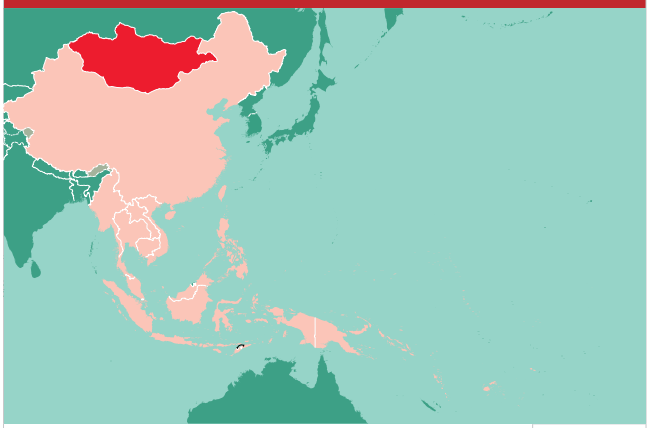
MONGOLIA



	2016
Population, million	3.0
GDP, current US$ billion	11.4
GDP per capita, current US$	3,809
School enrolment, primary (% gross)[a]	101.7
Life expectancy at birth, years[a]	69.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes: (a) Most recent WDI value (2014).

Summary

Following positive developments in the mineral sector, real GDP growth is expected to improve to 2.8 percent in 2017 compared to -0.2 percent initially projected. Growth outlook remains positive in 2018 and beyond mainly on account of increased private investment in the mining sector and new impetus in trade and transport services. Early signs of improvements in household incomes in 2017 augur a decline in poverty after sharp increase between 2014 and 2016. Risks to the outlook include political uncertainty, climate shocks, commodity shocks, and regional instability.

Recent Developments

Following the 2016 economic slowdown, recovery has been modest as growth is estimated to increase to 2.8 percent in 2017. This performance is largely driven by positive developments in the mineral sector (mainly coal) as well as stronger performance in private investment following substantial FDI inflows in the mineral sector. Private consumption is also expected to recover by 2.9 percentage points in 2017 from a negative growth in 2016 following positive developments on the labor market. Unemployment rates declined to 8.6 percent in 2017H1 from about 10 percent in 2016. Real household income per capita increased by 2.6 percent (y/y) in the 2017H1, up from the 11.3 percent decline in 2016H1. Largely driven by a reduction in non-food inflation, headline inflation slightly dropped below 3.5 percent (y/y) in July 2017. It will remain at moderate level and below the Central Bank target of 8 percent for the rest of 2017.

The fiscal stance will improve in 2017 as deficit will decrease by almost half from 17 percent of GDP in 2016 following better than expected revenue performance in a context of a fiscal adjustment program agreed with the Fund, the Bank and other development partners. This program includes eliminating capital expenditures financed by the Development Bank of Mongolia (DBM), and the net financing by Bank of Mongolia (BOM) of the Housing Mortgage program. It also focuses on strengthening revenue mobilization while improving efficiency of public investment. Current account balance will improve on account of positive developments on the trade and services accounts during the 2017H1. Total exports will likely rise by 15 percent in 2017 from 3 percent during the previous year. Mongolia's buffers to external shocks are improving as gross international reserves are estimated to substantially increase.

Outlook

Economic growth is projected to further improve modestly to 3.1 percent in 2018 from about 2.8 percent in 2017, and to accelerate to over 7 percent in 2019 and beyond. Private investment will remain a key driver for the medium-term growth, especially in mining, and trade and transport services. Inflation will remain modest and below the central bank medium term target of 8 percent. Therefore, the BOM is likely

to pursue an accommodating monetary policy, which should stimulate growth. Private consumption is also projected to further improve over the medium term. Consequently, the poverty rates are expected to decline.

Agriculture is projected to grow at about 4 percent over the medium term. This is below the sector's 2014–15 performance, mainly as climate change continues to adversely affect Mongolia through drought, and harsh winter. Industry is projected to grow at 7.5 percent in 2018–19, following substantial developments expected in the mining sector. Services sector would also grow strongly over the same period on account of strong backward linkages between mining and transport services. Moreover, trade and transport sectors may also benefit from the recent intensification of relations with Russia, especially in the transit for the China-Russia trade.

The fiscal deficit is projected to further decline substantially in the medium term, as government remains committed to implement its fiscal consolidation program. The balance of payments will continue to face structural vulnerabilities exacerbated by developments on the country's debt situation. Construction-related imports over the next two years are expected to outpace export growth, and put upward pressure on the current account balance. Exchange rate volatility will subside following the disbursement of donors' support and further FDI inflows. Moreover, gross international reserves would significantly improve to 6.5 months of imports in 2019 from 3.2 months in 2017.

Risks and Challenges

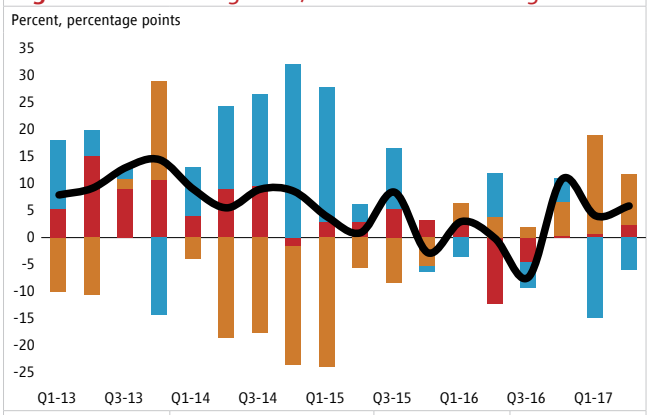
While growth has been better than expected in 2017 due to coal prices, underlying structural issues remain. There are substantial domestic and external exogenous risks to the outlook. These risks include persistent political uncertainty, climate shocks, commodity market volatility, and regional instability.

The recent dismissal by Parliament of the cabinet raises uncertainty about the government's commitment to implementation of the fiscal consolidation program, as well as commitment to a positive environment for FDI, both critical for Mongolia's medium term growth. Moreover, the political changes will complicate government efforts to refinance outstanding sovereign bonds; given Mongolia's weak external position, if such risks should materialize this would slow down the recovery process. Efforts to reduce poverty and promote shared prosperity sustainably may also be affected, as a result. In fact, fiscally sustainable labor and social protection policies will be key to reducing poverty in the coming years. In contrast, if the new cabinet maintains fiscal discipline and an open stance toward FDI, Mongolia's prospects for growth and poverty reduction in the medium term are more positive.

Weather-related shocks will remain an important challenge to Mongolia's economy and meeting food security needs to the rural population. Adaptation to climate change should therefore be prioritized to help mitigate food production shocks.

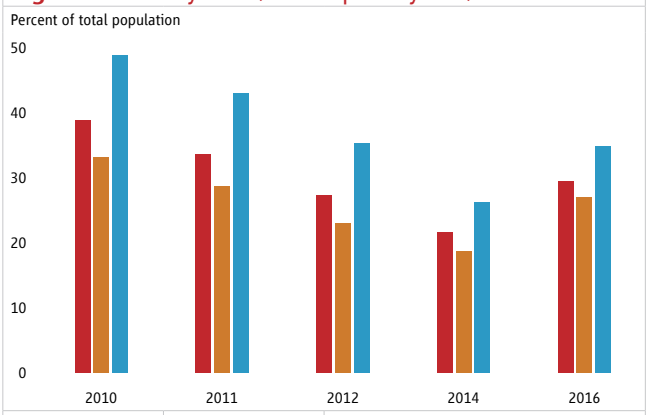
Commodity market volatility is likely to affect Mongolia's growth prospects. Improving government's management of proceeds from minerals is therefore critical. Recent efforts by the government to promote export diversification through improved trade cooperation is also a positive step.

Figure 1. Real GDP growth, contribution to real growth



Source: National Statistics Office.

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



Source: National Statistics Office.

MONGOLIA Selected Indicators	*2014*	*2015*	*2016e*	*2017f*	*2018f*	*2019f*
Real GDP growth, at constant market prices	6.9	2.2	1.4	2.8	3.1	7.3
Private Consumption	6.3	7.2	-8.2	2.9	8.0	10.0
Government Consumption	3.4	-4.5	11.0	-7.1	-3.4	-0.9
Gross Fixed Capital Investment	-21.7	-34.4	7.8	18.7	35.0	25.0
Exports, Goods and Services	53.2	1.2	12.6	15.2	6.0	8.1
Imports, Goods and Services	6.8	-11.5	12.4	19.1	17.5	14.0
Real GDP growth, at constant factor prices	9.2	5.4	1.5	2.0	3.1	7.3
Agriculture	13.7	10.7	6.2	3.0	3.5	4.0
Industry	12.7	9.9	-0.6	1.7	4.0	11.0
Services	5.4	0.4	1.9	2.0	2.2	5.2
Inflation (Private Consumption Deflator)	10.7	1.1	0.9	8.0	6.5	6.9
Current Account Balance (% of GDP)	-11.5	-4.8	-6.3	-5.3	-9.1	-12.4
Financial and Capital Account (% of GDP)	8.3	3.5	7.9	7.0	15.2	20.8
Net Foreign Direct Investment (% of GDP)	2.1	1.5	1.1	8.5	13.9	19.8
Fiscal Balance (% of GDP)	-10.5	-8.5	-17.0	-8.4	-7.1	-4.6
Debt (% of GDP)	58.4	60.4	87.3	84.8	88.9	85.5
Primary Balance (% of GDP)	-8.4	-5.2	-13.3	-4.0	-2.2	-0.3

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: e = estimate; f = forecast.