

Mongolia

Having revived in 2017, growth remained strong at 6.3% in the first half of 2018, propelled by domestic demand. Investment, predominantly in one mining project, remained the main source of growth, contributing 12.6 percentage points. Consumption contributed 3.9 points as a surge in credit to households fueled private expenditure. Net exports subtracted 10.3 points as imports rose to supply busier mines, outpacing export growth. On the supply side, industry, supported by recovery in mining and expansion in manufacturing, lifted GDP growth by 2.1 points, and services added another 3.7 points, but agriculture's contribution to growth fell to 0.5 points as drought brought livestock losses. Inflation accelerated to average 6.5% in the first half of 2018, mainly because food prices rose with drought and reduced domestic supply of meat due higher exports, but also reflecting higher prices for petroleum products.

The budget recorded a surplus equal to 2.8% of GDP in the first half of the year as revenue substantially outgrew expenditure. A cumulative 3 percentage point reduction in the central bank policy rate in 2017 and 2018 pushed up credit growth by 19.4% year on year and the broad money supply by 28.7%. Concerned about risk posed by mounting consumer loans, the central bank set a cap in July on the ratio of household debt service to income. Nonperforming loans grew by 16.3% but remained relatively stable at 8.5% of the total.

The current account deficit widened to 10.7% of GDP in the first half of 2018 as a 32.7% rise in imports dwarfed 15.7% growth in exports. A consequence of this and of capital outflow mainly to repay commercial debt was a 0.6% decline in gross reserves, now covering 4.6 months of imports. The Mongolian togrog depreciated by 1.5% against the US dollar in the first 8 months of 2018 but rose against the currencies of trading partners in both trade-weighted and inflation-adjusted terms.

Growth forecasts for 2018 and 2019 are revised up to reflect unexpected strength in private consumption and coal exports, as well as assumed recovery in agriculture in 2019. Slower growth in mining and related investments will, however, likely slow growth a bit in 2019. The inflation forecast for 2018 is revised down as pass-through from currency depreciation in 2016 fades, and with the government expected to follow its annulment of excise taxes on fuel with further interventions to stabilize fuel prices. A higher current account deficit is now projected for both years as stronger economic growth pushes up imports and as mining profits are repatriated, though most profits are then reinvested. Risks to the outlook would include disrupted implementation of an International Monetary Fund program, major changes in the flows of foreign direct investment in 2019, and large fluctuations in meat or export prices.

3.2.3 Selected economic indicators, Mongolia (%)

	2018		2019	
	ADO 2018	Update	ADO 2018	Update
GDP growth	3.8	6.4	4.3	6.1
Inflation	8.0	7.2	7.0	7.0
Current acct. bal. (share of GDP)	-6.3	-8.9	-7.0	-8.5

Source: ADB estimates.