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MONGOLIA

June 2020

MONGOLIA—REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MONGOLIA

In the context of the Mongolia—Request for Purchase Under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 3, 2020, following discussions that ended on May 13, 2020, with the officials of Mongolia on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 27, 2020.
- A **Statement by the Executive Director** for Mongolia.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$99 Million Disbursement Under the Rapid Financing Instrument to Mongolia to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The COVID-19 pandemic has taken a large toll on economic activity in Mongolia, giving rise to urgent budget and balance of payments needs.
- To support Mongolia, the IMF has approved the request for emergency financial assistance under the Rapid Financing Instrument (RFI) of about US$99 million.
- This emergency financial assistance will help support foreign exchange reserves, create fiscal space for essential pandemic-related expenditure, and catalyze donor support.

WASHINGTON, DC – **June 3, 2020** The Executive Board of the International Monetary Fund (IMF) approved Mongolia's request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 72.3 million (about US$99 million, or 100 percent of quota) to meet urgent budgetary and balance of payment needs stemming from the outbreak of COVID-19 and to support the most affected sectors and vulnerable groups.

Following the Executive Board's discussion of Mongolia, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:

"Mongolia has successfully avoided a domestic outbreak of COVID-19 thus far, helped by the early introduction of social distancing and tight health protocols for cross-border flows. Nonetheless, the pandemic has sharply reduced economic activity due to both the economic cost of the containment measures and the fall in external demand. There is now an urgent balance of payments need and a fiscal financing gap.

"The authorities have already taken a number of measures to limit the economic contraction and help the most vulnerable. Recent revisions to the budget allow for higher health and social spending as well as tax relief to affected households and businesses. In addition, the Bank of Mongolia has eased monetary and financial policies to help prevent a disorderly contraction in bank lending to the private sector.

"Emergency financing under the IMF's RFI will provide much needed support to respond to the urgent balance of payments and budgetary needs. Additional assistance from development partners will be required to support the authorities' efforts and close the financing gap. The authorities' commitment to high standards of transparency and governance in the management of financial assistance is welcome.

"As the immediate threat to the economy subsides, it will be critical to resume key reforms begun during the recent Extended Fund Facility arrangement. These include a return to fiscal consolidation to reduce still high public debt, a more flexible exchange rate to build up foreign exchange reserves, remedying AML-CFT deficiencies, and stronger supervisory enforcement to ensure that all banks have sufficient capital."

MONGOLIA

May 27, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context: During the three-year EFF which expired at end-May, Mongolia experienced rapid economic growth and was able to make some progress in the reduction of key vulnerabilities. However, with the outbreak of the global pandemic, the outlook has now deteriorated sharply. There are few domestic cases of the virus, but real GDP is expected to contract by 1 percent in 2020 due to a collapse in external demand and the domestic impact of social distancing measures. With still high public debt, net international reserves near zero, and a difficult near-term amortization schedule, Mongolia has limited buffers to withstand a large and sustained external shock.

Policy Response: The primary policy focus is ensuring that the number of positive COVID cases remains low and that the authorities are prepared in the event of a broader outbreak. Beyond this, the goal will be to soften the contraction in output without putting excessive pressure on the balance of payments given limited buffers. In the short term, this means i) looser fiscal policy to accommodate automatic stabilizers and crisis-related emergency spending; ii) a modest easing in monetary and financial policies to prevent a disorderly contraction in lending, and iii) greater exchange rate flexibility to avoid an excessive loss in reserves. It will be critical to tighten macroeconomic policies after the crisis subsides to resume progress on reducing external vulnerabilities and pursue vigorous structural reforms, especially in the banking sector, to build resilience.

Request for Financing Assistance: COVID-19 has given rise to urgent BOP needs in Mongolia, which, if not addressed, would result in immediate economic disruption. At the same time, it is not currently feasible to design an UCT quality program, given the urgent BOP need. The authorities are requesting financing under the Rapid Financing Instrument (RFI) equivalent to 100 percent of quota (SDR 72.3 million equivalent to $99 million). Public debt is sustainable, though risks of distress remain elevated, and capacity to repay the Fund is adequate. The authorities intend to use the resources to help finance the budget deficit which has widened because of weak economic activity, emergency virus-related spending, and broader stimulus measures. Staff assesses that Mongolia meets the qualification criteria for an RFI.

Approved By
Kenneth Kang (APD) and Daria Zakharova (SPR)

Discussions were held by teleconference during May 11–13, 2020. The mission discussed with Finance Minister Khurelbaatar, Bank of Mongolia Governor Lkhagvasuren, and other senior officials. The staff team comprised Mr. Gottlieb (head), Mr. Yoon (Resident Representative), Mr. Corvino, Ms. Xu (APD), Mr. Blotevogel (FAD), Mr. Hassan (SPR) and Mr. Leonovich (MCM). Mr. Khurelbaatar (OED) attended some of the meetings. Ms. Tolentino and Ms. Castillo (APD) assisted in the preparation of the report. The team was supported by Mmes. Ardak, Khulan, and Selenge (Resident Representative Office)

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RECENT DEVELOPMENTS

1. **In the past three years, under the Fund's EFF, Mongolia substantially reduced key vulnerabilities, but buffers remain inadequate.** Since 2017, growth has averaged 5.2 percent amid strong external demand and FDI. The primary balance averaged a surplus of 3 percent of GDP (8 ppts stronger than the debt-stabilizing level), helping public debt fall by almost 20 percentage points. And before the virus hit, net international reserves had increased by $2.5 billion. Nonetheless, at end 2019, buffers remained insufficient: public debt was still high at almost 70 percent of GDP and reserves net of short-term drains were roughly $400 million. Moreover, there was insufficient progress on the recapitalization of banks which also prevented the completion of the final six of the 11 reviews under the EFF . The EFF expired on May 23.

2. **Upon outbreak of the virus in China in early 2020, the Mongolian government took immediate measures to contain its spread.** In February, the authorities declared a state of high alert, cancelled new-year celebrations, closed schools, restaurants and bars, limited passenger transportation within Mongolia and closed the border with China to passengers and freight. International flights from high-risk countries were also cancelled. These measures have helped limit the number of confirmed COVID-19 cases to about 140 as of mid-May, all of which are reported to be imported rather than contracted domestically.

IMPACT OF COVID-19

3. **Despite the lack of domestic outbreak, the COVID-19 pandemic has nonetheless taken a major toll on economic activity.** In the first quarter of 2020, exports contracted by 40 percent y/y due to a sharp fall in both volumes and prices. Fiscal revenues declined by 8½ percent, reflecting weak revenue from mining exports. Private sector credit growth, which was already decelerating due to macroprudential measures introduced in early 2019, fell to -3.4 percent at end-April 2020. And EMBI spreads on government bonds spiked from just over 200 to 1200 in March before moderating to around 900 basis points.

4. **In response, the authorities have announced a series of changes to the policy mix:**

- **Fiscal:** For the general government, the authorities announced a largely budget neutral relief package for 2020 to provide more targeted support for groups hurt by the economic downturn. This includes 2.8 percent of GDP in tax cuts and 2.6 percent of GDP in increased social transfers and higher health spending. These measures will be mostly offset by 2 percent of GDP in lower current spending and 2.5 percent of GDP in capital expenditure cuts.

- **Quasi-Fiscal**: In recent months, Parliament passed legislation compelling the Central Bank to i) purchase the bonds of a public enterprise to help finance a debt relief scheme for the elderly (up to 1.9 percent of GDP), ii) resume its support for subsidized housing loans via the purchase of mortgage-backed securities issued by public and non-public entities (up to 0.6 percent of GDP) and iii) provide zero-interest rate short-term loans to banks to on-lend working capital to gold-miners (up to 1.4 percent of GDP).

General Government—Covid-19 Fiscal Response

	in billions of MNT	in percent of GDP
Tax Measures (effective for the period April 1 - September 30)	1,120	2.8
Exemption of some employment income from SSC	771	2.0
Exemption of private-sector employment income from PIT	260	0.7
Exemption of profits from CIT if turnover<MNT1.5 billion	30	0.1
Exemption of rental income from PIT/CIT if rent has been lowered	20	0.1
Waiving late payment penalties for PIT/SSC	27	0.1
Exemption of certain medical goods and food stuffs from VAT and customs duty	12	0.0
Expenditure Measures	1,045	2.7
Increase in health spending (financed by donors and Government Reserve Fund)	171	0.4
Temporary increase in Child Money Program (April 1 to October 1)	550	1.4
Double Food Stamps Allowance (May 1 to October 1)	10	0.0
Increase in Social Welfare Pension (May 1 to October 1)	35	0.1
Wage subsidies for employers (April 1 to July 1)	52	0.1
Cash transfers to herders	200	0.5
Interest subsidies for cashmere producers	27	0.1
Possible Quasi-Fiscal Activities		
BoM to re-start subsidized mortgage program	120	0.3
BoM to buy bonds issued by mining SOE that financed pension loan cancellation	700	1.8
BoM to subsidize short-term loans of banks to gold miners	500	1.3

Source: Ministry of Finance and Fund staff estimates.

- **Monetary:** In the first 5 months of the year, gross reserves fell more than $1 billion (out of $4.3 billion at end-2019) as the BOM limited exchange rate depreciation to about 2 percent amid a sharp fall in exports and a $500 million commercial bank bond repayment. The BOM also reduced the policy rate by 100 bps in both March and April, to 9 percent and lowered the MNT reserve requirement by 200 bps.

- **Financial:** The authorities announced a series of temporary regulatory loosening measures (*see text table*). In addition, Parliament proposed a temporary resumption (until the end of the year) in the BOM's subsidized mortgage loan program for an estimated MNT150 billion.

5. **Looking ahead, the economic impact of the pandemic is projected to be severe, but temporary**. The economy will contract sharply in 2020H1 due to the fall in external demand and domestic containment measures. However, economic activity will begin to recover starting in 2020H2 as a result of the loosening in the policy mix, a resumption in mining exports to China, a pickup in credit growth, and the lifting of containment measures. Also, the agricultural sector, accounting for 20 percent of GDP, has been somewhat insulated from the crisis. On an annual basis, staff projects real GDP to contract by 1 percent in 2020 – 6 percentage points lower than the pre-COVID 19 projection – but the authorities see upside risks to this forecast. Inflation should remain low due to low international oil prices and weak domestic demand.

6. The crisis will have a large adverse impact on the budget this year. Though the impact on the budget of the COVID-19 fiscal response is almost neutral, the primary balance is still projected to deteriorate 6½ percentage points in 2020 to reach a deficit of about 3 percent of GDP. The primary driver of this decline is the automatic effect of negative growth and lower exports on tax revenue. The authorities can meet the resulting gross financing needs of roughly 8 percent of GDP primarily via official-sector support.

General Government—Covid-19 Fiscal Impact

(in percent of GDP)

	2020		
	pre-COVID	post-COVID	Difference
Revenue	31.8	26.6	-5.2
Primary expenditure	30.7	29.4	-1.3
of which: capital expenditures	9.2	6.3	-2.9
Primary balance	1.1	-2.9	-3.9
Public debt	69.6	77.3	7.7

Source: Ministry of Finance and Fund staff estimates.

7. The economic impact of Covid-19 is creating an urgent balance of payments need. For 2020, exports and FDI were revised down by $2.1 billion and $300 million respectively. In addition, although the PBOC has committed to rollover the $1.7 billion swap with the BOM maturing in Q3-2020, Mongolia has $1.4 billion in other external amortizations in 2020 as well as a $500 million euro-bond maturing in 1H-2021. On balance, we see an ex ante BOP gap on the order of $4 billion. However, the net impact will be mitigated in part due to automatic reductions in imports (e.g. lower oil prices, less FDI-related imports) as well as weakening domestic demand. Nonetheless, a large gap is projected to remain which will be met by a mixture of new official sector support, exchange rate adjustment, and a drawdown of about $1 billion in gross reserves.

Balance of Payments: COVID-19 Impact

(in millions of USD)

	2020		
	Pre-COVID	Post-COVID	Difference
Current account balance	-1,939	-2,161	-222
Trade balance	1,205	363	-842
Export	7,434	5,353	-2,081
Imports	6,229	4,990	-1,240
Financial account balance	184	-1,387	-1,571
Foreign direct investment	1,756	1,452	-304
Overall balance	-3,504	-3,609	-106
Gross official reserves	4,502	3,256	-1,246

Sources: IMF staff estimates.

RISKS

8. The outlook is highly uncertain and downside risks dominate. First, with a narrow economic base and insufficient foreign exchange reserves, Mongolia is highly vulnerable to a sustained deterioration in the external environment. With access to international debt market deteriorating, Mongolia faces significant external repayments in 2020–24 which are subject to refinancing risks. Second, a more significant domestic outbreak of the virus remains very possible—especially as mobility in the country is resuming. Third, with parliamentary elections approaching in June, a sharp rise in stimulus, including quasi-fiscal spending would put additional pressure on the balance of payments. Finally, weak capital buffers in the banking system provide little cushion to absorb the impact of the pandemic crisis. In this context, risks arising from the temporary regulatory loosening of the financial sector should be carefully managed.

ECONOMIC POLICIES

The core priorities are to prevent an outbreak and soften the blow to output while avoiding an excessive deterioration in the balance of payments and preserving debt sustainability.

9. The authorities' announced fiscal policy is broadly appropriate, but staff has some concerns about the adequacy of health spending and the reliance on the quasi-fiscal role of the BOM.

- *Fiscal Stance* - Staff agree with the fiscal stance now envisioned for 2020. Although the new discretionary measures are almost entirely budget neutral, there was already significant stimulus in the initial 2020 budget and the authorities are allowing automatic stabilizers in revenues. Further fiscal loosening could put excessive pressure on public debt and the external accounts.

- *Compositional Changes* - Staff also agree with the thrust of the compositional changes to the 2020 budget. The previously envisioned capital expenditure envelope foresaw a 35 percent year-on-year increase, which staff considered overly ambitious and hard to execute efficiently. As a result, it makes sense to allocate more budgetary resources to tax relief and crisis-related emergency spending. The expansion of the Child Money program is also appropriate as it was the only social program with broad coverage of the poor that could be scaled up quickly.

- *Health Spending* - There is some concern about the adequacy of virus-related health spending. While perhaps sufficient for the current low number of cases, health equipment and staffing are insufficient in the event of a serious domestic outbreak.[1] The authorities have committed to a contingency plan of further health spending and disaster relief to individuals (especially the vulnerable) if the burden of the pandemic exceeds current estimates.

- *Quasi-Fiscal Spending* - Parliament's decision to expand the quasi-fiscal role of the BOM during this crisis raises several concerns. First, Parliament is asking for the Central Bank to play a role in financing debt relief to the elderly and subsidized housing finance because of political challenges in expanding the budget. However, shifting the fiscal costs and credit risk to the Central Bank reduces transparency, damages the Central Bank's balance sheet, and poses risks to monetary policy effectiveness going forward. Ending quasi-fiscal activities has been a long-standing recommendation of the IMF's safeguards assessment. Second, each of these initiatives results in monetary expansion at a time when reserves are falling sharply; the authorities will need to be careful to sterilize these purchases or find other ways of tightening policy if credit expands quickly. And finally, the frequent political interference with BoM's implementation of its mandate underscores the lack of operational independence of the central bank, which limits its credibility and reduces monetary policy effectiveness. Against

[1] Mongolia's public health expenditure is below the country's peers. (see Staff Report for the 2019 Article IV Consultation)

this backdrop, staff and the BOM agreed to: (1) limit all quasi-fiscal activities by the BOM including those called for in the Anti-Pandemic Law to MNT800 billion (2 percent of GDP); (2) stop all quasi-fiscal spending by the BOM starting in January 2021; and (3) fully disclose this spending in its financial statements.

10. Greater exchange rate flexibility is critical to build buffers and facilitate external adjustment. During the past three years, the authorities have closely managed the exchange rate, allowing only modest depreciation. Management of the exchange rate has tightened further in recent months despite the large external shock. This regime has prevented sufficient accumulation of reserves; increased depreciation expectations; and resulted in an overvalued real exchange rate. In light of these challenges, further loosening in the policy rate should be avoided and greater exchange rate flexibility is critical. At the same time, excessive reliance on exchange rate-led adjustment is relatively less effective in Mongolia given that exports are dominated by commodities and foreign currency liabilities are large. As the pandemic-related challenges subside, greater exchange rate flexibility should be complemented by the maintenance of a tight policy stance and structural reforms to increase the size of the tradable sector (e.g. better transport infrastructure to increase mining exports). In addition, the currency composition of public and private debt would benefit from greater local debt issuance, including via participation from non-residents.

11. The BOM should ensure that financial measures intended to ease the hardships caused by the pandemic are targeted, timebound, and recognized. While the financial measures taken so far are intended to lessen the negative financial impact of the containment measures and economic contraction, they could substantially worsen the solvency of banks especially given insufficient capitalization at some institutions. In staff's view, some of the measures announced present risks giving rise to moral hazard and weaker credit management practices. The BOM should adhere to internationally accepted practices for loan classification and provisioning, and supervisors should provide clear guidance to banks to ensure these practices are followed. Therefore, it is critical that BOM as the regulator have an accurate understanding of the medium to long-term impact of the measures by appropriate classification, provisioning, and capital adjustments. In addition, loan restructurings should only be afforded to borrowers with proven negative impact from the pandemic.

12. The authorities reiterated their commitment to reforms as recommended in the 2019 Article IV Consultation. These reforms are crucial to boost Mongolia's growth potential by diversifying the economy. To this end, in addition to strengthening fiscal governance (see above ¶9), staff will urge the authorities to pursue sound governance practices by enhancing financial supervision, pursue banking reforms, improving the business environment, combatting corruptions, and strengthen AML/CFT.[2]

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[2] Mongolia was placed on the FATF's grey list in October 2019 and was requested to implement 6 immediate actions. The FATF plenary meeting in February 2020 noted the authorities' good progress and considered 3 out of the 6 action items as having been met.

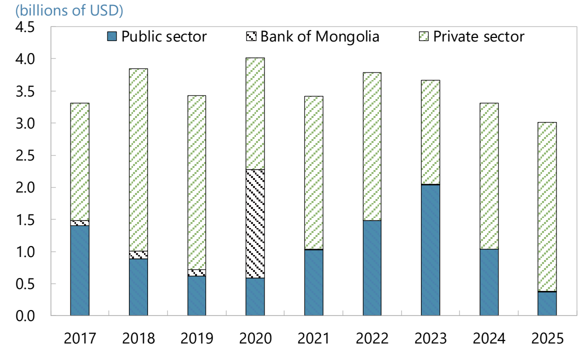
DEBT SUSTAINABILITY

13. Mongolia's public debt is sustainable under the baseline, but risks of debt distress remain elevated.

- Mongolia displayed strong fiscal discipline under the EFF-supported program, with primary surpluses averaging 3 percent of GDP over the past three years (compared to the debt-stabilizing level of about -5 percent of GDP). As a result, Mongolia's public debt fell by almost 20 percentage point to 69 percent of GDP at end-2019.
- The Covid-19 crisis is set to partially and temporarily reverse this progress. Under the baseline scenario, public debt is projected to rise 8 percentage points to 77 percent of GDP this year before resuming its decline. The projected improvement over the medium-term owes to Mongolia's favorable debt dynamics, which in turn are predicated on a swift rebound in economic activity from next year, the significant share of existing debt on concessional terms, and some fiscal consolidation.
- Gross financing requirements are projected to climb from about 8 percent of GDP in 2020 to 16 percent of GDP in 2023 on the back of maturing external bonds, before descending to single digits in percent of GDP in the medium term.
- Mongolia's narrow economic base, history of pro-cyclical policies, and high levels of foreign exchange-denominated debt pose significant risks to the debt trajectory and explain the overall assessment of high risk of debt distress.
- To preserve debt sustainability, the authorities stand ready to take additional measures in 2020 to contain the primary balance to less than 3 percent of GDP, including the possibility of further re-prioritizing capital expenditures. Strict selection and appraisal criteria and due respect for absorptive capacity constraints will guide capital expenditure plans for the coming years. The BOM's commitment to limit the quasi-fiscal spending within 1 percent of GDP would reduce risks associated with contingent liabilities.

14. External debt is also very high, though with mitigating factors ($30.7 billion at end-2019, or 221 percent of GDP). It reflects the combination of (i) large capital needs by the mining sector, often financed by debt rather than equity; (ii) loose fiscal and monetary policy over much of the past decade; and (iii) reliance on external wholesale funding by some banks. However, of the total external debt, nearly half is FDI-related and about one quarter reflects long-term liabilities of the general government. Contingent liabilities are worth monitoring, given quasi-fiscal operations and potential bank bailouts associated with the banking sector reform agenda.

External Debt Service
(billions of USD)



Note: The BOM's liability, which is due 2020, will be rollod over to 2021.
Sources: IMF staff calculations.

MODALITIES OF SUPPORT

15. Staff support the authorities' request for a purchase under the RFI equivalent to 100 percent of quota (SDR 72.3 million equivalent to $99 million). Staff assesses that Mongolia meets the qualification criteria for an RFI. It faces an urgent BoP need, which, if not addressed, would result in immediate and severe economic disruption. Considering the economic emergency, the authorities are not currently able to design or implement an UCT quality Fund-supported program. Finally, staff expect that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the virus.

16. Capacity to repay the Fund would remain adequate. The proposed RFI represents 0.7 percent of 2020 GDP and 2.7 percent of projected gross international reserves. Projected repurchases and charges to the Fund, composed of EFF and emergency assistance repayments, would peak in 2024 at 1.8 percent of international reserves and 0.9 percent of exports of goods and services. The authorities have demonstrated an ability to access international markets in normal times, although market access risks have arisen in the last months.

17. The authorities have requested that the RFI resources be transferred to the budget. The identified increase in higher health spending of 0.4 percent of GDP will be fully funded by already secured loans from the ADB and World Bank. IMF resources will be used to help cover the 9 percent of GDP in gross financing needs which stem in large part from the sharp crisis-related fall in revenues. The authorities have a contingency plan to scale-up health and social spending if necessary, particularly with a view to increase support for the vulnerable, which would cushion the economic and social fallout from Covid-19.

18. The authorities are seeking to additional official sector support. To address virus-related pressures, the ADB has committed an additional $200 million in budget support and $60 million in project lending to be disbursed in 2020. In addition, the PBOC has committed to rollover the $1.7 billion swap which matures in July. Finally, the MOF is also seeking additional support from the Government of Japan.

19. The authorities have committed to appropriate safeguards, including with respect to governance. First, the Bank of Mongolia will undergo an update of the 2017 safeguards assessment. Second, a memorandum of understanding between the Ministry of Finance and the Bank of Mongolia on their respective responsibilities for servicing the related financial obligations to the IMF will be prepared. And third, the Ministry of Finance committed to safeguards of COVID-19 related spending, including publishing quarterly reports on the spending of emergency funds on the MOF website, conducting an independent third-party audit and publishing the full text of all procurement contracts on COVID-19 related spending, with the names of the awarded companies and their beneficial owners, and an ex-post validation of delivery.

STAFF APPRAISAL

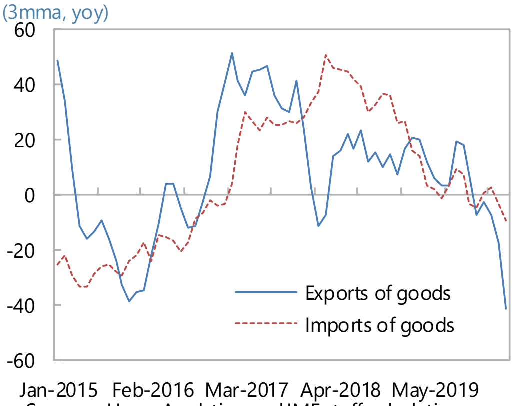
20. As a highly open economy, Mongolia will be heavily impacted by the global pandemic. The sharp decline of mineral exports and FDI inflows has opened an urgent financing need estimated at $4 billion in 2020 that, if not addressed, could give rise to severe economic disruptions. Meanwhile, containment measures have limited the spread of the virus but have already caused large disruptions in economic activity, affecting employment and household income. Real GDP is expected to contract by 1 percent in 2020, this projection being subject to significant downside risk depending on the evolution of the pandemic globally and domestically.

21. The authorities are committed to safeguarding macroeconomic, financial and external stability. The authorities are pursuing timely policies, to address imminent health system needs to fight the virus, safeguard employment, and protect the vulnerable. The authorities agreed with staff on the near-term policy priorities, which focus on limiting the macro-financial impact and social fallouts of the crisis, while maintaining a sound policy and governance framework to ensure debt sustainability and support a broad-based recovery. Once the COVID-19 crisis has been overcome, the authorities commit to rebuilding fiscal, external and financial buffers and pursue banking reforms. Staff stands ready to assist the authorities in addressing both the immediate and the medium-term policy challenges.

22. Staff supports the proposed purchase under the RFI. Mongolia meets the qualification criteria for the RFI, its debt is sustainable, and its capacity to repay the Fund remains adequate. Financial support under the RFI, SDR 72.3 million (equivalent to $99 million) will close part of Mongolia’s external financing gap, with remaining financing needs to be filled by other international partners and policy adjustments. Donor support, catalyzed by Fund program, would help avoid disorderly policy adjustment, limit the drawdown of hard-earned reserves and minimize hardship on Mongolian households and firms.

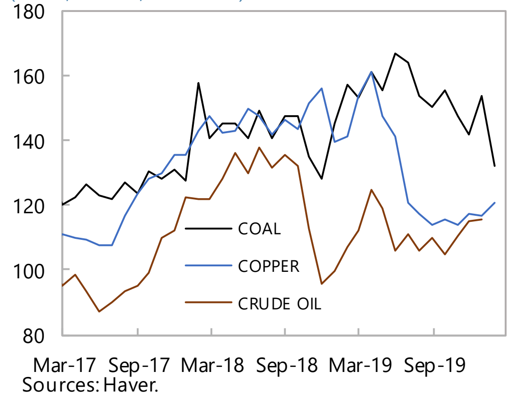
Figure 1. Mongolia: Key Indicators

Export and Import Growth
(3mma, yoy)



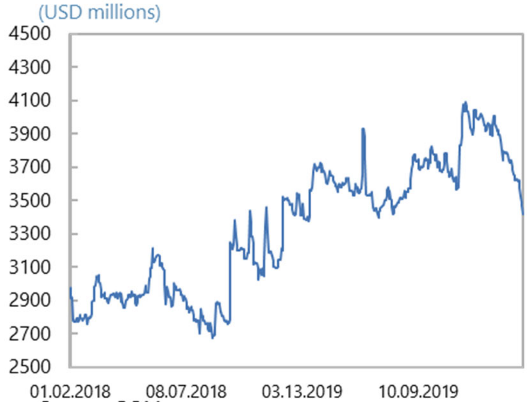
Sources: Haver Analytics; and IMF staff calculations.

Implied Mongolian Commodity Prices
(Index, Dec. 31, 2016=100)



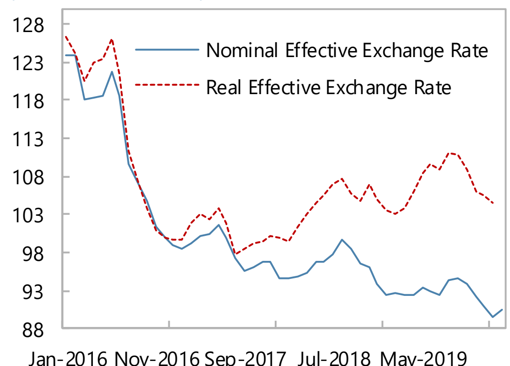
Sources: Haver.

Gross International Reserves
(USD millions)



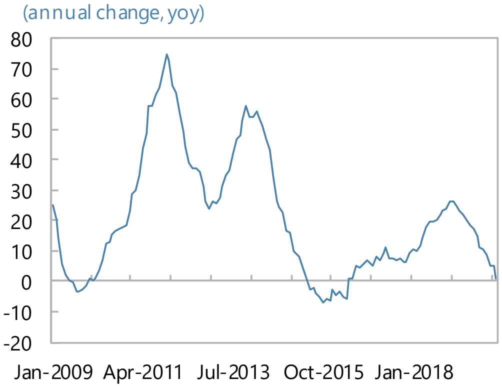
Sources: BOM

Nominal and Real Effective Exchange Rate
(index; Dic-2016=100)



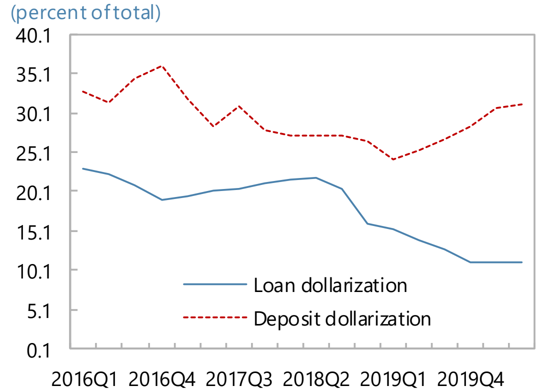
Sources: Haver Analytics; and IMF staff calculations.

Credit Growth
(annual change, yoy)



Sources: Haver Analytics; and IMF staff calculations.

Deposit and Loan Dollarization
(percent of total)



Sources: National Authorities and IMF staff calculations.

Table 1. Mongolia: Selected Economic and Financial Indicators, 2016–25

	2016	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Act.				Pre-Covid-19 Proj.	Proj.	Proj.				
	(In percent of GDP, unless otherwise indicated)										
National Accounts											
Nominal GDP (in billions of togrogs)	23943	27876	32411	36898	42056	39175	46029	52485	60191	68311	77141
Real GDP growth (percent change)	1.2	5.3	7.2	5.1	5.0	-1.0	8.0	5.5	6.0	5.0	4.5
Domestic Demand	0.4	12.1	12.8	13.6	11.4	1.6	10.3	5.2	4.7	2.2	6.0
Consumption	-0.2	3.9	10.1	11.4	8.3	3.5	6.4	6.3	6.0	6.7	5.8
Private	-2.6	5.4	12.4	10.9	7.3	1.7	5.4	6.6	6.4	7.2	6.3
Public	10.6	-1.8	0.5	13.6	12.9	11.7	10.6	5.1	4.4	5.0	3.7
Investment	2.1	34.6	18.6	17.9	16.6	-1.9	18.0	3.4	2.4	-6.2	6.5
o/w GFCF	0.5	35.6	21.3	24.5	19.7	-2.2	21.3	3.9	2.7	-7.1	7.5
Exports of G&S	13.8	14.8	24.0	9.9	2.7	-10.2	24.7	10.2	14.8	9.0	8.9
Imports of G&S	12.7	24.8	30.9	19.1	9.8	-5.6	24.0	9.0	11.9	5.8	9.6
Contributions to Real GDP (ppts)											
Domestic Demand	0.4	11.8	13.3	14.8	13.0	2.4	12.5	6.5	5.8	2.7	7.1
Net Exports of G&S	1.0	-6.3	-6.2	-9.9	-8.0	-3.4	-4.5	-1.0	0.2	2.3	-2.6
Gross national saving	26.0	21.3	22.8	20.3	31.3	17.7	24.1	24.1	24.5	22.2	21.9
Public	-3.6	3.1	8.4	9.9	8.2	1.0	5.6	5.5	6.1	5.8	5.9
Private	29.6	18.2	14.4	10.4	23.0	16.7	18.5	18.6	18.4	16.5	16.0
Gross capital formation	25.7	31.4	39.6	35.9	44.2	33.6	35.4	33.9	32.0	27.9	28.0
Public	9.9	5.9	5.2	7.6	9.0	6.2	9.6	8.8	8.8	8.6	8.6
Private	15.9	25.4	34.4	28.3	35.1	27.3	25.9	25.1	23.2	19.3	19.4
Prices											
Consumer Prices (EoP; percent change)	1.3	6.3	8.2	5.2	7.4	6.0	6.8	7.6	7.4	7.7	7.5
Copper prices (US$ per ton)	4868	6170	6530	6010	6144	5021	4877	4943	5009	5069	5114
Gold prices (US$ per ounce)	1248	1257	1269	1392	1565	1640	1667	1684	1703	1721	1739
Oil price (in U.S. dollars per barrel)	42.8	52.8	68.3	61.4	62.8	35.6	37.9	40.9	43.2	45.0	46.4
GDP deflator (percent change)	2.2	10.5	8.4	8.3	7.1	7.2	8.8	8.1	8.2	8.1	8.1
General government accounts											
Primary balance (IMF definition)	-11.2	0.4	5.9	3.7	0.8	-2.9	-1.8	-1.0	-0.5	-0.5	-0.5
Total revenue and grants	24.4	28.5	31.4	32.4	31.8	26.5	29.9	29.5	29.6	29.2	29.0
Primary expenditure and net lending 1/	35.5	28.2	25.5	28.6	31.0	29.3	31.6	30.5	30.1	29.6	29.5
Interest	4.1	4.1	3.2	2.3	1.9	2.3	2.2	2.3	2.2	2.3	2.3
Overall balance (IMF definition) 2/	-15.3	-3.8	2.6	1.4	-1.1	-5.2	-4.0	-3.3	-2.7	-2.8	-2.8
Gross Financing Needs	18.0	3.6	5.2	0.4	2.9	7.7	9.6	13.1	11.6	10.7	6.8
General government debt 3/	87.6	84.6	72.6	69.5	69.6	77.3	74.8	71.6	68.5	66.7	64.7
Domestic	20.2	13.6	5.3	4.2	3.1	5.2	6.9	7.8	7.2	7.0	10.3
External	67.5	71.0	67.3	65.3	66.5	72.0	67.9	63.8	61.3	59.7	54.3
Monetary sector											
Broad money growth (percent change)	21.0	30.5	22.8	7.0	12.5	6.2	17.5	14.0	14.7	13.5	12.9
Reserve money growth (percent change)	24.6	28.6	24.5	5.4	12.5	12.6	17.5	14.0	14.7	13.5	12.9
Credit growth (percent change)	6.7	11.1	23.4	4.4	14.0	3.0	8.0	16.0	14.7	15.0	12.9
Balance of payments											
Current account balance	-6.3	-10.1	-16.8	-15.6	-12.9	-15.8	-11.3	-9.8	-7.5	-5.7	-6.2
Exports of goods (y/y percent change)	4.1	21.4	12.4	9.6	-1.9	-25.5	27.2	6.7	12.2	5.3	5.0
Imports of goods (y/y percent change)	0.8	25.3	35.4	2.4	2.9	-17.2	9.4	3.0	7.2	0.4	6.9
Gross official reserves (in USD millions) 4/	1297	3012	3542	4348	4502	3256	3127	2897	3021	2771	2443
(In months of imports)	2.4	4.0	4.6	7.0	5.7	4.7	4.3	3.8	3.9	3.4	3.0
Exchange rate											
Togrog per U.S. dollar (eop)	2490	2427	2644	2734	...	...	...	...	...	...	...
Memorandum item											
Population in million (eop)	3.1	3.2	3.2	3.3	...	...	...	...	...	...	...

Sources: Mongolian authorities; and Fund staff projections.

1/ DBM spending is excluded from fiscal balance and monitored separately.

2/ Excludes privatization receipts; includes interest financed mortgage spending from 2017 onwards.

3/ General government debt data excludes SOEs debt and central bank's liabilities from PBOC swap line.

4/ Gross official reserves includes drawings from swap line.

Table 2a. Mongolia: Summary Operations of the General Government, 2016–25
(In billions of togrogs)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Act.					Proj.			
Total revenue and grants	5,835	7,958	10,172	11,937	10,373	13,742	15,495	17,842	19,913	22,352
Current revenue	5,756	7,896	10,083	11,861	10,335	13,722	15,472	17,815	19,883	22,318
Tax revenue and social security contributions	4,951	7,013	9,055	10,732	9,141	12,319	13,873	15,981	17,802	19,968
Income taxes	1,043	1,610	2,091	2,588	1,949	2,915	3,305	3,872	4,342	4,834
CIT	520	962	1,277	1,701	1,295	1,813	2,049	2,432	2,708	2,989
PIT	523	648	814	887	654	1,101	1,256	1,440	1,634	1,845
Social security contributions	1,110	1,321	1,638	1,976	1,479	2,455	2,798	3,209	3,642	4,112
VAT	1,141	1,619	2,196	2,484	2,346	2,781	3,079	3,495	3,805	4,292
Excise taxes	630	520	754	863	913	1,073	1,223	1,402	1,591	1,797
Customs duties and export taxes	328	512	682	790	708	833	904	992	1,050	1,183
Other taxes	698	1,431	1,693	2,030	1,746	2,263	2,564	3,012	3,373	3,749
Non-tax revenue	805	882	1,028	1,129	1,194	1,403	1,599	1,834	2,081	2,350
Total expenditure and net lending	9,495	9,013	9,315	11,428	12,401	15,590	17,237	19,449	21,844	24,486
Current expenditure	6,614	7,039	7,348	8,207	9,951	11,164	12,579	14,116	15,940	17,784
Wages and salaries	1,747	1,800	1,879	2,257	2,628	3,087	3,519	4,036	4,580	5,172
Purchase of goods and services	1,386	1,337	1,449	1,733	1,373	1,602	1,826	2,094	2,376	2,683
Subsidies	229	261	230	292	375	441	502	576	654	738
Transfers	2,265	2,484	2,746	3,064	4,665	5,012	5,513	6,103	6,740	7,441
Interest payments	986	1,156	1,047	860	911	1,023	1,220	1,307	1,591	1,750
Capital expenditure and net lending	2,882	1,974	1,967	3,222	2,449	4,426	4,658	5,333	5,903	6,702
Capital expenditure	2,360	1,658	1,680	2,818	2,434	4,408	4,638	5,309	5,877	6,672
Domestically-financed	1,664	1,105	1,181	2,300	1,340	3,165	3,686	4,512	5,144	5,998
o/w DBM noncommercial spending	240	0	0	0	0	0	0	0	0	0
Foreign-financed	696	553	500	944	1,094	1,243	952	798	733	674
Net lending	521	316	286	403	15	18	20	23	27	30
o/w Mortgage program net lending	0	0	120	115	124	134	153	165	178	193
Overall balance (IMF definition)	-3,660	-1,055	858	508	-2,027	-1,848	-1,742	-1,607	-1,931	-2,134
Primary balance (IMF definition)	-2,674	102	1,904	1,368	-1,117	-825	-523	-300	-340	-384
Financing	3,660	1,055	-2,719	-6	2,048	1,858	1,739	1,620	1,942	2,095
External	1,214	1,716	-916	1,309	1,515	1,220	644	1,602	1,756	-1,036
Disbursement	1,350	1,881	0	1,786	2,236	3,566	4,685	5,388	5,164	242
Amortization	-136	-165	-916	-478	-721	-2,346	-4,042	-3,786	-3,408	-1,277
Domestic (net)	2,446	-661	-1,804	-1,315	533	638	1,096	18	186	3,130
Government bonds (net issuance)	2,049	-419	-1,804	-165	517	1,138	896	268	486	3,130
Privatization	1	0	0	0	0	0	0	0	0	0
Other 1/	396	-242	0	-1,150	16	-500	200	-250	-300	0
Memorandum items:										
DBM commercial spending 2/	247	-475	44	174	184	216	247	283	321	363
Mineral revenue (in percent of GDP)	2.3	4.8	5.4	5.6	4.6	5.4	5.3	5.5	5.4	5.3
Non-mineral revenue (in percent of GDP)	22.1	23.7	26.0	26.7	22.0	24.6	24.3	24.2	23.9	23.8
Total expenditure (in percent of non-mineral GDP)	49.6	42.2	37.7	37.8	38.8	41.5	40.2	39.6	39.2	38.9
Non-mineral overall balance (in percent of non-mineral GDP)	-16.9	-5.8	0.6	-5.2	-12.0	-11.5	-10.6	-10.0	-10.1	-9.9
Primary spending (change in percent)	32.8	-7.7	5.2	27.8	8.7	26.8	10.0	13.3	11.6	12.3

Sources: Mongolian authorities; and Fund staff projections.

1/ Includes deposit buildup in government accounts

2/ Starting from the sixth review, DBM net lending is excluded from primary balance and

Table 2b. Mongolia: Summary Operations of the General Government, 2016–25

(In percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Act.					Proj.			
Total revenue and grants	24.4	28.5	31.4	32.4	26.6	30.0	29.7	29.8	29.3	29.1
Current revenue	24.0	28.3	31.1	32.1	26.5	29.9	29.6	29.7	29.2	29.1
Tax revenue and social security contributions	20.7	25.2	27.9	29.1	23.4	26.9	26.5	26.7	26.2	26.0
Income taxes	4.4	5.8	6.5	7.0	5.0	6.4	6.3	6.5	6.4	6.3
CIT	2.2	3.5	3.9	4.6	3.3	4.0	3.9	4.1	4.0	3.9
PIT	2.2	2.3	2.5	2.4	1.7	2.4	2.4	2.4	2.4	2.4
Social security contributions	4.6	4.7	5.1	5.4	3.8	5.4	5.4	5.4	5.4	5.4
VAT	4.8	5.8	6.8	6.7	6.0	6.1	5.9	5.8	5.6	5.6
Other taxes	2.9	5.1	5.2	5.5	4.5	4.9	4.9	5.0	5.0	4.9
Non-tax revenue	3.4	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Capital revenue and grants	0.3	0.2	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	39.7	32.3	28.7	31.0	31.8	34.0	33.0	32.5	32.1	31.9
Current expenditure	27.6	25.3	22.7	22.2	25.5	24.4	24.1	23.6	23.4	23.2
Wages and salaries	7.3	6.5	5.8	6.1	6.7	6.7	6.7	6.7	6.7	6.7
Purchase of goods and services	5.8	4.8	4.5	4.7	3.5	3.5	3.5	3.5	3.5	3.5
Subsidies	1.0	0.9	0.7	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Transfers	9.5	8.9	8.5	8.3	12.0	10.9	10.6	10.2	9.9	9.7
Interest payments 1/	4.1	4.1	3.2	2.3	2.3	2.2	2.3	2.2	2.3	2.3
Capital expenditure and net lending	12.0	7.1	6.1	8.7	6.3	9.7	8.9	8.9	8.7	8.7
Capital expenditure	9.9	5.9	5.2	7.6	6.2	9.6	8.9	8.9	8.6	8.7
Domestically-financed	7.0	4.0	3.6	6.2	3.4	6.9	7.1	7.5	7.6	7.8
o/w DBM noncommercial spending	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-financed	2.9	2.0	1.5	2.6	2.8	2.7	1.8	1.3	1.1	0.9
Net lending	2.2	1.1	0.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0
o/w Mortgage program net lending	0.0	0.0	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Overall balance (IMF definition)	-15.3	-3.8	2.6	1.4	-5.2	-4.0	-3.3	-2.7	-2.8	-2.8
Primary balance (IMF definition)	-11.2	0.4	5.9	3.7	-2.9	-1.8	-1.0	-0.5	-0.5	-0.5
Financing	15.3	3.8	-8.4	0.0	5.2	4.1	3.3	2.7	2.9	2.7
External	5.1	6.2	-2.8	3.5	3.9	2.7	1.2	2.7	2.6	-1.3
Disbursement	5.6	6.7	0.0	4.8	5.7	7.8	9.0	9.0	7.6	0.3
Amortization	-0.6	-0.6	-2.8	-1.3	-1.8	-5.1	-7.7	-6.3	-5.0	-1.7
Domestic (net)	10.2	-2.4	-5.6	-3.6	1.4	1.4	2.1	0.0	0.3	4.1
Government bonds (net issuance)	8.6	-1.5	-5.6	-0.4	1.3	2.5	1.7	0.4	0.7	4.1
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 1/	1.7	-0.9	0.0	-3.1	0.0	-1.1	0.4	-0.4	-0.4	0.0
Memorandum items:										
DBM commercial spending 2/	1.0	-1.7	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Mineral revenue (in percent of GDP)	2.3	4.8	5.4	5.6	4.6	5.4	5.3	5.5	5.4	5.3
Non-mineral revenue (in percent of GDP)	22.1	23.7	26.0	26.7	22.0	24.6	24.3	24.2	23.9	23.8
Total expenditure (in percent of non-mineral GDP)	49.6	42.2	37.7	37.8	38.8	41.5	40.2	39.6	39.2	38.9
Non-mineral overall balance (in percent of non-mineral GDP)	-16.9	-5.8	0.6	-5.2	-12.0	-11.5	-10.6	-10.0	-10.1	-9.9
Primary spending (change in percent)	32.8	-7.7	5.2	27.8	8.7	26.8	10.0	13.3	11.6	12.3

Sources: Mongolian authorities; and Fund staff projections.
1/ Includes deposit buildup in government accounts
2/ Starting from the sixth review, DBM net lending is excluded from primary balance and monitored

Table 3a. Mongolia: Balance of Payments, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.				Proj.					
	(In millions of U.S. dollars, unless otherwise indicated) 1/									
Current account balance (including official grants)	-700	-1,155	-2,207	-2,162	-2,161	-1,682	-1,567	-1,305	-1,068	-1,239
Trade balance	1,338	1,490	676	1,158	363	1,347	1,637	2,120	2,534	2,544
Exports	4,804	5,834	6,557	7,183	5,353	6,808	7,260	8,149	8,584	9,010
Mineral export	3,999	5,162	6,199	6,751	4,913	6,181	6,616	7,467	7,883	8,248
Non-mineral export	805	672	358	432	439	627	645	682	701	762
Imports	-3,466	-4,345	-5,881	-6,025	-4,990	-5,460	-5,623	-6,029	-6,051	-6,466
Services, net	-1,338	-1,212	-1,978	-1,992	-1,350	-1,493	-1,529	-1,618	-1,610	-1,719
Income, net	-911	-1,613	-1,228	-1,569	-1,380	-1,757	-1,894	-2,042	-2,241	-2,328
General government	20	22	50	28	27	30	15	16	16	16
Other sectors	156	159	201	159	178	191	203	219	233	247
Of which: Workers remittances	117	134	154	131	136	148	159	174	187	200
Capital and financial account	916	1,996	1,984	2,838	-1,288	-386	1,346	1,589	-740	1,069
Capital account	104	78	92	161	99	108	111	114	118	121
Financial account	812	1,919	1,892	2,678	-1,387	-494	1,235	1,475	-858	948
Direct investment	-4,171	1,446	2,128	2,316	1,452	1,629	1,654	1,505	597	606
Portfolio investment	487	493	61	372	-500	300	300	600	700	700
Trade credits, net	-221	-44	-4	-83	60	-74	-87	-80	-80	-83
Currency and deposits, net	-204	489	-11	-90	-170	-94	-104	-107	-95	-50
Loans, net	4,920	-466	-294	168	-504	-529	-529	-442	-253	-226
Other, net	0	0	12	-6	-1,726	-1,726	0	0	-1,726	0
Errors and omissions	-221	-56	-118	-224	-160	-156	-143	-160	-168	-157
Overall balance	-5	785	-341	453	-3,609	-2,224	-364	124	-1,976	-327
Change in reserves 2/	-27	1,715	530	806	-1,092	-129	-231	124	-250	-327
Financing Gap	0	788	417	351	2,517	2,095	133	0	1,726	0
Fund credit	n.a.	113	104	0	99	0	0	0	0	0
Donor support	n.a.	675	314	351	692	369	133	0	0	0
Of which: ADB		0	272	267	406	155	0	0	0	0
Of which: WB		0	0	35	240	56	30	0	0	0
Prospective financing 4/	0	0	0	0	1,726	1,726	0	0	1,726	0
Memorandum items:										
Current account balance (in percent of GDP)	-6.3	-10.1	-16.8	-15.6	-15.8	-11.3	-9.8	-7.5	-5.7	-6.2
Gross official reserves (end-period) 3/	1,297	3,012	3,542	4,348	3,256	3,127	2,897	3,021	2,771	2,443
(In months of next year's imports of goods and services)	2.4	4.0	4.6	7.0	4.7	4.3	3.8	3.9	3.4	3.0
(In percent of ARA metric)	...	...	...	101.3	90.5	85.8	80.0	82.0	73.7	63.5
Copper price (in U.S. dollars per ton)	4,868	6,170	6,530	6,010	5,021	4,877	4,943	5,009	5,069	5,114
Oil price (in U.S. dollars per barrel)	43	53	68	61	36	38	41	43	45	46
Gold price (in U.S. dollars per troy oz.)	1,248	1,257	1,269	1,392	1,640	1,667	1,684	1,703	1,721	1,739
Nominal GDP (in millions of U.S. dollars)	11,159	11,426	13,138	13,853	13,645	14,843	16,030	17,483	18,815	20,140

Sources: Mongolian authorities; and Fund staff projections.

1/ Structural break in series: 2013-2015 reported on the basis on BPM5, while 2016 onwards in on BPM6.

2/ Changes in reserves reflect valuation adjustments.

3/ Gross official reserves includes drawings from swap line.

4/ Includes PBOC swap renewal.

Table 3b. Mongolia: Balance of Payments, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.				Proj.					
	(In percent of GDP, unless otherwise indicated) 1/									
Current account balance (including official grants)	-6.3	-10	-16.8	-15.6	-15.8	-11.3	-9.8	-7.5	-5.7	-6.2
Trade balance	12	13	5	8	3	9.1	10.2	12.1	13.5	13
Exports	43	51	50	52	39	46	45	47	46	45
Mineral export	36	45	47	49	36	42	41	43	42	41
Non-mineral export	7.2	5.9	2.7	3.1	3.2	4.2	4.0	3.9	3.7	3.8
Imports	-31	-38	-45	-43	-37	-37	-35	-34	-32	-32
Services, net	-12	-11	-15.1	-14.4	-9.9	-10.1	-9.5	-9.3	-8.6	-8.5
Income, net	-8	-14	-9.3	-11.3	-10.1	-11.8	-11.8	-11.7	-11.9	-11.6
General government	0.2	0.2	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other sectors	0.4	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.2
Of which: Workers remittances	1.0	1.2	1.2	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Capital and financial account	8.2	17	15.1	20.5	-9.4	-2.6	8.4	9.1	-3.9	5.3
Capital account	0.9	0.7	0.7	1.2	0.7	0.7	0.7	0.7	0.6	0.6
Financial account	7.3	17	14	19	-10.2	-3.3	7.7	8.4	-4.6	5
Direct investment	-37	13	16.2	16.7	10.6	11.0	10.3	8.6	3.2	3.0
Portfolio investment	4.4	4.3	0.5	2.7	-3.7	2.0	1.9	3.4	3.7	3.5
Trade credits, net	-2.0	-0.4	0.0	-0.6	0.4	-0.5	-0.5	-0.5	-0.4	-0.4
Currency and deposits, net	-1.8	4.3	-0.1	-0.7	-1.2	-0.6	-0.6	-0.6	-0.5	-0.2
Loans, net	44	-4.1	-2.2	1.2	-3.7	-3.6	-3.3	-2.5	-1.3	-1.1
Other, net	0	0.0	0.1	0.0	-12.6	-11.6	0.0	0.0	-9.2	0.0
Errors and omissions	-2.0	-0.5	-0.9	-1.6	-1.2	-1.0	-0.9	-0.9	-0.9	-0.8
Overall balance	0.0	6.9	-2.6	3.3	-26.5	-15.0	-2.3	0.7	-10.5	-1.6
Change in reserves 2/	-27	1715	530	806	-1092	-129	-231	124	-250	-327
Financing Gap	0.0	6.9	3.2	2.5	18.4	14.1	0.8	0.0	9.2	0.0
Fund credit	n.a.	1.0	0.8	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Donor support	n.a.	5.9	2.4	2.5	5.1	2.5	0.8	0.0	0.0	0.0
Of which: ADB		2.4	2.1	1.9	3.0	1.0	0.0	0.0	0.0	0.0
Of which: WB		1.1	0.0	0.3	1.8	0.4	0.2	0.0	0.0	0.0
Prospective financing 3/		0.0	0.0	0.0	12.6	11.6	0.0	0.0	9.2	0.0

Sources: Mongolian authorities; and Fund staff projections.

1/ Structural break in series: 2013-2015 reported on the basis on BPM5, while 2016 onwards in on BPM6.

2/ Changes in reserves reflect valuation adjustments.

3/ Includes PBOC swap renewal.

Table 4. Mongolia: Monetary Aggregates, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Act.				Proj.					
	(In billions of togrog, end of period)									
Reserve Money	3067	3943	4908	5172	5824	6843	7803	8949	10156	11469
Broad money	12159	15861	19475	20834	22133	26005	29652	34006	38594	43583
Currency	563	612	670	614	664	780	890	1020	1158	1307
Deposits	11596	15249	18804	20219	21469	25225	28763	32986	37436	42275
Net foreign assets	-4580	-1541	-327	2382	3044	5167	5037	5369	5245	5564
BOM	-1260	2283	3892	6310	4214	4412	4138	5093	4756	4028
Other Depository Corporations	-3320	-3824	-4219	-3928	-1170	755	899	276	489	1537
Net domestic assets	16739	17402	19802	18452	19089	20838	24616	28637	33349	38018
Net Domestic credit	17363	16937	19618	18232	18782	20531	24309	28330	33042	37712
Other Depository Corporations	2200	745	-1170	-1852	-1852	-1852	-1852	-1852	-1852	-1852
Net claims on private sector	13014	14196	17650	18288	18836	20343	23598	27063	31122	35145
Net claims on other financial corporation	2437	3061	3183	2939	3027	3269	3792	4349	5001	5647
Other items, net	-563	512	316	307	307	307	307	307	307	307
Memorandum items:										
Annual broad money growth	21.0	30.5	22.8	7.0	6.2	17.5	14.0	14.7	13.5	12.9
Velocity of Broad Money	2.0	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Credit outstanding (Domestic credit+MBS) (In MNT bn) /1	14866	16521	20382	21272	21910	23663	27449	31479	36201	40880
Credit to GDP ratio	62.1	59.3	62.9	57.7	55.9	51.4	52.3	52.3	53.0	53.0
Credit growth (percent)	6.7	11.1	23.4	4.4	3.0	8.0	16.0	14.7	15.0	12.9

1/Includes mortgage-backed securities.

Sources: Mongolian authorities; and Fund staff projections.

Table 5. Mongolia: External Financing Requirements and Sources, 2016–25
(In millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections			
Gross financing requirements	2,067	3,628	3,535	4,382	4,589	5,149	4,339	4,040	4,469	2,825
External current account deficit (excl. official transfers)	756	1,176	2,329	2,244	2,188	1,711	1,582	1,320	1,084	1,255
Amortization	689	1,212	2,028	1,230	3,289	3,317	2,731	2,326	3,315	460
o/w PBOC swap	0	0	0	0	1,726	1,726	0	0	1,726	0
Repayment of arrears	0	0	0	0	0	0	0	0	0	0
Other net capital outflows 1/	648	-474	-1,351	102	204	250	257	269	321	1,437
Available financing	2,067	2,840	3,118	4,031	2,072	3,054	4,206	4,040	2,743	2,825
Grants	56	20	122	82	27	30	15	16	16	16
Disbursements to public sector	1,133	683	-117	476	69	526	1,046	2,062	722	663
o/w bonds	500	433	300	100	0	500	1,000	1,073	600	600
o/w loans	633	251	-417	376	69	26	46	989	122	63
Disbursements to private sector	5,049	691	985	1,157	524	869	1,491	458	1,408	1,539
Foreign direct investment	-4,171	1,446	2,128	2,316	1,452	1,629	1,654	1,505	597	606
Financing need	0	788	417	351	2,517	2,095	133	0	1,726	0
Financing	0	788	417	351	2,517	2,095	133	0	1,726	0
IMF	0	113	104	0	99	0	0	0	0	0
Other IFI	0	392	274	302	645	211	30	0	0	0
ADB	0	272	274	267	406	155	0	0	0	0
WB	0	120	0	35	240	56	30	0	0	0
Identified bilateral support	0	283	40	49	47	158	103	0	0	0
Prospective financing 2/	0	0	0	0	1,726	1,726	0	0	1,726	0

Sources: Mongolian authorities; and Fund staff projections.
1/ Includes all other net financial flows, and errors and omissions.
2/ Includes PBOC swap renewal.

Table 6. Mongolia: Indicators of Fund Credit, 2020–28
(In millions of SDR, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Existing and prospective Fund arrangements									
Disbursements	72.30								
Stock 1/	229.55	227.22	209.31	165.02	102.67	58.38	32.18	8.30	0.00
Obligations 2/	3.04	6.70	22.41	48.37	64.46	45.25	26.80	24.19	8.38
Principal (repayments/repurchases)	0.00	2.33	17.91	44.28	62.36	44.28	26.21	23.88	8.30
Charges and interest	3.04	4.37	4.50	4.09	2.10	0.97	0.59	0.31	0.08
Stock of existing and prospective Fund credit 1/	229.55	227.22	209.31	165.02	102.67	58.38	32.18	8.30	0.00
In percent of quota	317.50	314.27	289.50	228.24	142.01	80.75	44.51	11.48	0.00
In percent of GDP	2.33	2.13	1.83	1.32	0.77	0.41	0.18	0.04	0.00
In percent of exports of goods and services	4.91	3.82	3.33	2.37	1.41	0.76	0.40	0.10	0.00
In percent of gross usable reserves	9.74	10.08	10.06	7.62	5.19	3.34	1.76	0.62	0.00
Obligations to the Fund from existing and prospective Fund arrangements	3.04	6.70	22.41	48.37	64.46	45.25	26.80	24.19	8.38
In percent of GDP	0.03	0.06	0.20	0.39	0.48	0.32	0.15	0.11	0.03
In percent of exports of goods and services	0.06	0.11	0.36	0.69	0.88	0.59	0.33	0.29	0.10
In percent of gross usable reserves	0.13	0.30	1.08	2.23	3.26	2.59	1.47	1.80	1.15

Sources: IMF Finance Department; and Fund staff estimates and projections.
1/ End of period.
2/ Repayment schedule based on scheduled debt service obligations.

Table 7. Mongolia: Selected Economic and Financial Stability Indicators, 2010–19

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 Mar
Capital (in percent)										
Risk Weighted CAR	16.2	15.0	16.1	16.0	17.7	17.9	18.6	17.4	16.6	16.3
Asset quality										
Asset Growth (percent change from start of year)	43.0	48.4	24.2	68.2	11.7	-3.6	21.3	13.4	15.2	1.3
Loan Growth (Net) (percent change from start of year)	26.4	79.2	25.9	52.4	17.5	-8.6	4.7	8.3	28.4	1.5
Loan share in total assets (in percent)	47.9	57.9	58.6	53.1	55.9	53.0	46.0	43.9	52.3	52.4
Non Performing Loan (in percent)										
Past-due to gross loans	3.0	1.3	1.6	0.0	2.2	5.6	7.1	6.2	4.8	6.6
NPL + Past due to gross loans	9.7	4.4	3.8	3.6	5.3	12.9	14.2	13.5	14.6	16.6
Provision (in percent)	9.6	4.7	4.5	4.0	6.6	13.5	15.1	13.8	17.6	16.7
Provision/NPLs	62.4	69.1	75.2	71.6	70.2	61.6	72.2	86.3	79.7	78.8
Provision/NPL+Past due	43.2	48.2	43.2	49.7	41.5	34.8	36.4	46.8	60.4	47.6
NPLs net of provision /Capital	12.5	5.5	2.9	4.3	5.0	12.7	7.9	4.1	4.9	11.0
NPLs+Past due net of provision /Capital	27.2	13.1	11.5	11.1	16.5	38.2	35.7	29.4	29.9	45.1
FX lending to total lending	33.7	32.3	32.6	27.5	23.5	24.5	20.2	22.3	17.1	16.3
Interest Rate (in percent)										
Average lending rate	20.7	16.8	16.6	16.9	16.4	17.1	16.4	16.7	16.6	16.6

Source: Mongolian authorities.

Annex I. Public Debt Sustainability Analysis

Public debt is set to increase to 77 percent of GDP in 2020 amid the sharp deterioration in fiscal balances due to the Covid-19 crisis. However, in the following years, public debt is projected to resume its downward trajectory, reaching 64 percent of GDP by the end of 2025. Mongolia's favorable debt dynamics are due to high nominal growth, concessional financing, and some fiscal consolidation in the immediate recovery period. The debt projection is particularly vulnerable to changes in the path of growth and the exchange rate, and to a realization of contingent liabilities from the financial system.

A. Overview and Overall Assessment

1. **Mongolia's debt is sustainable under the baseline but risks of debt distress remain elevated**. Mongolia displayed strong fiscal discipline under the EFF-supported program, with primary surpluses averaging 3 percent of GDP over the past three years (compared to the debt-stabilizing level of about -5 percent of GDP). As a result, Mongolia's public debt fell by almost 20 percentage point to 70 percent of GDP at end-2019. The Covid-19 crisis is set to partially and temporarily reverse this progress. Under the baseline scenario, public debt is projected to rise 7 percentage points to 77 percent of GDP this year before resuming its decline. The projected improvement over the medium-term owes to Mongolia's favorable debt dynamics, which in turn are predicated on a swift rebound in economic activity from next year, the significant share of existing debt on concessional terms, and some fiscal consolidation. Gross financing requirements would climb to 15.9 percent of GDP in 2023 on the back of maturing external bonds, before descending to single digits in percent of GDP in the medium term. Mongolia's narrow economic base, history of pro-cyclical policies, and high levels of foreign exchange-denominated debt pose significant risks to the debt trajectory and explain the overall assessment of high risk of debt distress.

B. Coverage

2. **The coverage of public debt comprises the general government and one state-owned bank**. The definition of public debt for the purposes of this DSA is comprehensive and specifically includes the following elements: (i) consolidated public debt by the general government (in local and foreign currency); (ii) public guarantees of external borrowing in foreign currency by state-owned enterprises; (iii) the external borrowings in foreign currency by the Development Bank of Mongolia, the largest state-owned bank; and (iv) IMF credit. Public debt does not include certain external liabilities of the BoM (bilateral SWAP lines) or any fully collateralized public guarantees of private-sector external debt.

Assumptions

3. **The baseline scenario assumes a sharp but brief downturn, followed by a vigorous recovery in 2021**. The assumptions are as follows:

- Real GDP growth is expected to rebound to 8 percent in 2021 and average 5.5 percent in the period 2022-25. Inflation is expected to increase from its trough of 5.3 percent last year, stabilizing at just below the target of 8 percent.

- The external position is weaker than implied by fundamentals, and the nominal exchange rate is expected to depreciate over the forecast horizon.

- Financing assumes concessional budget support and project loans in line with current commitments, mainly over 2020 and 2021. The DSA assumes that Mongolia maintains access to international bond markets over the forecast horizon.

- The primary balance is projected to deteriorate to -2.9 percent of GDP in 2020 due to unchanged nominal expenditures and the sharp decline in revenue from lower commodity prices and weaker activity. Afterwards, the primary balance improves over two years to -0.5 percent and remains stable at that level in the period 2023–25.

4. These assumptions give rise to favorable debt dynamics that account for the projected decline in public debt from 2023. The public debt-to-GDP ratio is forecast to decline by about 12 percentage points between end-2020 and end-2025. This decline is almost entirely due to automatic debt dynamics including low effective interest rates (reflecting a significant share of concessional debt) and high economic growth. At the end of last year, 50 percent of public debt was on concessional terms, with low interest rates and long maturities. This share is expected to decline only gradually towards 40 percent by the end of 2025, reflecting the projected issuance of domestic and external debt to fill declining financing needs. The average effective nominal interest rate of public debt is projected to remain broadly stable at its current level of 3.7 percent.

C. Risks

5. Fund staff forecasts have simultaneously been both too pessimistic and optimistic in the period 2010-18. Growth and inflation forecasts have been too pessimistic. The forecast track record shows that Fund staff has systematically underestimated economic growth and overestimated inflation, with forecast errors in the 95th percentile of all forecast errors across countries over the same time period. Inversely, the primary balance forecast has been too optimistic, with actual primary deficits being much higher than projected (except in the past two years of the analysis). The recent progress in improving the conduct of fiscal policy in Mongolia under the EFF-supported program shows tentative signs that fiscal policy has become more prudent, avoiding excessive volatility and pro-cyclicality.

6. The public debt and financing needs projections are particularly sensitive to shocks to growth, exchange rate, and financial sector contingent liability.

- *Growth shock.* Slower growth can threaten debt sustainability. If growth declined by one standard deviation in 2021 and 2022, which would thwart the expected recovery from the Covid-19 crisis, the debt-to-GDP-ratio is forecast to reach just below 85 percent in 2022. It would also sizably increase gross financing needs in 2022 to 20 percent of GDP compared to about 13 percent of GDP in the baseline.

- *Exchange rate shock*. An exchange rate depreciation also poses significant risk to public debt, given that the bulk of the public debt is foreign-currency denominated and the external position is judged to be stronger than warranted by fundamentals. A nominal exchange rate depreciation of 33 percent in 2021 would increase debt to almost 90 percent of GDP. Gross financing needs would peak at 20 percent of GDP two years later in 2023.

- *Financial sector contingent liability shocks.* Mongolia's large banking system (assets of 100 percent of GDP poses a perennial vulnerability to the debt outlook. If the Mongolian government were called on to backstop a systemic bank, fiscal costs could be considerable. To examine the effect of this scenario, the contingent liability shock assumes that: (i) one-off fiscal outlays in the order of 15 percent of banking-sector assets (excluding credit to the government) accrue in 2021; (ii) concomitantly, real GDP growth declines by one standard deviation (same shock as above). This shock is larger than the standard size of 10 percent of banking-sector assets because of long-standing challenges in strengthening the financial resilience of the sector. Under this shock scenario, gross financing needs could reach 20 percent of GDP in the year of the shock, sending public debt toward 90 percent of GDP in the following year.

- *Primary balance shock*. The primary balance shock assumes that the planned fiscal consolidation in the years 2021-22 is not implemented as projected. Specifically, the primary balance shock assumes that fiscal balances deteriorate by another 0.7 percent of GDP next year before the consolidation begins, combined with an increase in interest rates of 25bps for every 1 percent of GDP worsening in the primary balance. Relative to the baseline, the cumulative shock equals 4 percent of GDP spread evenly over the three years 2021-23 and an increase in interest rates by 60bps in each year. Under this scenario, public debt trajectory worsens but the impact is limited with public debt not breaching 76 percent of GDP over the forecast horizon.

7. The fan charts (see figure 5) further illustrate Mongolia's debt vulnerabilities. Given Mongolia's elevated starting point and pronounced volatility public of its debt-to-GDP ratio, the fan charts put a significant probability on the scenario of debt remaining above the projected level at end-2020 by the end of the forecast period. If positive and negative shocks were equally likely, public debt would remain above 75 percent with a 25 percent probability. If, on the other hand, the one views downside risks associated with external vulnerabilities and delays in implementing fiscal consolidation as more likely (which results in an asymmetric fan chart that restricts positive realizations of the shocks to the exchange rate and the primary balance), public debt would stay above 75 percent with a probability of about 37 percent.

8. Mongolia's external imbalances create weaknesses in the public debt profile. External financing needs, driven by Mongolia's current account deficit, are above the upper-risk assessment benchmark. However, large current account deficits in recent years reflect one large FDI project in Mongolia's mining sector. The current account will improve over the medium term as the project is completed, and production and exports of the large mining project pick up. Public debt held by non-residents and public debt denominated in foreign currency are also above the upper-risk assessment benchmark (both at 94 percent as all public debt owed to non-residents is foreign exchange denominated). In particular, Mongolia's public external debt will lead to large external amortizations in the years 2022–23, which may create financing pressures. Lumpy one-off amortizations aside, the risks inherent in relying on external financing are offset by the fact that most of the external debt is provided by bi- and multilateral lenders on terms that are below-market.

D. Risk Mitigation

9. A vigorous recovery in economic activity and the unwinding of fiscal loosening underpin debt sustainability over the medium term. Mongolia's growth outlook remains favorable due to large ongoing FDI into Mongolia's mining sector and positive spillovers from China's projected recovery. With fiscal revenue picking up from their temporary trough next year, fiscal balances would improve—if the authorities keep expenditure growth anchored on nominal GDP in the years ahead. Access to concessional financing beyond 2021 would further help mitigate risks associated with the projected hump in gross financing requirements in 2023.

10. Given Mongolia's history of boom-bust cycles, the authorities need to remain vigilant and pro-actively mitigate debt sustainability risks. Mongolia would be well advised to use the projected recovery next year to resume recent progress in building fiscal and external buffers. Larger buffers are necessary to protect Mongolia against inherent debt sustainability risks that arise from resource-dependence, significant external imbalances, and contingent liabilities. If downside risks materialize, contingency planning helps mitigate risks proactively and should explore scope for reprioritizing expenditure plans and mobilizing additional donor financing. Finally, a comprehensive assessment of debt vulnerabilities requires further progress in integrating external debts by the public sector outside the general government into the debt sustainability framework.

Figure 1. Mongolia: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

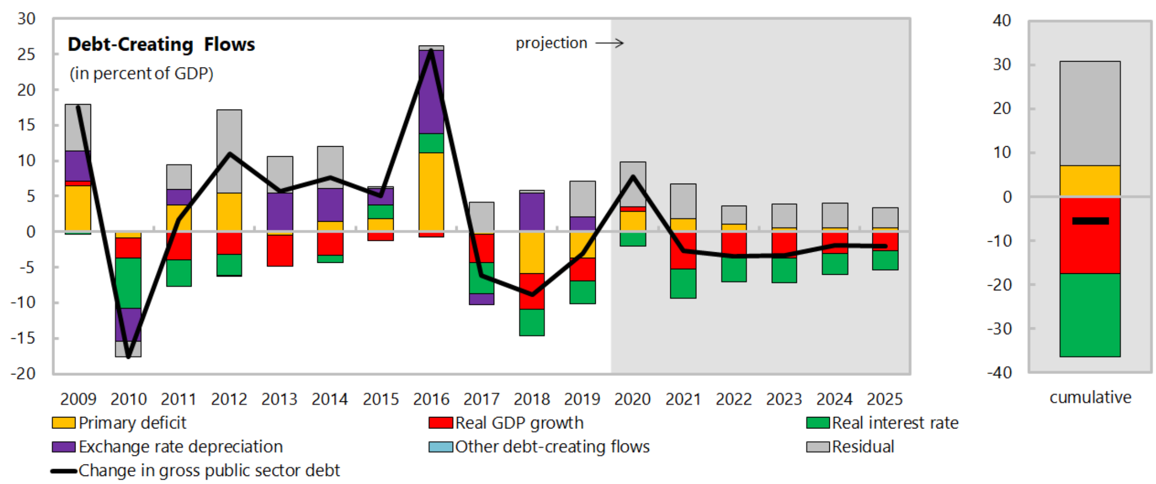
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	54.8	72.6	69.5	77.3	74.7	71.2	68.0	66.0	64.0
Public gross financing needs	5.8	5.2	0.4	8.3	9.9	13.1	15.9	10.1	6.2
Real GDP growth (in percent)	7.0	7.2	5.1	-1.0	8.0	5.5	6.0	5.0	4.5
Inflation (GDP deflator, in percent)	8.2	8.4	8.3	6.8	8.8	8.1	8.2	8.1	8.1
Nominal GDP growth (in percent)	18.3	16.3	13.8	5.8	17.5	14.0	14.7	13.5	12.9
Effective interest rate (in percent) [4/]	3.8	4.6	3.7	3.6	3.2	3.2	3.1	3.5	3.8

As of March 25, 2020		
Sovereign Spreads		
EMBIG (bp) 3/	1172	
5Y CDS (bp)	1055	
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.6	-8.8	-3.0	7.8	-2.6	-3.4	-3.3	-2.0	-2.0	-5.6	
Identified debt-creating flows	1.6	-9.2	-8.1	1.4	-7.6	-6.1	-6.7	-5.5	-4.8	-29.3	
Primary deficit	3.2	-5.9	-3.7	2.9	1.8	1.0	0.5	0.5	0.5	7.2	-5.3
Primary (noninterest) revenue and grants	29.2	31.4	32.4	26.6	30.0	29.7	29.8	29.3	29.1	174.4	
Primary (noninterest) expenditure	32.3	25.5	28.6	29.4	31.8	30.7	30.3	29.8	29.6	181.5	
Automatic debt dynamics [5/]	-1.5	-3.3	-4.4	-1.4	-9.4	-7.1	-7.2	-6.0	-5.3	-36.4	
Interest rate/growth differential [6/]	-4.2	-8.8	-6.5	-1.4	-9.4	-7.1	-7.2	-6.0	-5.3	-36.4	
Of which: real interest rate	-1.7	-3.7	-3.2	-2.1	-4.1	-3.5	-3.5	-3.0	-2.7	-18.9	
Of which: real GDP growth	-2.6	-5.1	-3.3	0.7	-5.3	-3.6	-3.7	-3.0	-2.6	-17.6	
Exchange rate depreciation [7/]	2.7	5.4	2.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization/Draw-down of deposits (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.0	0.4	5.1	6.3	5.0	2.6	3.4	3.5	2.8	23.7	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

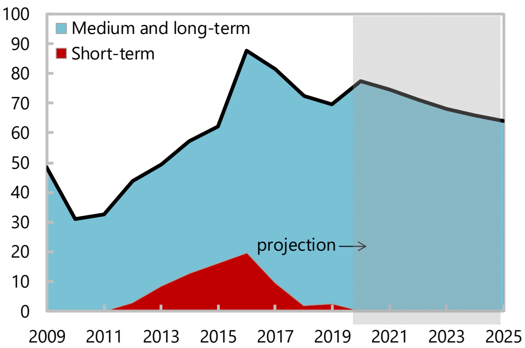
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Mongolia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

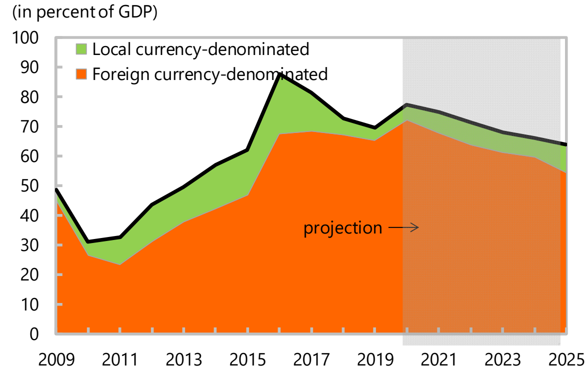
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

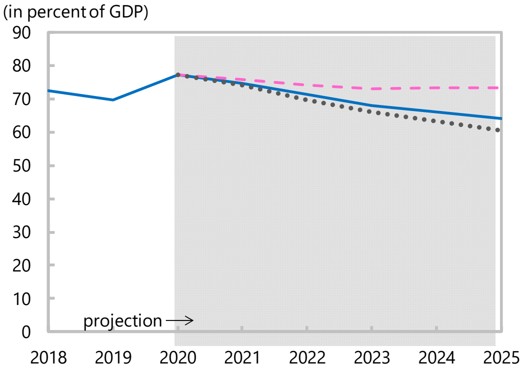


Alternative Scenarios

Baseline Historical Constant Primary Balance

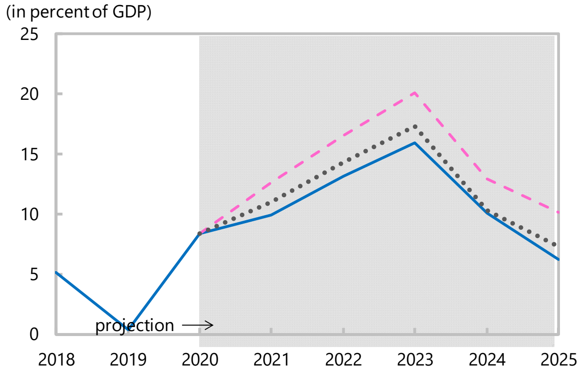
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

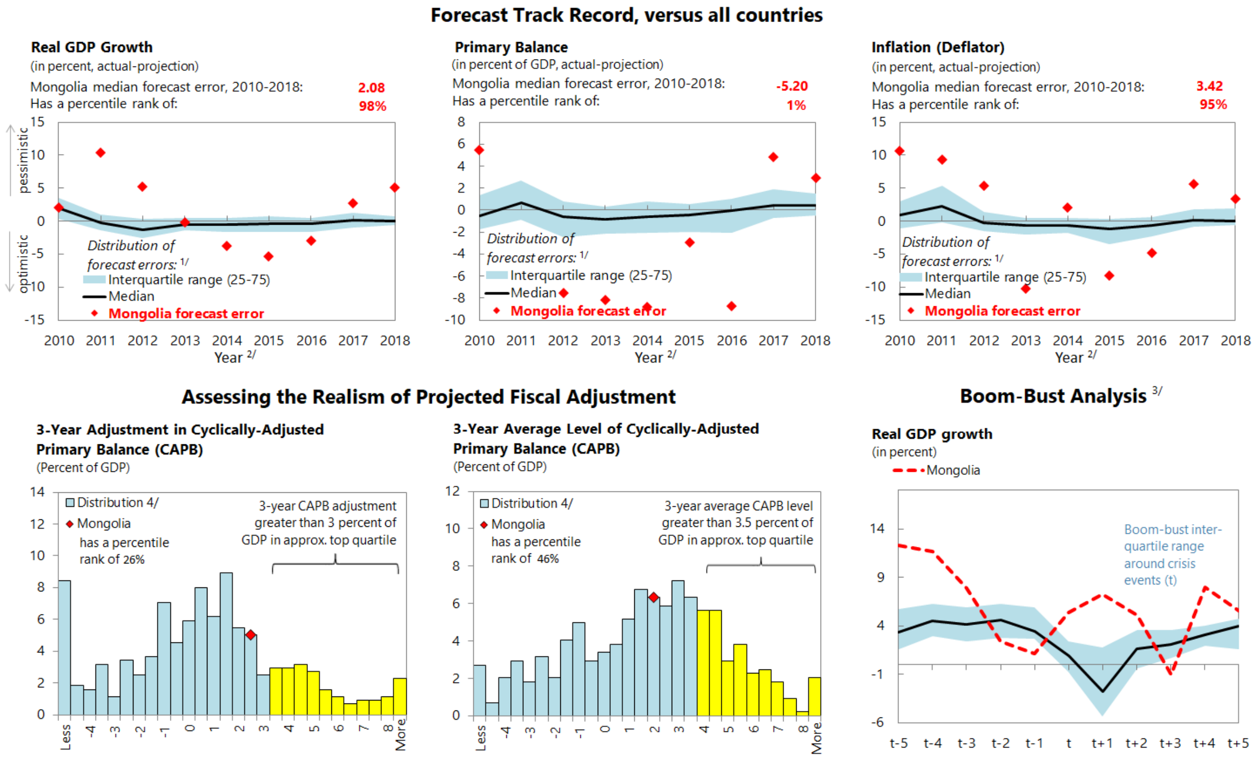
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.0	8.0	5.5	6.0	5.0	4.5
Inflation	6.8	8.8	8.1	8.2	8.1	8.1
Primary Balance	-2.9	-1.8	-1.0	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.2	3.2	3.1	3.5	3.8
Constant Primary Balance Scenario						
Real GDP growth	-1.0	8.0	5.5	6.0	5.0	4.5
Inflation	6.8	8.8	8.1	8.2	8.1	8.1
Primary Balance	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Effective interest rate	3.6	3.1	3.0	2.9	3.3	3.6

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.0	7.8	7.8	7.8	7.8	7.8
Inflation	6.8	8.8	8.1	8.2	8.1	8.1
Primary Balance	-2.9	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	3.6	3.1	3.0	2.9	3.4	3.7

Source: IMF staff.

Figure 3. Mongolia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

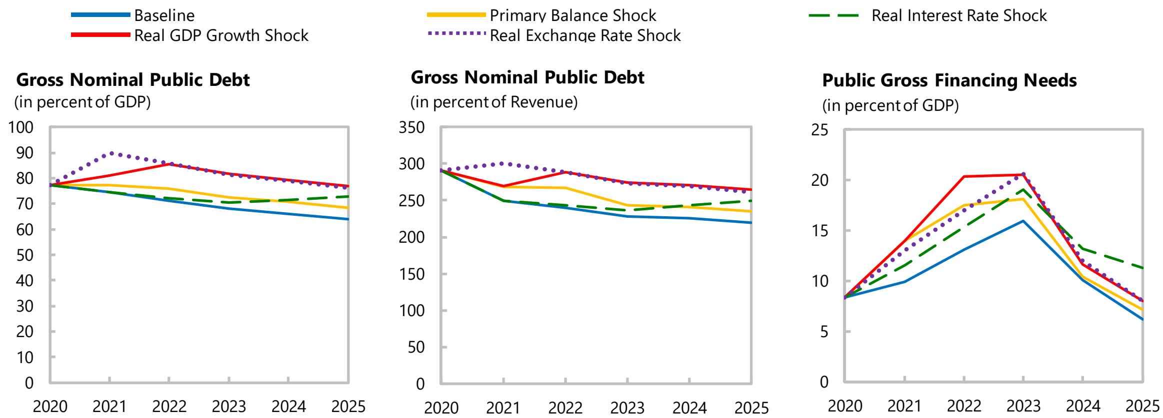
2/ Projections made in the spring WEO vintage of the preceding year.

3/ For Mongolia, t corresponds to 2015; for the distribution, t corresponds to the first year of the crisis.

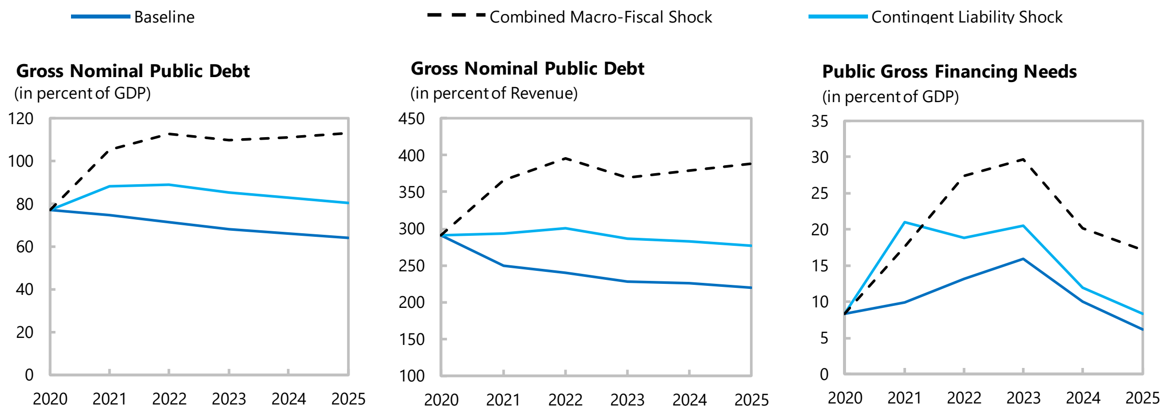
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Mongolia: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.0	8.0	5.5	6.0	5.0	4.5
Inflation	6.8	8.8	8.1	8.2	8.1	8.1
Primary balance	-2.9	-4.2	-3.4	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.1	3.1	3.1	3.5	3.7
Real Interest Rate Shock						
Real GDP growth	-1.0	8.0	5.5	6.0	5.0	4.5
Inflation	6.8	8.8	8.1	8.2	8.1	8.1
Primary balance	-2.9	-1.8	-1.0	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.1	4.4	5.6	7.9	9.2
Combined Shock						
Real GDP growth	-1.0	3.1	0.6	6.0	5.0	4.5
Inflation	6.8	7.6	6.8	8.2	8.1	8.1
Primary balance	-2.9	-4.9	-6.0	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.9	4.4	5.9	8.1	9.3

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.0	3.1	0.6	6.0	5.0	4.5
Inflation	6.8	7.6	6.8	8.2	8.1	8.1
Primary balance	-2.9	-3.7	-4.8	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.1	3.1	3.2	3.5	3.8
Real Exchange Rate Shock						
Real GDP growth	-1.0	8.0	5.5	6.0	5.0	4.5
Inflation	6.8	17.0	8.1	8.2	8.1	8.1
Primary balance	-2.9	-1.8	-1.0	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.9	2.9	2.7	3.2	3.4
Contingent Liability Shock						
Real GDP growth	-1.0	3.1	0.6	6.0	5.0	4.5
Inflation	6.8	7.6	6.8	8.2	8.1	8.1
Primary balance	-2.9	-10.4	-1.0	-0.5	-0.5	-0.5
Effective interest rate	3.6	3.4	3.6	3.3	3.7	3.9

Source: IMF staff.

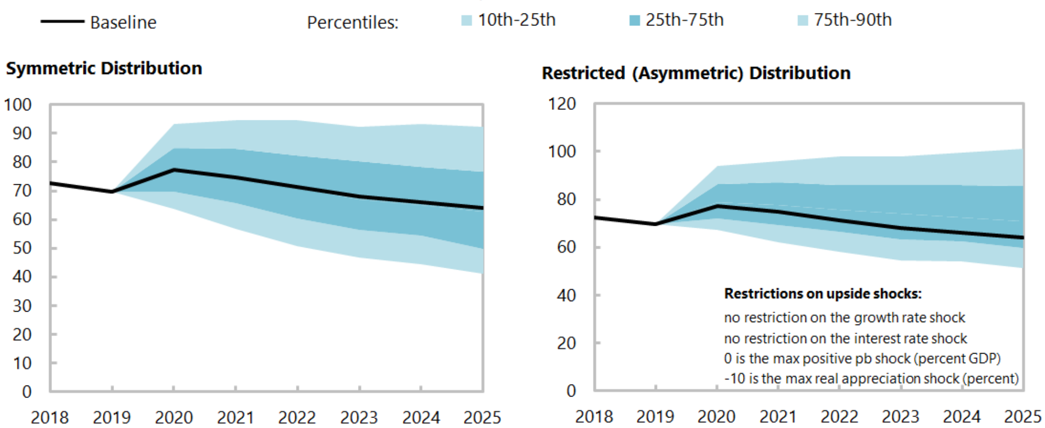
Figure 5. Mongolia: Public DSA – Risk Assessment

Heat Map - Current version

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

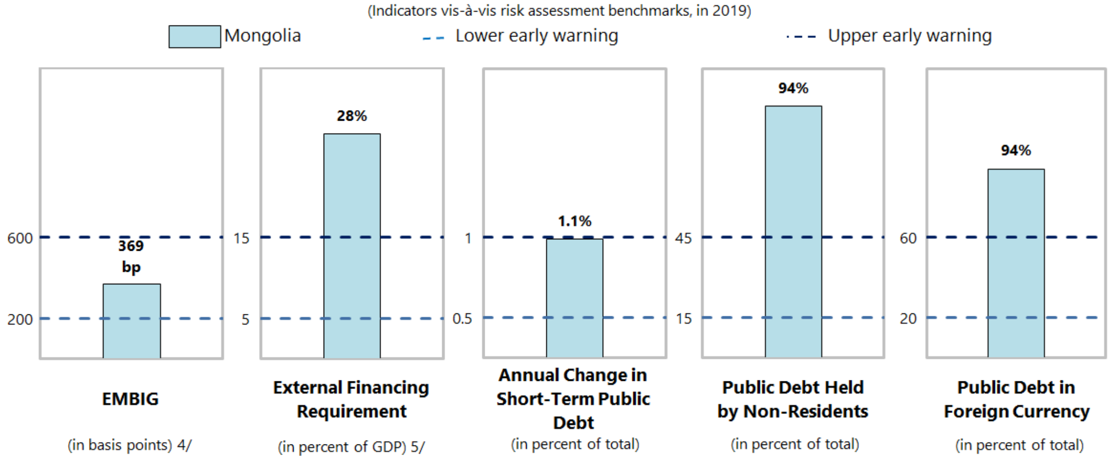
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 26-Dec-19 through 25-Mar-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix 1. Letter of Intent

May 27, 2020

Ulaanbaatar

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431
USA

Dear Ms. Georgieva,

1. **Due to the early imposition of containment measures, Mongolia has thus far avoided a domestic outbreak of the Covid-19 pandemic**. In January and February, we took a series of measures to prevent its spread including cancelling new-year celebrations, closing schools, restaurants and bars, limiting passenger transportation within Mongolia and closing the border with China to passengers and freight. The first case of Covid-19 was reported on March 9 and the total number of confirmed cases to date amounts to 148. We will continue to test as appropriate and quarantine all affected cases.

2. **However, Mongolia is suffering sizeable economic damage due to the global pandemic**. Mining exports are down 40 percent in the first quarter of 2020. In addition, our virus containment measures have sharply reduced domestic economic activity. Together, these developments are in turn weighing on fiscal revenues which are down 9 percent year in the first quarter of the year. In sum, the economic consequences of the pandemic for Mongolia are jeopardizing some of key macroeconomic achievements of the recent years achieved in the context of the EFF.

3. **In response, we have taken several emergency actions to contain the severe health risks and economic fall-out**:

- **Fiscal**: The government has changed the composition of the general government budget to better support affected sectors: tax relief and cuts in social security contributions of 2.8 percent of GDP and an increase in social transfers and health spending of 2.6 percent of GDP. To ensure a neutral budgetary impact, we have cut current expenditures by 2 percent of GDP and capital expenditures by 2.5 percent of GDP.
- **Monetary and Exchange Rate:** The Bank of Mongolia (BOM) has adopted measures to support liquidity and credit conditions, including: (i) a cumulative cut in the policy rate of 200 basis points; (ii) lower MNT reserve requirements by 200 basis points; (iii) a reduction in the policy rate corridor to ±1 percent; and (iv) lower banks' liquidity ratios by 5 percentage points. The BOM has also sold $605 million by end-April to prevent a disorderly adjustment in the exchange rate.

- **Financial:** At the same time, the BOM has announced a series of temporary financial forbearance measures to relieve the financial burden of the affected business and household to safeguard the financial system. Key measures include: (i) temporary easing on prudential requirements, loan classifications, restructuring standards; (ii) a deferred payment of consumption loan principals and interests by up to 12 months; (iii) suspension of corrective actions against breaches of capital conservation buffer; and (iv) temporary resumption of BOM's mortgage program.

4. **Looking ahead, the economic outlook remains very challenging.** We foresee a sharp fall in output in 1H-20 as a result of the decrease in exports, FDI, and domestic containment measures. The economy will gradually recover starting in the second half of the year in line with a measured global recovery. These factors – and emerging challenges in the rollover of maturing debt – will open up a BOP financing gap – before new official financing or adjustment - on the order of $4 billion.

5. **To meet these pressures, we intend to pursue a series of near-term policies to prevent a domestic outbreak, limit the fall in output and preserve macroeconomic stability**.

- **Fiscal:** On top of the stimulus measures announced thus far, we intend to allow automatic stabilizers to operate. As a result, we project that the primary balance will go from a surplus of 4 percent of GDP in 2019 to a deficit of about 2½ percent of GDP in 2020, which is still stronger than the debt stabilizing level. We feel that this is appropriate stimulus to the economy while avoiding too much pressure on public debt or the balance of payments. To be prepared If challenges related to the virus increase further, we will develop a contingency plan to scale-up health and social spending, particularly with a view to increase support for the vulnerable. In this contingency plan, we intend to mitigate the budgetary impact through reprioritizing expenditures to aim less burden on the deficit. Moreover, we fully intend to unwind fiscal loosening in 2021 once the immediate impact of the virus subsides to resume our reduction in public debt. In case the debt ratio diverges from the envisaged path under the baseline in the years ahead, we stand ready to take additional measures to lower the primary deficit, including through re-prioritizing capital expenditures, which should help put debt firmly on a declining path. Finally, we will put limits on quasi-fiscal spending by the BOM, given the damage such activities have done to macroeconomic stability in the past. In particular, we commit to: (1) limit all quasi-fiscal activities by the BOM—including those initiatives tasked in the Anti-Pandemic Law— to MNT800 billion (2 percent of GDP); (2) stop quasi-fiscal spending starting in January 2021; and (3) fully disclose them in BOM's audited financial statements which we will publish on the BOM website.
- **Monetary and Exchange Rate**: We recognize that, given our reliance on mining exports, we remain vulnerable to a sustained deterioration in the external environment and do not have enough foreign exchange reserves to prevent adjustment in the exchange rate. Moreover, with rising dollarization of deposits, it appears that depreciation expectations are rising. To deal with this challenge, we will allow greater exchange rate flexibility going forward. Once the pandemic crisis abates, the BOM will step up efforts to build international reserves. Over the medium

term, we will develop local currency debt markets, which would attract participation from non-residents to reduce vulnerability to exchange rate shocks.

- **Financial policy**: We will ensure that financial measures intended to ease the hardships caused by the pandemic are timebound. Given concerns about the adequacy of the capitalization of the banking system, we will insist that all of these temporary measures do not prevent appropriate classification, provisioning, and capital adjustments so that we can have an accurate understanding of the medium to long-term impact of the measures. Finally, we will aim to restrict loan restructurings to borrowers with proven negative impact from the pandemic. Looking further out, we intend to return to ensuring a fully capitalized banking system as soon as the immediate pressures from the pandemic have passed. This will involve addressing the outstanding commitments under the 2017 EFF.
- **Structural policy:** As recommended in the 2019 Article IV consultation, we remain committed to improve the business environment, combat corruption, enhance financial supervision, and strengthen the governance, notably AML/CFT.

6. Against this background, the Government of Mongolia requests emergency financing from the IMF. As described above, there is an urgent BOP needs that, if not addressed, would result in immediate and severe economic disruption. At the same time, it is not currently feasible to design an upper-credit tranche quality economic program, given the urgent nature of the BOP need. As a result, Mongolia requests assistance under the Rapid Financing Instrument (RFI). in the equivalent of SDR72.3 million (equivalent to $99 million), corresponding to a purchase of 100 percent of quota. We will use the resources made available under the RFI to help us cover fiscal needs associated with the virus outbreak including those of low-income households and firms under stress. Given that the country should continue to implement unfinished reform agenda to deal with immediate challenges, we will consider seeking a successor IMF arrangement, especially if we continue to face financing needs.

7. In addition to the above-mentioned policy commitments, we will take several other steps to ensure the effectiveness of the RFI.

- We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

- We are intensifying our efforts to mobilize additional financing bilateral and multilateral creditors. We have already secured an additional $100 million of budget support from the Asian Development Bank.

- The government will continue to publish information on revenue and expenditure performance on a regular basis. Especially, the government will provide a separate reporting mechanism for those Covid-19 expenditures outlined in the table below. To this end, we will publish quarterly reports on these Covid-19 expenditures on the website of the Ministry of Finance (MOF) and commission an independent third-party audit of this spending within six months of disbursement and publish the results on the website of the MOF. The published results will include the full text of all related procurement contracts, including the names of the awarded companies and their beneficial owners, and an ex-post validation of delivery.

General Government—Covid-19 Expenditures

	in billions of MNT	in percent of GDP
Expenditure Measures	1,045	2.6
Increase in health spending (financed by donors and Government Reserve Fund)	171	0.4
Temporary increase in Child Money Program (April 1 to October 1)	550	1.4
Double Food Stamps Allowance (May 1 to October 1)	10	0.0
Increase in Social Welfare Pension (May 1 to October 1)	35	0.1
Wage subsidies for employers (April 1 to July 1)	52	0.1
Cash transfers to herders	200	0.5
Interest subsidies for cashmere producers	27	0.1

Source: Ministry of Finance and Fund staff estimates.

- The BOM commits to undergo an update safeguards assessment and will continue to provide IMF staff with access to its most recently completed audit reports and to authorize the BOM's external auditors to hold discussions with IMF staff. Since the funds obtained under this RFI will be used for budget financing, we would prepare a memorandum of understanding between the MOF and the BOM on their respective responsibilities for servicing the related financial obligations to the IMF.

8. Our capacity to repay the Fund remains adequate. While our repayments to the Fund will increase over the medium-term, repayment ratios to fiscal revenue and exports of goods and services are projected to remain manageable. We will continue meeting our financial obligations to the IMF on a timely basis.

9. We look forward to an early approval of emergency financial assistance by the IMF. In keeping with its policy of transparency, we hereby authorize the publication of this Letter of Intent, the staff report and related documents for the request for disbursement under the RFI.

/s/
Ch. Khurelbaatar
Minister of Finance

/s/
B. Lkhagvasuren
Governor, Bank of Mongolia

Statement by Nigel Ray, Executive Director for Mongolia,
Laura Johnson, Senior Advisor to Executive Director,
Gantsogt Khurelbaatar, Advisor to Executive Director
June 3, 2020

Our Mongolian authorities wish to convey their appreciation for the candid and constructive discussions with Fund staff. They are especially grateful to the Fund for the financial and policy support provided during the Extended Fund Facility (EFF) arrangement, which expired at the end of May.

Prior to the outbreak of COVID-19, macroeconomic policies, including strict fiscal discipline, and structural reforms under the EFF program significantly strengthened the economy: public debt was firmly on a downward path and the foreign reserves nearly tripled since the beginning of the program. Unfortunately, the pandemic has impacted the economy severely and the challenge now is to continue to reduce the spread of the virus, while supporting economic activity and preserving macroeconomic stability.

The COVID-19 pandemic

Mongolia has long and cold winters and a typical flu season lasts for a long period of time. The potential for a domestic outbreak of the pandemic would place extended pressure on health facilities and resources. Consequently, the authorities acted early and took strong containment measures to address concerns related to the outbreak and limit the spread of the disease. Preventive and containment measures were imposed in late January, including by cancelling public events and closing schools. By early February the authorities had closed the border to China for all passengers and mineral exports. As of June 1, 2020, Mongolia had 185 confirmed cases of COVID-19, with the majority of these cases being imported from overseas and detected from incoming travelers during their compulsory quarantined period. With only a few domestic cases, Mongolia thus far has successfully avoided a domestic outbreak.

Economic outlook

Economic growth had started to slow in 2019 and the global pandemic and confinement measures are further weighing on many sectors of the Mongolian economy. The economy is closely tied to China and the slowdown in China will have a significant impact on Mongolia, especially in the mining sector. The global economic recession, slump in commodities prices and slowdown in domestic economic activities due to containment measures are all negatively affecting Mongolia’s growth. The economy is expected to contract by 1 percent in 2020, 6 percentage points lower than the pre-COVID projection. Exports fell dramatically in the first 5 months of the year due to border closures and consequently a virus-related decline in mining exports. Since March the authorities have been taking substantial steps to normalize exports, including the introduction of new standards tailored for border crossings during the pandemic and official discussion with regional and federal governments of China on revamping the flow of exports. As a result, recent export numbers are increasing. The authorities hope that exports could reach pre-COVID-19 levels in coming months. The authorities remain cautious about next year's growth. They expect that the economy will rebound modestly in 2021, based on the recovery of the global economy and commodity prices. The outlook into the medium-term remains favorable given Mongolia's significant mineral resource endowment.

Fiscal policy

In the face of the health and economic crises, the authorities announced a stimulus package to support affected households and businesses. The authorities reallocated spending from lower priority areas to health and social welfare measures, including temporary increases in child payments and other social transfers. To lessen the impact on employment and businesses, the authorities introduced various tax exemption measures and subsidy schemes for businesses. The authorities are ready to further adjust fiscal expenditures as necessary if there is a greater health or economic emergency. Fiscal revenues are projected to decline by 5.2 percent of GDP in 2020, largely reflecting lower commodity prices and volumes and weaker economic activity. The overall fiscal deficit is projected to reach -2.9 percent of GDP in 2020. During the past three years, the authorities were able to reduce the public debt by nearly 20 percent of GDP, but as a result of the negative economic impact of the COVID-19 the debt is projected to increase by nine percentage points of GDP in 2020.

Monetary policy

The Bank of Mongolia has introduced a number of measures to reduce the negative impact of COVID-19, including cutting the policy rate by 100 basis points in both March and April, reducing the reserve requirements for commercial banks by 200 basis points, and introducing temporary postponement of mortgage and other loan payments for households. For the past three years, the reserve accumulation was one of the main priorities of the Central Bank and they largely succeeded by nearly tripling the gross international reserves. Unfortunately, due to a worsening balance of payments, around thirty percent of reserves could be lost this year. During this unprecedented time to support the economy and vulnerable groups, the Parliament of Mongolia enacted legislation which allows the Bank of Mongolia to undertake quasi fiscal activities. In discussions with staff, to reduce the balance of payment pressures the Bank of Mongolia has committed to restrict its quasi fiscal activities to less than 2 percent of GDP and discontinue these activities in the future.

Governance

Mongolia has benefited from many donors and organizations that have contributed funds and resources to the Mongolian government to fight the pandemic. Our Mongolian authorities recognise that it is a duty of the Government to spend these contributions responsibly and report to the public how they are spent. The authorities will publish quarterly reports on all COVID-19 expenditures from the budget, donor financing and private donations on the website of the Ministry of Finance (MOF) and commission an independent third-party audit of this spending within six months of disbursement and publish the results on the website of the MOF. The published results will include the full text of all related procurement contracts, including the names of the awarded companies and their beneficial owners, and an ex-post validation of delivery. In addition, the Bank of Mongolia commits to undergo an update safeguards assessment and will continue to provide IMF staff with access to its most recently completed audit reports and to authorize the Bank of Mongolia's external auditors to hold discussions with IMF staff.

In October 2019, Mongolia was grey listed by FATF and a number of deficiencies were identified in Mongolia's anti-money laundering and combating the financing of terrorism (AML/CFT) arrangements. Since then, the authorities have been undertaking measures to address these deficiencies and comply with FATF recommendations. Progress reports have been discussed at FATF working groups in January and May 2020.

Fund support

Against this background, Mongolia is facing an urgent balance of payments need, which has triggered the authorities' request for emergency financing in the amount of SDR 72.3 million. The Fund's emergency assistance will help meet the urgent balance of payments financing needs stemming from the adverse impact of the ongoing shock on the economy as a result of COVID-19.

The authorities are continuing to actively seek additional financing from development partners and Fund support will play a catalytic role. In this regard, our Mongolian authorities are thankful to the World Bank, the Asian Development Bank, the European Union and other donors which provided loans and grants to fight the pandemic. They are also thankful to the People's Bank of China for extending the swap arrangement with the Bank of Mongolia.

Looking ahead, as conditions permit, the authorities are committed to continue with structural reforms to alleviate vulnerabilities in the economy, including the reforms which Mongolia was not able to complete during the previous EFF program.

Mongolia will face a challenging period in the coming years. In addition to a highly uncertain global economic outlook, Mongolia faces a difficult amortization schedule from 2020-24. In light of this, our Mongolian authorities are continuing constructive discussions with the Fund about potential pathways forward. They remain grateful for their advice and support.