



2018

Population, million	3.2
GDP, current US\$ billion	12.1
GDP per capita, current US\$	3,762.1
National Official Poverty Rate ^a	29.6
Gini index ^a	32.0
School enrolment, primary (% gross) ^b	104.5
Life expectancy at birth, years ^c	69.3

Source: National Statistical Office of Mongolia (NSO), World Bank, WDI, and Macro Poverty Outlook.
Notes: a. Most recent value (2016). b. Most recent WDI value (2017). c. Most recent WDI value (2016).

Mongolia's economic performance exceeded expectations in 2018 as real GDP grew by 6.9 percent supported by robust mineral exports, and strong foreign direct investment. Growth outlook remains positive in 2019 and beyond, mainly driven by private consumption, and investment in mining and manufacturing. Given the positive economic outlook, poverty is expected to decline. Risks to the outlook include political uncertainty, commodity price shocks, cross-border logistical bottlenecks, and slower implementation of banking sector reforms and money laundering concerns.

Recent Developments

The strong growth momentum continued in 2018, as real GDP rose to 6.9 percent from 5.4 percent in 2017 and 1.4 percent in 2016. This robust economic recovery was largely supported by a strong coal sector (in both of price and volume), improved private investment, and improved market sentiments following implementation

of government's Economic Recovery Program (ERP). Private consumption recovered strongly in 2018 following contraction in the previous two years, largely on back of positive developments in the labor market (e.g., decline in the unemployment rate). Meanwhile, inflation accelerated to 8.1 percent in 2018 (close to the central bank target of 8 percent), driven by rising food and oil prices and strong domestic demand. A loose monetary stance also led to high credit growth, which fueled inflation. Bank credit (corporate and consumer loans) accelerated sharply (26.5 percent) in 2018 from around 10 percent in 2017. Nevertheless, the average real household income grew by 8.8 percent in 2018. Consequently, poverty rate is likely to have leveled down in 2018.

The fiscal stance improved significantly in 2018, supported by steady implementation of fiscal consolidation reforms, improved economic performance and budget spending discipline. The under-execution in capital spending also played a role. Overall fiscal balance turned around from a record high deficit of 17.3 percent of GDP in 2016 to a surplus of 2.6 percent in 2018—the first budget surplus of the last 8 years. Substantial improvements in the fiscal balance led to a reduction in government debt in 2018. Moreover, the government successfully honored instalment payments due on its sovereign debts in 2018.

However, external sector pressures intensified, driven by a rapid growth in imports (goods and services) and bank credit. As a result, the current account deficit surged from 10.5 percent of GDP in 2017 to 16.3 percent. High imports growth continued in 2018, mainly supported by a surge in investment. Strong FDI inflow in 2018 was not enough to offset the substantial worsening of the current account balance, resulting in a slight deterioration in the balance of payments (BoP). However, gross international reserves rose substantially in 2018 to US\$3.5 billion (4.7 months of imports), mainly explained by a bond issuance (US\$500 million) by Development Bank of Mongolia in October 2018. Meanwhile, a tugrug did not depreciate by much in 2018 (about 9 percent against the US\$ and 3.4 percent against the Chinese RMB) compared to peers among commodity dependent economies in the region.

With Mongolia's inflation higher compared to trading partners' (China and Russia), the appreciation of the real effective exchange rate by 5 percent in 2018 may have affected the export competitiveness of the non-mining sector.

Outlook

Supported by a strong domestic demand, sustained FDI flows, and relatively robust commodity exports, economic growth is projected to further improve to 7.2 percent in 2019 from 6.9 percent in 2018, and to stabilize around 6.7 percent in 2020–21. Private investment supported by FDI and domestic credit will remain a key driver for growth in the medium-term, especially in mining, manufacturing, and transport services. Inflation is likely to remain elevated in 2019 mainly due to strong domestic demand, before declining gradually in 2020–21, below the central bank medium term target of 8 percent. Private consumption is also projected to further improve over the medium-term following improvement in labor market conditions, despite efforts by the central bank to cool off the strong economy. The base case assumes that the Bank of Mongolia (BoM) is likely to gradually tighten monetary policy to contain inflation amid rising imports and banking sector credit. In addition, BoM should monitor effective implementation of the bank recapitalization process.

Agriculture sector growth is projected to exceed 4 percent in the medium term. Meanwhile, industry would grow by about 7.3 percent in 2019–21, as substantial developments are expected in mining. Services sector growth would continue to be supported through strong linkages between mining and transport.

The base case also suggests that fiscal deficit would average about 1 percent of GDP in 2019–21 from a surplus of 2.6 percent in 2018. Meanwhile, this deficit will be consistent with a debt level lower than what is planned in the ERP. Investment related imports are expected to decelerate in 2020–21, thereby reducing current account balance pressures. Foreign exchange market pressures will

likely ease as the disbursement of donors' support and further FDI inflows materialize. Gross international reserves are expected to continue to improve to 5.2 months of imports in 2019 from 4.7 months in 2018. In this context, BoM should encourage greater flexibility of the exchange rate through limited interventions.

The robust medium-term macro outlook is expected to contribute to poverty reduction.

Risks and Challenges

There are substantial risks to the outlook. These risks include political uncertainty exacerbated by the 2020 elections; effects of an escalating trade war between China and USA on global commodity markets; climate shocks (drought/flooding, harsh winter); revived bottlenecks at the China border; and slow implementation of the recapitalization in the banking sector and anti-money laundering issues.

Growing political uncertainty could induce a sudden relaxation of the government's commitment to full implementation of its adjustment program, thereby affecting market sentiments and FDI flows. However, a strong commitment of policymakers to key policy reforms could mitigate this risk.

Mongolia's growth prospects could be adversely affected by an escalating trade war on global demand and its impact on the price of key exporting commodities (including copper).

Weather related shocks and resumption of non-trade barriers at the border with China will likely affect Mongolia's coal exports. Inability to recapitalize the banking sector adequately could create instability and delay the disbursement of official support. Mongolia's limited progress on addressing money laundering issues is an additional risk, given its potential effect on FDI, and the financial sector. An emerging upside risk to the outlook is the recent decision by China to limit coal imports from Australia.

Figure 1. Real GDP growth, contribution to real growth

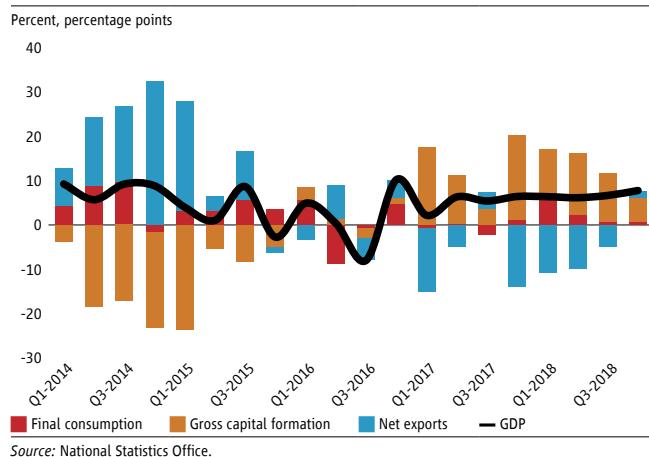
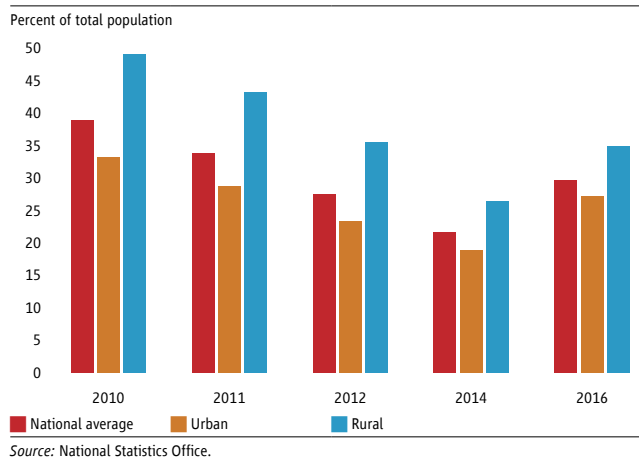


Figure 2. Poverty rate (official poverty line): 2010–16



MONGOLIA Selected Indicators	2016	2017	2018e	2019f	2020f	2021f
Real GDP growth, at constant market prices	1.4	5.4	6.9	7.2	6.9	6.5
Private Consumption	-2.6	-0.3	3.9	6.2	6.8	7.6
Government Consumption	10.7	0.1	0.5	6.0	4.7	5.8
Gross Fixed Capital Investment	0.5	35.8	20.5	33.5	15.0	9.3
Exports, Goods and Services	13.8	13.6	15.3	1.2	1.0	7.6
Imports, Goods and Services	12.7	24.8	21.4	8.3	3.7	8.2
Real GDP growth, at constant factor prices	1.5	5.4	6.9	7.2	6.9	6.5
Agriculture	6.2	1.8	4.5	4.0	4.5	4.7
Industry	-0.4	0.4	6.2	5.9	7.2	8.8
Services	1.8	11.5	8.2	9.3	7.3	5.1
Inflation (Private Consumption Deflator)	0.9	6.4	8.1	8.3	8.1	7.2
Current Account Balance (% of GDP)	-6.3	-10.5	-16.3	-16.5	-13.1	-10.0
Net Foreign Direct Investment (% of GDP)	1.2	11.6	15.8	16.8	13.0	12.0
Fiscal Balance (% of GDP)	-17.3	-1.9	2.6	-1.5	-1.4	-0.1
Debt (% of GDP)	86.5	84.2	71.5	65.9	59.8	56.6
Primary Balance (% of GDP)	-13.5	2.3	6.1	0.9	0.4	1.5

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