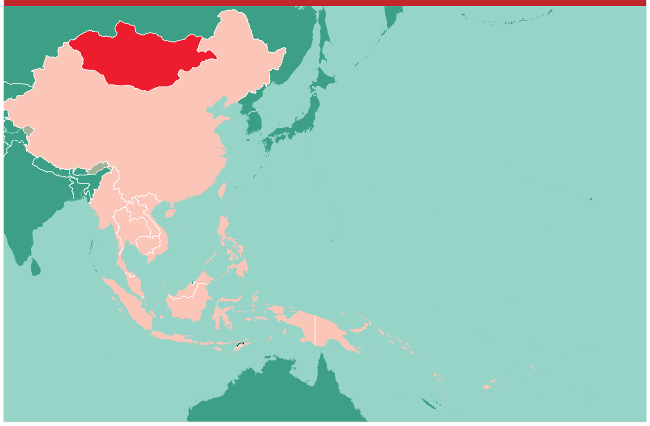
MONGOLIA



	2017
Population, million	3.1
GDP, current US$ billion	11.9
GDP per capita, current US$	3,867
National Official Poverty Rate[a]	29.6
Gini index[a]	32.0
School enrolment, primary (% gross)[a]	104.2
Life expectancy at birth, years[a]	69.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes: a. National Statistics Office. Most recent value (2016). b. Most recent WDI value (2016).

Summary

Mongolia's real GDP grew by 6.3 percent (y/y) in 2018 H1, supported by robust mineral exports, strong foreign direct investments, and improved business sentiments. The growth outlook remains positive in 2018 and beyond, buoyed by robust growth in private consumption and private investment in mining and manufacturing. Improvement in household incomes and the positive outlook augur well for poverty reduction after the 2016 increase. Risks to the outlook include political uncertainty, commodity shocks, border bottlenecks, and poor handling of money laundering issues.

Recent Developments

The growth momentum has continued in 2018 H1 as real GDP expanded by 6.3 percent from 5.2 percent in 2017 and 1.4 percent in 2016. Despite cross-border bottlenecks with China and weather-related shocks (including heavy flooding during the summer), growth exceeded expectations in 2018 H1, largely supported by a revived coal sector, and strong private investment mainly in mineral and trade sectors. Improved market sentiments following successful implementation of government's economic recovery plan also contributed to this positive performance. Positive developments in the labor market resulted in a strong recovery of private consumption in 2018 H1, which grew by 5.7 percent (y/y) from 0.5 percent in 2017. Unemployment rate in 2018 Q2 declined by over 2 percentage points from 9.6 percent in the same period last year. Although inflation remained below the central bank rate of 8 percent, it accelerated to 7.7 percent in July 2018 with rising prices of meat, vegetables (both affected by a harsh winter and heavy flooding during summer), fuel, and the effects of excise tax levied on vehicles. Real average household income, which contracted in 2016, increased by 6 percent in 2018 H1. As a result, the poverty rate is expected to fall in 2018.

The fiscal stance has continued to improve significantly, with a surplus of 2.8 percent of GDP in 2018 H1 from a deficit 0.8 percent of GDP in 2017 H1. This is explained by a better than expected revenue performance from coal and copper exports, and a commitment to spending control (e.g., reduction in interest payments, streamlining wage bill through hiring freeze, and rationalization of underperforming capital spending). Substantial improvement in fiscal balance ultimately led to a reduction in government debt in 2018 H1. In addition, government successfully repaid the first payment of US$500 million for the US$1.5 billion Chinggis Bond in January and US$160 million Dim Sum Bond in June. Despite positive terms of trade, current account balance slightly deteriorated in 2018 H1 following a surge in the service account deficit. This was mainly explained by the rise in transportation activities following a robust trade performance. Total imports increased by 40 percent in July 2018, with a surge in capital goods imports. The slight deterioration in the current account was compensated by a rise in official sector support and strong FDI inflows. With the bond repayments, gross international reserves slightly fell to US$2.9 billion in June 2018 (4.9 months of imports) from US$3.2 billion reached in May, its highest level since May 2013. Bank of Mongolia (BoM) has emphasized reserves accumulation rather than nominal exchange rate appreciation. However, due to rising inflation, the real effective exchange rate appreciated modestly by about 3 percent (y/y) in June 2018.

Outlook

Supported by strong domestic demand, FDI and relatively robust commodity exports, economic growth is projected to further improve to 5.9 percent in 2018 from 5.4 percent in 2017, and to accelerate to around 6.6 percent in 2019. Private investment supported by FDI and private sector credit will remain a key driver for growth in the medium-term, especially in mining, manufacturing, and transport services. Despite reduced depreciation pressure on exchange rate, inflation will likely rise although modestly putting at risk the BOM medium term target of 8 percent amid strong domestic demand and rising food and petrol prices. Private consumption is also projected to further improve over the medium term following improvement in labor market despite efforts by the central bank to cool off strong credit growth. Accordingly, BOM is likely to gradually tighten monetary policy to contain inflation and continue to build up reserves amid fast growing imports and bank credit.

Agriculture is projected to grow by nearly 4 percent over the medium term, but below its 2014–16 performance, due to the adverse effects of a harsh winter and flooding of last summer. Industry is projected to grow by about 8 percent in 2018–20, as substantial developments are expected in mining. Services sector growth would continue to be supported by strong linkages between mining and transport.

The unexpected revenue overperformance of 2017 supported by mineral receipts will continue in 2018, resulting in a decline in the fiscal deficit to 1.4 percent of GDP from 1.9 percent in 2017. However, although the deficit for 2019–20 will be lower than planned in the original government fiscal adjustment program, it is projected to average 4 percent in 2019–20 as the revenue performance will be slightly offset by a moderate increase in expenditures (wage increase for civil servants and a rise in donor financed investment). Declining path of deficit will likely result in continued reduction on debt over the medium term. Accordingly, the country's declining debt will gradually help addressing underlying vulnerabilities of the balance of payments. However, despite robust export growth, investment related imports in 2019–20 would rise and put additional pressure on the current account balance. Relatively stabilized exchange rate will continue as the disbursement of donors' support and further FDI inflows materialize. Gross international reserves are expected to continue to improve.

Given the positive economic outlook, poverty rates are expected to decline starting from 2018.

Risks and Challenges

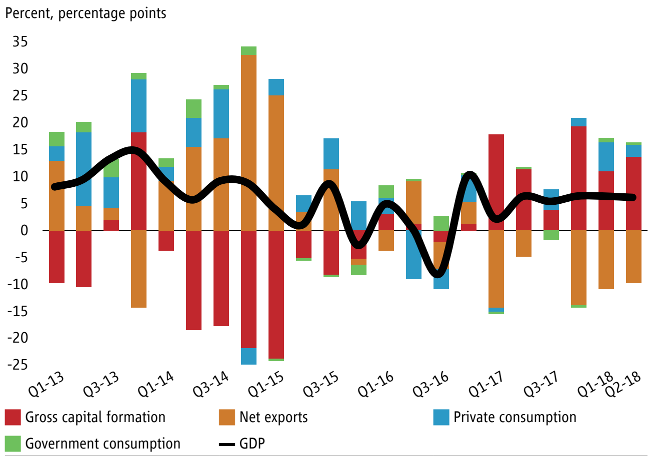
There are substantial domestic and external exogenous risks to the outlook. These risks include political uncertainty exacerbated by the 2020 election which could trigger a delay in the implementation of mega projects in the mining sector; commodity market volatility and weakening global demand; climate shocks; revived bottlenecks at the China border; and effects of poor handling of the deficiencies of the anti-money laundering regime.

Growing political uncertainty could induce a sudden relaxation of the government's commitment to structural reforms.

Mongolia's growth prospects could be adversely affected by the consequences of an escalating trade war and a potential reduction in global demand—mainly from China—for coal, copper and other commodities and the resultant decline in global commodity prices.

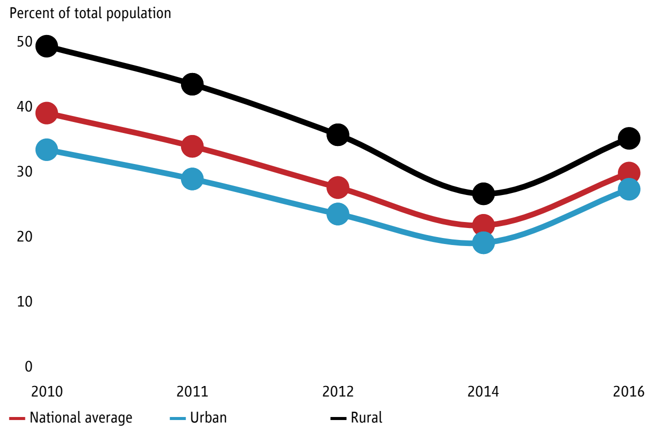
Weather related shocks, resumption of non-trade barriers at the border with China, could also significantly affect Mongolia's coal exports. Limited progress on addressing anti-money laundering deficiencies could potentially affect FDI inflows and the financial sector.

Figure 1. Real GDP growth, contribution to real growth



Source: National Statistics Office of Mongolia (NSO).

Figure 2. Poverty rate (official poverty line): 2010–16



Source: National Statistics Office of Mongolia (NSO).

MONGOLIA Selected Indicators	*2015*	*2016*	*2017*	*2018e*	*2019f*	*2020f*
Real GDP growth, at constant market prices	4.0	1.4	5.4	5.9	6.6	6.3
Private Consumption	8.1	-2.6	0.5	5.8	6.8	6.7
Government Consumption	6.5	10.6	-2.7	-0.3	4.5	4.8
Gross Fixed Capital Investment	-30.5	0.5	35.8	14.4	29.4	9.4
Exports, Goods and Services	0.1	13.8	13.6	6.8	3.1	1.8
Imports, Goods and Services	-11.4	12.7	24.8	8.5	10.0	2.9
Real GDP growth, at constant factor prices	4.0	1.5	5.5	5.9	6.6	6.3
Agriculture	10.7	6.2	1.8	1.5	3.5	3.8
Industry	9.9	-0.4	0.4	5.5	7.9	9.7
Services	-2.6	1.7	11.3	7.6	6.5	4.3
Inflation (Private Consumption Deflator)	1.1	0.8	7.2	8.2	8.3	8.1
Current Account Balance (% of GDP)	-4.9	-6.4	-10.6	-10.0	-10.8	-9.2
Net Foreign Direct Investment (% of GDP)	1.6	1.1	13.2	12.5	15.2	11.8
Fiscal Balance (% of GDP)	-8.5	-15.9	-1.9	-1.4	-4.6	-3.2
Debt (% of GDP)	61.2	87.3	84.8	74.7	71.4	67.4
Primary Balance (% of GDP)	-5.4	-12.1	2.0	2.3	-1.9	-1.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate; f = forecast.