



Mongolia

Highlights

- **Economic growth remains robust in 2024, although slightly lower than in 2023.** The economy grew by 5.6 per cent year on year in the first half of 2024. Severe weather early in the year led to massive livestock losses, but exports grew strongly, supported by windfall commodity revenues.
- **Mongolia is strengthening ties with neighbouring Central Asian economies.** The country is enhancing cooperation with the region via joint cultural, economic and scientific initiatives. Furthermore, trade linkages are likely to intensify following recent agreements with Kazakhstan and Uzbekistan.
- **New industrial clusters will support economic diversification.** In June 2024, the authorities decided to set up special economic zones for agriculture and building-material production. While helping to ensure a stable domestic supply, the initiative will also support export-oriented production.

Key priorities for 2025

- **Diversification efforts should accelerate.** Mongolia should attempt to diversify its economy and exports beyond the mining sector. In particular, investment in agriculture, tourism and manufacturing would make the economy more resilient and robust.
- **Steps should be taken to strengthen domestic and external connectivity.** Investment in developing and modernising the country's transport and energy infrastructure is vital for its growth outlook.
- **The authorities should accelerate investment in renewables.** Mongolia is an electricity importer and remains highly dependent on power from Russia and China. The country is highly vulnerable to fluctuations in electricity supply, as illustrated by its periodic blackouts. Investment in renewable energy sources could improve its resilience.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-4.6	1.6	5.0	7.0	5.0
Inflation (average)	3.7	7.4	15.2	10.4	9.8
Government balance/GDP	-9.2	-3.1	0.7	2.5	0.0
Current account balance/GDP	-5.1	-13.8	-13.4	1.2	-7.5
Net FDI/GDP [neg. sign = inflows]	-12.9	-14.2	-14.6	-11.3	na
External debt/GDP	243.1	221.2	194.5	170.1	na
Gross reserves/GDP	34.1	28.7	19.8	24.1	na
Credit to private sector/GDP	45.8	47.5	41.0	39.5	na

Macroeconomic developments and policy response

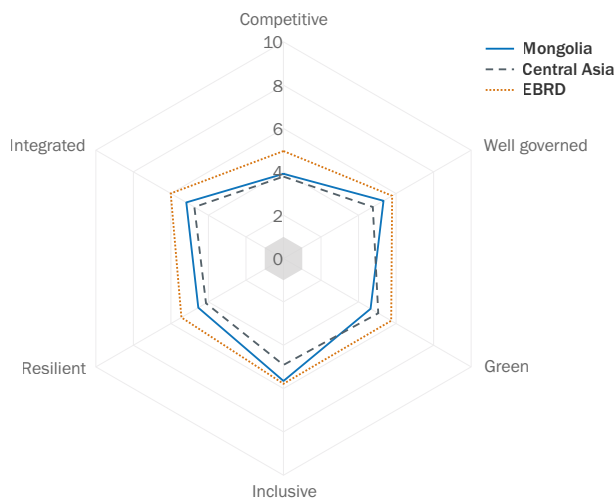
The economy continues to grow strongly. Real gross domestic product (GDP) grew 5.6 per cent year on year in the first half of 2024. Real wages were up 16.1 per cent year on year in the first quarter and the minimum wage was raised by 20 per cent in January 2024, helping to boost monthly average household expenditure by 20.1 per cent year on year in the second quarter. As non-food items and services account for 64 per cent of household expenses, the service sector emerged as the main growth driver, contributing 4.4 percentage points to economic expansion in the first half of 2024. The services boom was also bolstered by elevated tourist arrivals, driving growth in the hotels sector (up 11.7 per cent year on year), food and beverages services (up 20.1 per cent year on year) and transportation revenues (up 24.8 per cent year on year). Robust growth in mining and quarrying (up 21.1 per cent year on year) supported coal and copper concentrate exports, boosting foreign-currency revenues. On the downside, a severe “dzud” (adverse winter weather conditions) led to massive livestock losses (estimated at 8.1 million heads) and a 26.7 per cent year-on-year decline in agricultural output in the first half of 2024.

Inflation returned to the central bank’s target. As of September 2024, inflation stood at 6.7 per cent. Inflationary pressures have been easing in 2024 on the back of Mongolian tugrik (MNT) appreciation and the normalisation of global food prices, enabling the Bank of Mongolia to bring the policy rate down to 10.0 per cent in September 2024.

The fiscal position remains robust thanks to high commodity revenues. In January-July 2024, the government budget surplus expanded 15.7 per cent year on year, despite a notable rise in expenditures (up 37.5 per cent year on year). Meanwhile, government revenues increased 36.5 per cent year on year on the back of strong growth in tax receipts. In recent months, international reserves have decreased slightly, falling 2.1 per cent on the month to US\$ 4.7 billion (€4.2 billion) in July 2024 (but still up 23 per cent year on year), covering six months of imports.

Strong economic growth is expected to continue in the short run. Real GDP growth is forecast to decline to 5 per cent in 2024 because of the contraction in agricultural output, but then rebound to 8 per cent in 2025 as agriculture returns to normal and mining expands strongly. The outlook remains highly sensitive to economic activity in China, the primary destination for Mongolian exports. Another risk is that energy supply may not keep pace with the country’s growing energy needs.

Assessment of transition qualities (1-10)



Structural reform developments

Cross-border financial liberalisation has advanced. In late 2023, Mongolia adopted a law on investment banking, which permits foreign financial institutions to provide prescribed banking services in the country. Before that, foreign banks were only allowed to have representative offices.

Environmental challenges are being addressed. Five hundred new environmental monitoring stations have been installed across the country's capital, Ulaanbaatar. By enabling more efficient monitoring of the sources of pollution, the initiative aims to help reduce pollution and combat soil degradation. In June 2024, Mongolia signed a US\$ 198 million (€177.8 million) Project Finance for Permanence agreement with The Nature Conservancy, aimed at conserving Mongolia's ecosystems. In addition, the recently introduced Eternal Mongolia initiative will support the implementation of environmentally friendly policies. The government has declared green development a top priority and will place a strong focus on renewable energy and battery storage to decrease the country's dependency on energy imports.

Mongolia has become an upper-middle-income country. On 1 July 2024, the World Bank reclassified Mongolia from a lower-middle-income country to an upper-middle-income one, as its annual gross national income per capita surpassed the threshold of US\$ 4,516 (€4,055).

New industrial zones may strengthen competitiveness and resilience. In June 2024, the authorities decided to set up two special economic zones in Ulaanbaatar to foster the production of agricultural products and building materials. These zones are designed not only to strengthen the country's resilience by ensuring adequate domestic supply but also to support the launch of export-oriented production.

Regional ties are being strengthened. While Mongolia's trade turnover with its Central Asian neighbours still accounts for less than 0.5 per cent of its trade, it has increased almost 2.5-fold from 2018. Trade links with Kazakhstan and Uzbekistan are likely to intensify in the short term. Kazakh President Kassym-Jomart Tokayev suggested increasing trade turnover between Mongolia and Kazakhstan to a targeted US\$ 500 million (€449 million). Concurrently, an intergovernmental programme on trade, economic and investment cooperation for 2024-26 was signed between Mongolia and Uzbekistan. Closer regional cooperation is also evident across the board, with joint initiatives aimed at forging stronger economic, cultural and tourism ties.

The Bank of Mongolia published its first sex-disaggregated green loan report. The sex-disaggregated data will enable a better understanding of female borrowing needs and support gender inclusion. ●