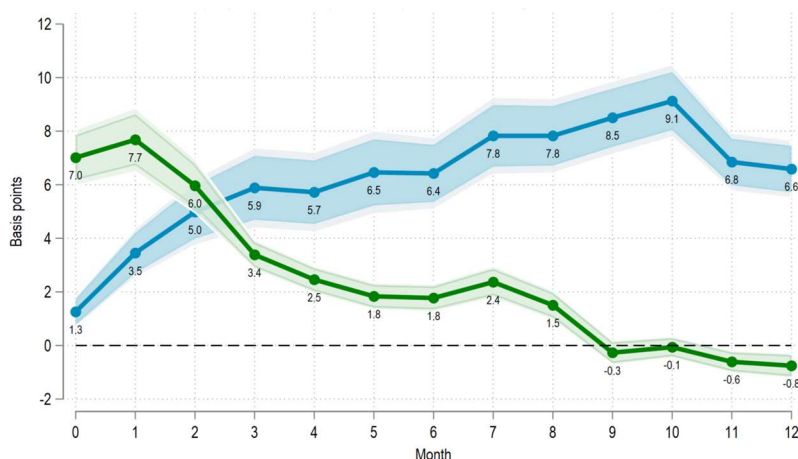
the impact of VIX fluctuations on sovereign bond spreads may be asymmetric, staff incorporates positive and negative VIX changes separately in the model. Furthermore, to assess whether adequate foreign exchange reserves can help mitigate the impact of global financial instability on spreads, staff introduces an interaction term between positive VIX changes and a dummy variable indicating reserve adequacy:

$$\Delta Spr_{c,t+h} = \beta_1^h \Delta VIX(+)_t + \beta_2^h \Delta VIX(-)_t + \beta_3^h [\Delta VIX(+)_t * D_{it}] + \sum_{k=1}^{12} \alpha_k Spr_{c,t-k} + \gamma_c + \varepsilon_{c,t+h} \quad (3)$$

where $\Delta VIX(+)$ is the positive change in VIX, $\Delta VIX(-)$ is the negative change in VIX, and D_{it} is a dummy variable taking the value of 1 for countries with FX reserve adequacy metric below the minimum adequacy level of 1 in period t .³ The coefficient β_1 (β_2) captures the impact of positive (negative) VIX shocks on spreads. The coefficient β_3 captures the additional impact of positive VIX shocks (financial turbulence) on spreads in countries with inadequate FX reserves compared to countries with adequate FX reserves.

7. The IRF analysis reveals a distinct asymmetry in how sovereign spreads react to changes in the VIX index (see coefficients β_1 and β_2 in Figure 4). Following a one-unit positive VIX shock, the spreads react swiftly peaking at 7.0-7.7 basis points in the first two months before gradually phasing out (green line). By contrast, following a one-unit negative VIX shock, sovereign spreads react more sluggishly, with the impact peaking at 9.1 basis points only on the tenth month after the shock (blue line). The contrast between the green and blue lines highlights that spreads are more sensitive to increases in volatility than to decreases, underscoring the asymmetric nature of sovereign risk pricing in response to global market uncertainty.

Annex IV. Figure 4. Impulse Response Function: The Asymmetric Impact of VIX Shocks on Sovereign Bond Spreads



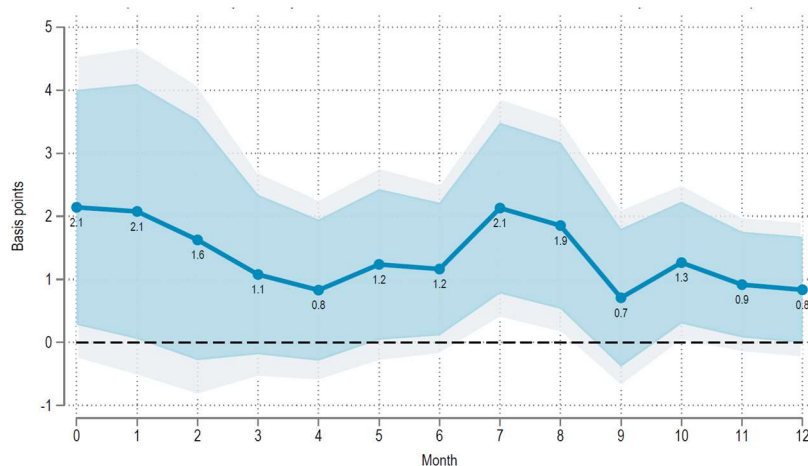
Source: IMF staff calculations.

Note: The impulse response function traces the impact of global shocks on sovereign bond spreads for up to six months after the shock. The blue line shows the impulse response function and the associated 90 and 95 percent confidence intervals for the panel of 57 countries. The green line shows the impulse response function for Mongolia.

³ Out of 57 countries in the sample, only 33 countries have data on FX reserves using the ARA metric.

8. Countries with inadequate FX reserves experience a sharper increase in sovereign spreads at about 21 basis points at the peak following a VIX shock (see coefficient β_3 in Figure 5). This result suggests that adequate FX reserves allow countries to cushion their sovereign spreads from global shocks, saving them roughly 21 basis points on sovereign borrowing costs for a 10 basis points increase in VIX at the peak. For Mongolia, this implies that if its current FX reserves are expanded by 0.12 ARA adequacy metric, the surge in its sovereign bond spreads following the next 10 basis points VIX shock would be lower by approximately 21 basis points.

Annex IV. Figure 5. Impulse Response Function: The Additional Impact of VIX Shocks on Sovereign Bond Spreads in Countries with Inadequate FX Reserves Compared to Countries with Adequate FX Reserves



Source: IMF staff calculations.

Note: The impulse response function traces the impact of VIX shocks on sovereign bond spreads over six months. The blue line represents the additional impact of VIX shocks on spreads in countries with inadequate FX reserves compared to countries with adequate FX reserves and the associated 90 and 95 percent confidence intervals.

Annex VII. Distributional Effects of Recent VAT Refund Increases in Mongolia¹

This annex assesses the distributional implications of Mongolia's 2026–27 VAT refund reforms, which substantially increase refund generosity with the stated aim of easing household tax burdens and reducing inequality. Using household survey data matched to administrative E-BARIMT data, the analysis simulates the effects of the new refund schedules with and without alternative behavioral assumptions and evaluates changes in national and regional inequality measures. While the reforms significantly raise Value Added Tax (VAT) rebates for monthly purchases up to certain threshold with the aim of supporting lower-income households, their impact on reducing inequality is marginal as measured by Gini and Theil indices. Given the sharp increase in fiscal costs associated with more generous refunds, the reforms represent a relatively expensive and inefficient instrument for achieving distributional objectives compared with more targeted social programs.

1. In 2025, the Mongolian authorities have initiated a substantial reform of Mongolia's VAT rebate mechanism. The authorities view this measure as a key response to the loss of purchasing power of low- and middle-income households amid high inflation. In 2024, the VAT refund program returned MNT 356 billion to 1.4 million citizens, yet administrative data indicate significant inequities despite the flat 20 percent refund rate. High-spending individuals receive more than double the refunds of low-spending individuals, owing to concentrated formal sector consumption and disparities in access to VAT-eligible transactions. Against this backdrop, the amendments aimed to ease households' tax burden, improve rebate equity, enhance VAT administration, and reduce informality through stronger receipt-issuance incentives.

2. The phased increase in VAT refund generosity was proposed for 2026 and 2027. In 2026, the VAT refund rate would rise to 50 percent for monthly purchases up to MNT 1.0 mln and remain at 20 percent for purchases above that threshold. From 2027, refunds would become more progressive: 100 percent on purchases up to MNT 0.5 mln, 50 percent on purchases between MNT 0.5–1 mln, and 20 percent above MNT 1 mln. The authorities expect the reform to boost disposable incomes, reduce inequality, and improve VAT compliance.²

3. This annex applies the new refund parameters to detailed household-level microdata to assess the distributional impact of reforms. The analysis begins with the current inequality landscape. Based on the 2024 Household Socio-Economic Survey (HSES), the national Gini index is 31.5, with inequality higher in urban areas (31.8) and Ulaanbaatar (32.2) than in rural areas (27.3) and the countryside (26.5). The national Theil index is 0.174 and its decomposition indicates that most inequality stems from within-group (0.164) rather than between-group (0.009) differences.

¹ This Annex was prepared by Tigran Poghosyan (IMF), Enkhbat Baasandorj (IMF), Lydia Kim (WB), and Sugarkhuu Radnaa (WB).

² Throughout the Annex, the years refer to the enactment of revised VAT rebates. The actual rebates will be transferred to households with a lag. For instance, the rebates for the 2026 Oct 1 revisions will be transferred in 2027.

Annex VII. Table 1. Mongolia: Income Inequality, 2024

Region	Baseline Gini index	Theil index		
		Total	Between	Within
National	31.5			
Urban	31.8	0.174	0.009	0.164
Rural	27.3			
Ulaanbaatar	32.2	0.174	0.012	0.162
Aimag center	29.6			
Soum center	28.1			
Countryside	26.5			

Source: Authors' calculations based on the 2024 Household Socio-Economic Survey (HSES).

Note: The Gini Index and Theil Index are calculated based on per capita household consumption. Urban refers to Ulaanbaatar and capitals of 21 provinces, rural refers to the rest of the country.

4. To assess whether higher VAT rebates reduce income inequality,³ individual-level rebate data from the E-BARIMT database were matched to 2024 HSES respondents and aggregated to the household level. Simulations of the proposed 2026 and 2027 rebate schedules were conducted under two scenarios: one assuming no change in household spending behavior and another allowing households to reallocate receipts among adult members to maximize refunds. Additional rebates were assumed to be fully spent, and inequality effects were evaluated using the Gini and Theil indices at the national and regional levels.

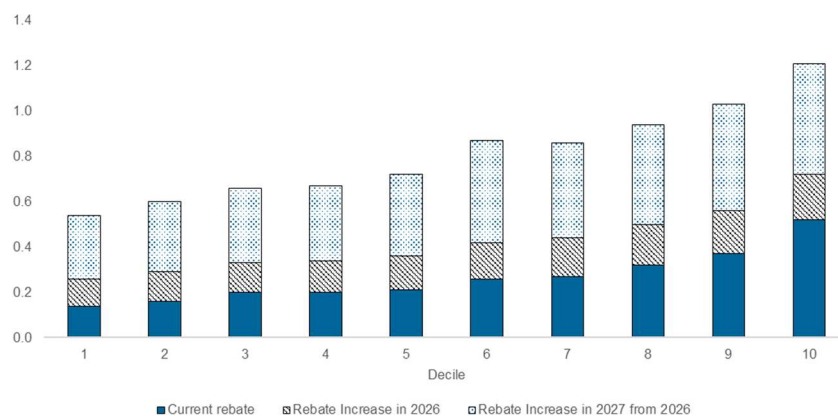
5. The simulations indicate a substantial increase in average VAT rebates, rising by 54 percent in 2026 and 185 percent in 2027 under the no-behavioral-change scenario (Figure 1). If households optimize receipt allocation to maximize refunds, average rebates increase by 70 percent in 2026 and 217 percent in 2027. While lower-income households benefit more in percentage terms, higher-income households receive larger absolute gains due to greater spending. As a result, although the share of rebates accruing to top 30 percent of households declines, the distribution of rebates remains concentrated among higher welfare deciles. Policy changes would reduce the rebate inequality Gini index by 8.93 points in 2026 and by 14.56 points in 2027.

³ Throughout the Annex, the term "income inequality" refers to inequality calculated based on per capita household consumption.

Annex VII. Figure 1. Distributional Effects of VAT Rebate Reforms

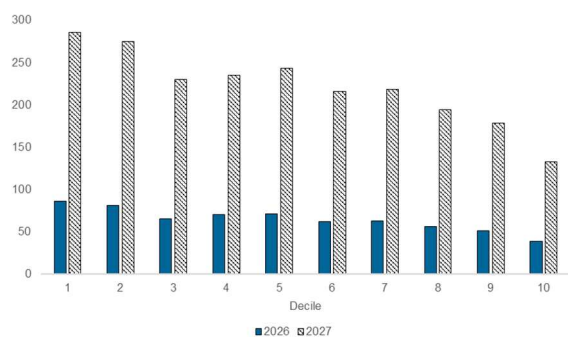
Current VAT Rebate and Projected Increases from Recent Policy Changes, across Household Income Deciles

(mln MNT)



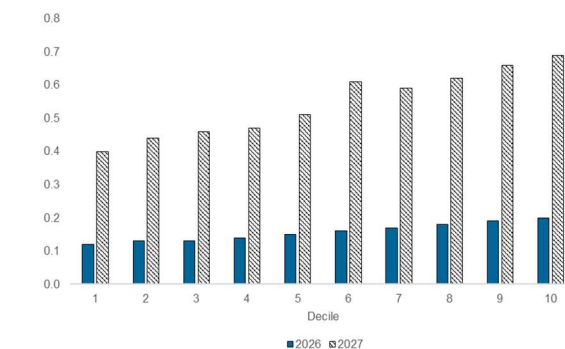
Changes in Rebate

(Percentage)



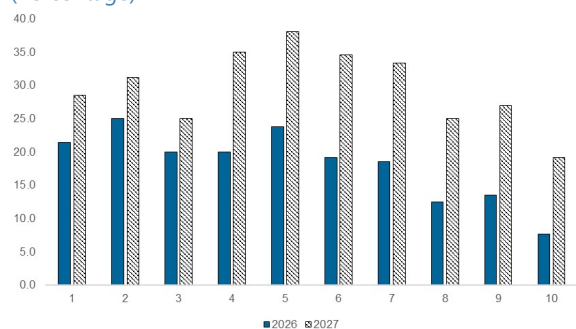
Absolute Change in Rebate

(mln MNT)



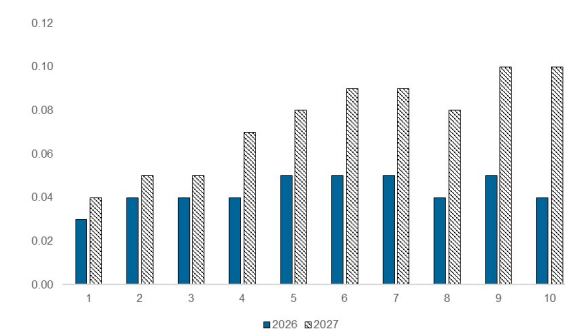
Difference in Percentage Change in Rebate between Optimization and Non-Optimization Scenarios

(Percentage)



Difference in Absolute Change in Rebate between Optimization and Non-Optimization Scenarios

(mln MNT)



Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

Note: Deciles are calculated using the official welfare measure in Mongolia, per adult equivalent consumption.

Deciles are ordered from poorest to richest (1 = poorest, 10 = richest).

6. However, the effect of the reforms on income inequality is modest. The National Gini index decreases from a baseline of 31.54 to 31.45 under the 2026 reform and to 31.28 under the 2027 reform. When optimizing behavior is allowed, the Gini index declines slightly further, to 31.42

and 31.25 in 2026 and 2027, respectively. These changes represent only marginal improvements in measured inequality. Moreover, when accounting for household marginal propensity to consume, the improvement in equality is further reduced, with the Gini index showing only a marginal reduction of 0.07 in 2026 and 0.20 in 2027.

Annex VII. Table 2. Mongolia: Simulation of the VAT Refund Reform under No-Behavioral-Change and Optimization Scenario

Region	Baseline Gini index	Δ 2026	Δ 2027	Δ 2026*	Δ 2027*
National	31.54	-0.09	-0.26	-0.12	-0.29
Urban	31.77	-0.10	-0.34	-0.14	-0.37
Rural	27.28	-0.04	-0.11	-0.05	-0.12
Ulaanbaatar	32.23	-0.10	-0.35	-0.14	-0.41
Aimag center	29.60	-0.10	-0.30	-0.13	-0.35
Soum center	28.14	-0.06	-0.20	-0.08	-0.22
Countryside	26.46	-0.04	-0.09	-0.04	-0.10

Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

Note: Inequality indices are calculated using per capita household VAT rebates. (* refers to optimization scenario)

Marginal propensity to consume (MPC) applied to the additional rebate is 1.

Annex VII. Table 3. Mongolia: Simulation of the VAT Refund Reform under No-Behavioral-Change and Optimization Scenario (MPC Adjusted)

Region	Baseline Gini index	Δ 2026	Δ 2027	Δ 2026*	Δ 2027*
National	31.54	-0.07	-0.20	-0.09	-0.23
Urban	31.77	-0.08	-0.28	-0.12	-0.33
Rural	27.28	-0.02	-0.06	-0.03	-0.06
Ulaanbaatar	32.23	-0.08	-0.29	-0.12	-0.35
Aimag center	29.60	-0.07	-0.23	-0.10	-0.27
Soum center	28.14	-0.04	-0.13	-0.05	-0.15
Countryside	26.46	-0.02	-0.05	-0.03	-0.05

Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

Note: Inequality indices are calculated using per capita household VAT rebates. (* refers to optimization scenario)

MPC applied to the additional rebate is same as the current MPC.

7. The reforms also have differentiated implications across regions. Within-region inequality decreases modestly as poorer households benefit proportionally more from the reforms,

while between-region inequality rises slightly because urban areas, especially Ulaanbaatar, continue to receive larger refunds. Overall, the reforms have little effect on the geographic distribution of inequality.

Annex VII. Table 4. Mongolia: The Impact of the VAT Refund Reform on Income Inequality (Theil Index) under the No-Behavioral-Change

Region	Current			Δ 2026			Δ 2027		
	Total	Between	Within	Total	Between	Within	Total	Between	Within
Urban	0.1742	0.0097	0.1645	-0.0010	0.0001	-0.0010	-0.0030	0.0003	-0.0033
Rural									
Ulaanbaatar	0.1742	0.0120	0.1622	-0.0010	0.0001	-0.0010	-0.0030	0.0002	-0.0033
Aimag center									
Soum center									
Countryside									

Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

Annex VII. Table 5. Mongolia: The Impact of the VAT Refund Reform on Income Inequality (Theil Index) under the Optimization Scenario

Region	Current			Δ 2026*			Δ 2027*		
	Total	Between	Within	Total	Between	Within	Total	Between	Within
Urban	0.1742	0.0097	0.1645	-0.0013	0.0001	-0.0014	-0.0035	0.0003	-0.0038
Rural									
Ulaanbaatar	0.1742	0.0120	0.1622	-0.0013	0.0001	-0.0014	-0.0035	0.0003	-0.0038
Aimag center									
Soum center									
Countryside									

Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

8. The fiscal consequences of the reforms are significant. Under the assumption of no behavioral change, VAT rebate expenditures would increase by an additional MNT 863 bln in 2026 and MNT 1,600 bln in 2027. If households optimize their rebate claims, the corresponding costs rise by MNT 950 billion in 2026 and MNT 1,775 bln in 2027.

Annex VII. Table 6. Mongolia: The Fiscal Costs of the Rebate Reform

Fiscal cost	2025	Δ 2026	Δ 2027	Δ 2026*	Δ 2027*
bln MNT	375	863	1,600	950	1,775
percent		230	427	253	473

Source: Authors' calculations based on the 2024 HSES, E-BARIMT and MoF data.

Note: (* refers to optimization scenario)

9. Modest reductions in inequality achieved under policy scenarios, The reduction in the Gini index per MNT 1 bln spent is low, indicating that the expanded VAT rebate is an expensive and relatively inefficient means of addressing inequality compared with more targeted social programs.

Annex VII. Table 7. Mongolia: Gini Index Reduced for Each MNT 1 bln VAT Refund

Category	Δ 2026	Δ 2027	Δ 2026*	Δ 2027*
National	-0.0005	-0.0003	-0.0004	-0.0003
Urban	-0.0005	-0.0006	-0.0008	-0.0005
Rural	-0.0005	-0.0002	-0.0004	-0.0001
UB	-0.0005	-0.0005	-0.0004	-0.0005
Aimag center	-0.0005	-0.0005	-0.0004	-0.0004
Soum center	0.0000	-0.0003	0.0000	-0.0003
Countryside	-0.0005	-0.0002	-0.0004	-0.0001

Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

Note: (* refers to optimization scenario)

10. A hypothetical scenario suggests that direct cash transfers would reduce inequality far more effectively than the proposed VAT rebate reforms. At the same fiscal cost, transferring resources to the poorest decile would lower the Gini index by 2.46 points in 2027 –about ten times the reduction achieved by the rebate policy.

Annex VII. Table 8. Mongolia: Alternative Policy Scenarios with Equivalent Fiscal Cost

Target group	Transfer amount per household (per month, MNT)		Change in Gini index to baseline	
	2026	2027	Δ 2026	Δ 2027
Bottom 1 decile	153,865	527,641	-0.77	-2.46
Bottom 2 decile	76,351	261,828	-0.70	-2.29
Bottom 3 deciles	50,787	174,162	-0.63	-2.08

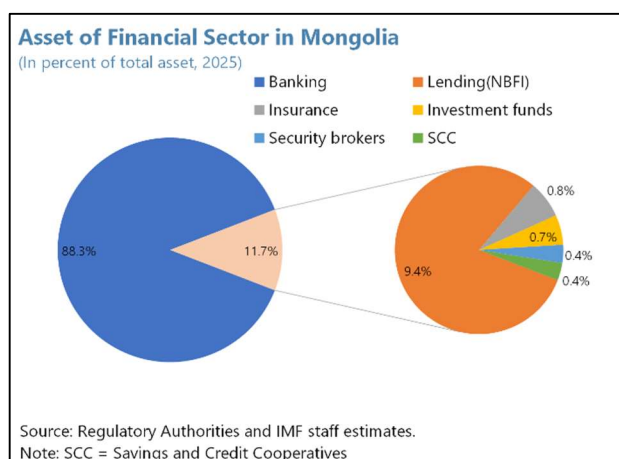
Source: Authors' calculations based on the 2024 HSES and E-BARIMT data.

Annex VIII. Mongolia's NBFI Sector: Growth Dynamics, Regulatory Impacts, and Vulnerabilities¹

Mongolia's nonbank financial institution (NBFI) sector is distinctive in that it is dominated by consumer lenders and it is growing very fast. Recent prudential tightening measures introduced by the Financial Regulatory Commission (FRC) have slowed NBFI growth. While these measures have helped curb excessive credit growth and reduce interconnectedness between banks and NBFIs, concerns are emerging regarding rising NPLs, continued sector expansion, and the increasing use of new funding sources. These developments underscore the need for continued close monitoring, enhanced data collection, and strengthened risk-based supervision.

1. Mongolia's financial system is bank-centric and concentrated, though Non-Bank Financial Institutions (NBFIs) are growing fast and becoming significant providers of credit, especially to consumers.

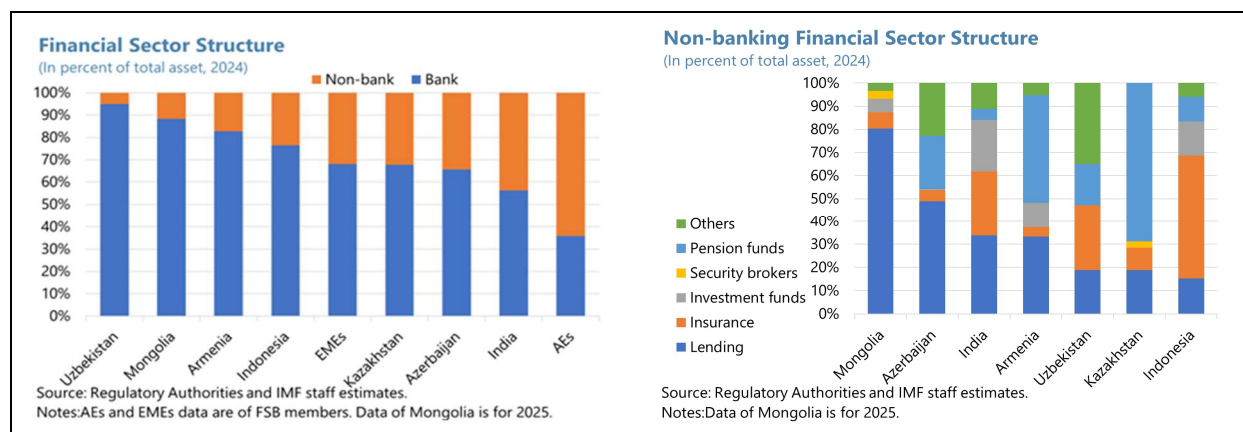
The banking sector is sizeable with assets about MNT 85.2 trillion as of December 2025 (94.6 percent of GDP), accounting for 88 percent of the total financial sector assets. The nonbank financial sector includes capital market, insurance, NBFIs, savings and credit cooperatives (SCCs), FX dealers, trust and virtual asset service providers; however, consumer lenders dominate this segment. Mongolia's financial system is overseen by two regulatory authorities: the Bank of Mongolia (BOM), which is responsible for overseeing the banking sector, and the Financial Regulatory Commission (FRC), which supervises all non-bank financial activities.



2. Non-bank financial sector appears least diversified among peers with a dominant role of NBFIs. At present, more than 500 NBFIs provide loans, accounting for 9.4 percent of total financial sector assets. This represents 80.3 percent of the nonbank financial sector as other entities,² such as insurance and investment funds, remain relatively small. While bank dominance in the sector is a common trend in emerging economies, this structure is somewhat unique compared to other countries in that credit provision, bank and NBFI lending combined accounts for nearly the entire financial sector (97.4 percent). Although the NBFI sector remains smaller than banking sector, its rapid expansion and small size of other nonbank segments have increased its systemic relevance.

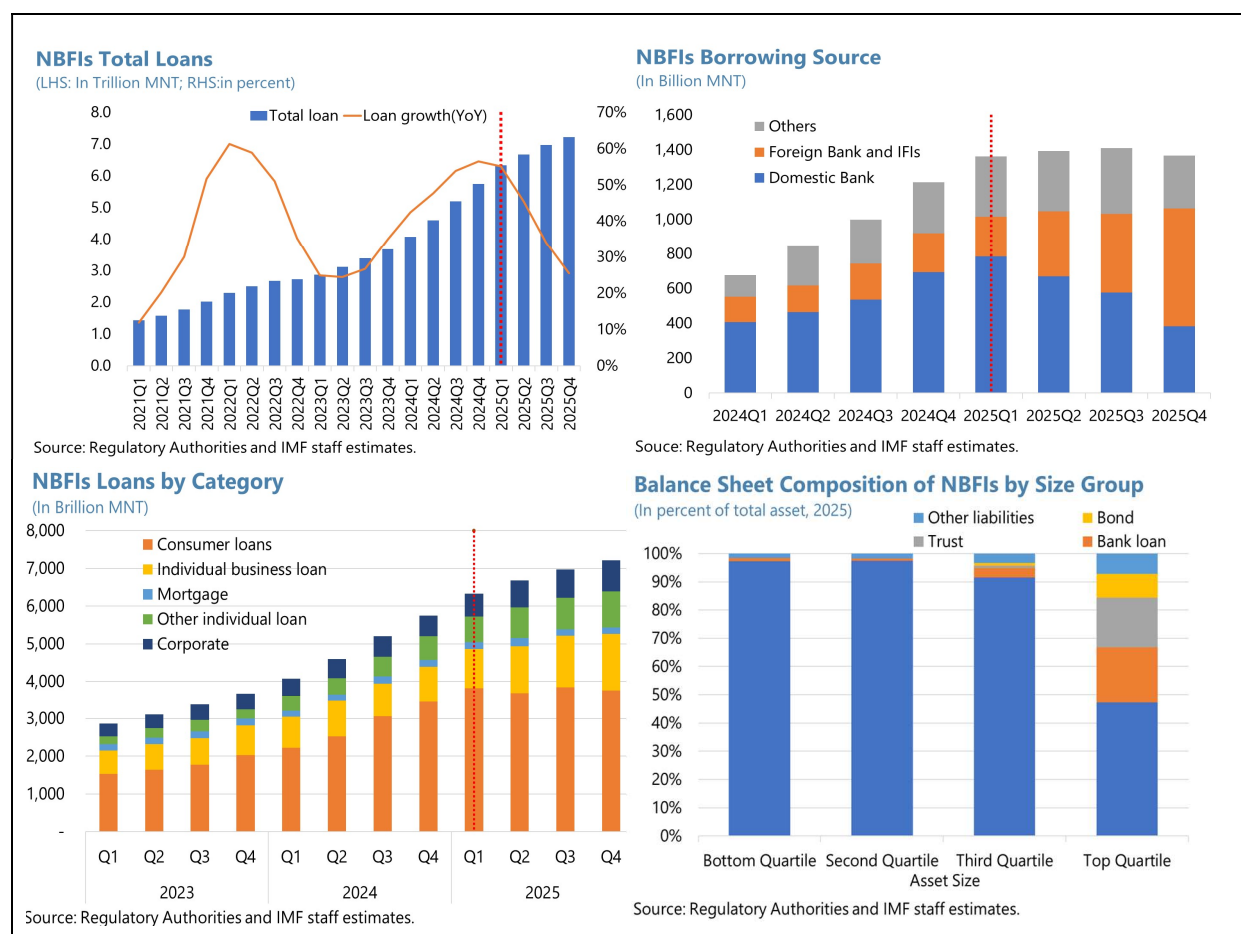
¹ Prepared by Kenya Kitano.

² There is no official legal framework for private pension funds and only a small number of organizations operate and provide programs comparable to pension funds.

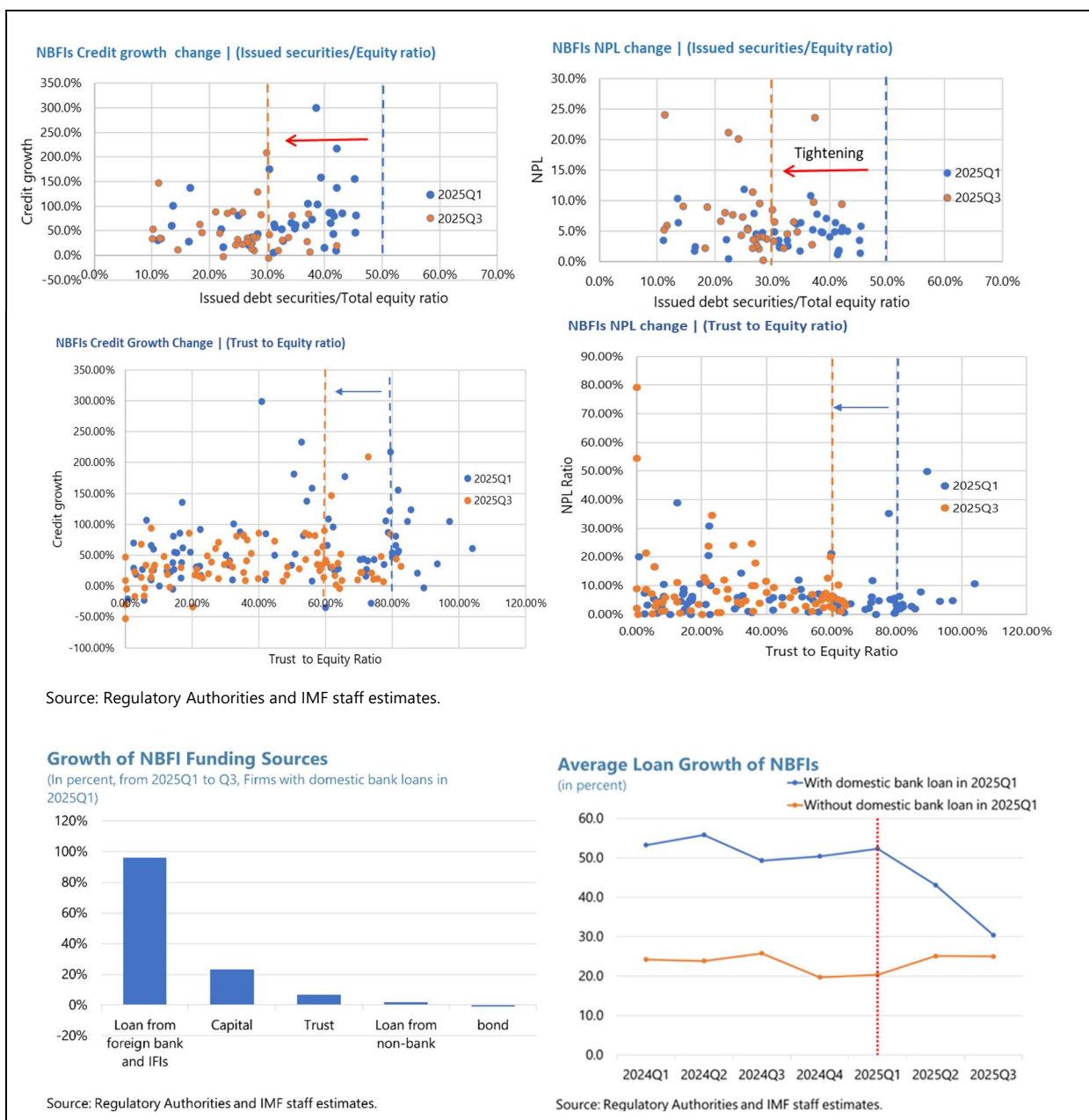


3. Following the FRC's tightening of regulations, the NBFI sector has experienced slower credit growth, deleveraging, and a reallocation of funding structure and loan products. The FRC tightened prudential regulations at the end-March 2025 to counter the rapid credit growth of NBFIs, which had reached 56 percent YoY (end of 2024). The tightening measures included lowering the debt-service-to-income (DSTI) cap on consumer loans from 70 percent to 60 percent and prohibiting NBFIs from borrowing from domestic banks. In addition, the cap on corporate bonds on the balance sheet has been lowered from 50 percent of capital to 30 percent, and cap on trusts liability has been reduced from 80 percent of capital to 60 percent. The DSTI limit was further reduced to 55 percent in February 2026. Quarterly NBFI credit growth continued to slow thereafter, declining to 22.8 percent YoY as of the 2026Q1. Consumer loan growth slowed further to 8.9 percent from a 71.8 percent peak. While consumer loan growth has slowed markedly, personal business loans and corporate loans, which are not subject to DSTI limits, have continued to grow. Borrowing from domestic banks has been replaced by other funding sources, with external borrowing increasing significantly. In addition, leverage ratio (asset/capital) in the NBFI sector fell from 1.95 in Q1 to 1.85 in Q3, indicating an improvement in the balance sheet amid slower asset growth.

4. The NBFI sector's assets and leverage are concentrated among large institutions, underscoring the importance of closely monitoring risks posed by these entities. Sectoral concentration has continued to rise. Although there are more than 500 NBFIs, the top 10 account for 43.8 percent of the total sector assets as of end-2025. In addition, the bottom 75 percent of NBFIs have more than 90 percent of their balance sheets made up of equity, while the top 25 percent rely on a broader range of funding sources, including debt, bonds, and trusts. Following the ban on borrowing from domestic banks imposed at the end-March 2025, borrowing from foreign banks and international financial institutions (IFIs) increased sharply, although this was concentrated among only by 14 firms.



5. The sharp regulatory tightening has had a pronounced impact on some firms and has helped curb the credit boom, but it has also introduced new risks to the sector. The DSTI regulations affect the sector broadly, as a large share of outstanding loans are consumer loans, whereas restrictions on fundraising have an impact on limited number of institutions. Following the tightening, credit growth moderation was more pronounced among NBFIs closer to the new regulatory caps on issued debt securities and trust funding, suggesting that these constraints were binding for more leveraged institutions. At the same time there was variability in the trends of NPL ratios. Prior to the regulatory changes, domestic bank loans accounted for 21.2 percent of the total sector liabilities; By contrast, 79 percent of companies in the sector had no borrowing from domestic banks. Although credit growth among regulated NBFIs has declined significantly, some institutions have adjusted their balance sheets by borrowing from foreign financial institutions and increasing capital, resulting in loan growth rates exceeding 30 percent YoY as of Q3 2025. For NBFIs that borrow from foreign financial institutions, such borrowing accounts for 30.4 percent of their debt, underscoring the need for careful management of FX and funding risks.



6. Staff estimates, based on a difference-in-difference methodology, also indicate that NBFIs with domestic bank borrowing experienced a decline in their annual growth rates of about 24.4 percentage points relative to NBFIs without such borrowing following the introduction of the restrictions. The dependent variable is the YoY credit growth in each NBFIs. Estimations are performed using the OLS estimator on a quarterly data sample of 462 NBFIs over the period from 2024Q1 to 2025Q3. The empirical specification of the difference-in-difference model is as follows:

$$Y_{it} = \alpha + \beta_1 \cdot D_i + \beta_2 \cdot Post_t + \beta_3 \cdot (Post_t \times D_i) + \gamma \cdot asset_2025Q1_i + \epsilon_{it}$$

where Y denotes the YoY credit growth, D is dummy variable taking the value 1 for NBFIs that borrow from banks (treatment group), $Post$ is the dummy variable taking the value 1 for the period after March 2025 when NBFIs borrowing from banks was banned. The coefficient of interest is β_3 captures the impact of the ban on bank borrowing on the credit growth of NBFIs borrowing from banks relative to those that do not (difference-in-difference effect). Total assets in 2025Q1 are included to control for differences in firm size prior to the restriction.

Annex VIII. Table 1. Mongolia: Impact of Bank Borrowing Restrictions on NBFIs Credit Growth

Variable	YoY Loan growth (Y)
Post × treatment(β_3)	-24.429*** (6.398)
Post(β_2)	-2.311(3.017)
Treatment(β_1)	31.455*** (9.010)
Total asset_before regulation (γ)	9.767e-08 (6.478e-08)
Constant(α)	25.617*** (2.764)
Observations	2929
R ²	0.038

*p<0.1, **p<0.05, ***p<0.01.

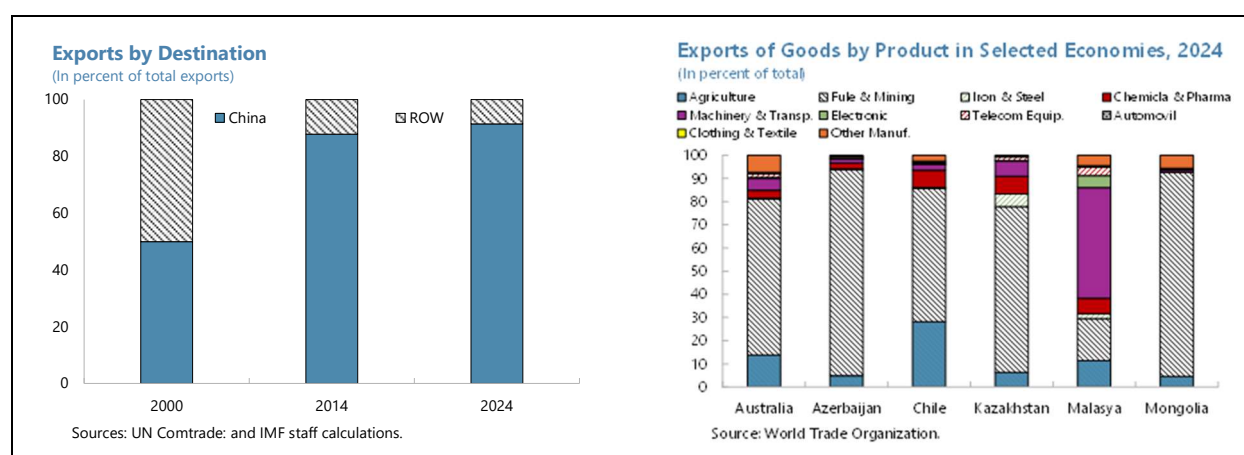
7. Together with the tightening in the banking sector, the FRC's prudential measures are contributing to the goal of preventing excessive credit growth and mitigating systemic risks arising from interconnectedness between banks and NBFIs. Interconnectedness between domestic banks and NBFIs has declined, alongside a reduction in leverage. At the same time, diversification of financing sources by NBFIs and their growing role in the financial sector underscore the need for a proportionate supervisory approach that is commensurate with the scale, business models, and risk profiles of individual institutions. In particular, enhanced monitoring of foreign exchange and liquidity risks is important to better assess vulnerabilities in the NBFIs sector and deploy effective policy tools. In this context, enhanced data collection is critical to support effective risk-based supervision. Priority data gaps include borrower-level DSTI information for each NBFIs, as well as detailed data on funding costs, liquidity positions, and reliance on external and foreign currency funding, particularly for large NBFIs with diversified balance sheets.

Annex IX. Economic Diversification in Mongolia¹

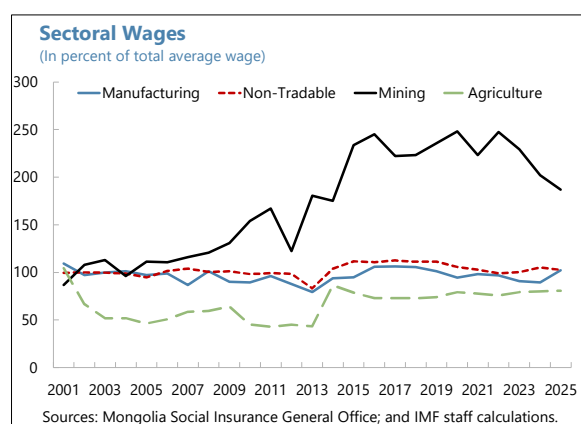
Leveraging on its abundant natural assets, Mongolia has emerged as a middle-income economy heavily reliant on capital-intensive mining and intensive livestock farming. This exposes Mongolia's economy to high volatility of commodity prices and weather conditions. Moreover, coal—one of Mongolia's largest exports—risks becoming a stranded asset as China's decarbonization advances. This underscores the urgent need for Mongolia to diversify its economic structure. This annex identifies potential pathways for diversification and the policies and reforms needed for it.

Introduction

1. Mongolia has one of the most concentrated export basket. Mongolia is a landlocked and geographically remote country, sparsely populated, with a harsh climate, strong seasonality, and vast territory, which poses significant challenges to trade and tourism development. Any trade with a third country (using ground transportation) is bound to be transited through China or Russia, increasing transportation costs significantly. As a result, raw commodities account for around 90 percent of total exports, which are mostly exported to China.

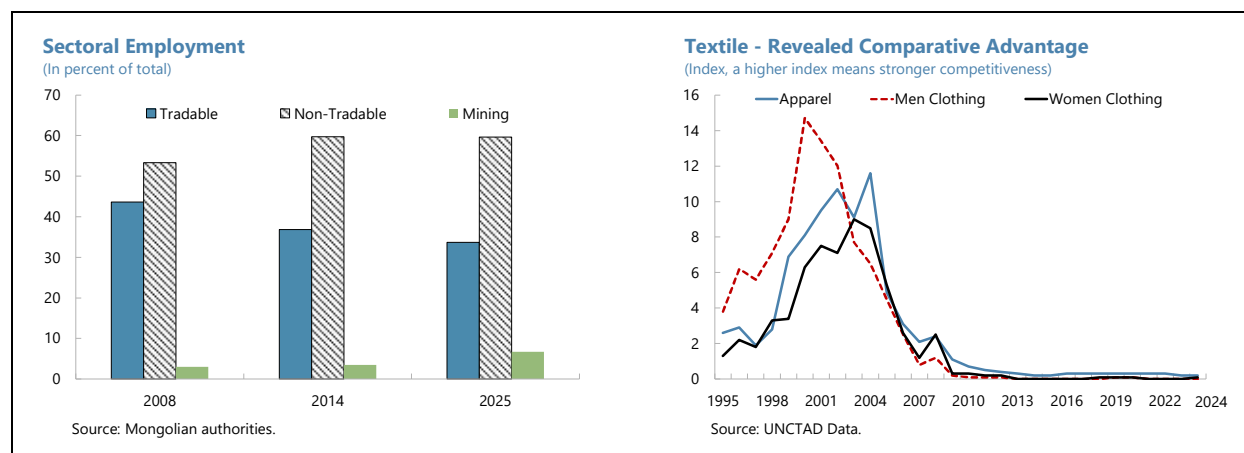


2. The rapid and large expansion of mining activities and ensuing macroeconomic volatility have undermined the competitiveness of non-mining activities. The requirement to attract employment into the buoyant mining sector has translated into a rapid increase in wages. This has triggered a shift of labor (and capital) away from non-mining activities. Delays in adjusting exchange rate during periods of low commodity prices have

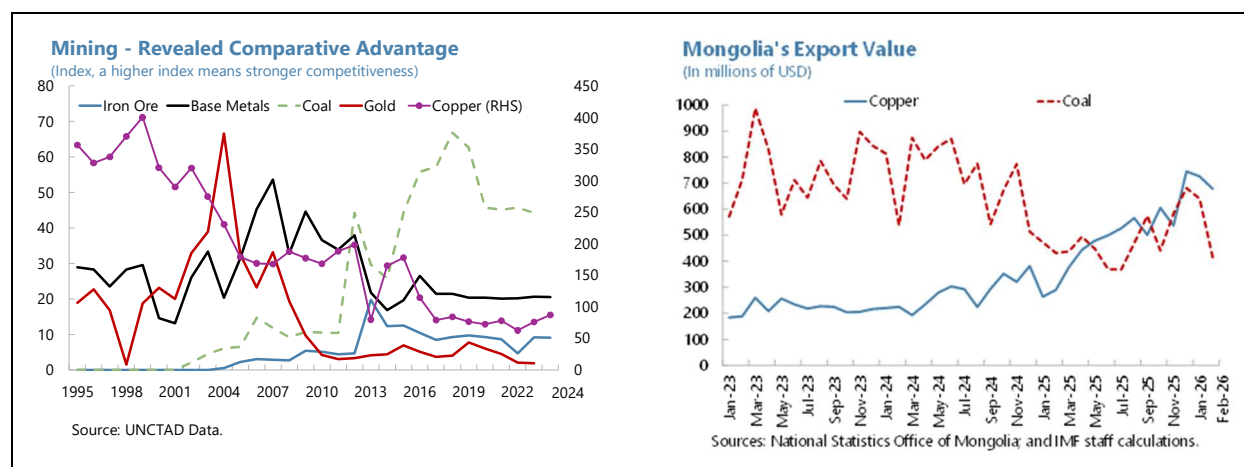


¹ This Annex was prepared by Teresa Daban Sanchez.

encouraged greater imports, higher current account deficits, and big swings in the exchange rate, inflation and interest rates. This high volatility has discouraged investment, innovation and labor productivity. This is reflected in a significant reduction in Mongolia's Revealed Comparative Advantage (RCA),² in traditional sectors (e.g., textile), since the beginning of the mining boom in 2004.

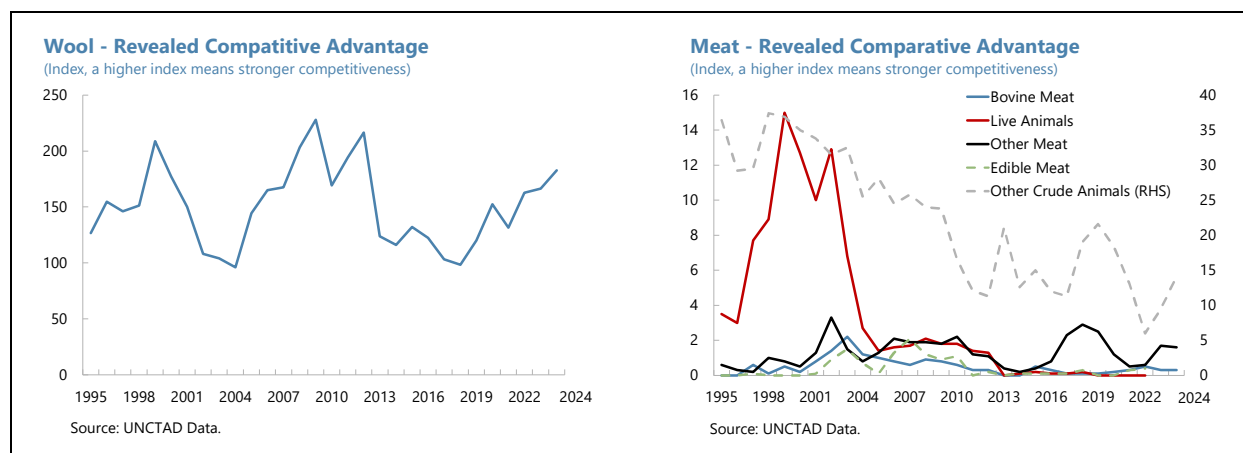


3. Mining is Mongolia's sector with the highest diversification potential. Mongolia maintains an RCA in a large list of mining products, and particularly copper (Oktyabri, 2025). Moreover, majority of currently active and incoming mining projects have a very competitive profile on a site-costs basis (World Bank, 2021a). In addition, Mongolia hosts significant large, untapped reserves of many mineral resources, including rare earth elements (RRE). Mongolia is well-placed to expand in-country mineral processing and smelting, especially copper (World Bank, 2025), and contribute to close the expected large deficit in the global supply of copper by 2030, which is a crucial for electrification and decarbonization (IEA, 2021).



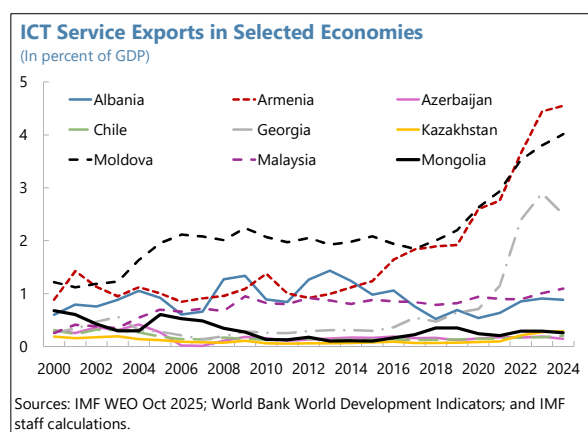
² The RCA index is equal to the proportion of a country's exports of a certain good divided by the proportion of the world exports of the same good. A comparative advantage is revealed when $RCA > 1$.

4. Mongolia could pursue expanding its agribusiness production. Mongolia has an RCA for meat and dairy products, given its sizable livestock and proximity to largest meat importers such as China and Uzbekistan. Mongolia also has an RCA in the production of wool and other animal hair. It produces roughly 10,000 metric tons of raw cashmere annually, representing 40-50 percent of the world's supply (Usov, 2024).



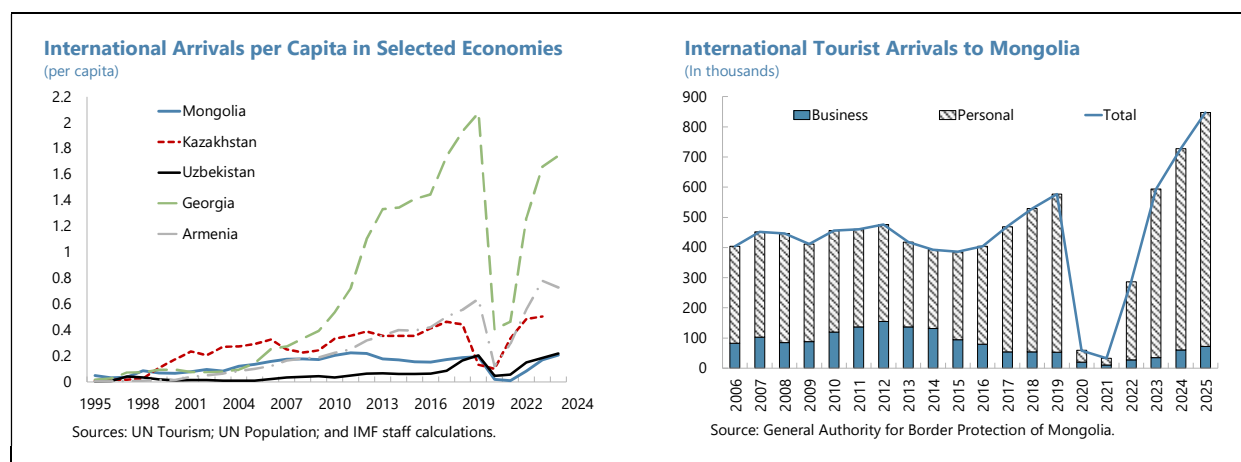
5. The Information & Communication Technology (ICT) sector offers Mongolia a good diversification option. Prospective markets are China (a major e-commerce player), Russia and Central Asia, due to limited time difference.

According to Mongolia's National Statistics Office (NSO), in 2024 the total revenue of the telecommunications sector accounted for 2 percent of GDP. However, the number of Mongolian ICT firms are still small (2,255 as of end 2021, World Bank, 2021c), most of them are small (less than 100 employees) and have a low level of specialization (i.e., involved in a wide range of digital services). With exports of ICT services at 0.4 percent of GDP, Mongolia still lags peers.



6. Mongolia should also focus on enhancing tourism. Mongolia still receives the smallest number of international arrivals and has experienced the slowest growth in arrivals in the past decades, when compared to Eurasia peers (United Nations World Tourism Organization website)³. Tourism receipts at 2.6 percent of GDP have not yet recovered to the level registered before COVID at 3.27 percent of GDP. Tourism and hospitality at large are the largest sectors after mining and agriculture, contributing an estimated 7 percent to GDP, 7.6 percent of employment (World Bank, 2021c), and accounting for 30 percent of total services exports.

³ Kazakhstan, Kyrgyz Republic, Uzbekistan, Tajikistan, Georgia, Azerbaijan, Armenia.



7. Mongolia should also pursue a geographical diversification of exports and imports.

Mongolia maintains a relatively open trade regime, but it has one of the lowest numbers of trade agreements globally.⁴ It imposes relatively low tariffs at 5 percent average, except for intermediate and agricultural goods. It has a low number of non-tariff measures, although it also has the lowest share of free tariff lines in Most Favored Nation rates (1 percent) and duty-free imports (2 percent) when compared to peers. Mongolia is also a recipient of the Generalized System of Trade Preferences but does not fully utilize its entitled benefits (World Bank, 2021c).

Mongolia's Challenges Towards Diversification

8. Public opinion is mixed between welcoming the benefits from mining and fearing environmental and social consequences. Open-pit mining and related infrastructure (roads, transportation) have destroyed vast areas of pastureland, leading to dust pollution, water scarcity and soil degradation, with displacement of traditional nomadic herders. Since the early 2000s, several hundred local-level agreements between mining companies and herder communities have been established with mixed results. Moreover, there is a strong perception that the benefits of mining activities are inequitably distributed (Chuluunbat, 2025).

9. Infrastructure and logistics frameworks pose severe challenges. Quality of internet connection is still low, with limited access in rural areas and high network latency and costs (World Bank, 2021c). Despite recent progress, Mongolia's trade facilitation and border infrastructure need further improvement (UN Global Survey on Digital and Sustainable Trade Facilitation and OECD Trade Facilitation Indicators). Poor roads and limited accommodation outside Ulaanbaatar undermine Mongolia's competitiveness in tourism (OECD Trade Facilitation Indicators). Agribusiness

⁴ They include: (i) Japan-Mongolia Economic Partnership Agreement (2016), and Asia-Pacific Trade Agreement (APTA) (2021); (ii) interim trade agreement with the Eurasian Economic Union (EAEU) (2026); (iii) Trade and Investment Framework Agreement (TIFA) and Bilateral Investment Treaty (BIT) with the U.S.

infrastructure, such as storage, cooling, transportation, veterinarian services remain underdeveloped (Dagys, et al, 2025a and 2025b).

10. Supply of water and power needs major improvements. Approximately 40 percent of Mongolia's economy depends on water-intensive sectors, including mining, textile, and agriculture (OECD, 2025). Despite having significant water resources, Mongolia faces severe water stress, due to uneven geographic distribution and over-reliance on groundwater. Despite having an immense renewable energy potential, power supply failures are frequent reflecting a heavy (>90 percent) reliance on aging coal-fired combined heat and power plants. One-fifth of power supply is imported (mostly from Russia).

11. Institutional and regulatory frameworks are instable and enforceability is weak.

Mining sector: Legal framework changes frequently, especially on FDI and taxation (Mejia & Aliakbari, 2026). The current royalty structure, which combines a base rate with progressive surcharges, usually leads to uncompetitive effective royalty rates. Projects' returns with large State participation (34-50 percent as required by law) are subject to high level of uncertainty (e.g. disputes, uncertain dividends policies, (IMF, 2008)). As a result, at present, mining and exploration licenses only cover 1.3 percent and 3.1 percent of total land, respectively (Oktyabri, 2025). **Meat sector:** Compliance and enforcement with international quality and safety standards is weak. Uncertainty about meat export quotas undermines reputation of Mongolian meat exporters. Existing agribusiness subsidies (most of them as soft loans) foster quantity instead of quality. **ICT sector:** Regulations are weakly enforced and only partially aligned with international standards (World Bank, 2023). Cross-border payment options are limited (UNCTAD, 2023). **Tourism:** Main obstacles include the highly protective aviation policy, and the ensuing low availability of flights, the high concentration in the provision of jet fuel, and lack of centralized tourism marketing.

12. A significant shortage of well-trained staff in sectors such as hospitality, tourism, energy and ICT. Mongolia's ranking at The Global Talent Competitiveness Index 2025 stood at 65 out of 135 countries, an improvement since 2022 (72). Based on the 2025 EF English Proficiency Index, Mongolia is ranked 95th globally, placing it in the "very low proficiency" band. There is also a shortage of qualified skilled workers who can help modernize the power grid, maintain it stably, and integrate renewable energy into the power grid (GIZ, 2023).

Mongolia's Diversification Strategy

13. Cross-country experience shows that successful diversification is a complex, long and unique process. It requires broad and strong consensus, firm political commitment, consistent public policies, robust collaboration between public and private sectors, and substantial financial resources. Only a few countries, including Chile, Indonesia and Malaysia, have been able to diversify their economies out of the extractive sector (IMF, 2014, 2022, 2024).

14. A diversification strategy for Mongolia would need to include a combination of broad-based "horizontal" policies and sector-specific "vertical" policies. The "horizontal" policies

should include countercyclical fiscal policies (e.g., saving the resource windfall in good times and spending in bad times), strengthening institutions (e.g. Fiscal Stability Council, Bank of Mongolia), transitioning toward a greater exchange rate flexibility and a full-fledged inflation targeting framework. In addition, actions are needed to enhance infrastructure, strengthening human capital, improving access to finance and the provision of utilities, and ensuring proper enforcement of compliance with standards and product requirements. “Vertical” interventions should focus on supporting specific activities and industries, of high growth potential or strategic importance,⁵ such as mining, meat, cashmere, tourism, ITC, and renewable energy.

15. The diversification strategy should also be guided by a strong institutional framework to address coordination failures and ensure consistency. As examples, education policies should focus on building labor skills needed in the growth industries; subsidies and tax incentives should be defined to promote quality improvements and compliance with international standards, instead of increasing quantity. Moreover, the diversification strategy should aim at strengthening Mongolia’s entrepreneurship, by reconsidering the role of the state in the economy and strengthening SOE governance.

⁵ These interventions, often referred as “industrial policies”, should be well targeted, time-bound, cost-effective, transparent, designed to mitigate incentives for rent-seeking and corruption, and consistent with macroeconomic, fiscal, and external sustainability (IMF 2022, 2024).

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Annex X. Governance Quality and Public Spending Efficiency in Mongolia¹

This annex examines cross-country association of governance levels with public spending efficiency, with implications for Mongolia. Cross-country evidence suggests that long-term improvements in governance are more important than short-term changes for enhancing public spending efficiency. Mongolia's efficiency gaps relative to peers are primarily driven by differences in governance levels rather than in how governance translates into spending efficiency, suggesting the cross-country association is relevant to Mongolia's own governance gaps. Counterfactual exercises point to contract enforcement, anticorruption frameworks, public investment management, and fiscal management capacity as the main correlates of infrastructure efficiency gains for Mongolia. In health, Mongolia's above-peer spending efficiency reflects stronger institutions than peers, including executive compliance with the constitutional and judicial framework. In education, Mongolia's reform priorities would likely be sector-specific, such as improving teacher quality, curricula, and school management.

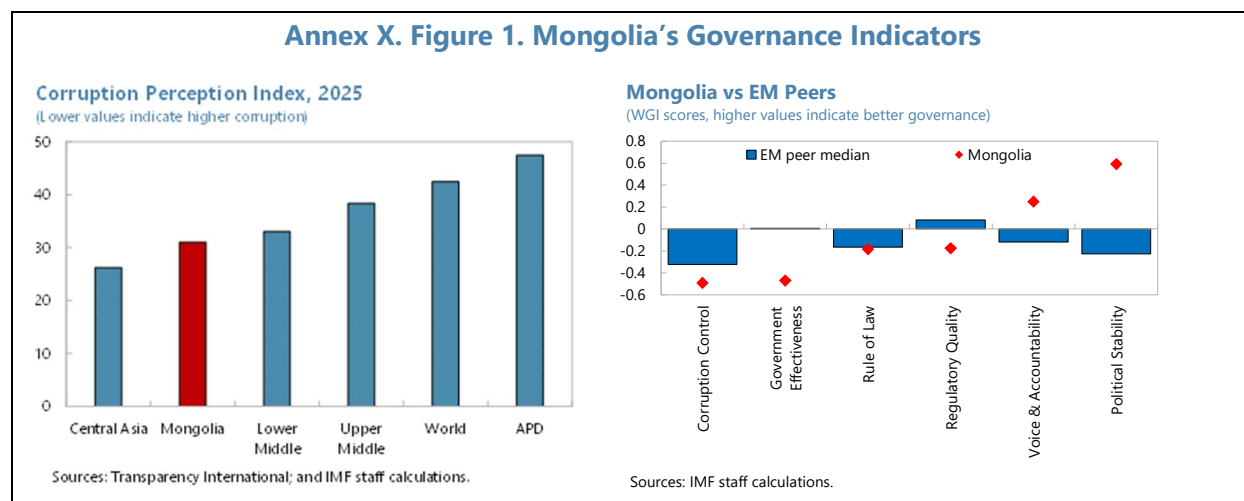
1. Corruption control appears to be one of Mongolia's most significant governance weaknesses. Corruption perception index² in 2025 indicates that Mongolia remains below most peers (Figure 1, left). Across three international governance databases³, Mongolia performs below the EM peer median on most corruption-related measures (Figure 1, right). This broadly aligns with recent IMF Fiscal Transparency Evaluation that identifies governance weaknesses across public spending processes with corruption risks implications, including transparency gaps in contract and beneficial ownership disclosure in the resource sector or limited fiscal risk analysis for PPPs and natural resources. Regarding state capacity, encompassing government effectiveness, fiscal capacity, merit-based recruitment, regulatory quality, and bureaucracy quality, Mongolia also lags peers on most dimensions, particularly government effectiveness and fiscal capacity, although bureaucracy quality is a relative strength. In contrast, Mongolia's democratic institutions, such as judicial independence, political stability, voice and accountability, press freedom, and legislative oversight, are areas of relative strength versus EM peers.

¹ This annex is prepared by Huy Nguyen.

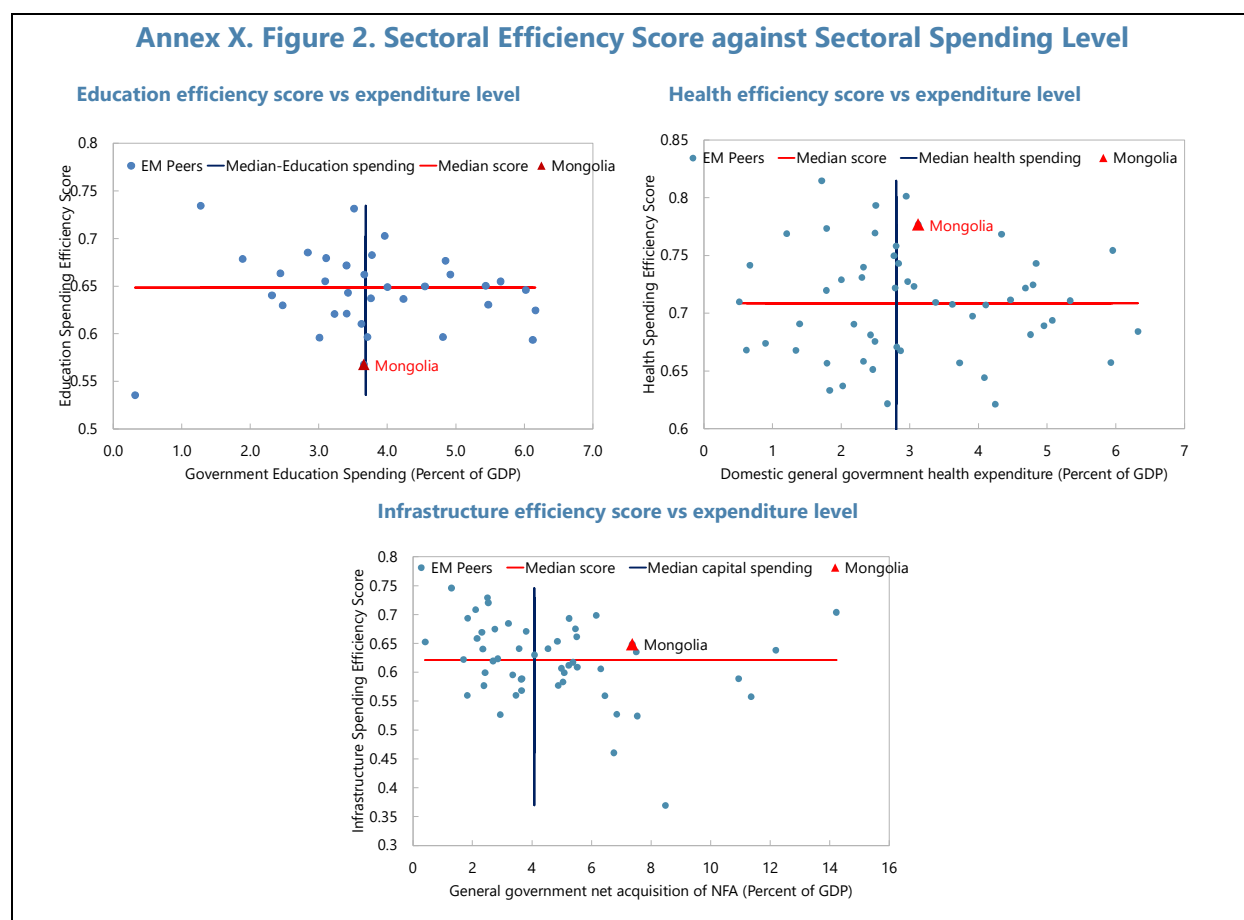
² The Corruption Perceptions Index (CPI), published annually by Transparency International, measures perceived public-sector corruption from 0 (highly corrupt) to 100 (very clean), based on multiple independent expert assessments and business surveys.

³ The three international governance databases used for econometric estimation are: (i) the World Bank's Worldwide Governance Indicators (WGI); (ii) Varieties of Democracy (V-Dem); and (iii) the International Country Risk Guide (ICRG).

Annex X. Figure 1. Mongolia's Governance Indicators



2. Public spending efficiency in Mongolia, estimated via stochastic frontier analysis (SFA), is mixed across sectors. Despite education spending at the EM median (3.7 percent of GDP, Figure 2), Mongolia's efficiency remains limited compared with peers. Infrastructure spending, at around 7 percent of GDP, is well above the EM peer median, yet efficiency remains moderate, with several peers achieving higher efficiency at lower spending levels. Public sector health spending, at 3.1 percent of GDP and above the EM peer median, translates into relatively efficient results relative to EM peers (Figure 2). This mixed picture raises key questions: which governance gaps vis-à-vis peers account for Mongolia's public spending efficiency performance across sectors, and which governance improvements are associated with higher efficiency. This analysis aligns with the IMF's 2018 Framework on Enhanced Fund Engagement on Governance, organized around state functions and guided by macro-criticality. For Mongolia, public spending efficiency is macro-critical, as weaknesses in fiscal governance and rule of law translate directly into weaker fiscal and service-delivery outcomes.

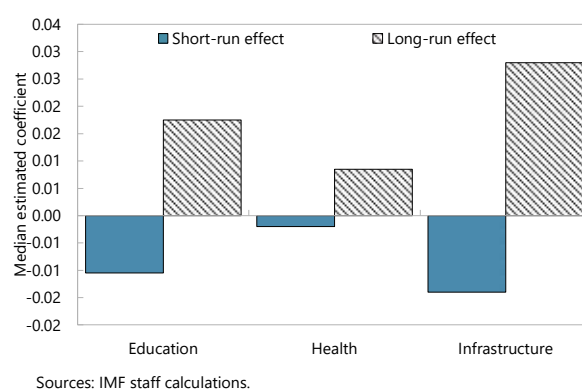


3. The analysis addresses these questions in five steps. First, it examines whether governance helps explain cross-country differences in public sector spending efficiency using a panel of 54 EMs over 1996–2024. Second, it assesses what matters more: a country's long-term institutional track record or recent governance changes, using a Mundlak-type decomposition (also known as Correlated Random Effect, CRE). Third, it identifies which governance dimensions matter for which sectors by examining both individual indicators (across the three databases) and broader thematic clusters of related indicators. Fourth, it assesses whether Mongolia's sectoral efficiency shortfall reflects weaker governance levels or smaller efficiency gains from a given governance level; an Oaxaca–Blinder (Oaxaca 1973; Blinder 1973) decomposition separates the efficiency gap into a component explained by governance levels and one explained by the governance-efficiency relationship. Finally, counterfactual exercises estimate potential efficiency gains across sectors for Mongolia, assuming the relevant cross-country correlations apply to Mongolia. It should be noted that these estimated relationships identify cross-country correlation, rather than Mongolia-specific causal effects. Given concerns, such as reverse causality and omitted variables, all results should be interpreted as indicative.

4. Cross-country differences in public spending efficiency among EM reflect the long-term accumulation of good governance more than short-term changes. The CRE decomposition,

simultaneously identifying year-to-year (within-country) changes and long-run (between-country) differences, suggests that countries with stronger governance over the long-run tend to achieve higher efficiency gains across all three sectors, whereas year-to-year changes are weakly or even negatively associated with same-year spending efficiency (Figure 3). The negative short-run association is consistent with reform dynamics documented in the broader institutional literature: governance improvements, frequently disrupt established processes before delivering efficiency gains (Andrews, Pritchett, and Woolcock 2017), and governance reforms in response to fiscal stress produce contemporaneous correlations in the wrong direction (Drazen and Easterly 2001). Year-to-year changes in perception-based governance indicators also contain nontrivial measurement noise that biases short-run coefficients toward zero (Kaufmann, Kraay, and Mastruzzi 2010). These findings underscore that sustained institutional development, rather than short-run changes, is the primary channel through which governance shapes public spending efficiency, reinforcing the policy implication that governance reforms should be evaluated over multi-year, rather than annual horizons.

Annex X. Figure 3. Decomposition of Long-Run vs Short-Run Effects



5. Long-run sector-specific patterns emerge when accounting for multiple governance dimensions at once. Reforms agendas typically involve multiple dimensions, requiring joint consideration of several indicators. Indicators are aggregated into five thematic clusters, including corruption control, oversight and accountability, state capacity, rule of law, and political stability, each constructed by sign-aligning indicators (higher means better governance), standardizing to mean zero and unit variance, and computing a simple unweighted average. The results reveal sector-specific correlation patterns:

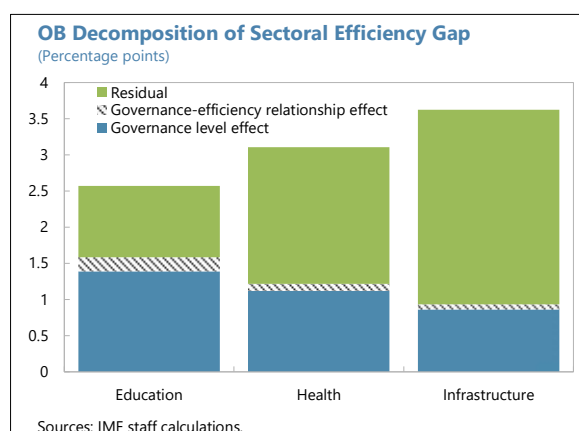
- **Infrastructure efficiency is most strongly associated with corruption control and state capacity in the long run.** At the cluster level, a one-standard-deviation improvement in either cluster is associated with about 5 pp higher infrastructure spending efficiency across the EM panel. Individual-indicator results corroborate this pattern: significant correlations emerge with contract-related governance (e.g., a one-point improvement in ICRG contract viability on a 0–4 scale is associated with about 4.8 pp higher efficiency), corruption-related governance (a one-point improvement in the ICRG corruption indicator on a 0–6 scale, about 2.9 pp), state-related

governance (a one-SD improvement in V-Dem state fiscal capacity, about 2.8 pp), and constraints on executive discretion (e.g., military in politics, executive disregard for the constitution and judiciary). These channels reflect multidimensional governance issues associated with infrastructure sector, spanning procurement integrity, anti-corruption controls, public investment management (PIM), tax administration, and broader institutional checks. The findings align with cross-country evidence that governance quality often outweighs spending levels in determining infrastructure outcomes (Rajaram et al. 2014, Rentschler et al. 2019, Kenny 2007; Bronchi, Ramalho, and Kumar 2025; World Bank 2018, World Bank 2021, which estimates that countries lose roughly one-third of infrastructure spending to inefficiency).

- **Health efficiency is most strongly associated with judiciary-related governance and voice and accountability.** Cluster-level results exhibit no robust association with any single thematic cluster, likely reflecting signal dilution from equal-weight aggregation. At the indicator level, however, robust positive long-run associations emerge with judiciary-related governance (constraints on the executive, lower- and high-court independence) and voice and accountability. These are consistent with evidence that health service delivery improves when citizens can monitor providers and exert voice over policymaking (World Bank 2004; Ruger 2007).
- **Education efficiency is most strongly associated with state capacity.** A one-standard-deviation improvement in the state capacity cluster is associated with about 3 pp higher education spending efficiency across EMs. At the indicator level, the strongest correlations are with state strength of administration (about 2.3 pp per one-standard-deviation improvement) and political risk rating (about 0.3 pp per one-point improvement on a 0–100 scale). These results align with evidence that administrative capacity is a binding constraint in developing countries, where an estimated 16 percent of public spending is wasted (Miningou 2019).

6. Mongolia's efficiency gaps relative to peers are mainly explained by its governance levels. The Oaxaca–Blinder (OB) decomposition separates each sector's efficiency gap into the governance-level effect (where Mongolia stands on each indicator) and a governance-efficiency relationship effect (whether Mongolia gets different returns from governance than peers).

- **The governance-level differences dominate the explained portion of the gap across all indicators (Text Figure):** A typical governance-level effect is about 1.4 pp in education, 1.1 pp in health, and 0.9 pp in infrastructure, consistently dominating the governance-efficiency effect. This indicates that Mongolia's gap with peers stems primarily from where Mongolia stands on governance dimensions rather than from differences in how governance translates into efficiency. As shares of total sectoral gap, the median level-based share ranges from about a



quarter in infrastructure to roughly half in education, while the difference-in-relationship shares are below 10 percent in every sector. The remaining share, which is the largest component in infrastructure (over half the gap) and meaningful in health (about a third), reflects non-governance factors such as spending composition, geography, and other sector-specific conditions.

- **Counterfactual estimates from the long-run between-country effects quantify the potential scale of these returns for Mongolia.** These are upper-bound estimates derived from cross-country correlations and should be read as indicative associations, not predicted reform impacts. Short- to medium-term reform payoffs are likely smaller and phased over time.
 - a. **Infrastructure:** Mongolia ranks below peers on many governance indicators that translate into reform-driven efficiency gains. The largest individual effects come from improving contract viability (4.8 pp), reducing executive theft and embezzlement (3.5 pp), improving state fiscal capacity and investment profile (about 2.3 pp each), pointing to reform targets in contract enforcement, anti-corruption controls, PIM, and tax administration. These findings broadly align with and complement the 2023 PIMA update for Mongolia, which identifies persistent weaknesses in multiyear budgeting, budget comprehensiveness and unity, maintenance funding, and the effectiveness of fiscal rules and oversight arrangements. Per-indicator estimates are marginal effects in isolation: each captures both the indicator's own contribution and the variance shared with correlated governance dimensions, so summing them would overstate the joint magnitude. The cluster regression provides the proper joint estimate by partialing out cross-cluster correlations: improving the state capacity bundle to peer mean is associated with about 1 pp of efficiency gain (rising to 3.7 pp at peer top quartile). The smaller cluster-level gains reflect Mongolia's narrower gap relative to the peer mean. Mongolia is also above peers on several governance dimensions, including state strength of administration, political risk rating, and constraints on executive discretion, which represent governance strengths to preserve.
 - b. **Health.** Mongolia outperforms peer averages on multiple governance dimensions associated with health spending efficiency, with the largest premia from strong executive compliance with the constitution (about 4.4 pp), strong executive compliance with judicial rulings (3.6 pp), limited military influence in the executive (2.9 pp), and strong high court compliance (2.1 pp). Smaller but meaningful premia (1.1–1.3 pp each) come from judicial independence (judicial constraints on the executive, high- and lower- court independence) and voice and accountability. These are institutional features whose erosion would carry a measurable efficiency cost. Per-indicator premia capture overlapping aspects of the broader rule-of-law and democratic-accountability framework and should not be summed.
 - c. **Education.** Mongolia performs at or above peers on the governance dimensions that matter for education efficiency, so governance gaps are not the source of Mongolia's education efficiency shortfall. Binding constraints likely lie outside cross-country governance metrics, in

sector-specific levers such as teacher quality, curriculum, and school management (World Bank, 2020; ADB, 2024).

7. The policy implications for Mongolia are summarized below, recognizing the indicative, cross-country nature of these correlations:

- The overarching implication for Mongolia is that long-term institutional quality, rather than isolated, one-off reforms, would be the dominant determinant of public spending efficiency. Sustained, cumulative improvements in governance are associated with closing efficiency gaps, while temporary or narrowly targeted measures appear unlikely to yield lasting gains. At the same time, Mongolia's existing institutional strengths must be actively preserved. As peer countries continue to improve, passive preservation would translate into relative slippage, with potential estimated efficiency losses comparable in magnitude to the gains achievable from reforms elsewhere. Continued reform effort is thus required both to advance weaker dimensions of governance and to safeguard areas in which Mongolia currently outperforms peers. In this regard, strengthening anti-corruption institutions and frameworks can contribute directly to public spending efficiency by safeguarding fiscal resources, reducing leakages and rent-seeking, improving accountability and oversight throughout the public financial management cycle, and enhancing the detection and deterrence of corruption.
- Sectoral results from the CRE and OB decompositions suggest differentiated sectoral priorities. Infrastructure stands out as a high reform priority, given potentially significant estimated reform-driven efficiency gains: strengthening anti-corruption controls in public investment and procurement, improving contract enforcement, procurement integrity, modernizing PIM (strengthening investment planning, appraisal/selection, portfolio oversight, and the budget process, as identified by recent PIMA diagnostics and reform priorities), and broadening fiscal management capacity, while simultaneously preserving Mongolia's above-peer performance in administrative state capacity and constraints on executive discretion. In health, Mongolia's above-peer efficiency is closely linked to strong executive compliance with constitutional and judicial frameworks and limited political influence; preserving these institutional features appear important in sustaining accountable regulation, procurement, and service delivery. In education, Mongolia already performs at or above peer levels on the relevant governance dimensions, suggesting that further efficiency gains would depend primarily on sector-specific reforms, such as teacher quality, curriculum design, school management, and learning-outcome monitoring, supported by continued strengthening of administrative capacity within the education system.

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MONGOLIA

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

July 17, 2026

Prepared By

Asia and Pacific Department (in collaboration with other
departments)

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FUND RELATIONS

(As of June 30, 2026)

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

General Resources Account:	SDR Million	Percent Quota
Quota	72.30	100.00
Fund Holdings of Currency	112.11	155.06
Reserve Position in Fund	5.54	7.67

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	118.05	100.00
Holdings	62.81	53.21

Outstanding Purchases and Loans:	SDR Million	Percent Quota
Extended Arrangements	45.28	62.63

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 ¹	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			
	2026	2027	2028	2029	2030
Principal	13.10	23.88	8.30	0.00	0.00
Charges/interest	1.58	2.49	1.77	1.55	1.55
Total	14.69	26.37	10.07	1.55	1.55

¹ Formerly PGRF.

Safeguards Assessment:

1. 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:

2. 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 stabilized, effective April 15, 2025.

3. Mongolia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement on February 1, 1996. Mongolia maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

4. 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:

5. The 2025 Article IV consultation was concluded by the Executive Board on September 5, 2025. Mongolia is on a 12-month cycle.

ROSC Assessments:

6. 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:

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

8. 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:

9. 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:

10. Mongolia is an intensive recipient of IMF technical assistance (TA). Since the 2025 Article IV consultation, assistance has focused on fiscal transparency and risks, banking supervision, and statistics.

IMF TA Missions (July 2024–June 2026):

- Macroeconomic framework mission (ICD/CCAMTAC), April – May, July 2024
- GFS and PSDS mission (STA), August and October 2024
- Tax administration – Strategic plan, disputes, and debt (FAD), August – September 2024
- Fiscal risk statement (CCAMTAC), September 2024
- Macroeconomic framework mission (ICD/CCAMTAC), September – October 2024
- National Accounts mission (CCAMTAC), September – October 2024
- Central Bank recapitalization (CCAMTAC), October 2024
- Tax administration – Extractives risk assessment (FAD), October – November 2024
- The Bank of Mongolia Law (LEG), November 2024.
- GFS scoping mission (CCAMTAC), December 2024
- Tax administration – Auditing extractives (FAD), December 2024
- Balance Sheet Stress Testing of Bank of Mongolia (MCM and CCAMTAC), January 2025
- Macroeconomic framework mission (ICD/CCAMTAC), March–April 2025
- Tax policy - tax reform desk review (FAD), March–April 2025
- Enhancing Macprudential Stress Testing Capacity (MCM), April 2025
- Fiscal risks, Scoping mission (FAD), April 2025
- IFRS9 Regulations and Internal Procedures, virtual (CCAMTAC), May 2025
- Joint Tax and Customs Visit (FAD), June 2025

- Support to SOE fiscal risk analysis (CCAMTAC), June – July 2025
- National Accounts (CCAMTAC), June - October 2025
- Strengthening the Fiscal Risk Statement (FAD/CCAMTAC), July-August 2025
- Development of a Cybersecurity Framework for the Bank of Mongolia (MCM), September 2025
- Government Finance Statistics and Public Sector Debt Statistics (CCAMTAC), September 2025
- External Sector Statistics (STA), September 2025
- Updating the Producer Price Index (CCAMTAC), September 2025
- Off-Site Supervision Framework Enhancements (CCAMTAC), Scoping Mission, October 2025
- IFRS9 International Procedures Development-Follow-up & Workshop (CCAMTAC), October 2025
- Macroeconomic Frameworks (ICD/CCAMTAC), September, October 2025
- Macroprudential Policy LTX Introduction and TA Needs Assessment (MCM), November 2025
- Public Sector Debt Statistics, virtual (STA), February-March 2026
- Pensions and Wages (FAD), February-March 2026
- Fiscal Transparency Evaluation (FAD), March 2026
- Macroprudential Policy Implementation LTX (MCM), May to October 2026
- Chain-Linking GDP (CCAMTAC), June 2026
- Macroeconomic Framework Virtual TA to the MoF (ICD), June 2026
- Business Model Assessment Integration into Risk-Based Supervision (CCAMTAC), June 2026
- Tax Administration (FAD), June 2026
- Customs Administration (FAD), June 2026 Business Assessment Integration to Risk Based Supervision (CCAMTAC), June 2026

Resident Representative:

11. Mr. Marshall Mills, based in Beijing, assumed the Senior Resident Representative position for Mongolia on June 29, 2026.

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>