

Mongolia

Economic growth remained strong at 7.3% in the first half of 2019, buoyed by vigorous domestic demand. Consumption contributed 4.6 percentage points as government expenditure grew by 11.2% and private consumption by 4.7%. Investment contributed 9.8 points thanks to high domestic private investment, rising credit to corporations, and a 60.9% increase in public investment. Net exports meanwhile subtracted 7.1 points from growth as imports linked to new investment outgrew exports. On the supply side, mining and construction grew rapidly, propelling industrial expansion by 9.3% year on year in the first half. Growth in services remained strong at 7.4%, with trade services boosted by mining expansion. Agriculture continued to recover, growing by 4.7%.

The budget recorded a surplus equal to 4.7% of GDP in the first half of 2019 as revenue grew by 21.9% on rising corporate income tax receipts and social security contributions, outstripping expenditure growth by 14.1%. Broad money supply increased by 16.6% year on year in first half, mainly reflecting a surplus in the balance of payments, and real interest rates tumbled as inflation accelerated and loan and deposit rates declined. However, macroprudential measures introduced in January successfully contained growth in newly issued loans to 5.1% in the first 6 months. Nonperforming loans climbed to 10.6% of all loans. Bank recapitalization, initiated in 2018 by the Bank of Mongolia, continued into this year.

While economic expansion was strong in the first half of 2019, and domestic demand is expected to grow rapidly in the second half, net exports are likely to deteriorate further as demand for mining exports declines in tandem with slower growth in the People's Republic of China (PRC) and as imports rise to meet higher domestic demand. On balance, the growth forecast is unchanged for 2019 and downgraded slightly for 2020 owing to the anticipated impact of the PRC slowdown on Mongolia's exports.

Inflation is similarly on track to meet *ADO 2019* forecasts for 2019 and 2020. Despite some appreciation of the Mongolian togrog, consumer prices rose by 8.1% year on year in June as food prices climbed and domestic demand strengthened, and the trend is expected to continue. The current account deficit narrowed to equal 10.2% of GDP in the first half of 2019, driven by a rapid increase in merchandise exports. However, strong import demand will likely keep the current account deficit from narrowing in 2019 as much as forecast in April and widen it in 2020 more than projected.

Risks to the outlook include possible disruption to the implementation of a financial program with the International Monetary Fund or to bank recapitalization, major changes to foreign direct investment, a sharper slowdown in the PRC, and fluctuation in commodity prices.

Table 3.2.3 Selected economic indicators, Mongolia (%)

| | 2019 | | 2020 | |
|-----------------------------------|----------|--------|----------|--------|
| | ADO 2019 | Update | ADO 2019 | Update |
| GDP growth | 6.7 | 6.7 | 6.3 | 6.1 |
| Inflation | 8.5 | 8.5 | 7.5 | 7.5 |
| Current acct. bal. (share of GDP) | -9.6 | -10.7 | -13.0 | -16.1 |

Source: ADB estimates.