INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/265

MONGOLIA

September 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTOR FOR MONGOLIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Mongolia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 5, 2025 consideration of the staff report that concluded the Article IV consultation with Mongolia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 5, 2025, following discussions that ended on June 18, 2025, with the officials of Mongolia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 23, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Alternate Executive Director** for Mongolia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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PRESS RELEASE

PR 25/298

IMF Executive Board Concludes 2025 Article IV Consultation with Mongolia

FOR IMMEDIATE RELEASE

Washington, DC – September 15, 2025: On September 5, 2025, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Mongolia[1]

A booming mining sector in 2023-24 significantly bolstered exports and fiscal revenues, underpinning robust economic growth and lower external and fiscal vulnerabilities. However, coal exports declined markedly in the first half of 2025, resulting in a widening current account deficit, reduced budget revenues, and depreciation pressures. After peaking in February 2025, headline inflation moderated to 8.2 percent by June. Credit growth in both the banking and nonbank financial sectors remains high, despite some recent moderation. The new government, formed in June 2025, has signaled policy continuity. In response to revenue shortfalls, it submitted an amended budget to Parliament aimed at reducing expenditures and ensuring compliance with the structural fiscal deficit limit.

Growth in 2025 is projected to rise to 5.5 percent, supported by a strong recovery in the agriculture sector. Mining output is expected to remain robust, driven by increased production of higher-grade copper concentrate at Oyu Tolgoi. However, a sharp decline in coal exports—primarily due to lower prices—is expected to widen both the current account and fiscal deficits. Growth is projected to remain around 5½ percent in 2026. Inflation is anticipated to stay above the BOM target band until 2026. Over the medium term, growth is projected to gradually converge to its potential of about 5 percent. Current account deficits are forecast to persist, reflecting the high import intensity of investment projects and continued strong consumer goods imports.

Downside risks to the outlook have increased, stemming from uncertainties in Chinese coal demand and larger-than-expected declines in coal prices. Policy slippages could undermine reform progress, particularly amid growing pressures to accelerate and broaden the distribution of mining benefits by reducing non-mineral tax collections and exempting large investment projects from the fiscal rules.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors noted the strong growth and fiscal surpluses achieved in 2023−2024, which helped reduce Mongolia's vulnerabilities. Directors underscored, however, that the near-term outlook has become less favorable, with rising downside risks from lower coal prices and greater global uncertainty. Against this backdrop, they called for prudent macroeconomic policies to restore external and internal balances and for structural reforms to achieve diversified and sustainable growth.

Directors welcomed the authorities' commitment to meeting the structural deficit limit through expenditure restraint, which is reflected in the supplementary 2025 budget. They emphasized the need to create fiscal space by broadening the non-mining tax base and to implement mega capital projects within the fiscal rules and after careful prioritization. Directors encouraged the authorities to ensure that the tax package currently under review reduces reliance on volatile mining revenues and safeguards fiscal sustainability. They also stressed the importance of avoiding frequent changes to fiscal rules to preserve their credibility. Directors encouraged the authorities to expand domestic debt issuance to develop domestic debt markets and enhance monetary policy transmission.

Directors called on the Bank of Mongolia (BOM) to maintain a tight monetary policy stance to contain inflation. They also recommended strengthening the BOM's legal mandate, operational autonomy, and governance through amendments to the central bank law and by ending the BOM's quasi-fiscal operations.

Directors concurred that greater exchange rate flexibility would enhance Mongolia's resilience to external shocks and help deepen the foreign exchange market. They encouraged the BOM to pursue opportunistic reserve accumulation when market conditions allow.

Directors welcomed the recent macroprudential policy tightening. They encouraged aligning the debt service-to-income (DSTI) limit for nonbank financial institutions with that of banks, incorporating pension-backed loans into the DSTI limit, expanding the BOM's macroprudential toolkit, and separating macroprudential from monetary policy. Directors also recommended strengthening financial oversight and insolvency frameworks.

Directors agreed that structural reforms to improve the business climate, combat corruption, strengthen governance, and address climate change-related challenges remain essential for achieving diversified and sustainable growth. They welcomed the progress made in strengthening the AML/CFT framework and called for its effective implementation.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Mongolia: Selected Economic and Financial Indicators, 2022-30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Actual				Projections			
				(In percent of GDP, unless otherwise indicated)					
National Accounts									
Real GDP growth (percent change)	5.0	7.4	4.9	5.5	5.5	5.5	5.3	5.0	5.0
Nominal GDP (in USD million)	17,146	20,315	23,586	…	…	…	…	…	…
Contributions to Real GDP (ppts)									
Domestic Demand	11.4	5.6	21.2	6.6	4.4	7.0	7.0	5.9	6.2
Exports of G&S	13.9	17.9	0.5	3.0	5.0	2.6	2.1	1.7	1.7
Imports of G&S	-20.3	-16.2	-16.8	-4.1	-3.9	-4.1	-3.8	-2.6	-2.9
Consumption	65.8	57.5	66.1	71.2	70.6	70.9	71.0	71.2	70.9
Private	51.9	44.5	49.8	54.9	54.7	55.2	55.3	55.5	55.2
Public	13.9	13.0	16.3	16.3	16.0	15.8	15.7	15.7	15.7
Gross Capital Formation	42.3	33.9	34.6	32.2	30.7	30.8	31.1	31.2	31.5
Gross Fixed Capital Formation	29.8	25.3	26.8	24.2	23.7	23.8	24.1	24.2	24.5
Public	7.1	7.4	9.9	8.2	8.0	7.9	7.8	7.9	8.0
FDI	14.2	10.7	11.6	9.5	9.1	8.9	8.8	8.0	7.9
Domestic Private (including SOEs)	8.6	7.3	5.3	6.5	6.6	7.0	7.5	8.3	8.6
Gross national saving	28.9	34.5	24.1	18.4	18.7	18.6	18.8	18.8	19.2
Prices									
Consumer Prices (Avg; percent change)	15.1	10.4	6.2	8.7	8.6	7.9	7.2	6.7	6.4
Consumer Prices (EoP; percent change)	13.3	7.7	8.3	9.0	8.2	7.5	6.8	6.5	6.2
Copper prices (US$ per ton)	8,829	8,491	9,142	9,539	9,641	9,674	9,705	9,716	9,716
Bituminous coal prices (US$ per ton)	123	131	107	68	74	76	77	77	77
GDP deflator (percent change)	17.7	21.8	8.2	7.0	8.4	7.7	7.1	6.4	6.4
General government accounts 1/									
Primary balance (IMF definition)	2.2	4.3	2.8	1.3	1.2	0.0	0.4	0.6	0.8
Total revenue and grants	34.4	34.6	39.2	35.1	33.9	32.1	32.2	32.3	32.4
Primary expenditure and net lending	32.2	30.3	36.5	33.8	32.7	32.1	31.8	31.6	31.7
Interest	1.5	1.6	1.5	1.7	1.9	2.1	2.3	2.4	2.5
Overall balance (IMF definition)	0.7	2.7	1.3	-0.3	-0.7	-2.1	-1.8	-1.8	-1.8
Non-mineral primary balance (in percent of GDP)	-6.3	-5.7	-8.9	-7.2	-7.8	-8.8	-8.3	-7.9	-7.6
Gross financing needs	3.8	9.0	4.7	5.0	4.8	6.4	8.2	7.4	9.8
General government debt 2/	64.5	45.9	44.5	46.0	48.4	51.3	53.0	54.5	55.2
Domestic	4.4	2.6	3.2	2.5	2.6	2.7	2.7	2.8	2.8
External	60.1	43.3	41.3	43.5	45.8	48.6	50.2	51.7	52.5
Monetary sector									
Broad money growth (percent change)	6.5	26.8	15.0	14.6	13.1	11.8	11.6	13.9	11.7
Reserve money growth (percent change)	39.9	7.4	51.9	1.7	13.1	11.8	11.6	13.9	12.5
Credit growth (percent change)	8.6	22.0	30.9	25.0	21.2	19.5	17.5	15.5	15.5
Balance of payments									
Current account balance	-13.4	0.6	-10.5	-13.9	-12.0	-12.2	-12.3	-12.3	-12.3
Exports of goods	57.5	68.5	62.5	54.0	55.4	54.5	53.9	52.9	51.9
Imports of goods	50.3	46.1	49.5	45.9	45.6	45.6	46.0	45.9	45.3
Gross official reserves (in USD million)	3,400	4,922	5,510	4,946	5,128	5,280	5,120	5,126	5,269
(In months of imports)	3.0	3.6	4.1	3.5	3.5	3.4	3.2	3.1	3.1
(net of bank's FX deposits held at the BOM)	1,949	3,491	4,233	…	…	…	…	…	…
Net international reserves (NIR) 3/	-788	1,152	1,768	…	…	…	…	…	…
Exchange rate									
Togrog per U.S. dollar (eop)	3,445	3,411	3,420	…	…	…	…	…	…

Sources: Mongolian authorities; and IMF staff projections.

1/ These projections were prepared ahead of the supplementary budget for 2025 currently under discussion. They include the tax package approved by the previous Cabinet.

2/ Includes DBM's total debt, explicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

3/ NIR is defined as GIR excl. commercial banks' and government's US$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.

INTERNATIONAL MONETARY FUND

MONGOLIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 23, 2025

KEY ISSUES

Context, outlook, and risks. The resource boom is weakening and downside risks to the outlook are rising. In 2023-24, record-high coal exports and robust household and government spending led to buoyant economic activity which, along with fiscal surpluses and successful external debt rollovers, helped reduce vulnerabilities. However, the highly expansionary fiscal policy, which, combined with the policy rate cuts in 2024, also fueled rapid credit growth despite tighter reserve requirements, a surge in imports, a widening current account deficit, and inflation above the Bank of Mongolia (BOM)'s target band. With coal exports declining in 2025H1, mainly due to falling prices and increased global uncertainty, the near-term outlook has become less favorable, and downside risks have increased amid limited policy buffers. The new government, formed in June 2025, has signaled its commitment to policy continuity.

Policy recommendations. The policy priority is to restore both external and internal balances, manage emerging fiscal, external and credit risks, and be ready to adjust policies swiftly should near-term risks materialize.

- **Fiscal policy**. Fiscal prudence will be essential to restoring external and internal balances and will require adherence to fiscal rules. The government should reconsider the planned cuts to non-mining taxation, create the fiscal space for priority investment by containing current spending and broadening the non-mining tax base, prioritize mega projects according to the availability of external financing and the economy's absorptive capacity, and expand domestic debt issuance.
- **Monetary policy.** Amid elevated inflation and rapid credit growth, the BOM needs to maintain tight domestic financial conditions. A further increase in the policy rate would be warranted if recent decline in inflation reverses, while reserve requirements should aim to manage liquidity and slow credit growth. Amendments to the central bank law, including recapitalization plans, are critical to strengthening the BOM's effectiveness and credibility.
- **Exchange rate policy.** The BOM should allow for greater exchange rate flexibility and pursue opportunistic accumulation of reserves to strengthen resilience against external shocks. Furthermore, the BOM should gradually reduce its role as an intermediary and structural provider of FX to the market.

- **Macroprudential and financial sector policies.** Macroprudential frameworks and financial oversight should be strengthened to mitigate financial stability risks arising from the rapid credit growth, including from nonbank financial institutions (NBFIs). The debt service-to-income (DSTI) limits of NBFIs should be harmonized with those for the banking sector to reduce regulatory arbitrage.
- **Structural policies.** Improving business climate and governance is critical for achieving diversified, strong and sustainable growth. Key legislative priorities include amendments to the Investment, Minerals, State-Owned Enterprises (SOE), BOM, Banking, and Insolvency Laws, as well as the finalization of the Whistleblower Law.

Approved By
Thomas Helbling and Jay Peiris

An IMF staff team visited Ulaanbaatar, Mongolia, during June 4–18, 2025. The team included Tahsin Saadi Sedik (Head), Tigran Poghosyan (Resident Representative), Teresa Daban Sanchez, Yi Wu (all APD), Huy Nguyen (FAD), and Kenya Kitano (MCM). Sukh-Ochir Batsukh (OEDAP) participated in the discussions, and Seong-Wook Kim (OEDAP) joined the policy meetings. The team received excellent support from Ardak Bazarbai, Enkhbat Baasandorj, and Gerelmaa Baatarchuluun (Resident Representative's Office), as well as Judee Yanzon, Stella Tam, and Ruihua Yang (all APD). The mission met with Prime Minister G. Zandanshatar, Deputy Prime Minister T. Dorjkhand, Finance Minister B. Javkhlan, Bank of Mongolia Governor B. Lkhagvasuren, members of key parliamentary committees, and other senior officials.

CONTENTS

ANNEXES

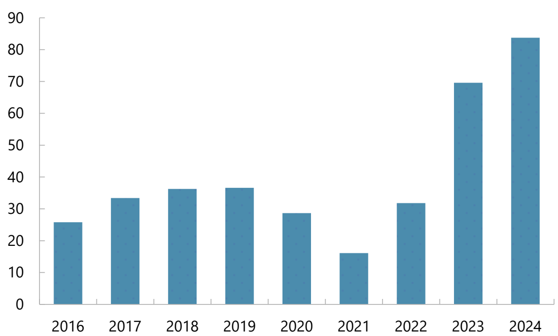
CONTEXT

1. **A booming mining sector in 2023-24 significantly bolstered exports and economic growth, enabling a substantial increase in fiscal spending**. Reflecting better-than-expected mineral exports, public sector and external vulnerabilities declined. Government mining revenue more than doubled from 2022 to 2024, providing for a procyclical 67 percent increase in spending over the same period and fiscal surpluses in 2023–24. Public debt declined from 64.5 percent of GDP in 2022 to 44.5 percent in 2024. Gross international reserves (GIR) also increased markedly. However, the highly expansionary fiscal policy contributed to rising imports and inflation. In 2025H1, lower coal exports, alongside heightened global uncertainty, clouded the outlook.

Text Table 1. Selected Economic and Financial Indicators, 2022-24

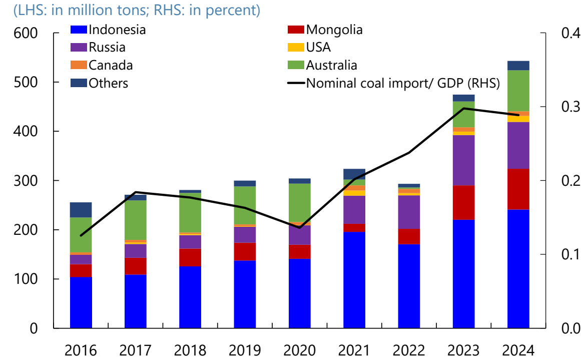
	2022	2023	2024
	(In percent of GDP, unless otherwise indicated)		
Real GDP growth (percent change)	5.0	7.4	4.9
Real domestic demand growth (percent change	9.0	4.1	16.8
Government revenue and grants	34.4	34.6	39.2
Government expenditure	33.7	32.0	38.0
Overall balance	0.7	2.7	1.3
Public debt	64.5	45.9	44.5
Exports (goods)	57.5	68.5	62.5
Imports (goods)	50.3	46.1	49.5
Current account balance	-13.4	0.6	-10.5
Gross official reserves (in USD million)	3400	4922	5510

Mongolia Coal Export Volume
(In million tons)



Source: Haver Analytics.

China's Coal Import Volume
(LHS: in million tons; RHS: in percent)



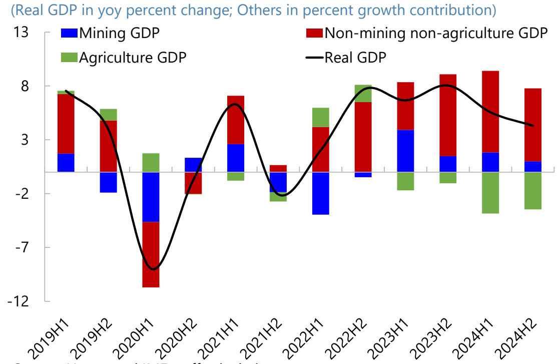
Sources: China Customs Statistics; CEIC; World Economic Outlook.

2. **The new government, formed in June 2025, has signaled policy continuity**. The three-party coalition government dissolved unexpectedly in early June 2025 after losing a no-confidence vote. A new government was subsequently formed, with former Speaker of Parliament Zandanshatar elected Prime Minister. Mongolia has made notable progress in reducing poverty and was reclassified as an upper-middle-income country by the World Bank in 2024. Yet development needs remain considerable. The authorities have announced mega projects amounting to more than 100 percent of 2024 GDP (by both the central government and Ulaanbaatar city). To respond to public demands for a more equitable distribution of mining wealth, a tax package is under consideration.

RECENT DEVELOPMENTS

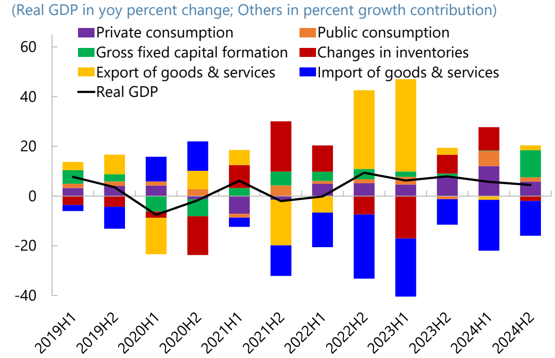
3. **A booming mining sector, coupled with strong increases in government and household spending, underpinned robust growth in 2024, despite a significant weather-driven contraction in agriculture**. A severe winter (*dzud*) led to the loss of 9.4 million adult livestock in 2024. Nevertheless, GDP growth remained robust, as strong mining growth continued, which in turn financed significant government spending growth. Large wage and pension increases, and dividend payouts by coal producer Erdenes Tavan Tolgoi (ETT) to the public helped raise household incomes and salary-backed consumer credit, boosting private consumption growth.

Mining and Agricultural Sectors Contribution to GDP
(Real GDP in yoy percent change; Others in percent growth contribution)



Source: Haver; and IMF staff calculations.

Real GDP Growth Contributions
(Real GDP in yoy percent change; Others in percent growth contribution)

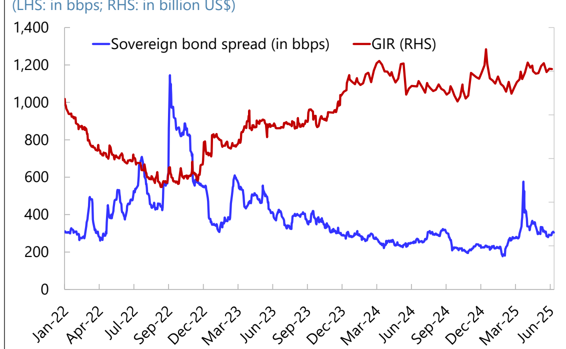


Source: Haver; and IMF staff calculations.

4. **Economic activity weakened in 2025H1**. High-frequency data through May indicate a strong recovery in agriculture. However, underlying growth momentum has weakened, as coal exports declined markedly, resulting in a worsening current account, reduced budget revenues, and depreciation pressures.

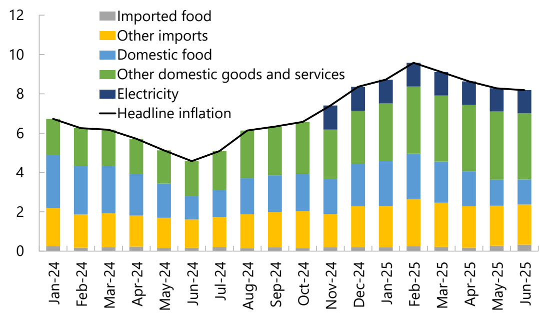
5. **Following a strong revenue outturn in 2024, falling coal prices led to a sizeable shortfall in budget revenue in 2025H1.** In 2024, the government accumulated savings in the Sovereign Wealth Fund and the Fiscal Stability Fund. Rating agencies upgraded Mongolia's sovereign credit rating, and the sovereign spread fell to historically low levels in early 2025. The authorities seized the opportunity to prefinance part of the Eurobond due in 2026 and 2028, reducing rollover risks. In 2025H1, however, mining revenue declined markedly due to a sharp drop in coal export prices.

Sovereign Bond Spread and GIR
(LHS: in bbps; RHS: in billion US$)



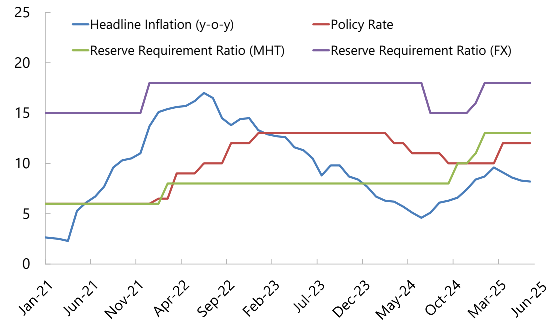
Source: Mongolian authorities; IMF staff calculations.

Consumer Price Index National, 2023=100
(In yoy percent change)



Sources: National Statistics Office, Mongolia.

Inflation, Policy Rate and Reserve Requirement Ratio
(In percent)

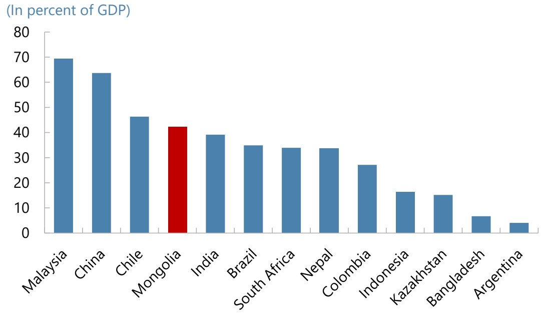


Sources: Haver Analytics and the Bank of Mongolia.

6. Inflation began to moderate in March 2025 but remained above the BOM's target band. Despite spending increases,[1] inflation had been on a downward trend in the first half of 2024, prompting the BOM to cut the policy rate. However, inflation began rising from mid-2024, driven by sharply higher household and government spending, rapid credit growth, and a large increase in electricity tariffs in November 2024. In response, the BOM raised the policy rate in March 2025. To curb excessive credit growth, the BOM also increased the reserve requirement and tightened the limit on the DSTI ratio for consumer loans. The Financial Regulatory Commission (FRC) also tightened the DSTI ratio for NBFIs. Inflation declined to 8.2 percent in June, while remaining above the BOM's 6±2 target band.

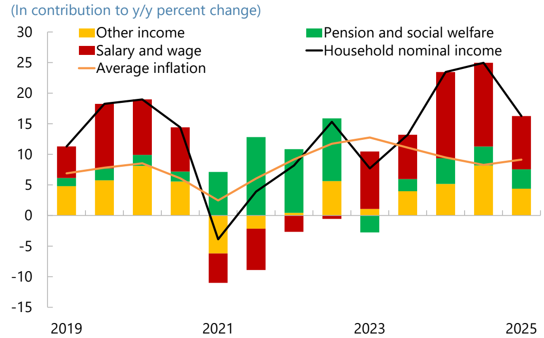
7. Credit growth in both the banking and nonbank financial sectors remains high despite some recent moderation (Annex VII). Bank credit has increased since mid-2023, reaching 37.8 percent y/y in February 2025, near the highest rate since 2014, before moderating to 29.5 percent in May 2025, raising concerns about potential risks to financial stability. Although starting from a smaller base, credit from NBFIs is growing even faster, reaching 54.7 percent y/y in Q1 2025, primarily driven by loans to individuals. The higher DSTI ceiling and looser enforcement for the NBFIs have contributed to borrowing from these institutions. Household debt, though still moderate by cross-country comparison, has risen to 42.3 percent of GDP in 2025Q1.

Household Debt
(In percent of GDP)



Sources: IMF Global Debt Database; and IMF Staff calculations.
Note: Mongolia data are from March 2025, while all other countries' data are from 2023.

Household Income Growth Contributions
(In contribution to y/y percent change)



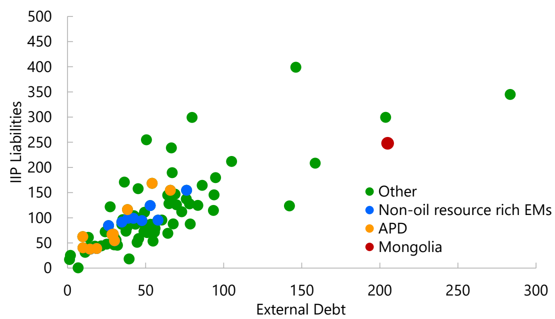
Source: NSO; Haver Analytics.

[1] Staff analysis suggests that an increase in public sector wages significantly increases inflation, albeit with a lag (Annex VI).

8. External vulnerabilities decreased noticeably in 2023-24 but remain significant and increased again in 2025H1:

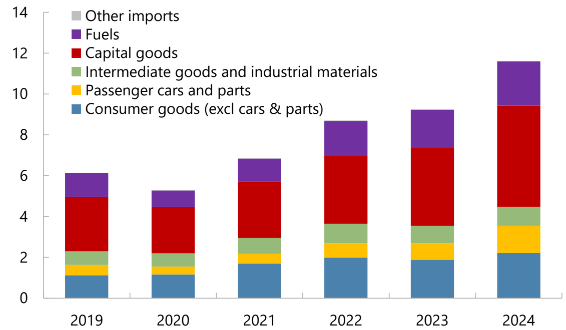
- Mongolia's external debt and negative international investment position (IIP) as a percentage of GDP have significantly decreased since 2022. However, they are still high by international standards. Vulnerability to external shocks persists, although it is mitigated by the high share of FDI and intercompany loans in external debt.

IIP Liabilities and External Debt in 2024
(In percent of GDP)



Source: World Economic Outlook; and IMF Staff calculations.
Note: 55% of Mongolia's IIP liabilities are related to the FDI sector, mainly mining.

Import Components
(In billion US dollar)

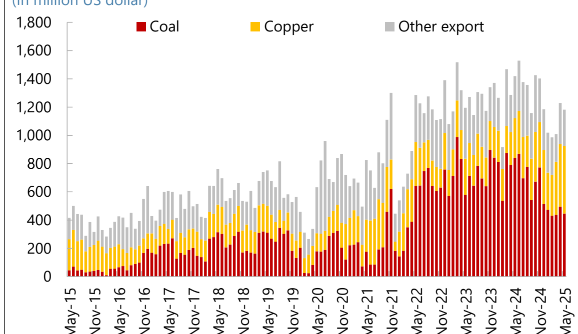


Sources: Mongolian authorities; IMF Staff calculations.

- The current account shifted from a small surplus in 2023 to a deficit of 10.5 percent of GDP in 2024 due to strong domestic spending and soaring imports. The deficit widened further in 2025H1 due to a decline in coal exports. The togrog remained broadly stable against the U.S. dollar for most of 2024 but began depreciating in October 2024. The EBA-lite models suggest that the external position in 2024 was weaker than implied by fundamentals and desirable policy settings (Annex II).

- The BOM has repaid half of the outstanding swap line with the People's Bank of China since December 2023. FDI inflows remained robust, and along with other financing inflows—particularly higher external borrowing by banks and Ulaanbaatar city's first FX bond issuance—helped support GIR in 2024. GIR have declined since end-2024, and, as of mid-June 2025 were equivalent to 88 percent of the IMF's Assessing Reserve Adequacy (ARA) metric under the floating exchange rate classification. Under the fixed exchange rate classification, the ARA metric coverage drops to 61 percent.[2] The BOM also faces substantial and rising exposure to exchange rate risk due to its large non-deliverable FX swaps with banks, which amounted to $3.0 billion as of mid-June 2025.

Mongolia's Export
(In million US dollar)



Sources: Haver Analytics; IMF Staff calculations.

[2] While Mongolia's de jure exchange rate is classified as floating, de facto it is classified as crawl-like arrangement.

OUTLOOK AND RISKS

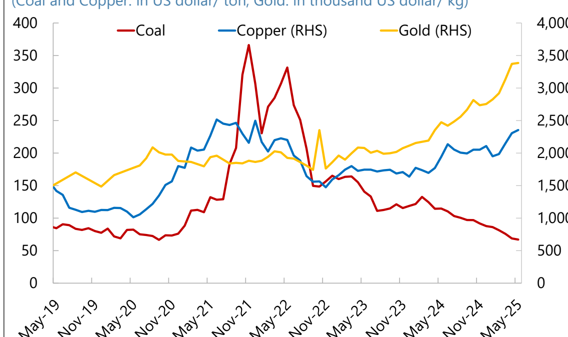
9. Growth is projected to rise to 5.5 percent in 2025, supported by a recovery in the agriculture sector. However, lower coal prices are expected to widen both the current account and fiscal deficits. Mining output is anticipated to remain robust, driven by increased production of higher-grade copper concentrate at Oyu Tolgoi (OT). Coal export values, however, are projected to decline significantly, resulting in continued lower exports and fiscal revenues in 2025, and exerting depreciation pressures on the exchange rate.

10. Over the medium term, growth is projected to converge to its potential of about 5 percent. Inflation is anticipated to remain above the BOM target band until 2026. Elevated current account deficits are forecast to persist reflecting the high import intensity of investment projects and sustained strong consumer goods imports, reducing GIR buffers to only 3 months of imports despite FDI inflows and additional external borrowing. The fiscal position is expected to deteriorate further after 2026 once the revenue impact of the tax package takes effect. Public debt is projected to increase to 55.2 percent of GDP over the medium term.

11. There is considerable uncertainty regarding the implementation pace, financing, and private sector participation in mega projects. The authorities have indicated that these projects will primarily be financed externally. However, securing external financing more than 100 percent of the 2024 GDP will be challenging. Realistically, implementation is likely to proceed gradually given financing and capacity constraints. The greater the reliance on domestic financing, the larger the impact on GIR, the exchange rate, and inflation, given the high import intensity of capital expenditure.

12. Risks to the outlook have increased, with the balance tilted to the downside (Annex III).

Commodity Prices: Coal, Copper and Gold
(Coal and Copper: in US dollar/ ton; Gold: in thousand US dollar/ kg)



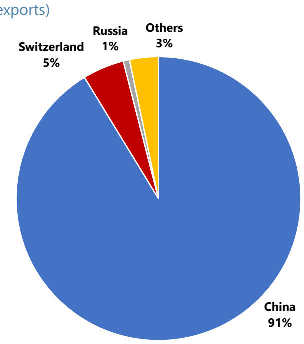
Sources: Mongolian authorities; IMF Staff calculations.

- The main near-term downside risks derive from uncertainties in Chinese coal demand and larger-than-expected coal price declines. Escalation of global trade tensions would impact Mongolia mainly through its strong economic linkages with China. Policy slippages could undermine reform progress amid growing pressures to accelerate and broaden the distribution of mining benefits by reducing non-mineral tax collections and removing large capex from the fiscal rules. Inflation could exceed projections due to depreciation pressures. Additionally, the elevated credit growth in both banks and NBFIs underscores potential financial stability risks.

- Over the long term, the global and China's energy transition could have a significant impact on Mongolia's economy. The projected reduction in long-term global demand for coal and China's decarbonization plans may reduce Mongolia's coal exports and require large investments to shift mining activity towards other minerals.

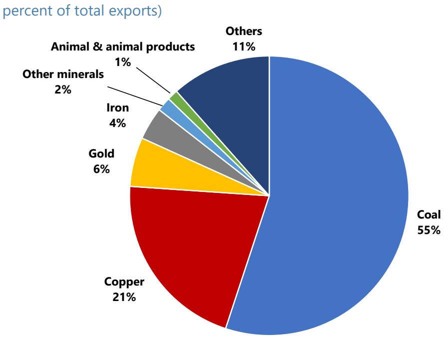
- On the upside, faster-than-expected implementation of the mega projects will boost growth. New mining production could come on stream over the medium term, boosting exports.

Mongolia Exports by Country in 2024
(In percent of total exports)



Sources: Haver Analytics; and IMF staff calculations.

Mongolia Exports by Commodity in 2024
(In percent of total exports)

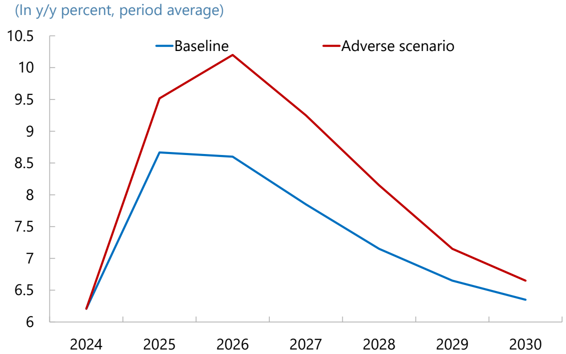


Sources: Haver Analytics; and IMF staff calculations.

13. An illustrative downside scenario underscores Mongolia's vulnerability to coal exports. The adverse scenario assumes that both coal export volumes and prices fall by 10 percent compared to the baseline. Under this shock, Mongolia's economic outlook would worsen considerably. This would lead to a sharp decline in exports and fiscal balances, raising inflationary and external pressures (Figures below). GIR could shrink to uncomfortable low levels, falling below two months of import coverage, and widening fiscal deficits would result in a substantial increase in public debt, reaching 63 percent by 2030. The exercise indicates that, even with moderate adverse shocks, fiscal and external positions could deteriorate significantly.

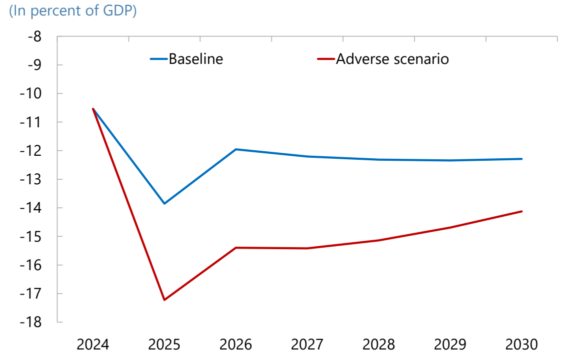
Illustrative Adverse Scenario

Headline inflation
(In y/y percent, period average)

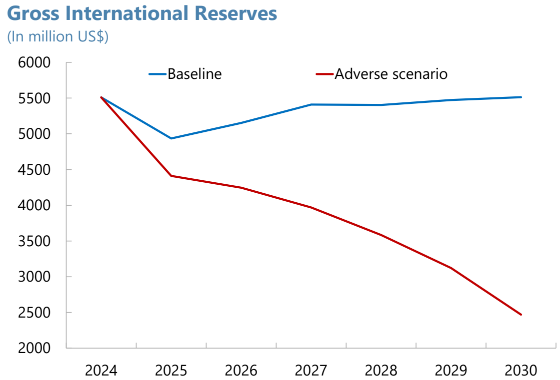


Source: IMF staff calculations.

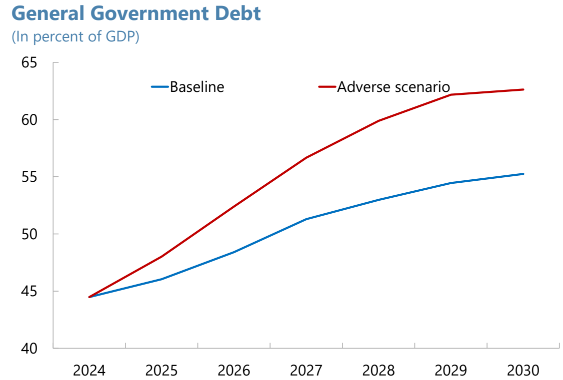
Current Account Balance
(In percent of GDP)



Source: IMF staff calculations.



Source: IMF staff calculations.



Source: IMF staff calculations.

Authorities' Views

14. The authorities are more optimistic about the outlook, with the revised medium-term fiscal framework (MTFF) projecting higher real GDP growth for 2026−28, supporting stronger fiscal revenue forecasts. Nevertheless, revenues are still expected to remain below 2025 budgeted levels. Acknowledging higher external risks, the authorities have taken measures and adjusted the outlook to be more realistic in the supplementary budget. The BoM projects inflation to return to target range by 2026.

POLICY DISCUSSIONS

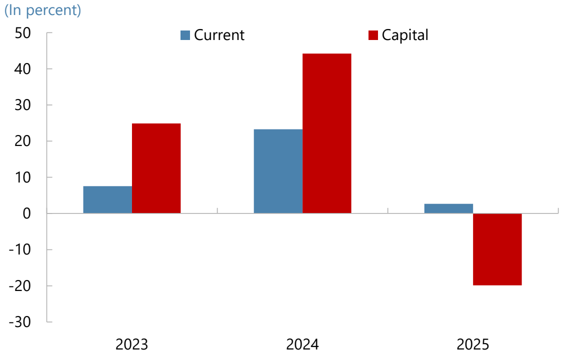
15. The weakening economic outlook calls for greater policy prudence. The macroeconomic conditions deteriorated markedly in 2025H1, as evidenced by a sharp decline in coal exports and fiscal revenues, a widening current account deficit, exchange rate pressures, and a decline in GIR. Despite ongoing populist pressures, these developments, coupled with rising uncertainty, underscore the need for fiscal discipline to restore internal and external balances and preserve policy buffers. Should downside risks materialize, significant and timely policy adjustments—particularly fiscal consolidation—will be required to safeguard macroeconomic and financial stability.

A. Fiscal Policy

16. Fiscal rules were amended in 2023 and 2024 (Annex VIII). The amendments enhance the role of the Fiscal Stability Council, restrict Parliament's ability to modify fiscal rules, and introduce a nominal debt ceiling of 60 percent of GDP and a 30 percent of nominal GDP rule for current expenditure. They also retain the 2 percent of GDP structural deficit ceiling, which would help contain fiscal imbalances. However, the procyclicality of the new expenditure rule could aggravate economic cycles and incentivize spending misclassifications. A rule constraining total spending would have been preferable.

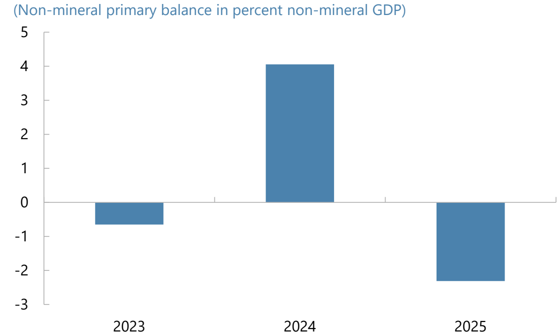
17. In response to revenue shortfalls, the government submitted an amended budget to Parliament aimed at reducing expenditures and ensuring compliance with the structural fiscal deficit limit. The supplementary 2025 budget includes spending cuts amounting to 2.0 percent of GDP relative to the approved budget, in line with staff's fiscal projections. The cuts include a 9 percent reduction in the number of civil servants over 2025−26, under-execution of capital projects, and a sizeable freeze in operational spending. It is critical that these measures safeguard social spending to protect the most vulnerable.

Real Primary Expenditure Growth
(In percent)



Sources: Mongolian authorities; IMF staff calculations.

Fiscal Impulse
(Non-mineral primary balance in percent non-mineral GDP)



Sources: Mongolian authorities; IMF staff calculations.

18. Fiscal prudence and adherence to fiscal rules are essential to restoring internal and external balances and preserving fiscal buffers. Further changes in fiscal rules should be avoided, to ensure they operate as an effective policy anchor. Under the staff's baseline scenario, compliance with the structural deficit ceiling of 2 percent of GDP over the medium term would be hampered by the envisaged tax package. This underscores the need to create fiscal space for priority capital projects by containing the wage bill,[3] better targeting social assistance, and broadening and diversifying non-mineral taxes, which will also help reduce the budget's dependence on the mining sector. This can be achieved by streamlining tax incentives, addressing tax arrears and enhancing tax and customs administrations.

19. The tax package currently under discussion should be reconsidered to safeguard fiscal sustainability. The package, set to be implemented over 2026-27, is intended to address public concerns regarding the perceived inequitable distribution of mining wealth. While the package includes several positive elements, such as modernizing the tax administration, it also includes large VAT rebates, a higher VAT threshold, and reductions in PIT and

Text Table 2. Mongolia: Estimated Impact Tax Package 1/

	2026	2027
Total Impact (in MNT billion)	1,242	1,850
In percent of GDP	*1.2*	*1.6*
Progressive VAT	1,200	...
Delayed payments	442	...
Removal of Exemptions VAT	-220	...
PIT Credits	...	1,500
PIT Increased Threshold + Progressive Rates	...	500
Advisory and Assistance Services	...	-150
Reduction in Hidden Economy	-180	...

Source: "Mongolia, Review of 2025 Tax Reform Proposal", April 2025, FAD TA report
1/ Estimated impact provided by the Mongolian Tax Authority on the Tax package approved by Cabinet

[3] Staff analysis underscores the need to align public wages with productivity gains (Annex VI).

CIT rates and bases. If implemented, the package will significantly reduce tax collections, increase the deficit, reduce fiscal space to implement critically needed development projects, and hinder compliance with fiscal rules, while also increasing the budget's vulnerability to volatile mining revenues, at a time when revenues are declining.[4] Moreover, the package envisages tax measures such as progressive VAT, for which Mongolia's tax administration is not yet adequately prepared. The new government is reviewing the tax package. It is essential to reconsider both its design and timing to preserve fiscal sustainability and ensure alignment with good international practices.

20. Large capital projects should be implemented with caution, within the fiscal rule framework, and only if external financing has been secured. Projects should be prioritized, based on feasibility studies, and framed within sound public investment management and public-private partnership (PPP) frameworks to ensure alignment with the economy's absorptive capacity and financing constraints. A well-defined MTFF is essential to support the budgeting and implementation of multi-year projects and to mitigate fiscal and external risks.

21. Fiscal risks have moderated but remain significant. Reflecting a substantial decline in debt-to-GDP ratio in recent years, the Sovereign Risk and Debt Sustainability Framework (SRDSF, Annex IV) indicates a lower risk rating compared to the 2023 SRDS, moving from high to moderate risk. However, fiscal vulnerabilities remain significant due to high dependence on volatile mineral revenues and the predominance of foreign currency-denominated public debt, large contingent liabilities from SOEs and PPPs, and the BOM's large negative equity position—about 8.5 percent of GDP in 2024. To address these vulnerabilities, reforms are needed to contain spending, enhance non-mineral revenues, and develop domestic debt markets. Under an adverse scenario, these reforms would need to be frontloaded. A priority should be reducing unfunded quasi-fiscal operations by SOEs. In this context, the November 2024 move to align electricity tariffs with costs was a positive step. These fiscal risks underscore the need to strengthen the legal frameworks for SOEs and PPPs and enhance the Ministry of Finance (MOF)'s capacity to monitor fiscal risks. A potential recapitalization of the BOM should be implemented gradually.

Authorities' Views

22. The authorities reiterated their commitment to fiscal prudence by formulating a supplementary 2025 budget to address the projected revenue shortfall. The supplementary budget envisages significant expenditure cuts to ensure compliance with the 2 percent of GDP structural deficit ceiling. Most of the cuts will come from cancelling domestically financed capital projects that have not been appraised and procured by end-May. Externally financed capital projects will continue as planned, with a potential fast-tracking of three major infrastructure projects: an oil refinery, a hydropower plant, and a housing complex in Ulaanbaatar's ger area. The government clarified that the planned 9 percent reduction in civil servants would exclude the health and education sectors.

[4] Staff's analysis (Annex X) indicates that the tax multipliers are small and short-lived.

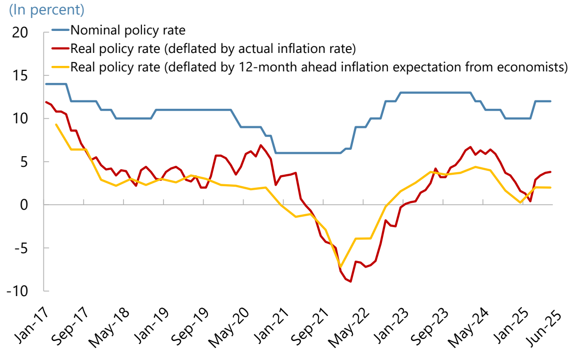
23. The authorities acknowledged the staff's concerns regarding the proposed tax package but noted that it is not yet finalized. Its main goal is to boost growth by reducing the tax burden on low- and middle-income households and eligible businesses. They recognized implementation challenges due to limited administrative capacity and planned civil service cuts. To address this, a medium-term strategy involving organizational restructuring has been developed to support the rollout.

24. The authorities agreed with staff's overall assessment of Mongolia's sovereign debt as moderate risk but were more optimistic about the medium-term deficit path. They argued that Mongolia's medium-term sovereign risks warranted to be classified as moderate, instead of as high as assessed by staff, reflecting the recent decline of public debt and improvements in debt management. The authorities confirmed their intentions to address expected revenue shortfall with gradual spending cuts through better targeting and efficiency. The recently approved 2026-28 MTFF supports this strategy, alongside renewed domestic debt issuance to develop the market and yield curve.

B. Monetary Policy

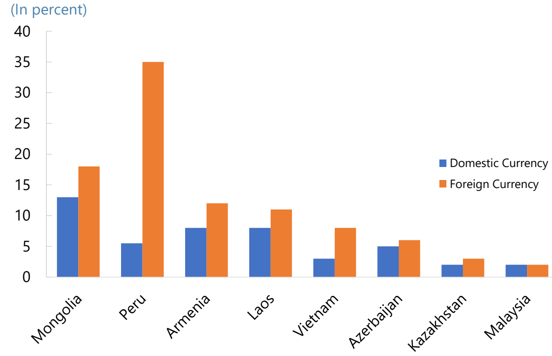
25. The monetary policy stance should remain tight to contain inflation and avoid a de-anchoring of inflation expectations. Inflation is expected to rise in 2025 and stay above the target band through 2026. The impact of the policy rate increase on inflation is primarily through the exchange rate rather than a contraction in demand (Annex X). The real policy rate remains below pre-pandemic levels. The BOM should raise the policy rate further to curb inflation if the recent decline in inflation is reversed. High inflation disproportionately affects poorer and rural populations (Annex XI). Meanwhile, reserve requirements should aim to manage liquidity and slow credit growth. Current high reserve requirements incentivize banks to borrow externally with the BOM bearing the foreign exchange risks through FX swaps.

Nominal and Real Policy Rate
(In percent)



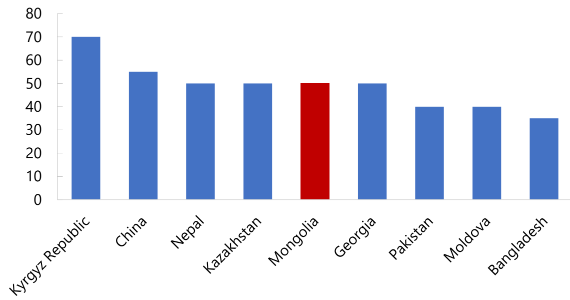
Sources: Haver Analytics; Mongolian authorities and IMF Staff calculations.

Reserve Requirement Rate
(In percent)



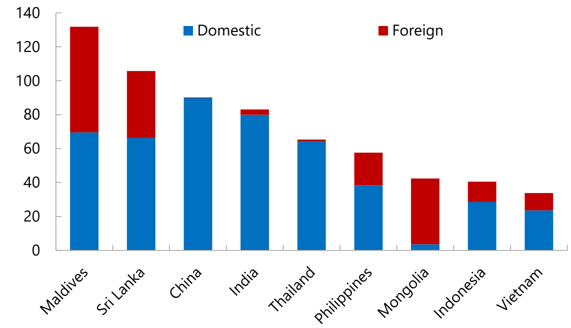
Sources: IMF and country authorities.

DSTI Limit for Bank Credit
(In percent)



Sources: IMF; and Central Banks of each country.
Notes: 50-70 percent based on income threshold in Kyrgyz Republic and 55 percent for high income individuals in Moldova.

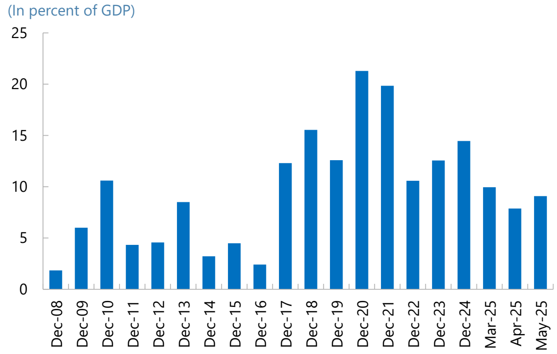
Domestic and External Government Debt in 2024
(In percent of GDP)



Sources: IMF, World Economic Outlook and Sri Lanka EFF Fourth Review Staff Report.

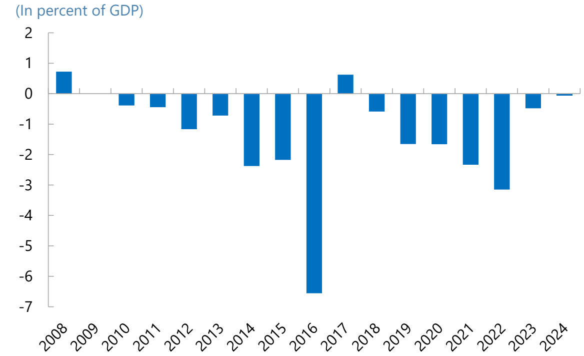
26. **Increased domestic debt issuance will help develop domestic bond markets and strengthen monetary policy effectiveness**. The government restarted its domestic debt program with market-based auctions in April 2025. This welcome step, if expanded, could reduce the need for BOM to mop up liquidity by issuing costly central bank bills, which has importantly contributed to its persistent losses. Developing the domestic securities market will also help establish a benchmark yield curve, mitigate FX-related fiscal risks, and improve monetary policy transmission.

Stock of Central Bank Bills
(In percent of GDP)



Sources: Mongolian authorities; IMF Staff calculations.

Bank of Mongolia Current Year Profit or Loss
(In percent of GDP)



Sources: Mongolian authorities; IMF staff calculations.

27. **Despite some progress, key reforms proposed in the 2023 safeguards assessment have not yet been fully implemented.** The assessment highlighted insufficient legal protections for the autonomy and governance of the BOM under its current Law, as well as the BOM's ongoing involvement in quasi-fiscal activities. Additionally, the assessment found that internal controls and oversight at the BOM require strengthening, noting that the Supervisory Board—appointed by Parliament—does not provide the degree of independent oversight that is observed at other central banks.

28. **The BOM should be fully relieved from quasi-fiscal obligations and focus on price and financial stability**. Although the BOM has abstained from quasi-fiscal lending programs since 2023, it continues to recycle repayments of existing loans to fund new subsidized mortgage loans, which

are now also expanded with funding from the newly established Savings Fund. The government should move forward with the stalled takeover of the BOM's subsidized mortgage program.

29. The amendments to the Central Bank Law, intended to enhance the BOM's mandate, autonomy, and governance, should be finalized and submitted to Parliament. They include establishing a clear hierarchy among the BOM's objectives, excluding Parliament from the BOM's monetary policy operations, further prohibiting quasi-fiscal operations, and enhancing checks-and-balances. Additionally, the Ministry of Finance and BOM need to agree on a memorandum of understanding for a gradual recapitalization strategy that is compatible with fiscal sustainability.

Authorities' Views

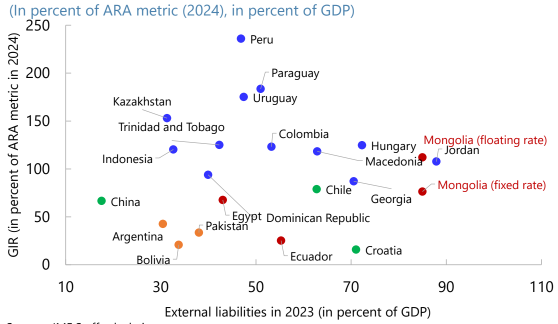
30. The authorities agreed on the need to maintain tight monetary policy until inflation returns to target. Alongside the policy rate, they will use complementary tools to curb credit growth. The reserve requirement ratio will be adjusted to absorb excess liquidity and reduce losses from central bank bill issuance. Renewed, though limited, issuance of domestic government securities will aid liquidity absorption. Gradually shifting the subsidized mortgage program from the BOM to the government is also seen as a positive step, allowing the BOM to focus on price stability. The authorities are working to reach consensus on the proposed amendments to the Central Bank Law before submitting the draft to Parliament.

C. Exchange Rate Policy

31. External buffers need to be increased to strengthen resilience against shocks. GIR are inadequate according to ARA metrics. Moreover, commodity exporters generally need larger buffers than indicated by the ARA metric, owing to the significant shocks they face. Given Mongolia's high vulnerability to external shocks as illustrated by the adverse scenario, the BOM should prioritize reserve accumulation and allow for greater exchange rate flexibility. Moreover, the BOM should gradually reduce its role as an intermediary and structural provider of FX to the market, which would support more effective price-discovery, and foster the development of the domestic FX derivatives market. This will help reduce the substantial contingent liability held by the BOM due to FX swaps with banks. A large FX swap position could also make the BOM hesitant to permit greater exchange rate flexibility if it leads to increased losses from the FX swaps. In addition, the government should pursue reforms to attract external private financing, particularly FDI.

GIR and External Liabilities

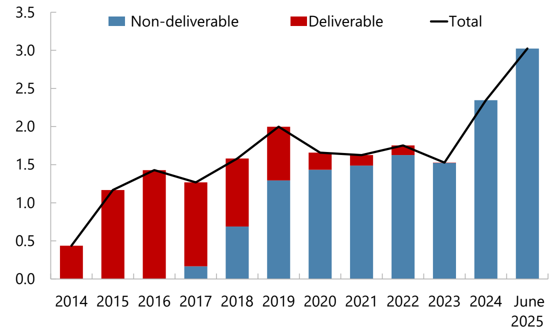
(In percent of ARA metric (2024), in percent of GDP)



Sources: IMF Staff calculations.
Note. International Investment Position data. Includes other liabilities and portfolio liabilities, but excludes foreign direct investment. Ratings based on S&P ratings (March 26, 2025): • credit rating A- to AAA; • BB- to BBB; • B- to B+; • C- to CCC. Mongolia's external liability data is updated till 2024.

BOM FX Swap Agreements with Commercial Banks

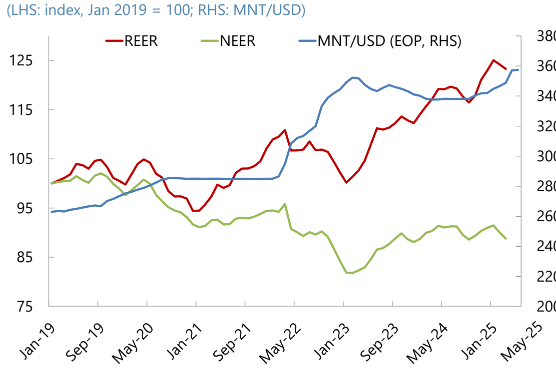
(In billion US dollar)



Source: Bank of Mongolia (BOM).

Exchange Rates

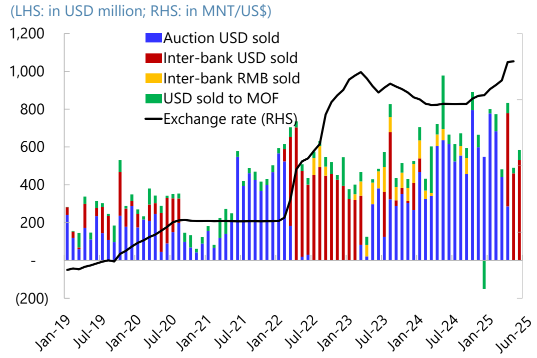
(LHS: index, Jan 2019 = 100; RHS: MNT/USD)



Sources: Haver Analytics; Mongolian authorities; IMF Staff calculations.

Bank of Mongolia FX Sales

(LHS: in USD million; RHS: in MNT/US$)



Sources: Mongolian authorities; IMF staff calculations.

Authorities' Views

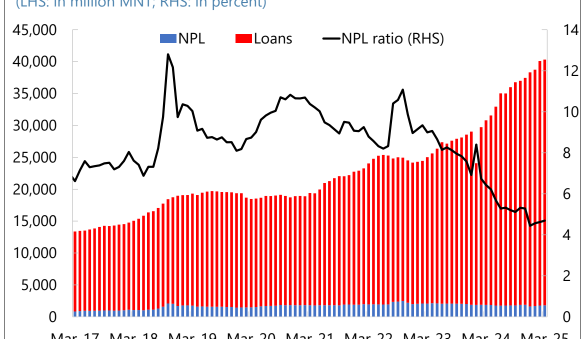
32. The authorities reaffirmed their commitment to maintaining adequate level of GIR and a flexible exchange rate. A BOM – Finance Ministry working group has developed a strategy to strengthen reserves by boosting exports, curbing imports, and increasing FX inflows. The BOM's FX swap terms were adjusted to align with market conditions and reduce BOM losses. The partial repayment of the PBOC swap line during 2023–24 has also created space to further boost reserves if needed.

D. Macroprudential and Financial Sector Policies

33. While the banking sector remains well-capitalized and profitable, high credit growth poses risks to financial stability. The rapid credit growth raises concerns that non-performing loans (NPLs) could rise sharply if macroeconomic conditions were to deteriorate. Banks' FX borrowing from abroad rose significantly in 2024, leading to increased use of swaps with the BOM to cover the FX mismatch and meet their net FX position requirements.

Banking Sector NPL Ratio

(LHS: in million MNT; RHS: in percent)



Sources: Mongolian authorities and IMF Staff estimates.

34. The macroprudential framework needs to be strengthened to mitigate financial stability risks from rapid loan growth. The recent tightening of DSTI limits for both banks and NBFIs, as well as the loan-to-value ratio for car leases by NBFIs, is a welcome development. However, pension-backed loans should also be included in the DSTI limit. Furthermore, aligning the DSTI limits for NBFIs with those for banks, and ensuring effective enforcement, is important to prevent regulatory arbitrage. The BOM should also consider deploying a broader set of capital and liquidity macroprudential tools to address specific risks and their transmission channels effectively. Finally, macroprudential policy decision-making should be separated from monetary policy in terms of formulation and implementation.

35. The rapid expansion of NBFI lending warrants close monitoring. NBFIs are playing an increasingly important role in consumer lending. As of 2025Q1, consumer lending by NBFIs accounts for 72 percent of new loans issued by NBFIs, and outstanding consumer loans by NBFIs amount to 37 percent of consumer loans in the banking sector. To finance this rapid growth, NBFIs have tapped into a wide range of funding sources, including domestic and foreign banks and other financial institutions, trust loans, and debt securities. As a result, while NBFIs' leverage remains low, it has risen significantly. Supervision should maintain close oversight of the interconnections between banks and NBFIs. The new provision prohibiting NBFIs from obtaining funding from banks is welcome.

36. Broad reforms are needed to bolster the financial sector's ability to lend to creditworthy entities. Priorities should include addressing weaknesses in areas such as credit information sharing, collateral valuation, contract enforcement, foreclosure processes, and regulatory oversight of loan rescheduling and restructuring. These weaknesses contribute to elevated credit losses, high lending rates, and the overreliance on immovable collaterals, which hinder access to finance, particularly for small and medium-sized enterprises. Amendments to the Insolvency and Credit Information Laws are crucial to improve the credit information system and allow financial institutions to handle poor asset quality more effectively.

37. Full implementation of bank shareholder diversification would further foster financial development. Raising shareholder limits and allowing investment in multiple banks would help attract investors that can enhance the effective management and operation of banks. Additionally, new measures could be considered, such as adopting principles for vetting controlling interests in banks and implementing effective supervision of complex shareholding structures to mitigate the risk of connected and related-party lending.

38. There is a need to strengthen bank resolution frameworks. The Financial Stability Council should develop appropriate crisis management arrangements, including inter-agency information-sharing and coordination. The BOM should create a manual outlining resolution policy and procedures and develop resolution plans for individual banks. A line of credit should be established between the Deposit Insurance Corporation and the MOF to ensure funding for bank resolutions.

Authorities' Views

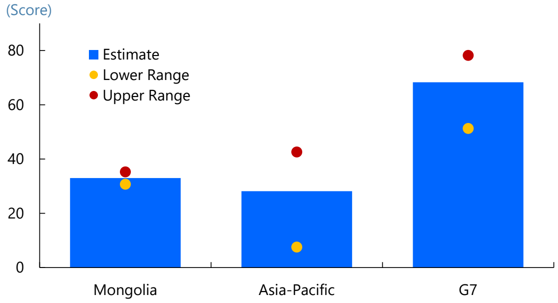
39. **The authorities acknowledged the need to strengthen macroprudential regulation and financial supervision to curb credit growth and safeguard financial stability**. They have tightened DSTI ratios for banks and NBFIs. Work is ongoing to expand the macroprudential toolkit and separate it from monetary policy. Progress continues on the adoption of risk-based supervision and Basel III standards with support from the IMF and other IFIs. To address rapid NBFI lending growth, measures have been introduced to limit their financing from domestic banks.

E. Structural Policies

40. **Despite recent progress, Mongolia's business climate needs further improvement**. The State's footprint in the economy remains high, operating under changing rules, which hampers private sector initiative and deters FDI. Legal reforms are needed to reduce red tape, facilitate licensing and taxation, expedite insolvency resolution, and clarify the use of land. Increasing judicial efficiency and transparency and ensuring consistent regulatory enforcement, including in tax administration, are critical.

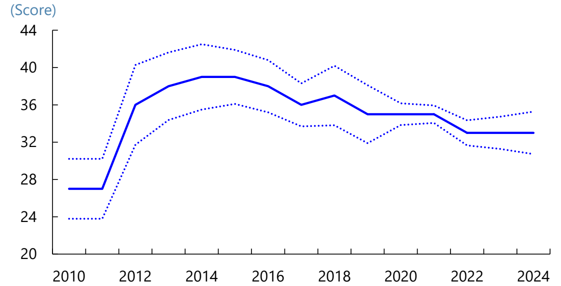
41. **Policies to address corruption and enhance governance remain crucial**. Despite the existence of anti-corruption laws and dedicated agencies, enforcement remains inconsistent. The priority should be on addressing corruption vulnerabilities in revenue institutions, strengthening transparency and accountability of public procurement and SOE, and adopting legislative reforms. The new Sovereign Wealth Fund is welcome, but a strong governance framework for its sub-funds should be swiftly put in place. The Development Bank of Mongolia (DBM) faces long-standing balance sheet and governance issues that need to be addressed before it resumes its lending operations.

Corruption Perception Index in 2024
(Score)



Source: Transparency International (2024).
Note: The index compiles results of 13 surveys. "Estimate" is a weighted sum of survey resullts, "lower"("upper") reflects the lowest (highest) score among 13 data points. High scores reflect lower corruption perception.

Mongolia's Corruption Perception Index in 2024
(Score)



Source: Transparency International (2024).
Note: The index compiles results of 13 surveys. "Estimate" is a weighted sum of survey resullts, "lower"("upper") reflects the lowest (highest) score among 13 data points. High scores reflect lower corruption perception. Dotted lines represent upper/lower bound of the 90 percent confidence interval of the index score.

42. **Mongolia has made satisfactory progress in strengthening its AML/CFT legal framework, though challenges related to effective implementation remain**. As of July 2023, Mongolia has been assessed to be "compliant" and "largely compliant" with all 40 FATF technical recommendations. Effective implementation of the AML/CFT framework is the next necessary step, which will also be beneficial to other government policy priorities and support tax collection. For

example, enhancing transparency of beneficial ownership information would help prevent illicit financial flows.

43. Climate adaptation, mitigation, and green transition will require significant investments and policy reforms.

- Climate change is expected to increase the frequency and intensity of natural hazards such as harsh winters (dzuds) and floods. Dzuds have occurred in one out of five years since 2000—more frequently than historical averages.

- Mongolia's economy also has high carbon intensity due to its reliance on coal for energy and the large livestock sector. Energy transition is macro-critical because coal is a key driver of Mongolia's export earnings and fiscal revenues (Annex XII), accounting for over half of total exports and 20 percent of fiscal revenues in 2024. Mongolia's National Adaptation Plan to Climate Change 2024–30 aims to increase the share of renewables electricity to 30 percent and reduce greenhouse gas emissions by 22.7 percent by 2030.

- Amid an expected decline in global coal demand over the next decade, China's decarbonization and the ensuing reduction in demand for Mongolia's coal could result in a 1.9 percent reduction in Mongolia's GDP by 2040 (Annex XII). This decline could be partially offset by an increased demand for copper. Uncertainty in the speed of the energy transition could reduce investments in the coal mining sector, while policies to incentivize investments in other sectors, such as minerals and renewables, could support economic diversification and export growth.

- The World Bank (2024 Mongolia Country Climate and Development Report) estimates that climate-related investment needs could amount to 43 percent of 2024 GDP over the next 25 years. Mitigation measures would account for approximately 70 percent, with about half of the investment needs coming from the energy sector. Financing these measures will require contributions from both the public and private sectors, underscoring the importance of creating fiscal space.

Authorities' Views

44. The authorities are advancing initiatives to improve the business environment and address climate transition challenges. Efforts focus on removing legal and regulatory barriers, with the draft FDI Law expected to enhance investor protection and include a robust dispute resolution mechanism. The PPP Law, approved in January 2025, will be amended to address current gaps. Climate goals remain a priority, though high renewable energy costs and limited affordable financing pose challenges. Following AML/CFT legal reforms, implementation will be strengthened. The authorities also plan to combat corruption through digital oversight, stronger SOE governance, and capacity building for prosecutors and judges.

STAFF APPRAISAL

45. In 2023-24, record-high coal exports and robust household and government spending led to buoyant economic activity. The sharp increase in resource revenue supported fiscal surpluses despite large spending increases, which—together with successful external debt rollovers—helped reduce vulnerabilities. However, the procyclical fiscal policy, combined with the policy rate cuts in 2024, fueled rapid credit growth despite tighter reserve requirements, a surge in imports, a widening current account deficit, and inflation above the BOM's target band. The external position in 2024 was assessed to be weaker than the level implied by medium-term fundamentals and desirable policies.

46. The resource-driven boom weakened in 2025H1, primarily due to a sharp decline in coal export receipts, and downside risks to the outlook have increased. Lower coal exports resulted in a sizeable shortfall in budget revenues and a further widening of the current account deficit, leading to a reduction in GIR and increased exchange rate pressures.

47. Prudent fiscal policy is essential to restore internal and external balances and to preserve fiscal buffers. Despite the decline in revenues, the authorities intend to meet the structural deficit limit under the fiscal rules through expenditure restraint. With mining revenues declining, the government should reconsider the design and timing of the proposed tax package, which would significantly reduce non-mining tax revenues. To create fiscal space for priority investments, efforts should focus on broadening the non-mining tax base and containing current expenditures. Mega projects should be prioritized according to the availability of external financing and the economy's absorptive capacity and be implemented within the fiscal rules. It is important to avoid frequent changes to fiscal rules, to preserve their credibility as a policy anchor. Expanding domestic debt issuance is critical to establishing a benchmark yield curve, developing domestic markets, and reducing reliance on external borrowing. Should downside risks materialize, an ambitious and rapid consolidation strategy would be needed to preserve macroeconomic stability.

48. The BOM should maintain tight domestic financial conditions to keep inflation under control. Despite the policy rate hike in early 2025 and some moderation in recent months, inflation is expected to remain above the BOM's target band over 2025–26. A further rate increase may be warranted if the recent decline in inflation reverses. Strengthening the BOM's legal mandate, operational autonomy, and governance through amendments to the central bank law is essential to enhance its effectiveness. The BOM should fully withdraw from quasi-fiscal operations by transferring its subsidized mortgage portfolio to a designated public entity. Furthermore, the MOF and the BOM need to agree on a gradual recapitalization strategy for the BOM.

49. Greater exchange rate flexibility would strengthen Mongolia's resilience to external shocks. The BOM should pursue opportunistic accumulation of reserves when market conditions allow. It should also support a more effective exchange rate price discovery by reducing its role as a structural provider of FX to the market. In addition, the BOM should support the development of domestic FX derivatives markets and gradually phase out its role as the dominant provider of FX hedging instruments to banks.

50. Macroprudential frameworks and financial oversight should be strengthened to mitigate financial stability risks, including from rapid credit growth. The recent tightening of macroprudential measures, including the reduction of DSTI limits, for banks and NBFIs was a welcome step in mitigating risks. However, pension-backed loans should also be included in the DSTI limit. Further efforts are needed, including aligning the DSTI limit for NBFIs with that of banks and expanding the BOM's macroprudential toolkit. Macroprudential and monetary policies should be separated in terms of formulation and implementation. To facilitate bank shareholder diversification, the authorities could raise ownership limits and allow investment in multiple banks. Strengthening insolvency frameworks and creditor rights would enable more effective NPL resolution.

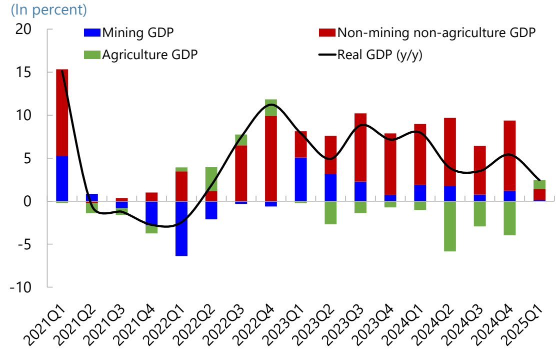
51. Structural reforms to improve the business climate, combat corruption, and strengthen governance remain essential to achieving diversified and sustainable growth. The revised Foreign Investment Law should be enacted promptly to reduce red tape and enhance the investment climate. Consistent regulatory enforcement, including in tax administration, will support investor confidence. The draft Whistleblower Law should be adopted to reinforce anti-corruption efforts.

52. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Mongolia: Strong Mining Exports Underpinned Robust Growth in 2024

Growth remained robust in 2024 despite a significant contraction in the agriculture sector…

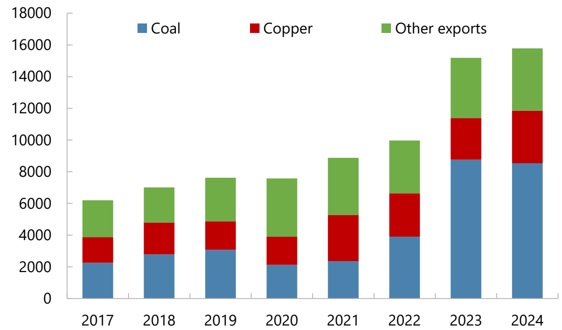
Mining and Agricultural Sectors Contribution to GDP
(In percent)



Sources: Haver Analytics; and IMF Staff calculations.

…supported by record-high mining exports…

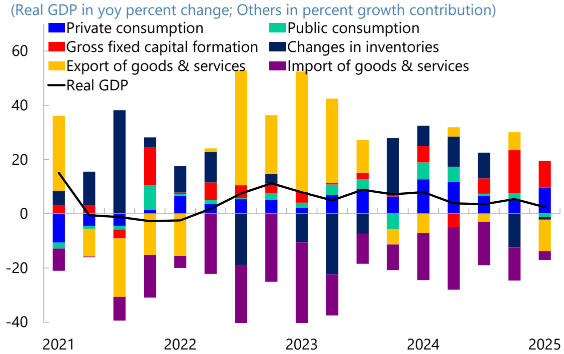
Mongolia's Exports
(In million US dollar)



Sources: Mongolian Customs and Bank of Mongolia.

…and strong public and household spending.

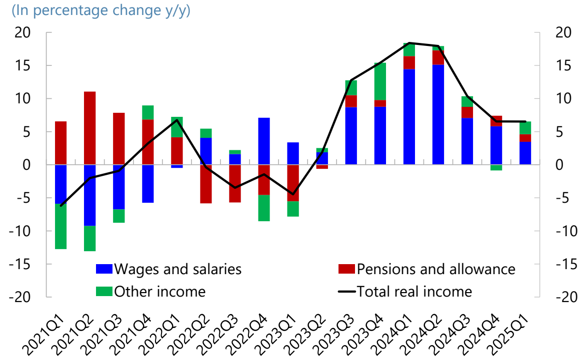
Real GDP Growth Contributions
(Real GDP in yoy percent change; Others in percent growth contribution)



Sources: Haver Analytics; and IMF Staff calculations.

Household spending has been supported by robust income growth…

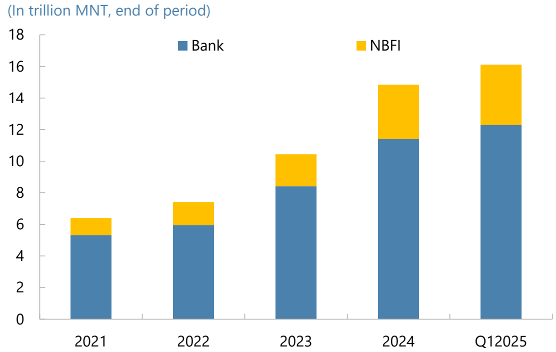
Real National Income
(In percentage change y/y)



Sources: National Statistics Office; Haver; IMF staff calculations.

…and increased borrowing.

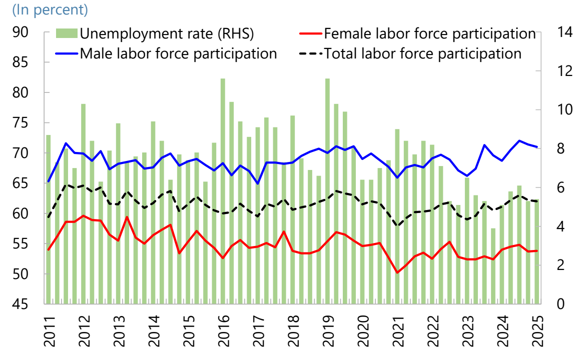
Outstanding Consumer Loans
(In trillion MNT, end of period)



Sources: Mongolian authorities; Haver Analytics; and IMF Staff calculations.

The unemployment rate is at a historically low level.

Unemployment Rate and Labor Force Participation
(In percent)



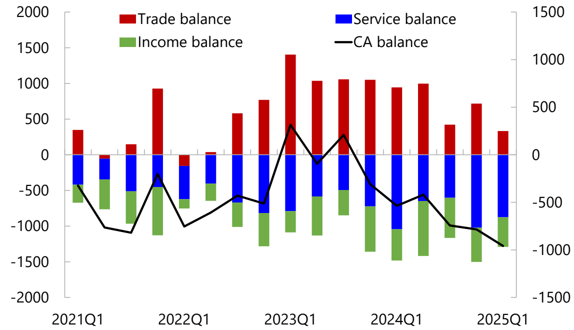
Source: National Statistics Office.

Figure 2. Mongolia: External Imbalances Remain Large

The current account returned to deficit in 2024 as imports surged…

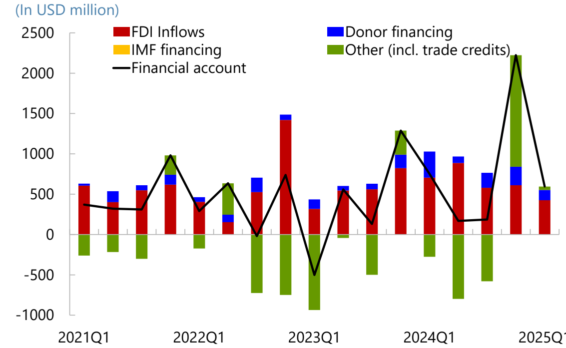
…while robust financial inflows…

Current Account
(In USD million)



Sources: Haver Analytics; and IMF Staff calculations.

Financial Account
(In USD million)

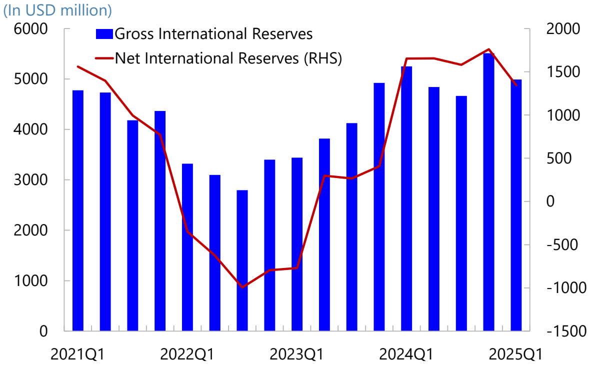


Sources: Haver Analytics; Mongolian authorities; and IMF Staff calculations.

… helped sustain GIR…

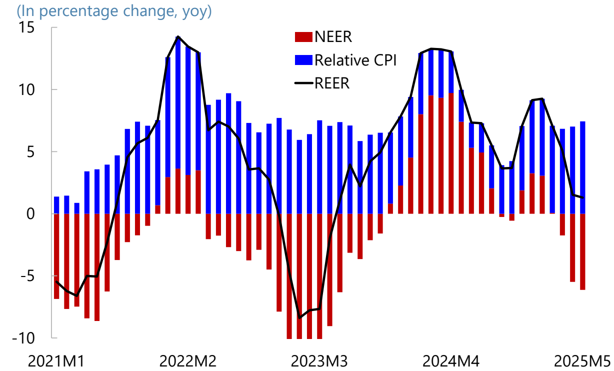
…while rising inflation contributed to REER appreciation.

International Reserves
(In USD million)



Sources: Haver; and IMF Staff calculations.

REER and NEER
(In percentage change, yoy)

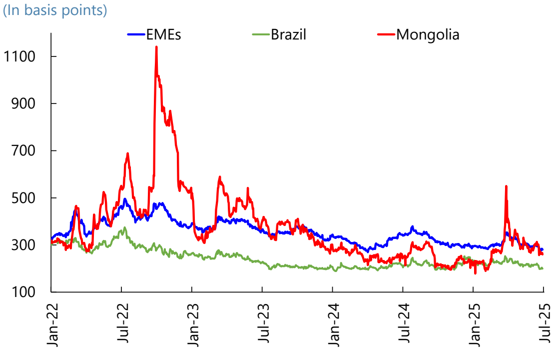


Source: IMF Staff calculations.

Sovereign spread fell to historically low levels before the volatility spiked amid the U.S. tariff hike…

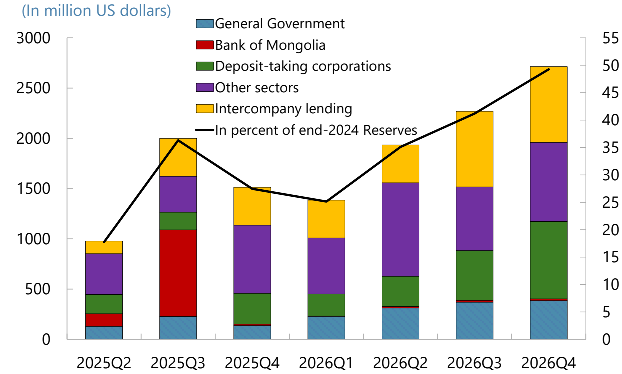
…and the government's prefinancing of part of its Eurobond has reduced rollover risks.

EMBI Global Sovereign Spreads
(In basis points)



Source: Bloomberg L.P.

External Maturities
(In million US dollars)



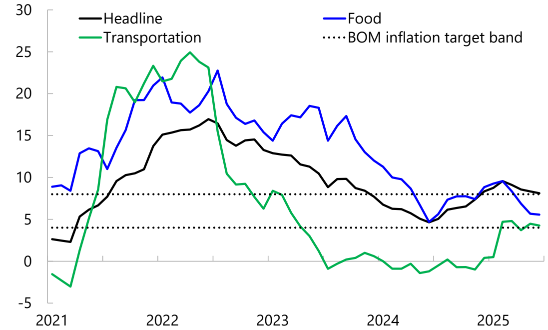
Sources: Mongolian authorities; and IMF staff calculations.

Figure 3. Mongolia: Inflation is Increasing

Since mid-2024 headline inflation has started to increase again…

National Consumer Price Index

(In yoy percent change)

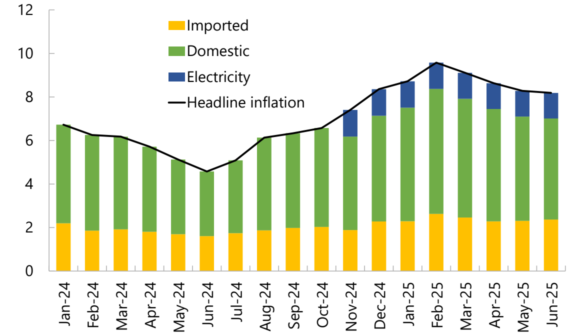


Sources: Haver; IMF Staff Calculations.

…mostly reflecting domestic factors, including a rise in electricity tariffs in late 2024.

Consumer Price Index National, 2023=100

(In yoy percent change)

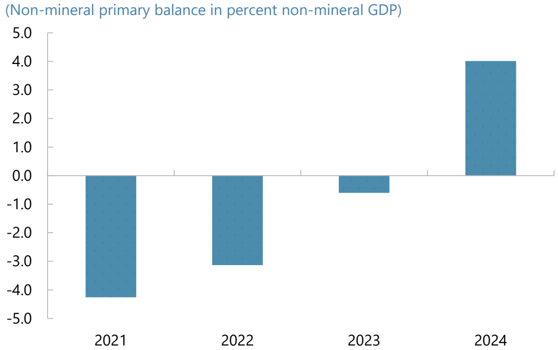


Sources: National Statistics Office, Mongolia.

Inflation has been ignited by the strong fiscal impulse in 2024

Fiscal Impulse

(Non-mineral primary balance in percent non-mineral GDP)

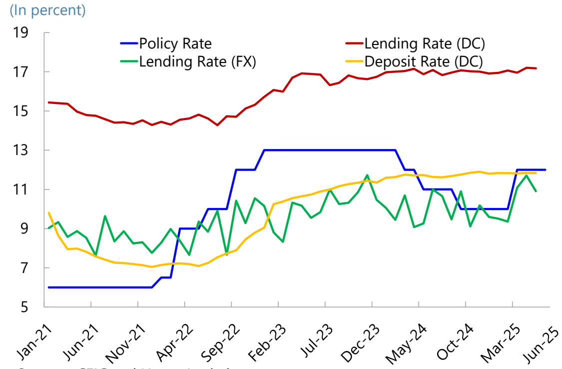


Sources: Mongolian authorities; IMF staff calculations.

…and cuts in monetary policy rate in 2024…

Interest Rates

(In percent)

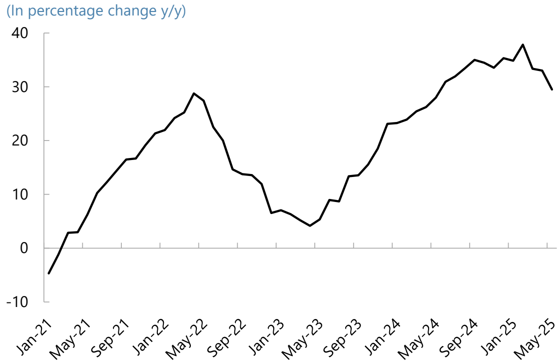


Sources: CEIC and Haver Analytics.

…both of which have accelerated the credit to private sector growth.

Credit Growth by Sectors

(In percentage change y/y)

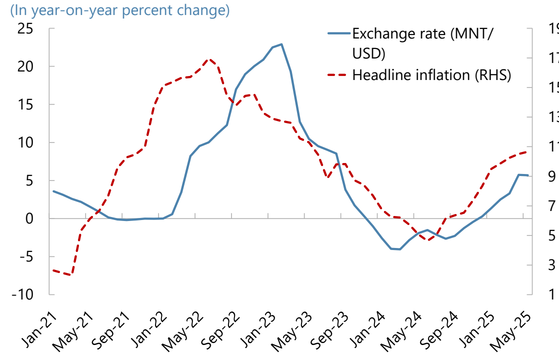


Source: The Bank of Mongolia.

The ER, although depreciated, was not the major source of the observed inflation pressures.

Inflation and Exchange Rate

(In year-on-year percent change)

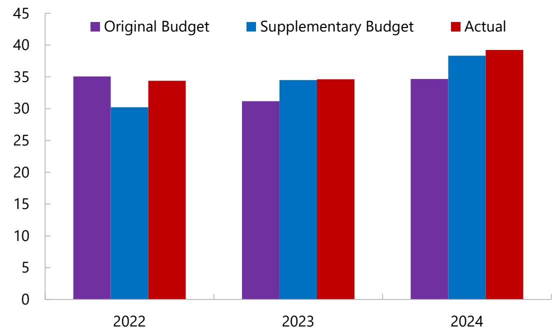


Sources: Mongolian authorities; IMF staff calculations.

Figure 4. Mongolia: Fiscal Surpluses Have Enabled Substantial Debt Reduction

Strong mining revenue, consistently outperforming budget estimates...

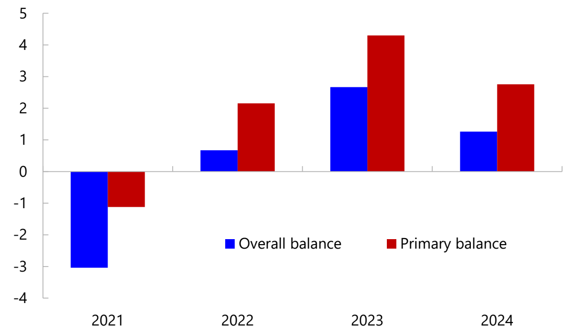
Revenue Performance
(In percent of GDP)



Sources: Mongolian authorities; IMF staff calculations.

...has resulted in surpluses in primary and overall fiscal balances for 2023 and 2024...

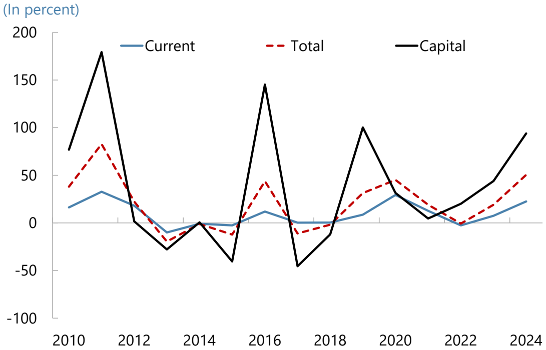
Fiscal Balance
(In percent of GDP)



Sources: Mongolian authorities; IMF staff calculations

...despite a substantial increase in primary expenditure.

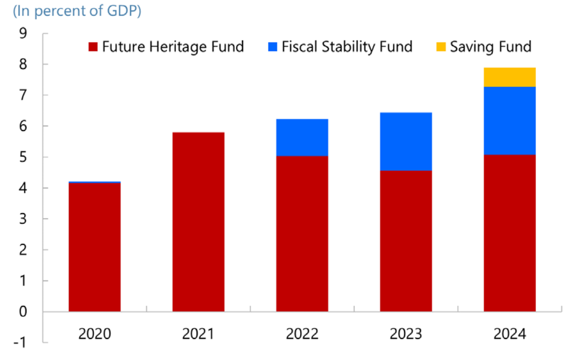
Growth of Real Primary Expenditure
(In percent)



Sources: Mongolian authorities; IMF staff calculations.

The surpluses have been used to replenish savings funds....

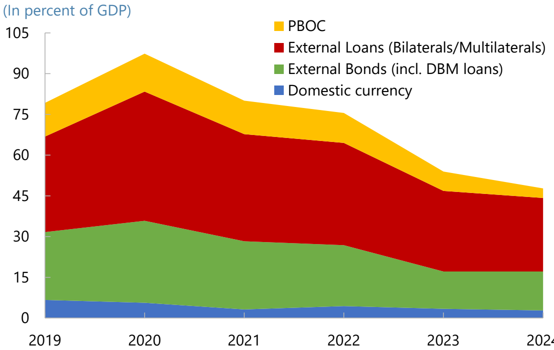
Sovereign Fund Stock
(In percent of GDP)



Sources: Mongolian authorities; IMF staff calculations.

...and reduce public debt to historically low levels.

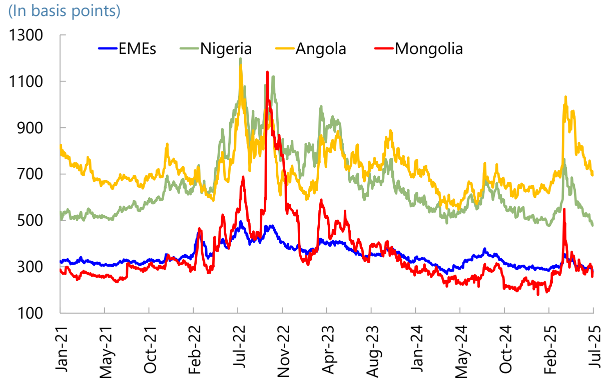
Public Debt Composition
(In percent of GDP)



Sources: Mongolian authorities; IMF staff calculations.

The improved fiscal situation has led to a significant reduction in Mongolia's sovereign spreads...

EMBI Global Sovereign Spreads
(In basis points)

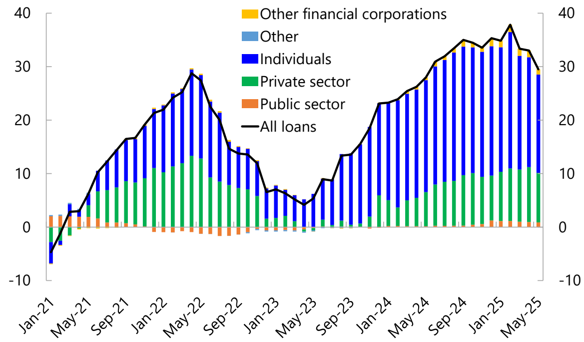


Source: Bloomberg L.P.

Figure 5. Mongolia: Bank Lending is Rapidly Growing, Driven Particularly by Credit to Individuals

Bank credit has surged in post-COVID period, especially in loans to individuals…

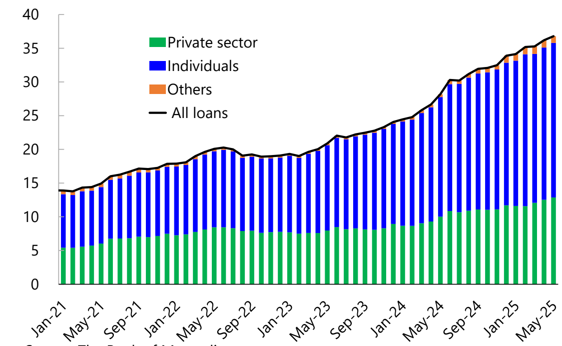
Credit Growth by Sectors
(In percentage change y/y)



Source: The Bank of Mongolia.

…which have doubled since 2023Q1, currently accounting for more than half of total bank credit.

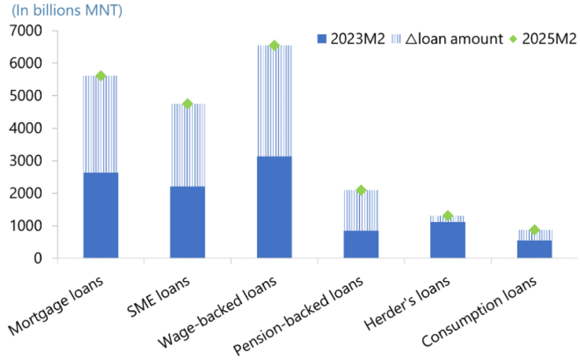
Credit Growth Composition by Holders
(In million MNT)



Source: The Bank of Mongolia

Credit is concentrated particularly in mortgage and wage-backed loans.

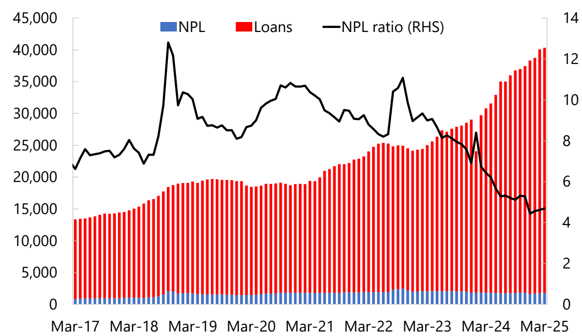
Loans to Individuals by Type
(In billions MNT)



Sources: Bank of Mongolia and IMF Staff estimates.

The NPL ratio is decreasing, primarily due to rapid growth in loan amounts.

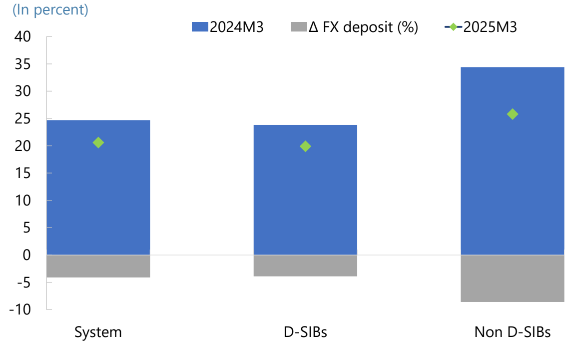
Banking Sector NPL Ratio
(LHS: in million MNT; RHS: in percent)



Sources: Mongolian authorities and IMF Staff estimates.

The share of FX deposits, a key source of liquidity, in total deposits declined in 2024.

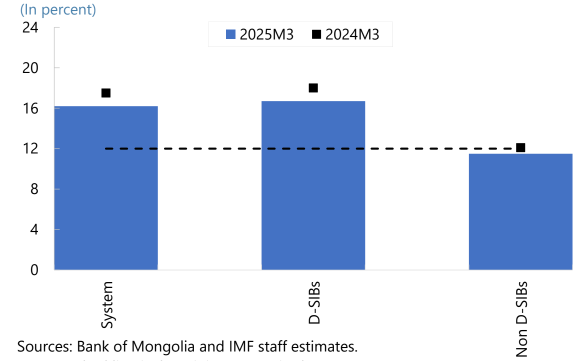
D-SIBs' FX Deposit to Total Deposit
(In percent)



Sources: Bank of Mongolia and IMF Staff estimates.

Overall, banks' capital remains above the minimum required.

D-SIBs' CAR
(In percent)

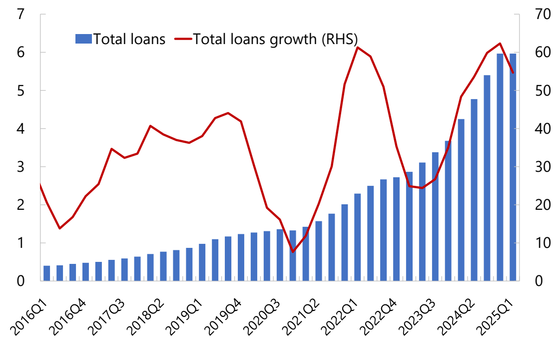


Sources: Bank of Mongolia and IMF staff estimates.
Note: Dashed line is the minimum required CAR (12%).

Figure 6. Mongolia: The NBFI Sector is Growing Rapidly

Lending by NBFIs continues to grow at a faster pace than that of the banking sector…

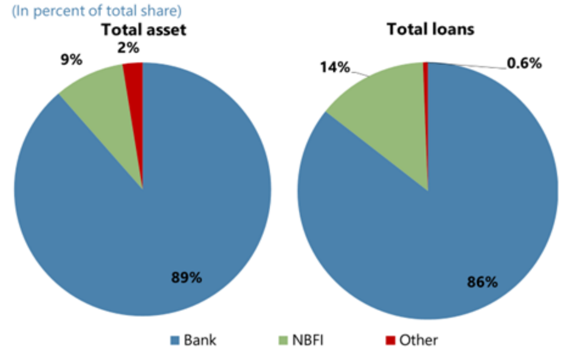
NFBI Total Loans
(LHS: in trillion MNT; RHS: in yoy percent)



Sources: Mongolian authorities and IMF Staff estimates.

…although the banking sector continues dominate Mongolia's financial sector.

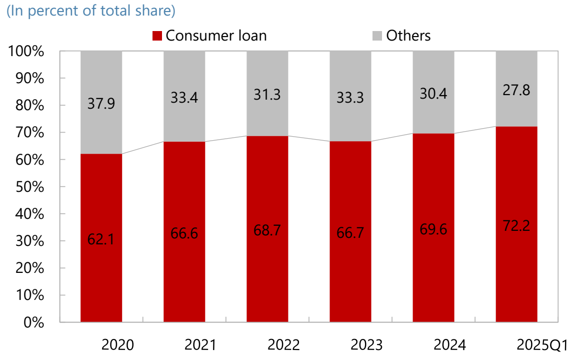
Total Asset and Total Loans
(In percent of total share)



Sources: Mongolian authorities and IMF Staff estimates.

NBFI loans concentrate on consumer loans.

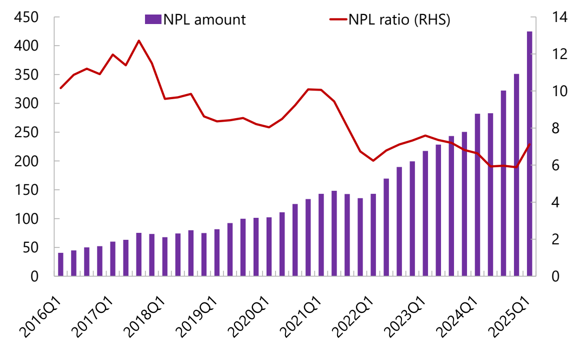
NBFI Issued Loans
(In percent of total share)



Sources: Mongolian authorities and IMF Staff estimates.

The NPL ratio is on a downward trend, primarily due to the rapid growth in loan amounts.

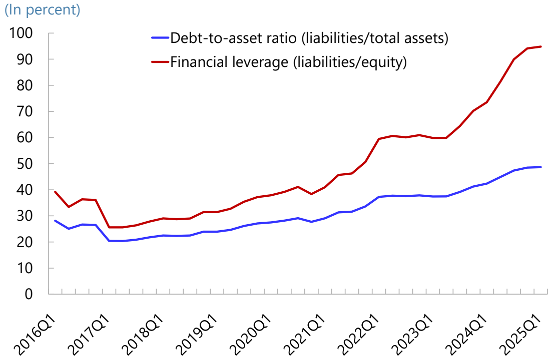
NBFI NPL Ratio
(LHS: in billions MNT; RHS: in percent)



Sources: Mongolian authorities and IMF Staff estimates.

As the sector has grown rapidly, leverage has also increased significantly, though it remains relatively low.

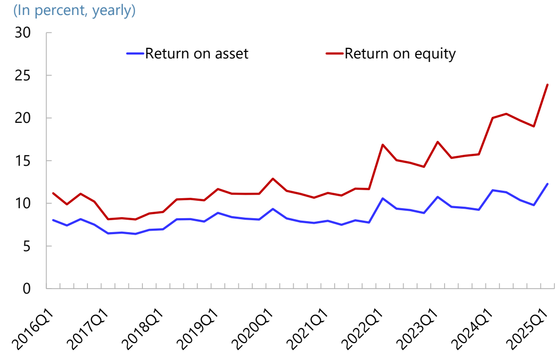
NBFI Debt-to-Asset Ratio and Financial Leverage
(In percent)



Sources: Mongolian authorities and IMF Staff estimates.

NBFIs are highly profitable, and capital efficiency is further improving due to an increase in liabilities.

NBFI Profitability Ratios
(In percent, yearly)



Sources: Mongolian authorities and IMF Staff estimates.

Table 1. Mongolia: Selected Economic and Financial Indicators, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Actual				Projections			
				(In percent of GDP, unless otherwise indicated)					
National Accounts									
Real GDP growth (percent change)	5.0	7.4	4.9	5.5	5.5	5.5	5.3	5.0	5.0
Nominal GDP (in USD million)	17,146	20,315	23,586	…	…	…	…	…	…
Contributions to Real GDP (ppts)									
Domestic Demand	11.4	5.6	21.2	6.6	4.4	7.0	7.0	5.9	6.2
Exports of G&S	13.9	17.9	0.5	3.0	5.0	2.6	2.1	1.7	1.7
Imports of G&S	-20.3	-16.2	-16.8	-4.1	-3.9	-4.1	-3.8	-2.6	-2.9
Consumption	65.8	57.5	66.1	71.2	70.6	70.9	71.0	71.2	70.9
Private	51.9	44.5	49.8	54.9	54.7	55.2	55.3	55.5	55.2
Public	13.9	13.0	16.3	16.3	16.0	15.8	15.7	15.7	15.7
Gross Capital Formation	42.3	33.9	34.6	32.2	30.7	30.8	31.1	31.2	31.5
Gross Fixed Capital Formation	29.8	25.3	26.8	24.2	23.7	23.8	24.1	24.2	24.5
Public	7.1	7.4	9.9	8.2	8.0	7.9	7.8	7.9	8.0
FDI	14.2	10.7	11.6	9.5	9.1	8.9	8.8	8.0	7.9
Domestic Private (including SOEs)	8.6	7.3	5.3	6.5	6.6	7.0	7.5	8.3	8.6
Gross national saving	28.9	34.5	24.1	18.4	18.7	18.6	18.8	18.8	19.2
Prices									
Consumer Prices (Avg; percent change)	15.1	10.4	6.2	8.7	8.6	7.9	7.2	6.7	6.4
Consumer Prices (EoP; percent change)	13.3	7.7	8.3	9.0	8.2	7.5	6.8	6.5	6.2
Copper prices (US$ per ton)	8,829	8,491	9,142	9,539	9,641	9,674	9,705	9,716	9,716
Bituminous coal prices (US$ per ton)	123	131	107	68	74	76	77	77	77
GDP deflator (percent change)	17.7	21.8	8.2	7.0	8.4	7.7	7.1	6.4	6.4
General government accounts 1/									
Primary balance (IMF definition)	2.2	4.3	2.8	1.3	1.2	0.0	0.4	0.6	0.8
Total revenue and grants	34.4	34.6	39.2	35.1	33.9	32.1	32.2	32.3	32.4
Primary expenditure and net lending	32.2	30.3	36.5	33.8	32.7	32.1	31.8	31.6	31.7
Interest	1.5	1.6	1.5	1.7	1.9	2.1	2.3	2.4	2.5
Overall balance (IMF definition)	0.7	2.7	1.3	-0.3	-0.7	-2.1	-1.8	-1.8	-1.8
Non-mineral primary balance (in percent of GDP)	-6.3	-5.7	-8.9	-7.2	-7.8	-8.8	-8.3	-7.9	-7.6
Gross financing needs	3.8	9.0	4.7	5.0	4.8	6.4	8.2	7.4	9.8
General government debt 2/	64.5	45.9	44.5	46.0	48.4	51.3	53.0	54.5	55.2
Domestic	4.4	2.6	3.2	2.5	2.6	2.7	2.7	2.8	2.8
External	60.1	43.3	41.3	43.5	45.8	48.6	50.2	51.7	52.5
Monetary sector									
Broad money growth (percent change)	6.5	26.8	15.0	14.6	13.1	11.8	11.6	13.9	11.7
Reserve money growth (percent change)	39.9	7.4	51.9	1.7	13.1	11.8	11.6	13.9	12.5
Credit growth (percent change)	8.6	22.0	30.9	25.0	21.2	19.5	17.5	15.5	15.5
Balance of payments									
Current account balance	-13.4	0.6	-10.5	-13.9	-12.0	-12.2	-12.3	-12.3	-12.3
Exports of goods	57.5	68.5	62.5	54.0	55.4	54.5	53.9	52.9	51.9
Imports of goods	50.3	46.1	49.5	45.9	45.6	45.6	46.0	45.9	45.3
Gross official reserves (in USD million)	3400	4922	5510	4946	5128	5280	5120	5126	5269
(In months of imports)	3.0	3.6	4.1	3.5	3.5	3.4	3.2	3.1	3.1
(net of bank's FX deposits held at the BOM)	1949	3491	4233	…	…	…	…	…	…
Net international reserves (NIR) 3/	-788	1152	1768	…	…	…	…	…	…
Exchange rate									
Togrog per U.S. dollar (eop)	3445	3411	3420	…	…	…	…	…	…

Sources: Mongolian authorities; and IMF staff projections.

1/ These projections were prepared ahead of the supplementary budget for 2025 currently under discussion. They include the tax package approved by the previous Cabinet.

2/ Includes DBM's total debt, explicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

3/ NIR is defined as GIR excl. commercial banks' and government's US$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.

Table 2a. Mongolia: Balance of Payments, 2022–30

(In Millions of U.S. Dollars)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual			Projections					
	(In millions of U.S. dollars, unless otherwise indicated)								
Current account balance (including official grants)	-2,303	121	-2,485	-3,498	-3,180	-3,420	-3,632	-3,811	-3,987
Trade balance	1,233	4,549	3,081	2,047	2,617	2,516	2,352	2,157	2,133
Exports	9,854	13,914	14,750	13,647	14,743	15,285	15,902	16,323	16,823
Mineral exports	8,964	12,710	13,694	12,419	13,370	13,800	14,310	14,610	14,979
Non-mineral exports	890	1,204	1,056	1,228	1,373	1,485	1,592	1,713	1,844
Imports	-8,622	-9,366	-11,668	-11,600	-12,126	-12,770	-13,550	-14,166	-14,690
Services, net	-2,355	-2,592	-3,317	-3,015	-3,051	-3,105	-3,069	-2,989	-2,998
Income, net	-1,615	-2,233	-2,671	-2,983	-3,220	-3,325	-3,430	-3,515	-3,680
Current transfers	434	398	432	454	474	494	516	536	559
General government	315	279	329	352	371	390	411	430	452
Other sectors	120	119	104	102	103	104	105	106	107
Of which: Workers remittances	58	67	48	46	47	48	49	50	51
Capital and financial account	1,430	1,091	2,830	2,543	2,023	2,064	2,040	2,762	3,178
Capital account	154	135	171	183	167	176	185	193	203
Financial account	1,276	956	2,659	2,360	1,857	1,889	1,855	2,569	2,975
Direct investment	2,428	2,172	2,727	2,397	2,412	2,499	2,590	2,476	2,572
Portfolio investment	-445	-818	1,105	1,195	315	497	51	763	706
Trade credits, net	15	-54	-70	-37	-54	-53	-48	-52	-51
Currency and deposits, net	-298	-354	-1,075	-789	-247	-354	96	203	350
Loans, net	-435	9	-41	-420	-581	-713	-847	-834	-615
Other, net	11	2	13	13	13	13	13	13	13
Errors and omissions	-222	-276	-393	0	0	0	0	0	0
Overall balance	-1,095	937	-48	-955	-1,157	-1,356	-1,592	-1,048	-809
Change in reserves	-727	1,457	622	-564	182	152	-160	6	143
Fund credit	-21	-59	-83	-60	-36	-33	-11	0	0
Donor support	389	579	753	451	1,375	1,540	1,444	1,055	952
Of which: ADB	278	204	269	116	473	403	420	343	223
Of which: WB	52	44	38	25	173	165	149	50	50
Memorandum items:									
Current account balance (in percent of GDP)	-13.4	0.6	-10.5	-13.9	-12.0	-12.2	-12.3	-12.3	-12.3
Gross official reserves (end-period)	3,400	4,922	5,510	4,946	5,128	5,280	5,120	5,126	5,269
(In months of next year's imports of G&S)	3.0	3.6	4.1	3.5	3.5	3.4	3.2	3.1	3.1
(net of bank's FX deposits at the BOM)	1,949	3,491	4,233	…	…	…	…	…	…
Net international reserves (NIR) 1/	-788	1,152	1,768	…	…	…	…	…	…
FHF deposits abroad (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coal price (in U.S. dollars per ton)	123.0	131.4	107.3	68.0	73.9	76.0	76.6	76.5	76.6
Terms of trade (index, percent change)	-15	-3	-7	-14	3	-2	0	-1	-1
External debt (in percent of GDP)	194	170	157	159	161	165	168	170	171
Net IIP (in percent of GDP)	-245	-205	-186	-188	-191	-194	-196	-198	-199

Sources: Mongolian authorities; and IMF staff projectior

1/ NIR is defined as GIR excl. commercial banks' and government's US$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.

Table 2b. Mongolia: Balance of Payments, 2022–30
(In Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual			Projections					
	(In percent of GDP, unless otherwise indicated)								
Current account balance (including official grants)	-13.4	0.6	-10.5	-13.9	-12.0	-12.2	-12.3	-12.3	-12.3
Trade balance	7.2	22.4	13.1	8.1	9.8	9.0	8.0	7.0	6.6
Exports	57.5	68.5	62.5	54.0	55.4	54.5	53.9	52.9	51.9
Mineral exports	52.3	62.6	58.1	49.2	50.3	49.2	48.5	47.3	46.2
Non-mineral exports	5.2	5.9	4.5	4.9	5.2	5.3	5.4	5.5	5.7
Imports	-50.3	-46.1	-49.5	-45.9	-45.6	-45.6	-46.0	-45.9	-45.3
Services, net	-13.7	-12.8	-14.1	-11.9	-11.5	-11.1	-10.4	-9.7	-9.2
Income, net	-9.4	-11.0	-11.3	-11.8	-12.1	-11.9	-11.6	-11.4	-11.3
Current transfers	2.2	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
General government	1.8	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other sectors	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Of which: Workers remittances	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital and financial account	8.3	5.4	12.0	10.1	7.6	7.4	6.9	8.9	9.8
Capital account	0.9	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Financial account	7.4	4.7	11.3	9.3	7.0	6.7	6.3	8.3	9.2
Direct investment	14.2	10.7	11.6	9.5	9.1	8.9	8.8	8.0	7.9
Portfolio investment	-2.6	-4.0	4.7	4.7	1.2	1.8	0.2	2.5	2.2
Trade credits, net	0.1	-0.3	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Currency and deposits, net	-1.7	-1.7	-4.6	-3.1	-0.9	-1.3	0.3	0.7	1.1
Loans, net	-2.5	0.0	-0.2	-1.7	-2.2	-2.5	-2.9	-2.7	-1.9
Other, net	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.3	-1.4	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-6.4	4.6	-0.2	-3.8	-4.3	-4.8	-5.4	-3.4	-2.5
Change in reserves	-4.2	7.2	2.6	-2.2	0.7	0.5	-0.5	0.0	0.4
Fund credit	-0.1	-0.3	-0.4	-0.2	-0.1	-0.1	0.0	0.0	0.0
Donor BoP support	2.3	2.9	3.2	1.8	5.2	5.5	4.9	3.4	2.9
Of which: ADB	1.6	1.0	1.1	0.5	1.8	1.4	1.4	1.1	0.7
Of which: WB	0.3	0.2	0.2	0.1	0.6	0.6	0.5	0.2	0.2
Memorandum items:									
Current account balance (in percent of GDP)	-13.4	0.6	-10.5	-13.9	-12.0	-12.2	-12.3	-12.3	-12.3
Gross official reserves (end-period)	3,400	4,922	5,510	4,946	5,128	5,280	5,120	5,126	5,269
(In months of next year's imports of G&S)	3.0	3.6	4.1	3.5	3.5	3.4	3.2	3.1	3.1
(net of bank's FX deposits held at the BOM)	1,949	3,491	4,233	…	…	…	…	…	…
Net international reserves (NIR) 1/	-788	1,152	1,768	…	…	…	…	…	…
FHF deposits abroad (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coal price (in U.S. dollars per ton)	123.0	131.4	107.3	68.0	73.9	76.0	76.6	76.5	76.6
Terms of trade (index, percent change)	-14.8	-3.1	-7.3	-14.1	3.4	-1.7	-0.1	-1.4	-0.6
External debt (in percent of GDP)	194	170	157	159	161	165	168	170	171
Net IIP (in percent of GDP)	-245	-205	-186	-188	-191	-194	-196	-198	-199

Sources: Mongolian authorities; and IMF staff projections.

1/ NIR is defined as GIR excl. commercial banks' and government's US$ deposits held at the BOM, the PBOC swap line, and liabilities to the IMF.

Table 3. Mongolia: Monetary Aggregates, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual			Projections					
	(In billions of togrog, end of period)								
Reserve Money	6,727	7,227	10,980	11,166	12,634	14,130	15,771	17,969	20,222
Broad money	29,665	37,624	43,276	49,593	56,113	62,760	70,046	79,810	89,180
Currency	831	906	978	1,488	1,683	2,883	2,101	2,394	2,675
Deposits	28,834	36,719	42,298	48,106	54,429	59,878	67,945	77,416	86,504
Net foreign assets	1,864	8,452	8,327	4,645	425	-5,024	-10,470	-14,265	-20,556
BOM	4,104	10,633	15,096	14,690	17,537	19,145	19,962	21,534	23,851
Other Depository Corporations	-2,241	-2,181	-6,769	-10,045	-17,112	-24,170	-30,432	-35,799	-44,406
Net domestic assets	27,801	29,172	34,949	44,948	55,688	67,785	80,516	94,075	109,735
Net Domestic credit	25,648	29,106	35,343	43,970	54,656	66,696	79,370	92,929	108,589
Net claims on government	-2,259	-4,323	-7,099	-7,431	-7,643	-7,751	-8,105	-8,105	-8,105
BOM	-1,775	-3,335	-5,711	-6,026	-6,357	-6,707	-7,062	-7,062	-7,062
Other Depository Corporations	-485	-987	-1,388	-1,406	-1,285	-1,044	-1,044	-1,044	-1,044
Net claims on private sector	21,981	27,108	36,005	45,007	54,548	65,185	76,593	88,464	102,176
Net claims on other financial corporation	4,528	5,151	5,116	6,395	7,751	9,262	10,883	12,570	14,518
Other items, net	3,551	1,235	927	978	1,032	1,089	1,146	1,146	1,146
Memorandum items:									
Annual broad money growth	6.5	26.8	15.0	14.6	13.1	11.8	11.6	13.9	11.7
Velocity of Broad Money	1.82	1.87	1.85	1.82	1.84	1.85	1.9	1.9	1.9
Credit outstanding (Domestic credit+MBS) (In MNT bn) 1/	26,245	32,014	41,917	52,396	63,504	75,888	89,168	102,989	118,952
Credit to GDP ratio	48.7	45.4	52	58	62	65	67	70	72
Credit growth (percent)	8.6	22.0	30.9	25.0	21.2	19.5	17.5	15.5	15.5

Sources: Mongolian authorities; and IMF staff projections.
1/ Includes mortgage-backed securities.

Table 4a. Mongolia: Summary Operations of the General Government, 2022–30 1/
(In Billions of Togrogs)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual			Projections 1/					
Total revenue and grants	18,522	24,387	31,375	31,719	35,027	37,682	42,555	47,681	53,508
Current revenue	18,218	24,028	30,933	31,220	34,457	37,033	41,824	46,865	52,596
Tax revenue and social security contributions	16,854	22,160	28,662	29,071	31,915	34,146	38,569	43,230	48,535
Income taxes	4,065	5,795	9,125	8,609	10,162	9,597	10,795	11,969	13,289
CIT	2,753	3,975	6,560	5,638	6,763	7,637	8,585	9,502	10,532
PIT	1,312	1,820	2,565	2,971	3,398	1,960	2,210	2,467	2,757
Social security contributions	3,038	3,951	4,700	5,378	6,152	6,988	7,879	8,797	9,830
VAT	3,946	4,777	5,864	6,521	5,586	6,344	7,276	8,465	9,744
Excise taxes	848	790	1,098	1,305	1,492	1,695	1,911	2,134	2,385
Customs duties and export taxes	1,256	1,465	1,792	1,888	2,113	2,400	2,761	3,142	3,706
Other taxes	3,701	5,382	6,083	5,370	6,410	7,123	7,947	8,723	9,582
Non-tax revenue	1,364	1,868	2,270	2,149	2,542	2,887	3,255	3,635	4,061
Capital revenue and grants	304	359	442	499	571	648	731	816	912
Total expenditure and net lending	18,160	22,509	30,365	32,025	35,708	40,111	44,988	50,279	56,406
Current expenditure	14,229	17,091	22,067	24,798	27,735	31,141	34,975	38,990	43,631
Wages and salaries	3,339	4,465	6,257	7,510	8,375	9,229	10,287	11,367	12,701
Purchase of goods and services	3,478	3,160	5,049	5,270	5,976	6,711	7,532	8,392	9,368
Subsidies	537	580	955	940	968	989	1,104	1,221	1,351
Transfers 2/ 3/	6,078	7,737	8,611	9,565	10,492	11,725	13,049	14,459	16,031
o/w Pension	3,031	3,729	4,741	5,209	6,212	7,061	7,983	8,985	10,104
o/w Child Money	1,488	1,534	1,541	1,580	1,605	1,625	1,640	1,649	1,653
Interest payments	797.8	1,150	1,195	1,512	1,924	2,487	3,003	3,552	4,180
Capital expenditure and net lending	3,930	5,418	8,299	7,227	7,973	8,970	10,013	11,289	12,775
Capital expenditure	3,803	5,188	7,924	7,440	8,217	9,247	10,325	11,638	13,165
Domestically-financed	2,699	4,140	4,140	5,967	6,568	7,473	8,430	9,507	10,780
Foreign-financed	1,105	1,048	3,784	1,473	1,650	1,775	1,895	2,131	2,385
Net lending	127	229	374	-213	-244	-277	-312	-349	-390
Overall balance (IMF definition)	362	1,878	1,009	-306	-681	-2,429	-2,433	-2,599	-2,897
Primary balance (IMF definition)	1,160	3,028	2,204	1,207	1,244	58	569	953	1,282
Financing	-362	-1,880	-1,009	306	681	2,429	2,433	2,599	2,897
External	767	1,132	1,592	2,479	5,430	5,954	5,680	5,390	5,371
Disbursement	1,880	5,450	3,735	5,666	7,718	9,561	10,212	11,629	16,244
Amortization	-1,113	-4,318	-2,143	-3,188	-2,287	-3,607	-4,532	-6,239	-10,872
Domestic (net)	-1,129	-3,012	-2,601	-2,173	-4,750	-3,525	-3,246	-2,791	-2,474
Government bonds (net issuance)	378	-801	363	-59	400	806	473	470	487
Other 4/	-1,507	-2,211	-2,964	-2,114	-5,150	-4,331	-3,720	-3,261	-2,961
Memorandum items:									
Mineral revenue (in percent of GDP)	8.4	10.0	11.8	8.5	9.0	8.8	8.7	8.5	8.3
Non-mineral revenue (in percent of GDP)	26.0	24.6	27.4	26.6	24.9	23.3	23.5	23.8	24.1
Non-mineral primary balance (in percent of GDP)	-6.3	-5.7	-8.9	-7.2	-7.8	-8.8	-8.3	-7.9	-7.6
Non-mineral overall balance (in percent of GDP)	-7.8	-7.3	-10.4	-8.8	-9.7	-10.9	-10.5	-10.3	-10.1
Primary spending (change in percent)	17.4	23.0	36.6	4.6	10.7	11.4	11.6	11.3	11.8
Sovereign Wealth Fund (in percent of GDP) 4/	5.0	4.6	5.7	6.2	7.5	8.1	8.5	8.8	9.1
Fiscal Stability Fund (in percent of GDP)	1.2	1.9	2.2	2.2	2.2	2.2	2.2	2.1	2.1
Public debt (in percent of GDP) 5/	64.5	45.9	44.5	46.0	48.4	51.3	53.0	54.5	55.2
Domestic debt (in percent of GDP)	4.4	2.6	3.2	2.5	2.6	2.7	2.7	2.8	2.8
External debt (in percent of GDP)	60.1	43.3	41.3	43.5	45.8	48.6	50.2	51.7	52.5

Sources: Mongolian authorities; and Fund staff projections.

1/ These projections were prepared ahead of the supplementary budget for 2025 currently under discussion. They include the tax package approved by the previous Cabinet.

2/ Pension forecasts are based on the preliminary World Bank PROST estimates as of September 2024 plus additional pension-related spending estimated in the 2025 budget proposal.

3/ Performance-based financing of education, health and cultural sector entities are reflected under wages and goods and services (GFSM guidelines).

4/ Sovereign Wealth Fund includes Future Heritage Fund and Savings Fund (from 2024) .

5/ Includes DBM's total debt, explicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

Table 4b. Mongolia: Summary Operations of the General Government, 2022–30 1/

(In Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual			Projections 1/					
Total revenue and grants	34.4	34.6	39.2	35.1	33.9	32.1	32.2	32.3	32.4
Current revenue	33.8	34.1	38.7	34.6	33.4	31.6	31.6	31.7	31.9
Tax revenue and social security contributions	31.3	31.5	35.8	32.2	30.9	29.1	29.2	29.3	29.4
Income taxes	7.5	8.2	11.4	9.5	9.8	8.2	8.2	8.1	8.1
CIT	5.1	5.6	8.2	6.2	6.6	6.5	6.5	6.4	6.4
PIT	2.4	2.6	3.2	3.3	3.3	1.7	1.7	1.7	1.7
Social security contributions	5.6	5.6	5.9	6.0	6.0	6.0	6.0	6.0	6.0
VAT	7.3	6.8	7.3	7.2	5.4	5.4	5.5	5.7	5.9
Excise taxes	1.6	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Customs duties and export taxes	2.3	2.1	2.2	2.1	2.0	2.0	2.1	2.1	2.2
Other taxes	6.9	7.6	7.6	6.0	6.2	6.1	6.0	5.9	5.8
Non-tax revenue	2.5	2.7	2.8	2.4	2.5	2.5	2.5	2.5	2.5
Capital revenue and grants	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total expenditure and net lending	33.7	32.0	38.0	35.5	34.6	34.2	34.0	34.1	34.2
Current expenditure	26.4	24.3	27.6	27.5	26.9	26.6	26.5	26.4	26.4
Wages and salaries	6.2	6.3	7.8	8.3	8.1	7.9	7.8	7.7	7.7
Purchase of goods and services	6.5	4.5	6.3	5.8	5.8	5.7	5.7	5.7	5.7
Subsidies	1.0	0.8	1.2	1.0	0.9	0.8	0.8	0.8	0.8
Transfers 2/ 3/	11.3	11.0	10.8	10.6	10.2	10.0	9.9	9.8	9.7
o/w Pension	5.6	5.3	5.9	5.8	6.0	6.0	6.0	6.1	6.1
o/w Child Money	2.8	2.2	1.9	1.8	1.6	1.4	1.2	1.1	1.0
Interest payments	1.5	1.6	1.5	1.7	1.9	2.1	2.3	2.4	2.5
Capital expenditure and net lending	7.3	7.7	10.4	8.0	7.7	7.6	7.6	7.6	7.7
Capital expenditure	7.1	7.4	9.9	8.2	8.0	7.9	7.8	7.9	8.0
Domestically-financed	5.0	5.9	5.2	6.6	6.4	6.4	6.4	6.4	6.5
Foreign-financed	2.1	1.5	4.7	1.6	1.6	1.5	1.4	1.4	1.4
Net lending	0.2	0.3	0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance (IMF definition)	0.7	2.7	1.3	-0.3	-0.7	-2.1	-1.8	-1.8	-1.8
Primary balance (IMF definition)	2.2	4.3	2.8	1.3	1.2	0.0	0.4	0.6	0.8
Financing	-0.7	-2.7	-1.3	0.3	0.7	2.1	1.8	1.8	1.8
External	1.4	1.6	2.0	2.7	5.3	5.1	4.3	3.7	3.3
Disbursement	3.5	7.7	4.7	6.3	7.5	8.2	7.7	7.9	9.8
Amortization	-2.1	-6.1	-2.7	-3.5	-2.2	-3.1	-3.4	-4.2	-6.6
Domestic (net)	-2.1	-4.3	-3.3	-2.4	-4.6	-3.0	-2.5	-1.9	-1.5
Government bonds (net issuance)	0.7	-1.1	0.5	-0.1	0.4	0.7	0.4	0.3	0.3
Other 4/	-2.8	-3.1	-3.7	-2.3	-5.0	-3.7	-2.8	-2.2	-1.8
Memorandum items:									
Mineral revenue (in percent of GDP)	8.4	10.0	11.8	8.5	9.0	8.8	8.7	8.5	8.3
Non-mineral revenue (in percent of GDP)	26.0	24.6	27.4	26.6	24.9	23.3	23.5	23.8	24.1
Non-mineral primary balance (in percent of GDP)	-6.3	-5.7	-8.9	-7.2	-7.8	-8.8	-8.3	-7.9	-7.6
Non-mineral overall balance (in percent of GDP)	-7.8	-7.3	-10.4	-8.8	-9.7	-10.9	-10.5	-10.3	-10.1
Primary spending (change in percent)	17.4	23.0	36.6	4.6	10.7	11.4	11.6	11.3	11.8
Sovereign Wealth Fund (in percent of GDP) 4/	5.0	4.6	5.7	6.2	7.5	8.1	8.5	8.8	9.1
Fiscal Stability Fund (in percent of GDP)	1.2	1.9	2.2	2.2	2.2	2.2	2.2	2.1	2.1
Public debt (in percent of GDP) 5/	64.5	45.9	44.5	46.0	48.4	51.3	53.0	54.5	55.2
Domestic debt (in percent of GDP)	4.4	2.6	3.2	2.5	2.6	2.7	2.7	2.8	2.8
External debt (in percent of GDP)	60.1	43.3	41.3	43.5	45.8	48.6	50.2	51.7	52.5

Sources: Mongolian authorities; and Fund staff projections.

1/ These projections were prepared ahead of the supplementary budget for 2025 currently under discussion. They include the tax package approved by the previous Cabinet.

2/ Pension forecasts are based on the preliminary World Bank PROST estimates as of September 2024 plus additional pension-related spending estimated in the 2025 budget proposal.

3/ Performance-based financing of education, health and cultural sector entities are reflected under wages and goods and services (GFSM guidelines).

4/ Sovereign Wealth Fund includes Future Heritage Fund and Savings Fund (from 2024) .

5/ Includes DBM's total debt, explicit government's guarantees to SOE as well as government's liabilities to BOM related to the TDB settlement regarding Erdenet. Excludes BOM liabilities to PBOC.

Table 5. Mongolia: Indicators of Fund Credit Outstanding, 2025–30

(In Millions of SDR, unless otherwise Indicated)

	2025	2026	2027	2028	2029	2030
Existing and prospective Fund arrangements						
Stock 1/	58.38	32.18	8.30	0.00	0.00	0.00
Obligations 2/	31.05	29.61	26.35	10.03	1.51	1.51
Principal (repayments/repurchases)	26.21	26.21	23.88	8.30	0.00	0.00
Charges and interest	4.84	3.40	2.48	1.73	1.51	1.51
Of which:						
GRA Basic Charges	3.29	1.89	0.97	0.23	0.00	0.00
Surcharges	0.00	0.00	0.00	0.00	0.00	0.00
Of which: Level-based	0.00	0.00	0.00	0.00	0.00	0.00
Time-based	0.00	0.00	0.00	0.00	0.00	0.00
(In case of SLL, Non-refundable commitment fees)	...	...	...	...	...	...
Stock of existing and prospective Fund credit 1/	58.38	32.18	8.30	0.00	0.00	0.00
In percent of quota	80.75	44.50	11.48	0.00	0.00	0.00
In percent of GDP	0.31	0.17	0.04	0.00	0.00	0.00
In percent of exports of goods and services	0.51	0.27	0.07	0.00	0.00	0.00
In percent of gross usable reserves	1.59	0.86	0.22	0.00	0.00	0.00
Obligations to the Fund from existing and prospective Fund arrangements	31.05	29.61	26.35	10.03	1.51	1.51
In percent of GDP	0.17	0.15	0.13	0.05	0.01	0.01
In percent of exports of goods and services	0.27	0.25	0.21	0.08	0.01	0.01
In percent of gross usable reserves	0.85	0.79	0.69	0.27	0.04	0.04

Sources: IMF Finance Department; and IMF staff estimates and projections.

1/ End of period.

2/ Repayment schedule based on scheduled debt service obligations.

Annex I. Progress on Recommendations of the 2023 Article IV Consultations

2023 Article IV Recommendations	Progress
Fiscal Policy	
Implement high-quality measures to strengthen macroeconomic stability, efficiency, and equity	The overall fiscal balance has recorded large surpluses in 2023 and 2024, leading to a significant debt-to-GDP ratio reduction, and a replenishment of buffers (e.g., mining funds). However, expenditure in real terms has grown at 26.3 percent in 2024.
Contain growth of current expenditure in the budget	In November 2024 the overdue increase in electricity tariff was finally implemented, reducing losses of SOE on the electricity sector. However, the automatic increase in civil service pay supplements has not been rolled back as recommended.
Strengthen public investment management, by enhancing project selection and SOE oversight	There are draft amendments for the Public Investment Law, the Law on State and Local Property Law and a new draft SOE Law, to be submitted to Parliament.
Strengthen collections of non-mining revenues, plus improving equalization and efficiency	The recommendations have not been implemented. Instead, the government plans to adopt a tax package aimed at significant reductions in the rates.
Improving targeting of social assistance	A draft revision to the Law on Social Welfare is under discussion. There was no progress with improving targeting of the Child Money Program. Work is underway to strengthen NSO's household database, which would help rationalize social spending.
Adopt a simplified fiscal framework and simple operational rules.	Recent amendments of FSL in 2024 are also steps in right direction, adding limits on the public debt-to-GDP and current expenditure. Yet fiscal rules remain procyclical.
Reduce contingent fiscal liabilities	DBM's headline figures have improved, and a draft DBM Law is at present under discussion, yet DBM still has important losses and a high level of NPL.
Reform Pension System	The pension reform approved in July 2023, aimed at rebalancing the system is being implemented. However, recently new measures were introduced in the other direction (e.g., a reduction from 7 to 5 years in the wage period used to calculate the pensions).
Monetary and Exchange Rate Policies	
Tighten domestic financial conditions to counter inflationary pressures generated by the expansionary stance of fiscal policy.	The BOM has tightened monetary and macroprudential regulations since late 2024, by increasing policy rate, increasing banks' reserve requirements and strengthening the debt service-to-income (DSTI) requirements. Despite these measures, inflation and credit remain high.
Discontinue BOM's involvement in conducting quasi-fiscal operations and transferring	The outstanding balance of the Housing Mortgage Program and the stock of residential mortgages-backed securities currently held by BOM have not been transferred to the government.

2023 Article IV Recommendations	Progress
outstanding balances to the government.	
Amending the BOM's Law to strengthen central banking independence and accountability.	The BOM has prepared a set of draft amendments of the BOM Law with LEG TA aimed at clarifying BOM's mandate, improving collegiality and checks and balance, and strengthening the BOM's autonomy, transparency, and accountability. The authorities have not submitted the draft law to Parliament.
Allow for much greater exchange rate flexibility and to Increase external buffers (Gross International Reserves)	The exchange rate remained almost constant in nominal terms during 2024. However, in 2025 Q1, the BOM has allowed greater flexibility of the exchange rate.
Financial Sector Policy	
Intensify banking supervision	The BOM has started to adopt a 'risk-based' approach to prudential supervision focused on contingent liabilities and strategic risk.
Implementing the post-AQR banking reform strategy	The end-2023 deadline for shareholder diversification was rescheduled for the end of 2026.
Reducing regulatory and macroprudential gap between banks and NBFI	The regulatory and macroprudential gaps between banks and NBFI have been reduced but the gap persists.
Strengthen crisis preparedness and management	The BOM is still working on a crisis preparedness and management manual based on the IMF TA provided in 2023.
Modernize insolvency framework	A law dealing with insolvency proceedings and insolvency resolution has been drafted, with IMF assistance, but enactment is still pending.
Reform credit reporting system	A set of draft amendments to the Credit Information Law are under discussion.
Structural Policy	
Improving Mongolia's business climate	The recommendations have not been implemented. A draft Commerce Law has been presented for discussion to Parliament.
Upgrade and enforce regulations to attract FDI	The incentives and tax stability agreements have not yet been implemented yet. The latest reform of the Investment Law, of 2024, constraints options by foreign and domestic investors to obtain rights to use and possess land. On the Mineral Law, recent changes are revisiting the State's participation in strategic mineral deposits have not been well received by investors.
Improve BOM financial policy analysis and communication	The BOM's Financial Stability Report is still backward looking, and it does not include an in-depth assessment of macro-financial linkages.
Governance	
Address corruption and weak governance	There is a new National Anti-Corruption Strategy. The recent Law on Political Parties significantly improved the transparency and disclosure requirements for political parties. The revised Law on Procurement introduced an e-procurement system for all public procurement to be conducted online. The Whistleblower Protection Law is still pending in Parliament. Mongolian SOEs

2023 Article IV Recommendations	Progress
	are technically required to follow international best practices on disclosure, accounting, and reporting, but implementation is still lagging. Progress on the publication of asset declaration and enhancement of beneficial ownership is also lacking.
Accelerate the implementation of AML/CFT legal framework	Mongolia has implemented the forty technical recommendations made by FATF under the Mutual Evaluation of 2017. Mongolia remains in enhanced follow-up by Asia/Pacific Group.

Annex II. External Sector Assessment

Overall Assessment: Mongolia’s external position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies, with GIR remaining below the ARA metric.

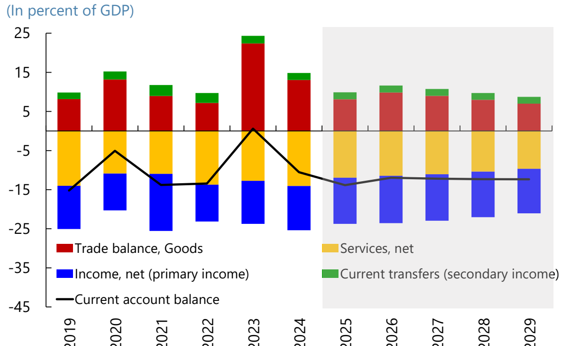
Potential Policy Responses: Fiscal consolidation will help build buffers. Moderating spending growth, by containing current spending through better targeting of social spending, and prioritizing investment projects, will directly influence the current account, although strengthening collection of non-mining tax revenue will also help. To address external imbalances, Mongolia also should further boost export capacity, advance economic diversification, improve the business environment to attract more FDI, and develop domestic money and capital markets. Furthermore, the BOM should allow more exchange rate flexibility to better reflect economic fundamentals.

Current Account

1. Mongolia's current account (CA) turned into a deficit in 2024. Mineral exports reached record highs, supported by continued strong coal export volumes—which offset declining prices—and a marked increase in copper exports. The latter was driven by the commencement of operations at OT’s underground mine in March 2023, which resulted in increased production and higher copper concentration in the ores. The introduction of an auction-based coal sale mechanism, which accounted for 27 percent of coal exports in 2024, also helped enhance governance and transparency. However, significant growth in imports of both consumer and capital goods pushed the current account into a deficit of 10.5 percent of GDP in 2024, down from a surplus in 2023. Despite improved tourism receipts and some reorientation toward domestic transportation firms for coal exports, deficits in the services and income accounts continued to weigh heavily on the CA balance. In 2025H1, coal exports continued to decline, primarily due to lower prices, resulting in a worsen current account and some pressure on the exchange rate.

Current Account Balance

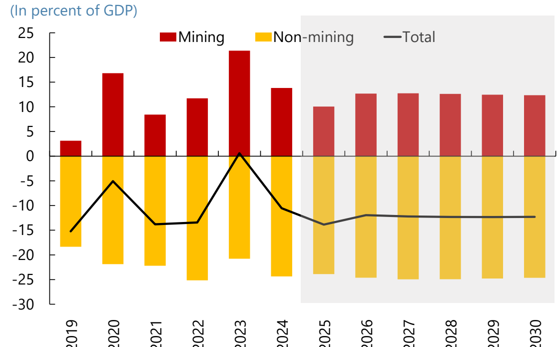
(In percent of GDP)



Sources: Mongolian authorities; and IMF Staff Calculations.

Current Account Balance

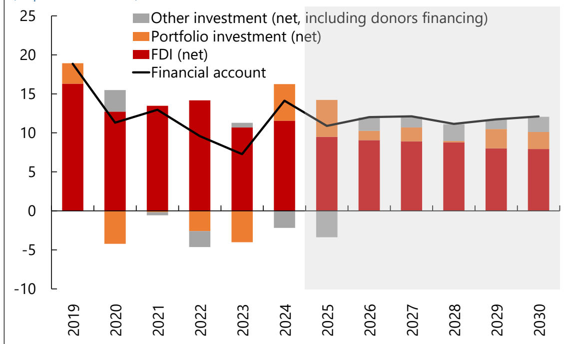
(In percent of GDP)



Sources: Mongolian authorities; and IMF Staff Calculations.

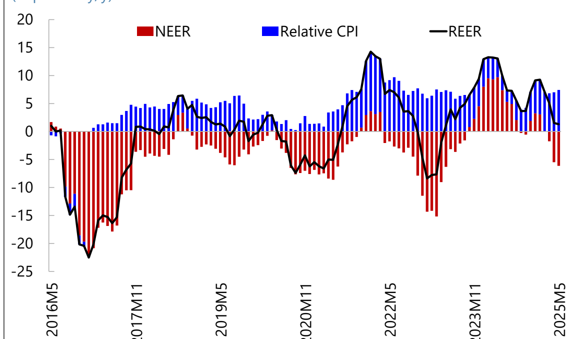
2. The CA deficit is expected to remain elevated during 2025–2030 despite still robust exports. Coal exports are projected to gradually recover starting 2026, supported by sustained demand from China and improved transportation infrastructure.[1] OT output is expected to rise strongly in 2025 and remained high over the medium term. While the mineral sector will continue to support the external position, Mongolia's CA deficits are projected to remain large in the medium term, due to strong import demand driven by infrastructure projects, foreign direct investments, and elevated consumer spending. In addition, high oversea travel spending and continued reliance on imported transportation services—despite some reorientation towards domestic providers for coal exports—will contribute to persistent deficits in the services account. The large negative IIP will imply continued sizable income account deficits. Mongolia's CA remains vulnerable to global shocks, especially developments in China, and to domestic policy shifts, given its high import dependency. Over the medium to long term, the global transition towards a low-carbon economy is also a significant external risk, due to Mongolia's heavy reliance on coal exports, though rising global demand for copper could offer a partial offset.

Financial Account Balance
(In percent of GDP)



Sources: Mongolian authorities; and IMF Staff Calculations.

REER and NEER
(In percent y/y)



Source: Mongolian authorities.

3. Mongolia's external position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies. The EBA-lite current account approach estimates the CA norm at -7.1 percent of GDP. The large negative IIP position explains a significant part of the negative CA norm (-6.1 percent of GDP), underscoring the structural nature of the large CA deficits. The CA gap is estimated at 4.0 percent of GDP. This points to a weaker external position than the level implied by fundamentals and desirable policies. The REER

Text Table 1. Mongolia: EBA-lite Model Results, 2024

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-10.5**	
Cyclical contributions (from model) (-)	1.0	
Natural disasters and conflicts (-)	-0.4	
Adjusted CA	**-11.2**	
CA Norm (from model) 2/	**-7.1**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-7.1**	
CA Gap	**-4.0**	**-2.1**
o/w Relative policy gap	2.9	
Elasticity	-0.4	
REER Gap (in percent)	**9.2**	**4.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

[1] Annual coal export volume reached a record high of 83.8 million tons in 2024 and is projected to increase gradually from 2026 over the medium term under the baseline scenario.

analysis (discussed further below) also supports this assessment.

Real Exchange Rate

4. Mongolia's real exchange rate in 2024 is assessed to be overvalued. The CA gap of 4 percent of GDP translates into a 9.2 percent REER gap. The EBA-lite REER model points to a smaller REER overvaluation of 4.7 percent. Mongolia's trade-weighted REER appreciated by 9.6 percent in 2024, primarily due to higher domestic inflation compared to trading partners, while its nominal effective exchange rate (NEER) appreciated by 3.3 percent. Despite elevated inflation, the REER depreciated by 1.8 percent in 2025 up to May, as the NEER depreciated amid weakening coal exports.

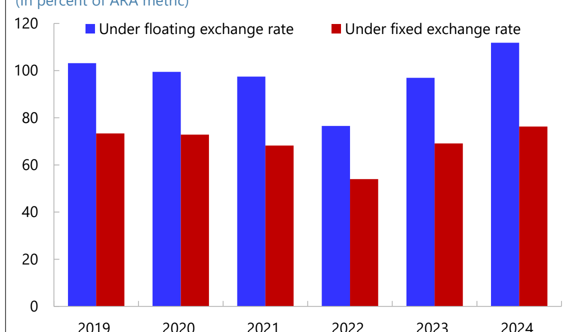
Capital and Financial Accounts

5. Higher portfolio inflows supported an increase in net capital inflows in 2024. FDI is projected to remain robust over the medium term, which will also be supported by the signing of the Zuuvch-Ovoo uranium project with France's Orano Mining. Well-executed external debt refinancing and the BOM's repayment of half of the outstanding swap line with the People's Bank of China have helped reduce external debt risks. These developments contributed to a sovereign credit ratings upgrade and a decline in the sovereign spreads before their surge following the U.S. tariff hike.

Reserves Levels

6. GIR has increased but remain below the ARA metrics. GIR reached US$5.5 billion in 2024, up from US$4.9 billion in 2023, covering 4.1 months of imports of goods and services. This represents 112 percent of the ARA metric under a floating exchange rate regime. However, when applying the fixed exchange rate classification as in the 2024 Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), the coverage falls to 76.3 percent. NIR, which excludes all BOM's FX liabilities, stands lower still at US$1.8 billion at the end of 2024. Additionally, the BOM has significant exchange rate risk exposure due to its large FX swaps with banks, which increased significantly in 2024, reaching $3.0 bn by mid-June 2025. GIR is expected to remain below the recommended range over the forecast period.

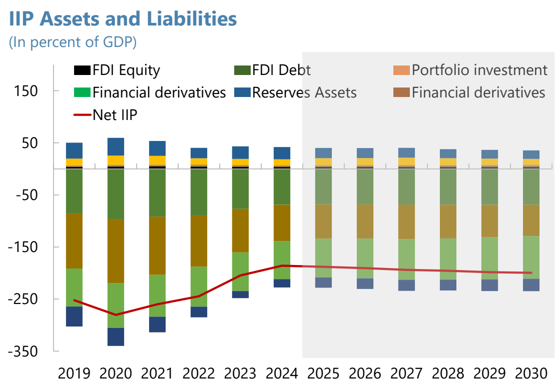
Gross International Reserves
(In percent of ARA metric)



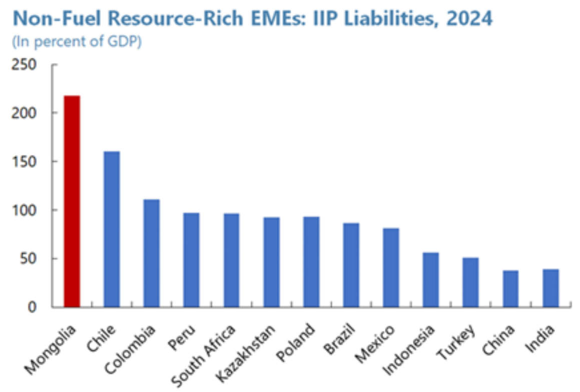
Sources: Mongolian Authorities and IMF Staff calculations.

Foreign Assets and Liabilities: Position and Trajectory

7. Mongolia's IIP liabilities as a percentage of GDP have significantly declined in recent years, yet they remain exceptionally high. After peaking at 340 percent in 2020, the ratio of IIP liabilities to GDP fell to 228 percent by 2024. Despite this improvement, Mongolia's IIP liabilities are still among the highest globally and surpass those of other resource-rich emerging market economies. These liabilities are predominantly in U.S. dollars and mainly consist of FDI (142 percent of GDP, with 106 percent attributed to OT), external loans (59 percent of GDP), and debt securities (15.5 percent of GDP). The BOM has repaid half of the outstanding PBOC swap line, reducing the current balance to 3.5 percent of GDP. Although net IIP has also improved markedly in recent years, it remains deeply negative, at -186 percent of GDP as of 2024.

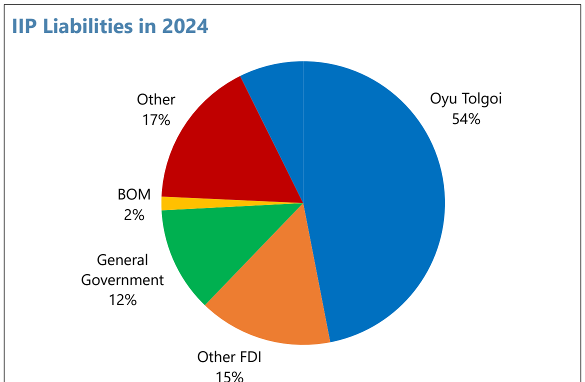


Sources: Mongolian authorities; and IMF Staff calculations.



Sources: Mongolian authorities; World Economic Outlook; and IMF Staff Calculations.

8. The significant share of FDI in total liabilities serves as a mitigating factor. As of 2025Q1, FDI represents 62 percent of total liabilities, roughly split between debt and equity. As of 2024, liabilities related to OT alone account for 75 percent of FDI liabilities and, including a major external loan, amount to 122 percent of GDP—or 54 percent of total liabilities. The start of underground production at OT in March 2023 has boosted exports, helping reduce the risks associated with these large international liabilities, as OT's external obligations are expected to be serviced through its export revenues.



Sources: OT; Mongolian authorities; and IMF Staff Calculations.

9. IIP liabilities as a share of GDP are expected to edge up over the medium term. They are projected to increase slightly from 228 percent of GDP in 2024 to 235 percent by 2030, with the net IIP deteriorating from –186 percent to -199 percent of GDP over the same period. Staff also anticipates increased reliance on domestic borrowing to finance the budget. However, continued robust FDI inflows—particularly from the Zuuvch-Ovoo uranium project and ongoing OT investments—would keep external liabilities high in the medium term.

External Position Assessment

10. Overall, Mongolia's external position is assessed to be weaker than implied by fundamentals and desirable policy settings. This assessment is based on the EBA-Lite CA analysis and Mongolia's significant negative IIP position. Should external pressures intensify, the exchange rate should be allowed to function as a shock absorber. Reserve levels remain below adequate thresholds, and given the volatility commodity exporters, a higher buffer is warranted. The BOM should aim to build reserves opportunistically. In parallel, the government can help ease external pressures through fiscal consolidation and better prioritization of public investments. Over the medium to long term, addressing external imbalances in a sustainable way will require policies that support FDI, develop domestic capital markets, and support economic diversification and export growth.

Annex III. Risk Assessment Matrix

Source and Likelihood of Risk	Expected Impact on Mongolia	Policies to Minimize Impact
Global and Regional Risks		
Medium **Commodity price volatility.** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**High** Volatility in copper and coal prices could lead to significant uncertainty in external and fiscal outlook. Lower prices would weaken external imbalances, further eroding foreign reserves, raising exchange rate pressures, and inflation. Fiscal balances would deteriorate, raising rollover and debt sustainability risks. On the flip side, higher copper and coal prices can improve the external and fiscal outlook.	Build external buffers by allowing greater ER flexibility to act as a shock absorber. Prioritize strong and front-loaded fiscal consolidation to reduce public external debt, targeting support only to those facing economic hardship, containing the wage bill, strengthening collection of non-mining revenue (by reducing tax expenditures and arrears) and reprioritizing public and SOE investments. Further tighten the monetary policy stance if upside risks to inflation materialize. Issue domestic debt through market-based auctions to reduce exposure to external borrowing and improve monetary policy transmission. Undertake fiscal, financial, and regulatory reforms and credibly adhere to fiscal rules to preserve investor confidence and improve macroeconomic stability. If exports inflows are higher, the BOM should accelerate the GIR accumulation to reach adequate level of reserves.
High **Trade policy and investment shocks.** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**Medium** Higher trade barriers owing to escalating protectionism would reduce global trade and cause supply disruptions. There will be spillover impact on Mongolia especially through China.	Build fiscal and external buffers to mitigate risks.
High **Sovereign debt** **Distress.** Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**Medium** Stronger U.S. dollar and shrinking development aid would affect Mongolia's balance of payments negatively. Higher interest rates could increase external funding costs for the government and private companies.	In addition to fiscal consolidation, reduce external financing needs through appropriate debt management, the use of domestic financing by expanding domestic bond issuance, and a credible commitment to fiscal prudence by adhering to the fiscal framework. The authorities should adequately enforce the currency settlement law and repatriation requirements of SOE and strengthen the investment environment to attract new FDI and portfolio inflows.

Source and Likelihood of Risk	Expected Impact on Mongolia	Policies to Minimize Impact
Global and Regional Risks		
Medium **Tighter financial conditions and systemic instability.** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium** Higher-for-longer interest rates could increase external funding costs for the government and private companies, and hamper their ability to refinance their external debt and/or undertake new external borrowing. This could lead to a loss in international reserves. Stronger U.S. dollar would also affect Mongolia's balance of payments negatively. The ER could come under severe pressure with significant ER pass-through to inflation.	In addition to fiscal consolidation, reduce external financing needs through appropriate debt management, the use of domestic financing by expanding domestic bond issuance, and a credible commitment to fiscal prudence by adhering to the fiscal framework.
Medium **Regional conflicts.** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Intensification of Russia's war in Ukraine could lead to new disruptions to correspondent banking relationship (CBR) and negatively affect Mongolia's imports of Russian petroleum products.	If there are CBR disruptions relating to Russian fuel imports, work with US and EU to ensure that payments can continue to be made and explore alternative means for payments.

Source and Likelihood of Risk		Expected Impact on Mongolia	Policies to Minimize Impact
Domestic Risks			
Rising credit risks in the financial sector	**Medium**	***High:*** A potential sharp rise in non-performing loans in banks and NBFIs due to a deterioration in economic conditions could impair their capital adequacy and broader financial stability. Financial difficulties in the NBFIs can spillover to the banking sector via lending and ownership.	Financial sector supervision should continue to be vigilant on emerging risks, notably credit risk, given strong credit growth in the banking and non-banking financial sectors. Effective enforcement and harmonization of debt service-to-income limits across banks and NBFIs and comprehensive creditor information are needed to contain excessive consumer credit.
Procyclical and inflationary policies	**High**	***High:*** Political pressure to undertake additional populist policies, such as the proposed tax and social security cuts, could further undermine macro-financial and external stability, debt sustainability and the integrity of Mongolia's institutions, while delaying reforms.	Maintain fiscal prudence. Undertake critical reforms such as wage bill rationalization, social assistance targeting, improved public investment management, progressive PIT, pension reforms, and strengthened SOE governance to improve public finances.
Intensification of governance challenges	**Medium**	***High:*** Weaker governance can result in lower growth and productivity outcomes through inefficiency and corruption, worsen public debt dynamics and external imbalances, and weaken financial stability. It can adversely affect public and investor sentiments, and the investment climate.	Stronger public sector, SOE and BOM transparency, accountability and oversight including through greater contract transparency, checks and balances, effective enforcement of strengthened regulations, greater protection against political influence, and a strengthened rule of law and judiciary, are vital for good governance. Publication of asset declarations and strengthening beneficial ownership transparency would enhance monitoring of politically exposed persons. The draft Whistleblower Protection law should be passed without further delay.
Climate change	**High**	***Medium:*** Frequent and intense weather shocks impact the agricultural sector, affecting rural income and increasing inequality. In the long-term, a shift to a low-carbon global economy could reduce coal demand and price, with severe impacts on Mongolia's external position and public finances.	Accelerate the implementation of the national adaptation plan to improve the resilience of the agricultural sector to climate change and raise its productivity. Reduce livestock headcount to sustainable levels. Implement actions to advance the green transformation, including by reducing GHG emissions and air pollution and diversifying away from coal.

"L" =Low; "M" =Medium; "H" =High. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex IV. Sovereign Risk and Debt Sustainability Assessment

Following significant reductions in recent years, Mongolia's public debt is assessed as displaying a moderate risk of sovereign stress in the near term, but a high risk in the medium to long term[1]. Mongolia's substantial reliance on foreign-currency denominated debt heightens its vulnerability to fluctuations in commodity prices and exchange rate. However, the accumulation of savings in the government's mining funds, amounting to 7.9 percent of GDP by end-2024, serves as a mitigating factor. Reforms are needed to reduce Mongolia's debt-related vulnerabilities, including measures to moderate spending growth, enhance non-mineral revenue mobilization, develop domestic debt markets, and promote greater economic diversification.

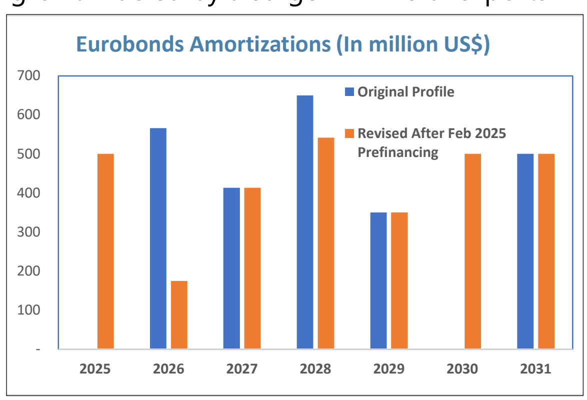
1. **While Mongolia's near-term risk of sovereign stress improved significantly between 2022 and 2023, near-term risk deteriorated in 2024**. In addition, sovereign debt risk is assessed as high in the medium to long term (Figure 1). The estimated Logit Stress Probability (LSP) tripled from 3 percent in 2023 (to predict stress in 2024-25) to 9 percent in 2024 (to predict stress in 2025-26), as indicated by the slight upward evolution of near-term signal. The deterioration in 2024 is driven by: (i) debt burden/buffer (+4 percentage points); (ii) cyclical position (+2 percentage points); and (iii) global conditions (+1 percentage point). The improvement in the estimated LSP observed in 2023 reflects a combination of several factors, including a sizeable increase in mining exports, which bolstered revenue collections and strengthened the fiscal position, as well as pro-active debt de-risking measures (Figure 6). In the medium term, Mongolia's debt ratio is projected to increase, reflecting a deteriorating fiscal situation, mostly driven by reduced mining revenue, strong political pressure to reduce the tax and social security burden on individuals, increase capital spending on mega projects, and maintain the current high level of social spending and public wage bill. Because of the heavy reliance on foreign-currency denomination debt, Mongolia's debt ratio remains particularly vulnerable to fluctuations in commodity prices and exchange rate. In the long run, debt-related vulnerabilities would arise from rising pension liabilities, the necessity for development spending on climate adaption, and the global transition toward lower emissions. Collectively, these factors pose significant upward risks to fiscal balance prospects, and eventually the trajectory of the country's debt path. Overall, sovereign debt risk is assessed, both mechanically and judgmentally, as moderate. The latter assessment reflects the authorities' successful efforts in significantly lowering public debt over the last two years, along with accumulating sizable resources in mining funds. Moreover, considering the authorities' existing capacity and the timeframe, the identified risks that may emerge in the medium- and long- terms could be addressed, provided appropriate policies and reforms being implemented.

[1] The Sovereign Risk and Debt Sustainability Framework (SRDSF) provides two outputs: a sovereign risk assessment and a debt sustainability assessment. As a surveillance country, the debt sustainability assessment is optional for Mongolia, and it is not carried out in this analysis which focuses solely on the risk of sovereign stress. Even when sovereign stress risks materialize, debt will only be assessed as unsustainable if there are no feasible adjustment policies capable of stabilizing the debt and achieving acceptably low rollover risk without restructuring or exceptional measures.

2. The coverage of public debt used in the analysis is broader than that used by the authorities (Figure 2).[2] The definition used by the authorities includes only the general government, i.e. government securities, external and domestic, and loans with multilateral and bilateral agencies or governments. The debt coverage in this analysis also includes the debt of the Development Bank of Mongolia (a state-owned bank), explicit guarantees to SOEs' debt, and legacy MOF debt against BOM. Additionally, it includes a US$2.1 billion swap line (representing 10 percent of GDP) established between the People's Bank of China (PBOC) and the Bank of Mongolia (BOM), which has been extended for another 3 years in 2023 (Figure 2).

3. Mongolia public debt is predominantly denominated in foreign currency and characterized by long maturities. The authorities are engaging in proactive debt management strategies to mitigate risks (Figure 3). Foreign-currency denominated debt accounts for 94 percent of total public debt, including the PBOC swap. In addition to the traditional external debt provided by official multilateral and bilateral creditors, which makes up 56 percent of total debt, Mongolia has been issuing Eurobonds in the international markets since 2012. The current total stock of Eurobonds accounts for 30 percent of total debt, with an average maturity of 5 years. Notably, Ulaanbaatar city has recently issued a 3-year international bond worth US$500 million, backed by a state guarantee. Except for the Eurobonds, most of Mongolia's external debt consists of medium and long-term obligations. Domestic government securities, which are denominated in local currency, account for a small portion of total sovereign debt. The Government of Mongolia has recently resumed the issuance of government security in local markets. According to staff's projections, domestic debt is expected to grow incrementally over time, aligned with the government's announcements to resume domestic issuances and enhance the importance of Mongolia's domestic money and capital markets.

4. From the peak of 75.5 percent of GDP in 2022, Mongolia's public debt declined markedly to 48 percent of GDP in 2024 (Figure 4). This 27.5 percentage point reduction over the two-year period primarily reflects robust nominal GDP growth fueled by a surge in mineral exports that strengthened the fiscal position, and improved debt management of the DBM. In addition, the repayment of a DBM loan and the partial repayment of the swap arrangement with PBOC were the main drivers of the large residual observed in 2023 along with liability management operations related to Eurobonds maturing in 2023 and 2024. In February 2025, a strategic pre-financing operation of portions of the 2026 and 2028 Eurobonds helped



[2] The coverage of public debt used in this Sovereign Risk Debt Sustainability (SRDS) framework is broader than the one used for the Mongolia's macroframework presented in Tables 1, 4a and 4b. The coverage of the SRDS debt includes the swap of the BOM with PBOC, which on average adds 2-3 percent of GDP to the debt level of the macroframework. The debt definition used for the macroframework focuses on general government's debt, plus DBM debt, explicitly SOE debt guarantees, and Trade and Development Bank (TDB) debt.

smooth amortizations profile over the next five years (Figure 3), thereby reducing rollover risks.

5. Medium-term projections indicate a slight increase in debt levels in 2025, followed by a steady increase, ultimately reaching 64.7 percent of GDP by the tenth year of the projections' horizon (Figure 4). The projected increase in sovereign debt ratio exceeds the 60 percent of GDP ceiling established in the recently reformed Fiscal Sustainability Law for the general government, partially reflecting the broader debt coverage in this analysis. In addition, the increase in the debt ratio reflects an expected deteriorating fiscal situation, primarily driven by strong political pressure to reduce the tax and social security burden on individuals and the government's determination to implement investment megaprojects while maintaining the current high level of social spending and public wage bill. Consequently, Gross Financing Needs (GFN) are projected to increase significantly, reaching almost 9.5 percent of GDP by 2030 and 11.6 percent by 2034. This increase reflects the debt service of the Eurobonds maturity in 2030 and beyond, and the increase in debt service related to the assumption of an increase in domestic government securities to finance the fiscal deficit.

6. The outcome of the realism analysis (Figure 5) shows mixed results, primarily influenced by country-specific factors and Mongolia's challenging economic circumstances in recent years.

- The forecast track record shows a strong overly pessimistic bias across all the key debt drivers over the five-year horizon when compared to peers, indicating a low risk of optimism to the projections.

- A comparison of debt-creating flows between the past and the next five years reveals a significant disparity. However, this should not be interpreted as a realism issue. Mongolia's economy experienced both challenging and favorable economic events over the past five years, such as pandemic-induced suspension of and subsequent surge in mining export to China. Reflecting the weakening prospects for mining exports, unstable commitment to fiscal rules, and slow accumulation in the mining funds, the debt ratio is projected to steadily increase over the next five years. This trajectory is expected to be driven by moderate growth, decreased current account balance, gradually increased primary deficits due to fiscal expansion, declining accumulation of deposits on the mining funds (shown as near-zero residuals), and the envisaged tax and social security cuts.

- Considering Mongolia's historical boom-bust cycles, the envisaged 3-year debt and primary deficit reduction are not unrealistic, however, they are seen as realistic when compared to peers.

- The bond issuances tool does not flag realism issues, although it does show a gradual increase in Mongolia's spread over 10-year U.S. Treasuries, reflecting the projected increase in the primary deficit and the debt ratio. Additionally, the path of real GDP growth does not raise any realism concerns.

7. Stress tests corroborate the high-risk assessment in the medium term (Figure 7). Mongolia's heavy reliance on mining activities and agriculture/livestock, combined with its landlocked geography, and significant exposure to Russia's and China's economic and political development, render its debt ratio particularly sensitive to various shocks. These include commodity price fluctuations, exchange rate volatility, and adverse weather conditions (e.g., droughts, sandstorms, and dzuds, a combination of freezing temperatures, heavy snowfall, and ground so frozen that animals cannot graze, causing livestock losses). Existing weaknesses in institutional framework, limited room for policy corrections, and relative low levels of fiscal buffers exacerbate further these vulnerabilities. To assess the potential impact of severe shocks, customized stress tests on debt ratios and GFN are performed. The resulting fan chart is relatively wide, with about 50 percent of terminal debt level falling within the 75-95 percentile range, and 16.9 percent probability of public debt reaching a non-stabilization level over the medium-term. Regarding GFN, the risks of finance ability are assessed as moderate. The weighted combination of the high risks reflected in the fan chart and the moderate risks of GFN results in a moderate risk index for the medium term. However, considering Mongolia's significant exposure to shocks due to low external buffers, SOEs' contingent liabilities, and BOM's large negative equity, staff's judgment indicates a high level of risks. Commodity price shocks could elevate the terminal debt ratio to 84 percent of GDP and the GFN to 15.9 percent of GDP in the medium term. Exchange rate and natural disaster shocks could increase the terminal debt ratio to 60 percent and 65 percent, respectively.

8. Long-term risks are assessed as high due to significant contingent fiscal risks (Figures 8, 9, 10, 11).

- **The Long-term Module for Large Amortization** indicates high risk signals (Figure 8), primarily driven by substantial increase in GFN under standard refinancing assumptions.

- **The Long-term Demographic-Pension module** (Figure 9) shows long-term challenges and risks. According to World Bank calculations, pensions are projected to rise, potentially accounting for 8.8 percent of GDP by 2050, while social security contributions are expected to dwindle over time. In the absence of reforms, the government would need to increase its contribution to fill the gap, further elevating the debt ratio.

- **The Long-term module for Climate Change: Adaptation** (Figure 10) has been calibrated to reflect the impact in the primary deficit driven by the World Bank's calculations of the costs associated with climate adaptation in Mongolia, which are projected at US$3.5 billion, or 0.4 percent of GDP per year. Both standard and customized scenarios indicate a significant effect on public debt when compared to the baseline, which is already under significant strain.

- **The Long-term Natural Resource module** (Figure 11) follows the standard settings of natural resource scenario. While the depletion of natural resource is not an immediate concern, lower extraction rates, indicating China's lower demand for Mongolia's minerals particularly coal, as China decarbonizes by 2040, poses a substantial risk to Mongolia's public debt levels.

Annex IV. Figure 1. Mongolia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Moderate**	Overall risk is assessed as moderate. Debt ratio has been reduced significantly between 2023-2024, driven by strong mineral exports, improved fiscal performance, and enhanced debt management.
Near term 1/			
Medium term	**Moderate**	**High**	Medium-term risk is assesed as high, reflecting a downgrade from the mechanical signal. The fanchart width is 91.8 percent of GDP, indicating considerable uncertainty surrounding the baseline stemming from experienced historical external shocks. The recent major shocks include the COVID pandemic, politically-induced boom-bust policies, and severe weather conditions.
Fanchart	**High**	...	
GFN	**Moderate**	...	
Stress test	Comm. Prices FX rate Nat. Diast.	...	
Long term	...	**High**	Long-term risks are assessed as high, reflecting anticipated increases in pension liabilities, substantial investment required for climate adaptation to transition the mining industry from coal to strategic minerals, and the expected decline in global demand for coal as China, the main importer of Mongolian coal, advances its decarbonixation strategy.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Mongolia's debt is assessed as moderate overall. In the near term, the baseline debt trajectory exhibits a slight upward trend, attributed to the authorities' commitment to adhere to fiscal rules and a moderate decline in mineral revenues. The medium-term risk is assessed as high due to projected decreases in mining revenue, while the long-term projection highlight high risks stemming from pension liabilities, climate adaptation investment needs, and the global shift towards lower emission. These factors underscore the needs to strengthen efforts to improve spending composition, diversify the economy, maintain fiscal discipline, enhance the role of private sector, and boosts FDI inflows.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex IV. Figure 2. Mongolia: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	Ulaanbataar City
CPS / NFPS	6	Public nonfinancial corporations	Yes	Guarantees SOE
CPS	7	Central bank	Yes	PBOC Swap
CPS	8	Other public financial corporations	Yes	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

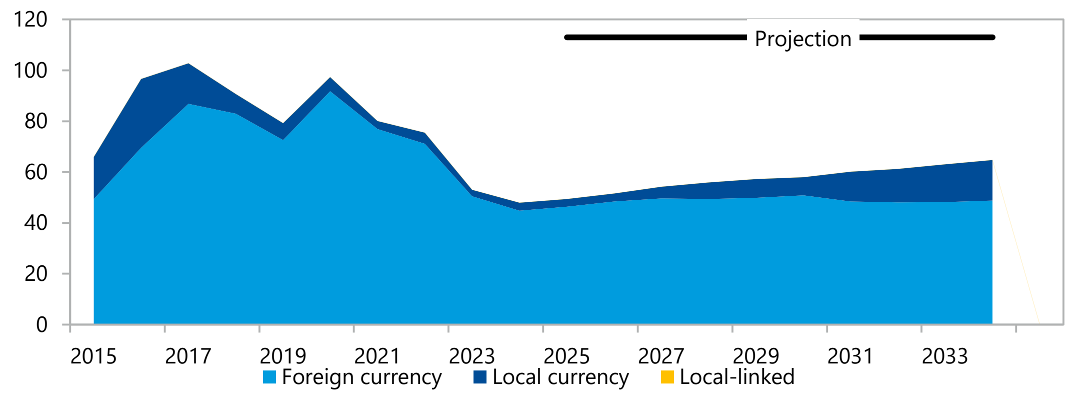
Reporting on Intra-Government Debt Holdings

Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

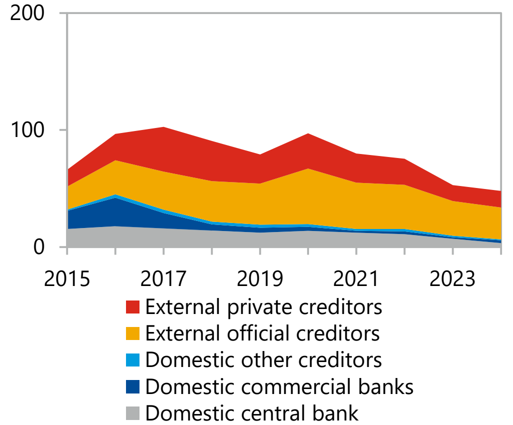
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Debt coverage comprises the general government (including borrowing by Ulaanbaatar Capital city), a state-owned bank (Development Bank of Mongolia), and a 3-year US$2.1 billion (10 percent of GDP) swap line between the People's Bank of China (PBOC) and the Bank of Mongolia (BOM) which was rolled over in 2023. Public-private partnership were discontinued and do not generate contingent liabilities.

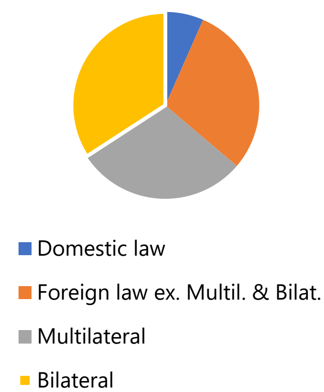
Annex IV. Figure 3. Mongolia: Public Debt Structure Indicators



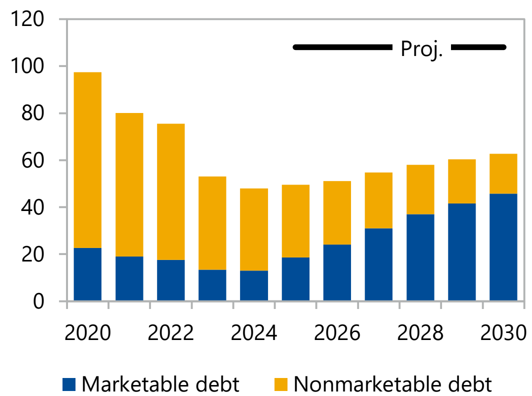
Public Debt by Holder (Percent of GDP)



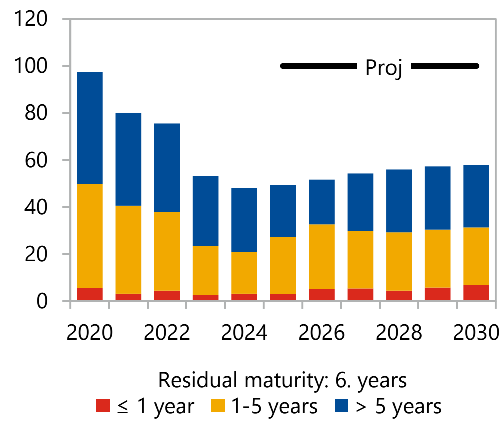
Public Debt by Governing Law, 2024 (percent)



Debt by Instruments (Percent of GDP)



Public Debt by Maturity (Percent of GDP)



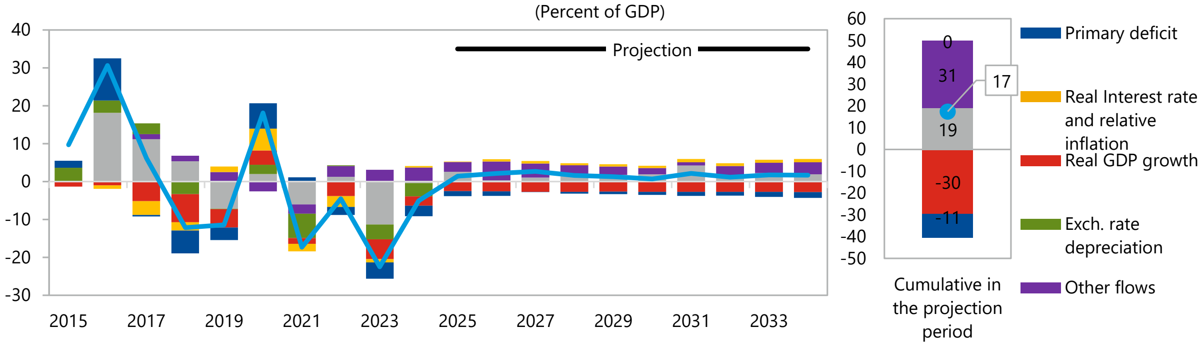
Public debt has reduced significantly in recent years from 75.5 percent of GDP in 2022 to 48 percent of GDP in 2024. Debts from multilaterals and bilateral creditors with concessional terms have increased significantly, reducing rollover risks.

Annex IV. Figure 4. Mongolia: Baseline Scenario
(Percent of GDP unless Indicated Otherwise)

	Actual		Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	53.0	48.0	49.4	51.6	54.3	55.9	57.2	57.9	60.1	61.3	63.0	64.7
Change in public debt	-22.5	-5.0	1.4	2.1	2.7	1.7	1.3	0.7	2.2	1.1	1.8	1.7
Contribution of identified flows	-11.1	-4.7	-1.1	1.8	1.6	0.2	-0.5	-1.2	-2.0	-0.3	-0.5	-0.2
Primary deficit	-4.3	-2.8	-1.3	-1.2	0.0	-0.4	-0.6	-0.8	-1.1	-1.0	-1.3	-1.5
Noninterest revenues	34.6	39.2	35.1	33.9	32.1	32.2	32.3	32.4	32.4	32.2	32.2	32.1
Noninterest expenditures	30.3	36.5	33.8	32.7	32.1	31.8	31.6	31.7	31.3	31.2	30.9	30.6
Automatic debt dynamics	-10.0	-5.6	-2.4	-2.0	-2.0	-2.2	-2.0	-2.1	-1.9	-2.0	-1.9	-1.9
Real interest rate and relative inflation	-0.9	0.4	0.1	0.6	0.7	0.5	0.6	0.6	0.8	0.8	0.8	0.9
Real interest rate	-10.4	-2.2	-1.5	-1.9	-1.8	-1.6	-1.4	-1.4	-1.1	-1.0	-0.9	-0.8
Relative inflation	9.5	2.5	1.7	2.5	2.4	2.2	2.0	2.0	1.9	1.8	1.7	1.7
Real growth rate	-5.2	-2.5	-2.5	-2.6	-2.7	-2.7	-2.6	-2.7	-2.7	-2.7	-2.7	-2.8
Real exchange rate	-3.9	-3.5	...	...	...	...	...	...	...	...	...	...
Other identified flows	3.1	3.7	2.6	5.0	3.7	2.8	2.2	1.6	0.9	2.6	2.7	3.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	3.1	3.7	2.6	5.0	3.7	2.8	2.2	1.6	0.9	2.6	2.7	3.2
Contribution of residual	-11.3	-0.4	2.6	0.3	1.1	1.5	1.8	2.0	4.2	1.4	2.2	1.9
Gross financing needs	6.1	4.6	3.9	4.1	7.6	8.0	8.0	9.6	11.6	9.6	10.6	11.6
of which: debt service	10.4	7.4	5.3	5.3	7.7	8.4	8.6	10.4	12.7	10.6	11.9	13.1
Local currency	1.4	0.6	0.4	0.5	1.6	1.4	1.8	2.2	2.5	2.7	3.5	4.3
Foreign currency	9.1	6.7	4.9	4.8	6.1	7.0	6.9	8.2	10.2	7.9	8.3	8.8
Memo:												
Real GDP growth (percent)	7.4	4.9	5.5	5.5	5.5	5.3	5.0	5.0	4.9	4.8	4.7	4.6
Inflation (GDP deflator; percent)	21.8	8.2	7.0	8.4	7.7	7.1	6.4	6.4	6.2	6.0	5.9	5.9
Nominal GDP growth (percent)	30.8	13.5	12.9	14.4	13.6	12.7	11.7	11.7	11.3	11.1	10.9	10.7
Effective interest rate (percent)	3.7	3.6	3.4	4.0	3.8	3.7	3.7	3.8	4.0	4.2	4.3	4.4

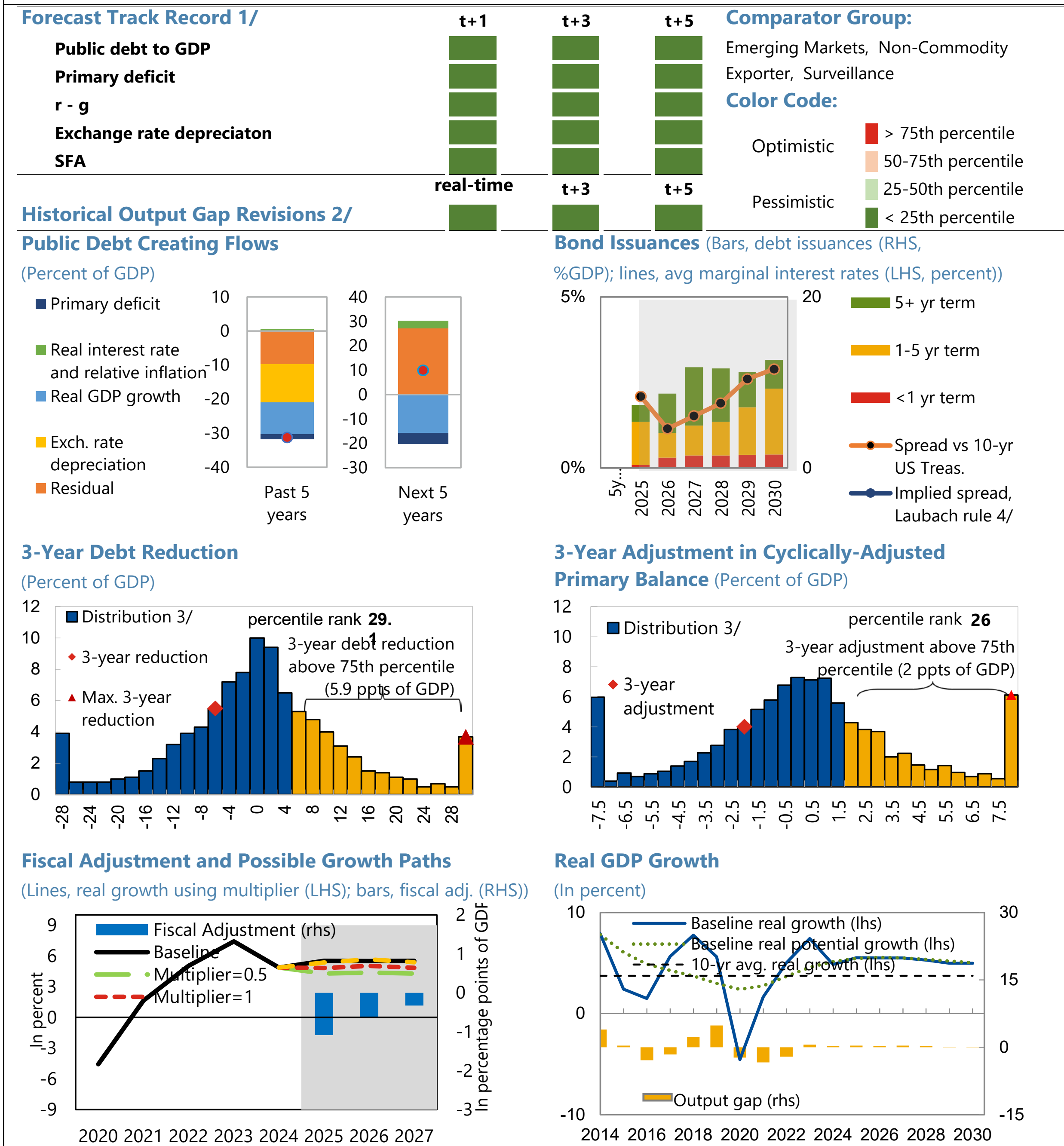
Contribution to Change in Public Debt

(Percent of GDP)



The public debt-to-GDP is projected to increase steadily, reaching 64.7 percent of GDP in 2034, reflecting expected decline in mining revenue collections, coupled with anticipated tax cuts, and moderate spending growth. Deposits in mining funds are projected to decline slightly. GFN are anticipated to increase, reaching nearly 11.6 percent of GDP by 2034.

Annex IV. Figure 5. Mongolia: Realism of Baseline Assumptions



The realism analysis shows mixed results, influenced by Mongolia's country-specific factors and recent challenging economic events. The next 5-years cross-country projections signal conservative projections. The 3-year debt and primary balance reductions are assessed as realistic compared to peers but also reflect the inherent boom-bust characteristics.of Mongolia's economy.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

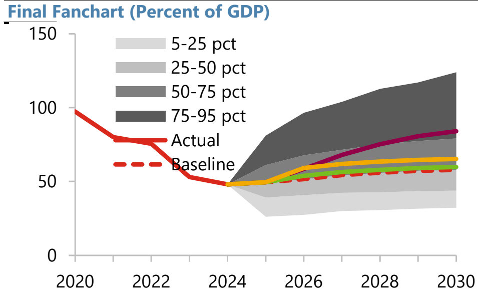
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

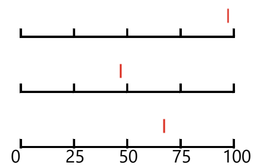
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex IV. Figure 6. Mongolia: Medium-Term Risk Analysis

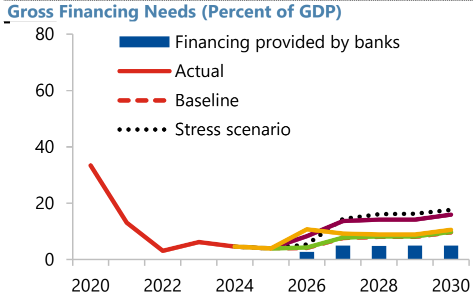
Final Fanchart (Percent of GDP)



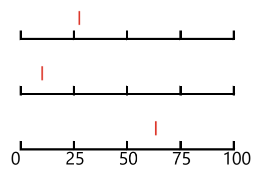
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	91.8	1.3	
Probability of debt non-stabilizaiton *(percent)*	16.9	0.1	
Terminal debt-to-GDP x institutions index	39.4	0.9	
Debt fanchart index (DFI)		2.3	
Risk signal: 3/		**High**	



Gross Financing Needs (Percent of GDP)



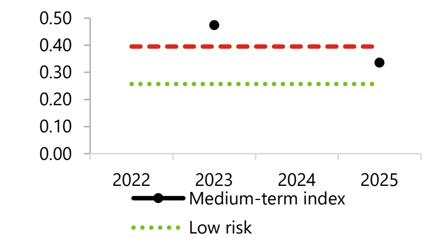
	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	6.9	2.3	
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.4	1.1	
Chg. In banks' claims in stress *(pct banks' assets)*	13.8	4.6	
GFN financeability index (GFI)		8.1	
Risk signal: 4/		**Moderate**	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalize	Weight	Contribution
Debt fanchart index	2.3	0.5	0.5	0.3
GFN finaceability index	8.1	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**High**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 21.6 pct.

The fanchart indicates a width of 91.8% of GDP, with about 50 percent of projected terminal debt level falling within the 75-95 percentile range, reflecting considerable uncertainty surround the baseline scenario. The gross financeability index indicates a moderate risk level. Combining these assessments, the mechanical medium-term risk signal is assessed as moderate. However,final assessment is downgraded to high risk due to low external buffers, SOE contingent liabilties, and BOM large negative equity. Commodity price shocks could raise public debt to 84 percent of

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

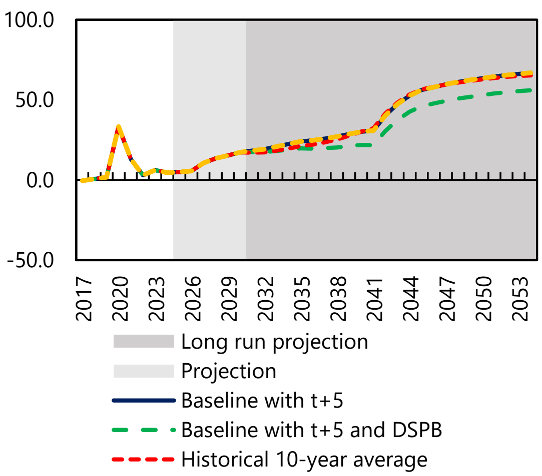
Annex IV. Figure 7. Mongolia: Large Amortization Trigger

Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

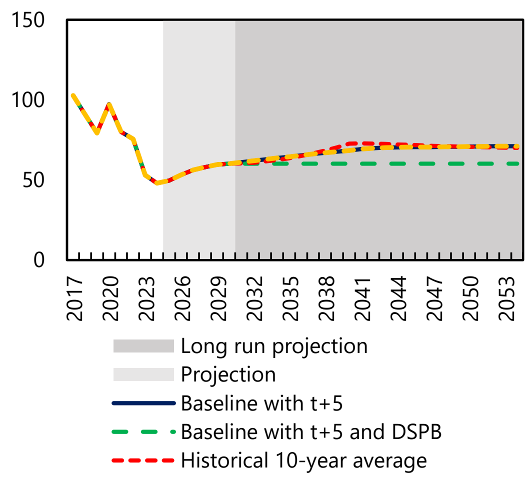
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	5.0%	4.7%	5.0%
Primary Balance-to-GDP ratio	0.8%	1.3%	0.8%
Real depreciation	-0.1%	-0.7%	-0.1%
Inflation (GDP deflator)	6.4%	6.0%	6.4%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

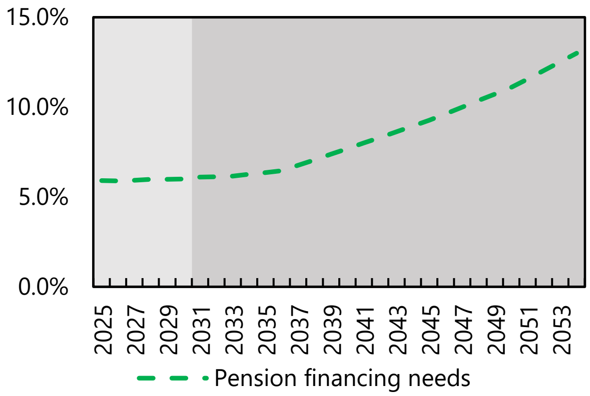


Overall risk indication is high. Enhanced debt management practices that improves debt profiling results in lower debt projection relative to that based on historical 10-year average.

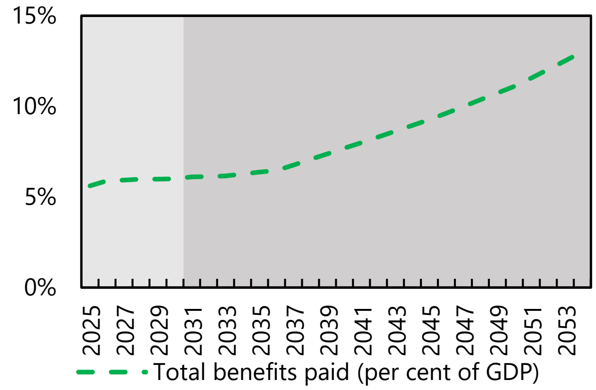
Annex IV. Figure 8. Mongolia: Demographics: Pension

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	8.6%	11.4%	14.8%

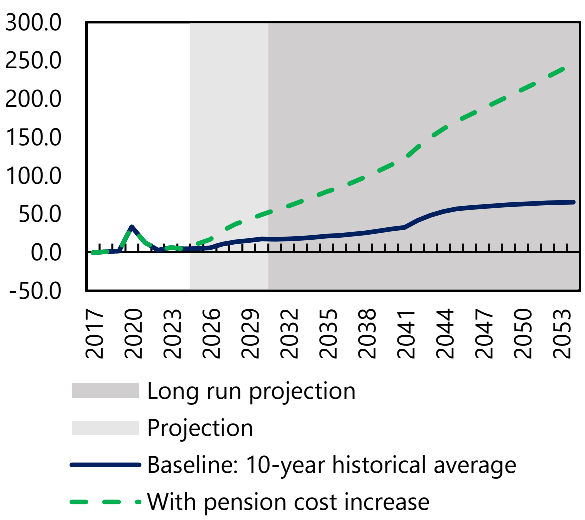
Pension Financing Needs



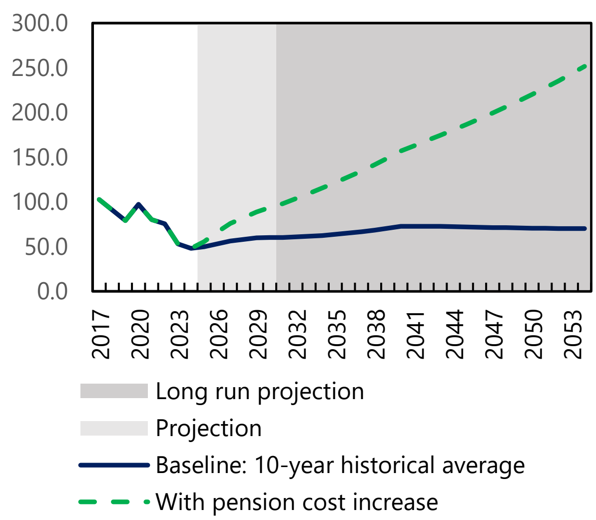
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

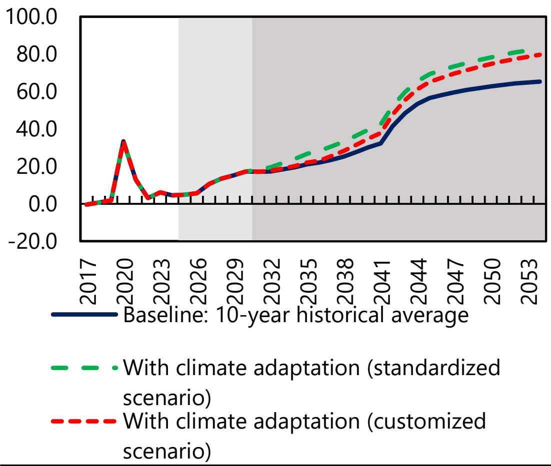


The projection highlights the pressing need for pension reforms to alleviate the current and projected strain on the government budget, estimated to increase from 5.9 percent of GDP in 2025 to approximiately 9 percent of GDP by 2050. This is consistent with the findings of the World Bank that finds that persions are projected to rise, potentially accounting for 8.8 percent of GDP by 2050.

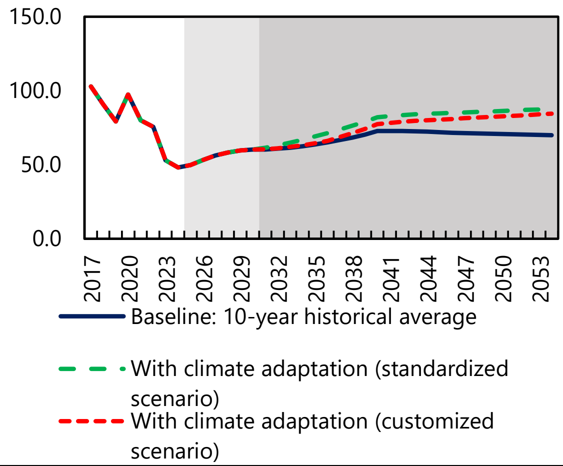
Annex IV. Figure 9. Mongolia: Climate Change Adaptation

Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

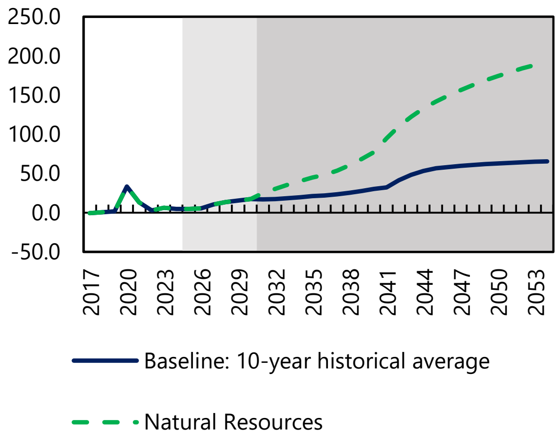


The primary balance has been calibrated based on the World Bank's estimates of the adaptation investment needs, amounting to US$3.5 billion (0.4 percent of GDP per year). Both standard and customized scenarios indicates a significantly larger effect on public debt when measured to the baseline, which is already under significant strain.

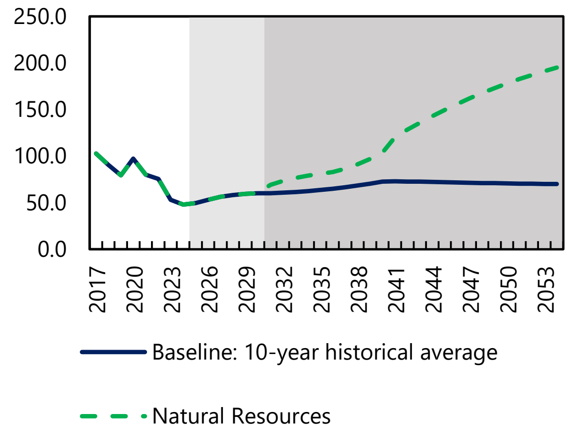
Annex IV. Figure 10. Mongolia: Natural Resources

Natural Resources

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



This exercise adheres to the standard parameters of a natural resource scenario. Although the depletion of natural resources is not an immediate concern, the anticipated decrease in coal extraction rates beginning in 2040—consistent with the World Bank's development report for Mongolia—suggests a decline in demand for Mongolia's resources, primarily from China. This shift is expected to significantly affect public debt levels.

Annex V. Data Issues

Annex V. Table 1. Mongolia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	A	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	B		
Granularity 3/	B		B	A	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	A	A	C		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators and reported data for the non-banking sector.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision to the Fund is broadly adequate for surveillance, but some shortcomings exist in the areas of national accounts, fiscal and financial statistics. There is no breakdown of investment data in national accounts between public and private. There are remaining (albeit declining) inconsistencies between the national accounts and BOP trade data. The negative errors and omissions in BOP rose to 1.7 percent of GDP in 2024, suggesting a possible overreporting of trade balance or the unrecorded accumulation of assets in the financial account. The authorities have yet to provide financial soundness indicators data to the Fund's Statistics Department.

Changes since the last Article IV consultation. In January 2025, the NSO changed the CPI base from 2020 to 2023 and modified the weights in the reference basket, including more items especially for imports. As a result, inflation under the new base is 0.8 percentage points lower on average in 2024. Work is underway to strengthen NSO's household database, which would help rationalize social spending. On national accounts, following the 2024 CCAMTAC TA mission, progress was made on computing chain-linked time series of GDP by production and expenditure. However, the official implementation was delayed to 2026 due to NSO staff shortages and turnover. On government finance statistics (GFS), following the 2024 CCAMTA TA mission progress was made on compiling GFSM 2014 based statistics. The authorities have submitted to the Fund 2023 fiscal tables based on GFSM2014 format. However, the authorities are still using the old GFS format for official budget formulation and policy discussions. There are no plans to officially transit to GFSM 2014 format in the near future.

Corrective actions and capacity development priorities. Authorities are working on improving the quality of their statistics, including with technical assistance (TA) from the Fund on national accounts and fiscal accounts (GFS). On the real sector, the main action is to increase staff resources to allow publication of newly developed chain-linked GDP series from 2026. On the fiscal sector, the main action is to develop a political will to transit to a new GFSM 2014 presentation of government accounts, which will have implications for measuring fiscal indicators prescribed in the fiscal rule (deficit, debt, structural revenues, expenditure ceiling). The technical work has already been done.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. For nominal and real effective exchange rate (NEER and REER) data staff uses Fund calculated data instead of authorities' as the methodology used is consistent for all member countries.

Other data gaps. The authorities provide financial soundness indicators data to the team upon request; however, they should move forward with regular submission of financial soundness indicators data to the Fund's Statistics Department.

Annex V. Table 2. Mongolia: Data Standards Initiatives

Mongolia subscribes to the Special Data Dissemination Standard (SDDS) since April 2019 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex V. Table 3. Mongolia: Table of Common Indicators Required for Surveillance

As of July 1, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Mongolia[8]	Expected Timeliness[6,7]	Mongolia[8]
Exchange Rates	1-Jul-25	1-Jul-25	Daily	Daily	D	30	…	30
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	20-Jun-25	23-Jun-25	Weekly	Weekly	M	30	1W	30
Reserve/Base Money	May-25	Jun-25	Monthly	Monthly	M	30	2W	30
Broad Money	May-25	Jun-25	Monthly	Monthly	M	30	1M	30
Central Bank Balance Sheet	May-25	Jun-25	Monthly	Monthly	M	30	2W	30
Consolidated Balance Sheet of the Banking System	May-25	Jun-25	Monthly	Monthly	M	30	1M	30
Interest Rates[2]	1-Jul-25	1-Jul-25	Daily	Daily	D	30	…	30
Consumer Price Index	May-25	Jun-25	Monthly	Monthly	M	30	1M	30
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	May-25	Jun-25	Monthly	Monthly	A	30	2Q	30
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	May-25	Jun-25	Monthly	Monthly	M	30	1M	150
Stocks of Central Government and Central Government-Guaranteed Debt[5]	May-25	Jun-25	Quaterly	Quaterly	Q	90	1Q	45
External Current Account Balance	May-25	Jun-25	Monthly	Monthly	Q	30	1Q	45
Exports and Imports of Goods and Services	May-25	Jun-25	Monthly	Monthly	M	30	8W	10
GDP/GNP	2025Q1	May-25	Quarterly	Quarterly	Q	90	1Q	60
Gross External Debt	2025Q1	May-25	Quarterly	Quarterly	Q	90	1Q	60
International Investment Position	2025Q1	May-25	Quarterly	Quarterly	Q	90	1Q	60

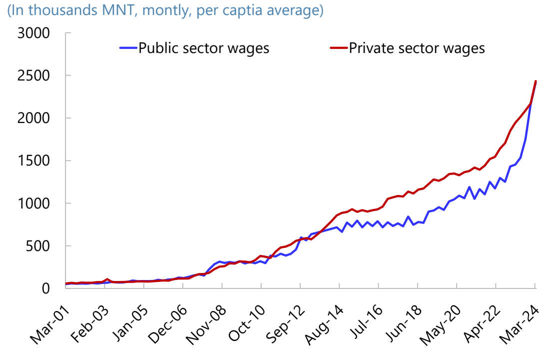
[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "…"

Annex VI. Relationship Between Public and Private Sector Wages and Inflation[1]

The substantial increase in public sector wages in Mongolia introduced in the 2023 supplementary budget has raised concerns about its potential spillover effects on private sector wages and subsequent inflationary pressures. Employing a structural vector autoregression model, we show that a shock to private sector wages exerts a stronger immediate impact on inflation, while a shock to public sector wages manifests a delayed effect on inflation. Additionally, shocks to public sector wages have a small and short-lived effect on private sector wages, whereas shocks to private sector wages significantly influence public sector wages, suggesting that private sector has a more leading role in wage setting behavior. These results highlight the need for public wage policies that are closely aligned with productivity changes and can contribute to macroeconomic and price stability.

1. **Mongolia's labor market has undergone profound changes since its transition to a market-oriented economy**. Public sector wages are administratively set through centralized budget allocations, often following a procyclical pattern influenced by revenue fluctuations and electoral cycles. In contrast, private sector wages are shaped by market forces and decentralized negotiations. Historically, private sector wages have generally outpaced those in the public sector, particularly during periods of substantial foreign direct investment, such as the development of the OT mine. However, the 2023 supplementary budget introduced an unprecedented 30-40 percent increase in public sector wages-one of the largest hikes in recent history-closing the wage gap between the public and private sectors and raising a question of its implications for price stability.

Public and Private Sector Wages
(In thousands MNT, montly, per captia average)



Sources: NSO; IMF Staff calculations.

2. **The interaction between public and private sector wages and inflation in Mongolia generally follows patterns observed in advanced and emerging economies**. Studies indicate that public sector wages often lead private sector wages, particularly in centralized wage bargaining systems, but this relationship is influenced by economic conditions and political cycles. The cost-push inflation effect of public wage hikes is notable due to the sector's size and wage rigidity, contributing to inflationary pressures when increases outpace productivity. The wage-price spiral mechanism also plays a role, where rising wages drive inflation, prompting further wage hikes. Institutional differences between public and private sectors result in asymmetric wage adjustments), with public wages being more rigid and subject to political influences. Empirical studies in Mongolia,

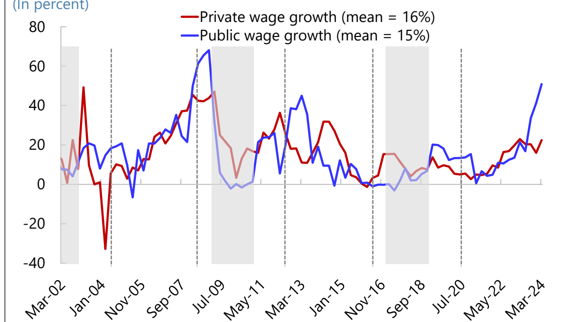
[1] This Annex is based on Poghosyan, T. (2025) "Interactions Between Public and Private Sector Wages and Inflation in Mongolia," IMF Working Paper No. 2025/053 (link).

including VAR-based analyses, confirm a bi-directional relationship between wages and inflation, with public wage shocks having a moderate but persistent impact on inflation.

3. **Public and private sector wages in Mongolia have exhibited a strong co-movement over time**. Evidence suggests that public sector wages tend to rise in the lead-up to parliamentary elections, while wage growth slows during periods of Fund-supported programs. Inflation, however, remains more persistent and less volatile than wages, indicating that any inflationary effects from wage shocks are likely delayed. Exchange rate fluctuations are also less pronounced than wage dynamics, likely due to the Bank of Mongolia's foreign exchange interventions aimed at stabilizing the currency in response to external shocks, thereby limiting exchange rate flexibility. For most of the observed period, both public and private sector wages grew at a faster pace than inflation, resulting in a real wage growth. On average, public-sector wages increased by 15 percent annually, while private sector wages grew by 16 percent, with inflation averaging 8 percent. This suggests that between 2001 and 2022, real wage growth for both sectors was approximately 7-8 percent per year. However, this growth outpaced average labor productivity, which stood at 6.4 percent, contributing to inflationary pressures.

Public and Private Sector Wage Growth

(In percent)



Sources: NSO; IMF Staff calculations.

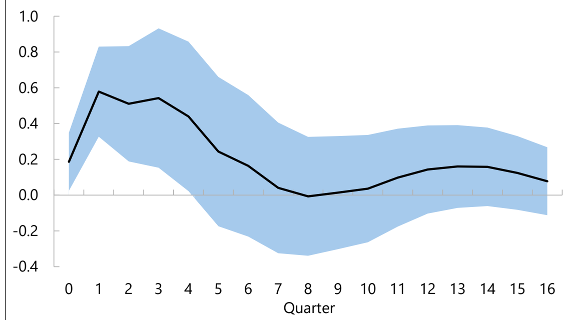
Note: Grey areas indicate periods when Mongolia had a Fund-supported program in place and vertical lines indicate Parliamentary elections.

4. **We employ a structural vector autoregression (SVAR) model to examine the relationship between public sector wages, private sector wages, and inflation**. Our definition of public sector wages includes both general government employees (28 percent of total employment) and state-owned enterprises (SOEs, 3 percent of total employment), while private sector wages are represented by those in limited liability companies (LLCs), covering approximately 50 percent of total employment. To identify the structural model, we apply a recursive Cholesky decomposition, which assumes: (i) public sector wages do not respond immediately to private sector wage and inflation shocks within a quarter, given the annual budget cycle; (ii) private sector wages react contemporaneously to public sector wage changes but do not react contemporaneously to inflation; and (iii) inflation adjusts contemporaneously to changes in both public and private sector wages. Our analysis is based on quarterly data from 2000Q4 to 2023Q4, providing a comprehensive view of wage-inflation dynamics in Mongolia.

5. The impulse response analysis can be summarized as follows:

- Private sector wage increases exert an immediate and substantial effect on inflation. A 1 percentage point shock to private sector wages results in a 0.4 to 0.6 percentage point increase in inflation during the first year after the shock. This immediate impact on inflation can be attributed to the fact that private sector wages influence production costs, which are subsequently passed on to consumers through price adjustments.

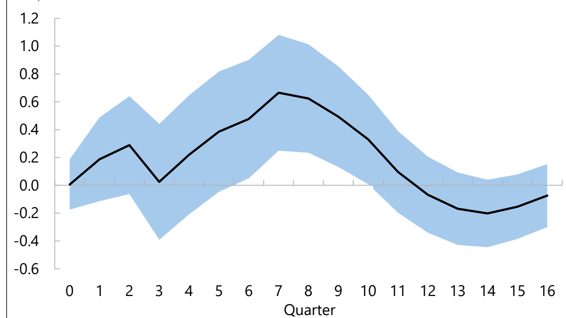
Response of Inflation to a Shock in Private Sector Wages
(In percent)



Sources: NSO; IMF Staff calculations.
Note: blue shaded areas are 90% confidence intervals using bootstrapped standard errors.

- Public sector wage increases impact inflation with a delay. A 1 percentage point shock to public sector wages leads to 0.4 0.6 percentage points higher inflation in the second year following the shock (quarters 5 8). Unlike the shock to private sector wages, here the impact is smaller and insignificant in the first year following the shock and the temporal pattern of the impact is more delayed.

Response of Inflation to a Shock in Public Sector Wages
(In percent)



Sources: NSO; IMF Staff calculations.
Note: blue shaded areas are 90% confidence intervals using bootstrapped standard errors.

6. A quantitative assessment of the 2023 public wage increase indicates that the shock is expected to raise inflation by up to 13 percentage points in 2025Q2 before gradually dissipating by 2026. Given that these wage hikes exceed historical productivity growth, they contribute to inflationary pressures, reinforcing the need for more prudent wage policies. Moreover, the increase in public sector wages has potential ripple effects, influencing private sector wage negotiations and aggregate demand. While increased household incomes can boost consumption, they also risk fueling inflationary cycles if not matched by corresponding productivity growth.

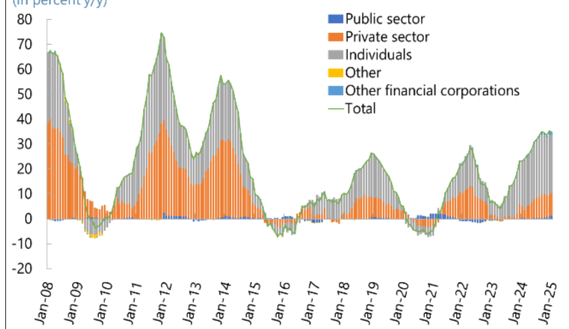
7. Policy recommendations. A well-balanced wage policy is essential for Mongolia's development, ensuring wage competitiveness without compromising price stability. While wage adjustments are vital for labor market dynamics, excessive public sector wage increases can fuel inflation and economic volatility. This analysis underscores the importance of carefully timing and calibrating wage policies to align with productivity growth, supported by fiscal discipline and transparent wage-setting mechanisms. Without such measures, unchecked public wage hikes risk triggering a wage-price spiral, eroding real wages, and diminishing household purchasing power.

Annex VII. Credit Growth—Is This Time Different?

Since 2023, private sector credit has experienced another episode of rapid expansion. As in the previous episodes, the drivers include a commodity boom and procyclical policies. While recent monetary and macroprudential tightening are helping moderate credit growth, further policy actions are needed to contain macro-financial stability risks and enhance resilience of the financial system, including strengthening supervision and macroprudential tools and fostering financial literacy.

1. **Since 2023, banks' credit to the private sector has been registering another boom episode**. Credit growth accelerated sharply, reaching 35 percent y/y at the end of 2024, and 32 percent by March 2025—exceeding the peaks observed in 2022 and December 2018. This mirrors earlier episodes, which can be broadly divided into two: (1) prior to 2014, credit cycles were particularly pronounced, with an average growth rate of 30 percent and a standard deviation of 23 percent; and (2) post-2014, credit cycles have been more moderate, with an average growth rate of around 12 percent and a standard deviation of 11 percent. While the average credit growth rate is comparable to that of Mongolia's peers, credit growth volatility is higher, indicating repeated intense credit cycles relative to peer countries.

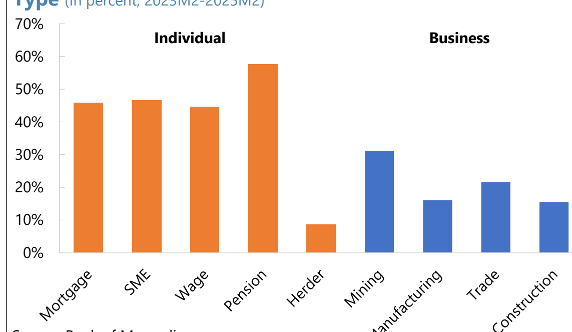
Credit Growth by Sectors
(In percent y/y)



Sources: Bank of Mongolia; and IMF Staff calculations

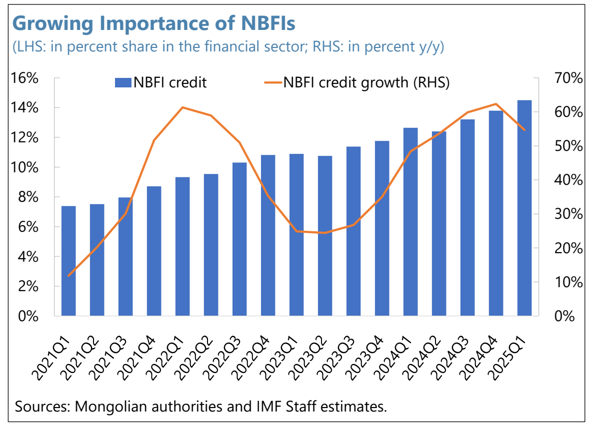
2. **The recent credit expansion has concentrated on lending to individuals**. Historically, loans to individuals have accounted for a slightly larger share of banks' total lending. At 2025Q1, such loans accounted for 63 percent of banks' total credit portfolio. This reflects the strong growth in individual lending across categories since 2023, with an y/y increase of 36 percent in 2025 Q1. The credit to corporate sector has also recorded notable growth—driven by the expansion of the mining and trade sectors—though at a slower pace than individual lending.

Average Annual Banking Credit Growth by Sector and Type (In percent, 2023M2-2025M2)

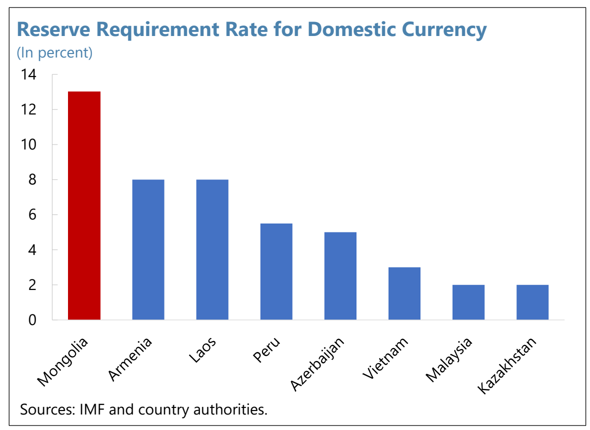


Source: Bank of Mongolia.
Notes:Trade includes retail and wholesale trade.

3. A salient aspect of Mongolia's recent credit boom is the rapid expansion of Non-Bank Financial Institutions (NBFIs). While banks continue to dominate the financial system— accounting for 85 percent of total loans—the share of NBFIs is rising, reflecting a 55 percent y/y increase in their loan portfolio in 2025Q1. As in the banking sector, the growth of NBFIs' portfolio is driven by individual loans, which account for 90.5 percent of NBFIs' total loans, mostly to consumers. The average interest rate on NBFIs' individual loans is high, at an annualized 51 percent, significantly higher than the 17 percent rate charged by banks for similar loans, suggesting a concentration on riskier borrowers.



4. As in past episodes, the drivers of recent credit expansion include a commodity boom and procyclical policies. Historically, credit booms in Mongolia have been fueled by large capital inflows (e.g., FDI to the mining sector), accommodative liquidity conditions, increases in mining budget revenue and procyclical fiscal policies. These booms typically ended due to a decline in commodity prices or abrupt policy adjustment. The current credit boom has been fueled by procyclical fiscal and monetary policies since 2023, primarily through increasing public sector wages and pension payments, as well as interest rates reductions, despite tighter reserve requirements in 2024. As a result, households' average monthly income has risen sharply, boosting their borrowing capacity. The higher DSTI limit for the NBFI sector —maintained at 70 percent until recently —has also contributed to the expansion of NBFI lending.



5. To address the ongoing credit boom and ensure financial stability, the BOM has implemented a combination of monetary and macroprudential tightening measures since late 2024. These include raising the policy rate, increasing the reserve requirement ratio, lowering the DSTI ceiling in the banking sector. The reserve requirement ratio for banks was raised three times since late 2024 — from 8 percent to 13 percent—a level that is relatively high compared to peer countries. Meanwhile, the DSTI ceiling for banks was reduced from 60 to 50 percent, aligning with peer countries. For NBFIs, DSTI regulations were extended in November 2024 to cover all consumer loans, and the DSTI was reduced to 60 percent in April 2025, narrowing the gap with banks' DSTI. In addition, since March 2025, capital requirements and restrictions on financing have also been strengthened. This includes prohibition of financing from banks.

6. To break Mongolia's historical pattern of credit booms and busts, stronger policy actions and reforms efforts are needed:

- Reducing procyclical fiscal policies is essential and can be achieved by adhering to the fiscal rules and implementing more prudent fiscal policy. The recent halt of quasi-fiscal activities conducted by the BOM related to the subsidized mortgage loan program is a step in the right direction. Monetary policy should also be carefully calibrated and supported by adequate macroprudential tools.

- The BOM and FRC should tighten their macroprudential tools proactively before credit expansions occur to contain systemic risks and enhance resilience of the financial system. Aside from using current instruments (e.g., reserve requirements, DSTI and risk weights for loans), they should expand their toolkit by adopting countercyclical capital buffers (CCyB), liquidity coverage ratio (LCR), and net stable funding ratio (NSFR). Both institutions would benefit from allocating more resources to developing and enforcing the macroprudential framework. The FRC should be assigned a financial stability objective by amending its law.

- The BOM and FRC will need to continue enhancing their capacity to conduct effective and preemptive banking supervision, by adopting a risk-based approach and conducting stress testing. Inter-agency coordination also needs to be enhanced and differences in regulations across products and sectors should be reduced, to avoid regulatory arbitrage.

- Efforts to enhance financial literacy could help consumers to use credit more responsibly and manage their finances more effectively. This can be achieved through expanded financial education programs and effective public awareness campaigns.

Annex VIII. Recent Changes in Fiscal Framework

Mongolia has a long track record with the use of fiscal rules and the establishment of mining funds. However, in practice Mongolia's fiscal policy has been characterized by a high level of procyclicality, volatility, and limited buffers. The reasons for this outcome have been weak adherence to the rules and frequent changes to them. In 2024 Mongolia renewed its commitment to fiscal prudence by approving a new set of fiscal rules, which include some desirable elements.

1. **Mongolia has a long record of frequent and substantive changes to its fiscal rules**. The Fiscal Stability Law (FSL) has been modified numerous times since its inception in 2010. Some changes were introduced in response to shocks, to enhance the role of the Fiscal Stability Council (FSC), or to restrict parliament's ability to modify the rules.[1] However, more often, the last time being mid-2024, the FSL has been modified to accommodate budget overruns or facilitate the spending of unexpected revenue windfalls.

2. **The rules governing mining funds have also been changed frequently**. The government has changed the Law on Government Special Funds (LGSF), with an intention of circumventing the provisions regarding accumulation at and withdrawals from the Fiscal Stability Fund (FSF), a fund that was created in 2013 to smooth budget revenues. The rules of the Future Heritage Fund (FHF), aimed at saving for future generations, were also changed in 2018 to make it possible to use the FHF funds until 2022 and to repay the debt incurred by a former fund created in 2009, the Human Development Fund (HDF).

3. **New amendments have been introduced by mid-2024 as follows**:

- **Fiscal rules**. The new FSL preserves the 2 percent of GDP ceiling on the "structural" deficit, defined as "structural" revenues minus total expenditures. The "structural" revenues are defined as the portion of mining revenues above the "structural mining revenues" computed at a "reference" price, defined as a 24-year moving average of mining prices (see Box 1 below for a detailed explanation). In addition, the new FSL introduces a new set of rules as follow: (1) a new 30 percent of GDP ceiling on current expenditure, replacing the old cap on total nominal spending growth; (2) a new 60 percent of GDP ceiling on government debt in nominal terms, replacing the old ceiling that was defined as net present value; and (3) a new 2 percent of GDP floor on the "basic" surplus, defined as the difference between the "structural" revenues and "basic" expenditures, the latter defined as total expenditures minus debt-financed expenditure (e.g. gross borrowing incurred in that fiscal year). The new "basic" surpluses should be used to amortize or buyback government debt. Although this was not part of the changes in the FSL,

[1] Effective January 1, 2025, any modifications to the limits of the FSL and their implementation require the presence of all members of both the Parliament Standing Committee and the Parliamentary session. Additionally, from January 1, 2025, there will be restrictions on submitting and approving both the initial budget proposal and any subsequent supplementary budget proposals to Parliament or by Parliament within three months following the approval of the medium-term fiscal framework.

there have been also modifications in the way MTFF is presented. The revised MTFF does not provide a breakdown of capital spending plans as it used to do.

- **Funds**. In April 2024, a new Sovereign Wealth Fund (SWF) Law was enacted (see Box 1 below). The reform preserved the Fiscal Stability Fund (FSF), which accumulates 50 percent of mining revenues above the "reference" price (if the structural balance is in surplus). It also preserves the Future Heritage Fund (FHF), into which 65 percent of mining royalties will be deposited. In addition, the SWF Law creates two new funds: (1) the new Saving Fund (SF), comprising all dividends from state-owned enterprises (SOEs) in the mining sector, which is intended to finance healthcare, education, and housing programs of the current generation; and (2) a new Development Fund (DF), comprising 50 percent of the mining revenues above the "reference" price, which is intended to fund high-priority development projects.

4. The new set of fiscal rules includes some desirable elements but also some limitations, as follows:

- **The intentions to use the 2 percent of GDP "basic" structural surplus for debt repayment is welcome but requires strong coordination with forex management**. The repayments of external debt using fiscal surpluses would require purchases of foreign exchange from the BOM, which could weigh on the level of international reserves and the exchange rate. Moreover, repayments and buybacks of existing debt, which might need to be replaced with new and more expensive debt later on, may increase debt-related vulnerabilities.

- **The new expenditure rules conflict with basic guidelines on fiscal rules selection**. An alternative expenditure rule, e.g., as a cap on growth of public spending as a share of GDP, instead of as a cap on the level of spending as share of nominal GDP would allow the rule to accommodate economic fluctuations better. An expenditure rule with these features allows government spending to remain stable during downturns, as there is no obligation to cut expenditures in response to falling revenues, enabling automatic stabilizers—such as lower tax revenues and higher social spending—to function effectively. Similarly, during booms, it prevents excessive spending driven by temporary revenue increases, reducing the risk of overheating and of procyclical policy measures in general.

- **The exclusion of capex from MTFF significantly weakens the fiscal framework**. Prior to the latest revisions, the MTFF included projections for aggregate capital expenditures, which helped instill discipline in the overall budget process. The latest revisions of the MTFF that omit the projection for capital spending weaken the MTFF and its ability to influence the budget process.

- **The management, transparency, and accountability guidelines for the new funds have not yet been fully defined**. All funds will be part of the general budget process, and their budgets are to be approved by parliament. At present, they just function as Treasury accounts at BOM. The SWF Law assigns responsibilities to the Ministry of Finance (FHF), Ministry of Family, Labor and Social Protection (SF) and Ministry of Economy and Development (DF) regarding the administration and reporting of the funds' operations. The new SWF law also specifies that SF resources to be recorded in individual savings account of each citizen of Mongolia (regulations are currently under preparation). The FHF still does not have a Governing Board, nor an Investment Policy, nor transparency and oversight mechanisms in place, despite the FHF Law mandating the production of annual quarterly and monthly statements, and oversight arrangements by Auditor General and State Great Hural.

Annex VIII. Box 1. Description of Funds as Per SWF Law

	Future Heritage Fund (FHF)	**Savings Fund (SF)**	**Development Fund (DF)**	**Fiscal Stabilization Fund (FSF)**
Objectives	Intergenerational equity	Healthcare, education, and housing for current generation	High-priority development projects.	Fiscal buffer (e.g. revenue shortfalls)
Main Inflows	65 percent of the mining royalties (after distribution to other funds such as the FSF and DF)	Dividends from States's shareholdings in mining companies. Special fee for the use of mining resources from strategic mineral deposits /including radioactive/. Non-tax revenue from State ownership changes in radioactive mineral deposits	50 percent of mining revenues above structural price, if the structural balance in surplus.	Mineral revenues above structural price, 50 percent if the structural balance surplus; 100 percent if the structural balance in deficit.
Outflows	No withdrawals before 2030, after which 10 percent of net investment income will be transferred to the budget.	Still to be defined	Still to be defined	If (i) fiscal balance worsens by 4 or more percent of GDP due to force majeure, (ii) if mining output drops by 20 percent, (iii) one percent of GDP spending because of disaster or national emergency.
Management	Until 2030 Ministry of Finance and Bank of Mongolia; after 2030 a separated corporation (yet to be established).	Ministry of Family, Labor and Social Protection, recorded as individual savings account of each citizen of Mongolia, remunerated at policy rate	Ministry of Economy and Development	Ministry of Finance
Net assets end 2024	MNT 3.9 trillion (4.9 percent of GDP)	MNT 500 billion (0.6 percent of GDP)	No deposits made yet	MNT1.7 trillion (2.2 percent of GDP)

Source: Mongolian authorities

Annex IX. Mongolia Fiscal Multipliers[1]

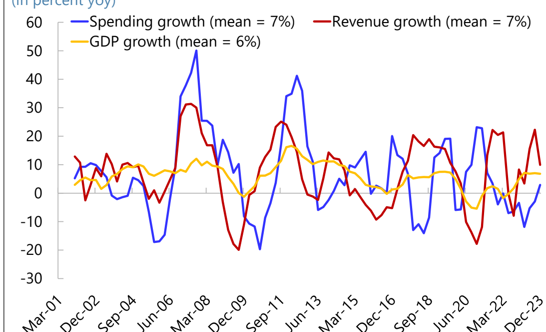
Fiscal policy plays an important macroeconomic role in Mongolia. On the one hand, fiscal expansion is seen as a measure to boost aggregate demand. On the other hand, import leakages mitigate the impact of fiscal expansion on growth. Applying a structural vector autoregressive model, we find that Mongolia's total spending and revenue multipliers peak at 0.3 and 0.1, respectively. The lower than 1 multiplier can be explained by import leakages. Capital spending multiplier peaks at 0.6, exceeds and remains more persistent than the current spending multiplier, suggesting that public investment is more efficient in boosting growth than current spending. Tax revenue and non-tax revenue multipliers peak at -0.1 and -0.2, respectively, and are short lived. Notably, low tax multipliers indicate that the recent initiatives to lower tax rates are unlikely to significantly boost economic growth and should be carefully evaluated.

1. **Fiscal policy plays an important role for shaping macroeconomic outcomes in Mongolia, particularly given the country's reliance on mineral revenues and its relatively stable exchange rate regime**. Historically, Mongolian authorities have frequently relied on increases in current spending—such as public wages, pensions, and social assistance programs—to stimulate economic activity, often at the expense of public infrastructure investment. This annex examines the effectiveness of fiscal policy by estimating fiscal multipliers, which measure the impact of changes in government spending and revenue on economic output.

2. **Empirical research on fiscal multipliers highlights variations based on country characteristics**. Advanced economies tend to have higher multipliers due to stronger financial markets and institutional efficiency, while emerging economies face constraints such as limited capital market access and higher debt. Open economies experience smaller multipliers due to import leakages, and public investment typically has a greater impact than current spending, especially in infrastructure-deficient countries. In Mongolia, fiscal policy effects are expected to be influenced by its large public sector, trade openness, underdeveloped financial markets, and high public debt. Previous studies on Mongolia estimate expenditure multipliers between 0.17 and 0.6 and revenue multipliers between 0.18 and 0.6, with capital spending showing a more sustained impact than current spending.

3. **Growth rates of government spending and revenue comove closely in Mongolia, especially in the pre-2014 period**. There is also some correlation between growth rates of GDP and revenues, consistent with the work of automatic stabilizers on the revenue side. On average,

Real Government Spending, Revenue, and GDP Growth
(In percent yoy)



Sources: NSO; IMF Staff calculations.

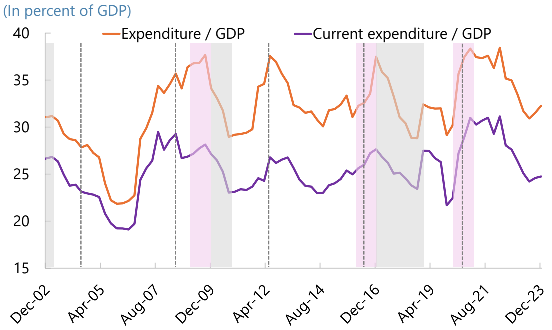
[1] This Annex is based on Poghosyan, T. (2025) "Fiscal Multipliers in Mongolia," IMF Working Paper No. 2025/101 (link).

spending and revenue growth rates are comparable at 7 percent. Growth of real GDP is slightly lower at 6 percent, suggesting that both spending and revenue have increased as a share of GDP over the sample.

4. The ratio of government spending and revenue to GDP fluctuates widely over time and follows certain patterns. The spending ratio tends to spike before parliamentary elections, reflecting electoral budget cycles, while it decreases and the revenue ratio increases during IMF program periods, aligning with fiscal adjustment requirements. Economic crises typically lead to an increase in the spending ratio and a decline in the revenue ratio, a trend observed before IMF programs, with the exception of the 2020 COVID-driven crisis, which resulted in emergency support rather than an IMF program. The dynamics of total spending are primarily influenced by current expenditures, as the share of capital spending in GDP remains stable. Likewise, total revenue is largely driven by tax revenues, with non-tax revenues, mainly from mineral sources, maintaining a consistent share of GDP.

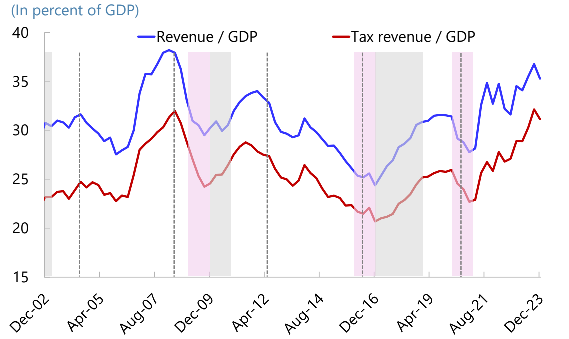
5. We use a structural vector autoregressive (SVAR) model to empirically assess fiscal multipliers in Mongolia.[2]The sample covers the period 2000Q1 - 2023Q4. The endogenous variables are real government total spending, real government total revenue, and real GDP. The exogenous variables include quadratic time trend and seasonal dummies. The SVAR matrix imposes restrictions, including the estimate of the output elasticity of government revenue, the output elasticity of government spending set at 0 due to negligible automatic stabilizers on the spending side, and assuming that government decisions on spending are taken before decisions on revenue. Fiscal multipliers are estimated as the effect of one real MNT increase in the respective fiscal variable on output in real MNT terms.

Government Spending
(In percent of GDP)



Sources: NSO; IMF Staff calculations.
Note: pink shaded area=economic crisis; grey shaded area=IMF program; dash line=election.

Government Revenue
(In percent of GDP)



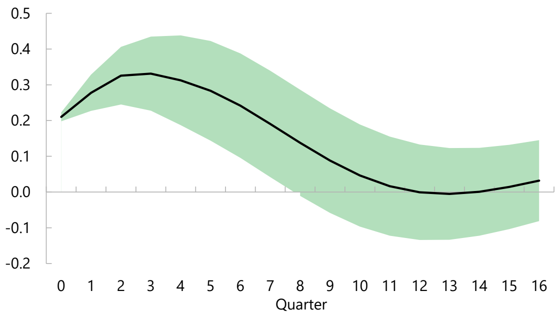
Sources: NSO; IMF Staff calculations.
Note: pink shaded area=economic crisis; grey shaded area=IMF program; dash line=election.

6. The baseline model's impulse response functions indicate that a one-unit increase in government spending boosts GDP by 0.2 on impact and peaks at 0.3 within the first five quarters. In contrast, a shock to revenue produces an immediate multiplier of -0.1 that remains significant for only the first two quarters before dissipating. However, for both multipliers, the effect

[2] The details can be found in the associated working paper (link here).

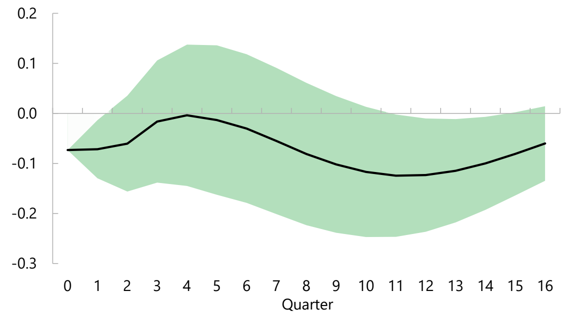
becomes statistically insignificant in the outer years, indicating limited sustained impact on economic activity from fiscal measures.

Spending Multiplier
(In percent)



Sources: NSO; IMF Staff calculations.
Note: shaded areas are are impulse response functions with 90% confidence bands.

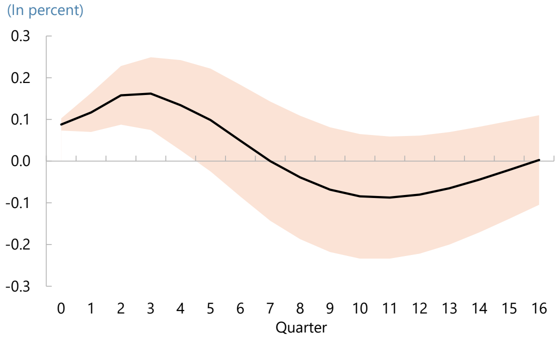
Revenue Multipliers
(In percent)



Sources: NSO; IMF Staff calculations.
Note: shaded areas are are impulse response functions with 90% confidence bands.

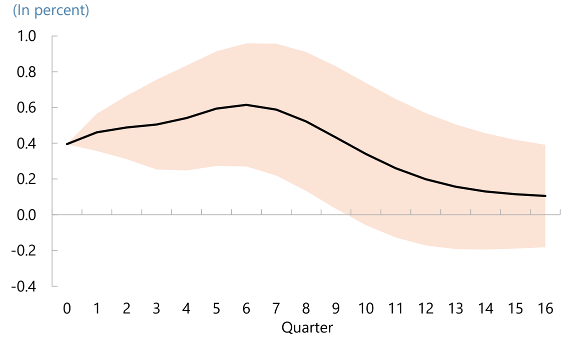
7. **The impact of fiscal policy can vary based on the composition of expenditure measures**. The current spending multiplier is 0.1 on impact and remains at this level for 3 quarters following the shock, which suggests that immediate consumption and transfer payments, such as public wages and social assistance programs, provide a modest initial boost to GDP. On the other hand, the capital spending multiplier is 0.3 on impact and peaks at 0.6 in quarters 5 7, indicating that investments in infrastructure and long-term projects lead to a more substantial increase in economic output.

Current Spending Multiplier
(In percent)



Sources: NSO; IMF Staff calculations.
Note: shaded areas are are impulse response functions with 90% confidence bands.

Capital Spending Multiplier
(In percent)



Sources: NSO; IMF Staff calculations.
Note: shaded areas are are impulse response functions with 90% confidence bands.

8. **Policy implications**. The lower than unity multipliers suggest that fiscal policy is not so effective in boosting growth due to import leakages. Notably, low tax multipliers indicate that the recent initiatives to lower tax rates are unlikely to significantly boost economic growth and should be carefully evaluated. The relatively higher multiplier for capital spending suggests that capital spending cuts can be more harmful to growth than current spending cuts. Addressing structural weaknesses in revenue collection, such as improving tax compliance and reducing dependence on volatile non-tax revenues, is critical for enhancing fiscal sustainability.

Annex X. Monetary Policy Transmission Mechanism

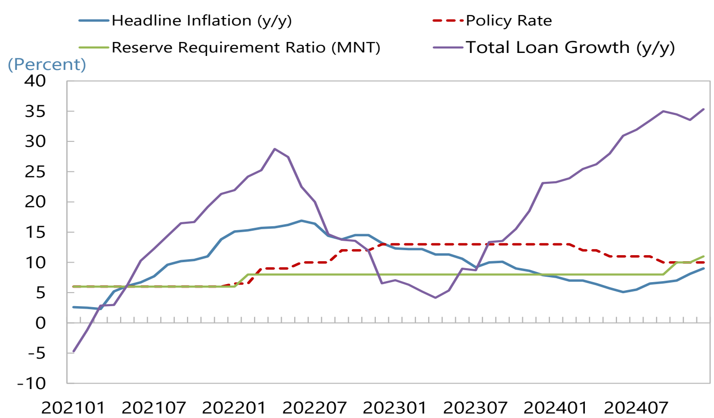
This annex empirically examines channels of transmission of monetary policy shocks in Mongolia, using over the period from 2005Q1 to 2023Q4. The analysis employs a Large Bayesian Vector Autoregressive (LBVAR) model and identifies five transmission channels: the direct channel, exchange rate, credit, asset prices, and risk-taking. The results indicate a robust and statistically significant response of inflation to a 100 basis-point increase in the policy rate, with effects lasting over two years. This inflation response is primarily attributed to the appreciation of the domestic currency rather than a contraction in demand. In contrast, output growth and other real variables exhibit a limited response to monetary policy shocks. The effectiveness of monetary policy could be enhanced through better coordination between monetary and fiscal policy, the adoption of a more flexible exchange rate, and the deepening of the financial market.

1. **The Central Bank of Mongolia (BOM) adopted inflation targeting (IT) as its monetary policy framework in different phases**. At its inception in 2007, the BOM used a point target of 8 percent as its inflation objective, using the one-week central bank bills' rate along with the reserve requirement ratio as its policy instruments. This period was characterized by episodes of high and volatile inflation, reaching its highest level of 34 percent in August 2008, the highest since the 2000s. The IT regime was temporarily interrupted in the aftermath of the 2008 global financial crisis, as the country embarked on a Stand-by Program with the IMF, which required the BOM to target monetary aggregates instead of inflation. The Bank reinstated the IT framework in 2013 after completing the 18-month Stand-by Program in 2011. This time, it adopted a range target of 8 percent ± 2, which was revised down in 2016 to 6 percent ± 2. Additionally, the BOM introduced elements of an inflation targeting framework, such as improved communication; however, the Bank's progress toward achieving full-fledged inflation targeting is still a work in progress. Although the central bank is mandated to ensure price stability, it faces two significant obstacles: a lack of operational independence and the substantial influence of fiscal policies on monetary policy outcomes, particularly due to the government's significant role in the economy. The objective of this analysis is twofold. First, it aims to assess the effectiveness of monetary policy in Mongolia. Second, it seeks to better understand the channels through which monetary policy is transmitted. Understanding the nuances of this transmission mechanism is essential for enhancing the effectiveness of IT framework.

2. **The effectiveness of monetary policy transmission in Mongolia has become increasingly pertinent in light of recent monetary policy cycles**. In 2022, following the escalation of inflation—partly driven by exchange rate pressures—the BOM tightened its monetary policy from December 2021 to December 2022. The policy rate was increased by 700 basis points, reaching 13 percent, and the policy rate corridor was widened to ±2 percent (Figure 1). Additionally, reserve requirements were tightened by 200 basis points. Despite these measures, the impacts on lending and deposit rates were minimal, largely due to substantial liquidity injections from the BOM's quasi-fiscal operations, and excess liquidity. Subsequently, inflation declined, primarily driven by lagged monetary policy tightening, reduced import prices and supported by a slight appreciation of the exchange rate, which enabled subsequent cuts in the policy rate. However, despite the

implementation of these monetary policy measures, the credit to the private sector and the real economy exhibited a muted response, raising questions about the underlying mechanisms at play. This lack of responsiveness appears to stem largely from heightened risk aversion among economic agents, prevailing economic uncertainty, quasi-fiscal operations, and excess liquidity in the system.

Annex X. Figure 1. Mongolia: Policy Rate, Inflation, RRR, and Loan Growth



Sources: Haver Analytics and the Bank of Mongolia.

3. **To empirically examine the important channels of monetary policy shock transmission in Mongolia, we use a Large Bayesian Vector Autoregressive (LBVAR) model**. This model consists of 24 quarterly variables observed over the period from 2005Q1 to 2023Q4, with four lags. The LBVAR model effectively accommodates a wide range of time series without suffering from the loss of degrees of freedom, often referred to as the "curse of dimensionality" in VAR literature, transforming it into a "blessing of dimensionality." Furthermore, it addresses the price puzzle commonly encountered in smaller VAR models due to information limitations. By accounting for persistence and mean-reversion in variables, the Bayesian approach implements Minnesota priors. The large model is structured in a way that is consistent with a three-variable VAR, achieving an R-squared of 75 percent.

4. **Monetary policy shocks are identified strategy aligns with the Cholesky identification scheme**. This methodology divides variables into four blocks, arranged in the following order: slow-moving variables, the policy rate, fast-moving variables, and exogenous global variables. Slow-moving variables, which consist of both real and nominal variables, do not react contemporaneously to monetary policy shocks; thus, we impose zero restrictions on them, similar to the Cholesky decomposition. The policy rate serves as the monetary policy instrument, set to a 100-basis point change upon impact. Fast-moving variables primarily include financial indicators such as interest rates, stock prices, volatility, and the exchange rate.

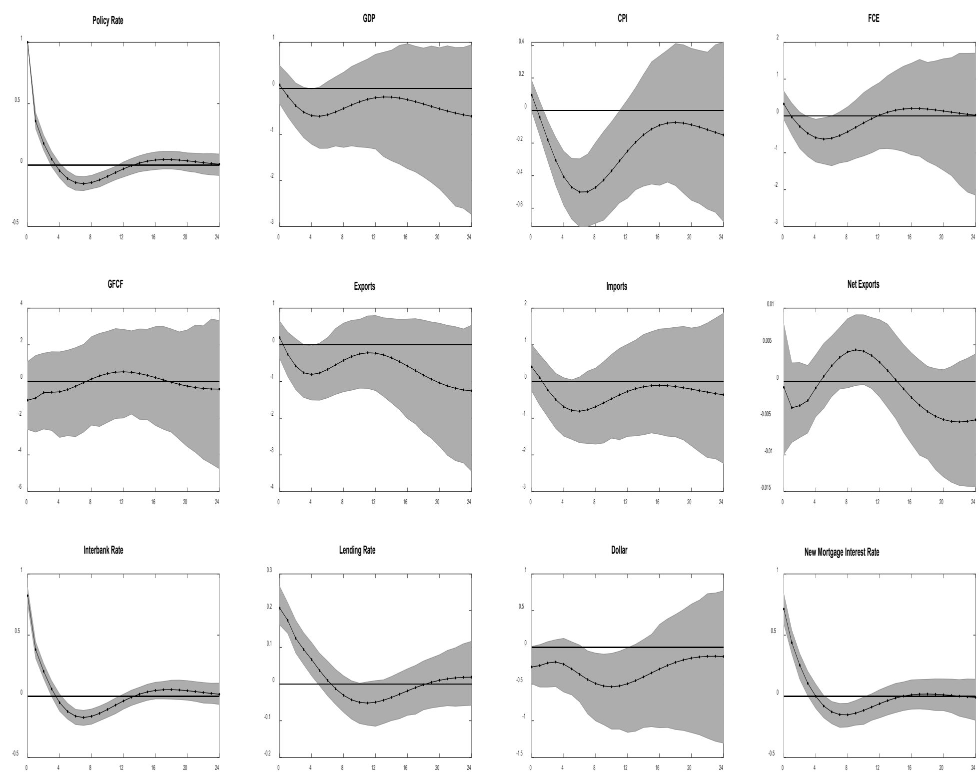
5. **The identified shock closely resembles the pattern of a monetary policy shock**: the policy rate increases in response to the shock, while both real variables and inflation decline afterward (Figure 2). This shock is neither a demand shock nor primarily a financial shock. Focusing

first on the reaction of inflation in response to contractionary monetary policy, inflation declines, and its impact lasts longer than that on GDP, extending nearly three years. It gradually decreases, reaching a maximum reduction of 0.5 percentage points seven quarters after the shock before reverting to the steady state. The inflation response remains statistically significant for about three years and is influenced more by movements in the exchange rate than by the short-lived decline in output. The crucial role of the exchange rate channel in explaining inflation dynamics aligns with documented significant exchange rate pass-through in Mongolia. Following the contractionary monetary policy, the domestic currency appreciates. Interestingly, the exchange rate does not react forcefully upon impact, which may be attributed to central bank intervention, consistent with the IMF’s classification of the country’s exchange rate regime as a crawling peg. Notably, we do not observe the exchange puzzle results. Similarly, we find no evidence of the price puzzle commonly observed in small VAR models and refers to an increase in prices in response to monetary policy tightening. This absence is primarily due to the rich data environment employed by the LBVAR technique.

6. Regarding the transmission to the real sector, the contraction in consumption negatively impacts the economy, causing GDP to fall, with the decline peaking five quarters after the shock. The impact on the real economy is short-lived and not statistically significant, lasting just over a year. Surprisingly, the response of investment is not statistically significant. This may be attributed to the fact that a significant portion of investment in Mongolia is concentrated in the mining sector, particularly in mining infrastructure and related projects. Additionally, government initiatives aimed at enhancing infrastructure development, such as transportation and energy projects, contribute to this dynamic.

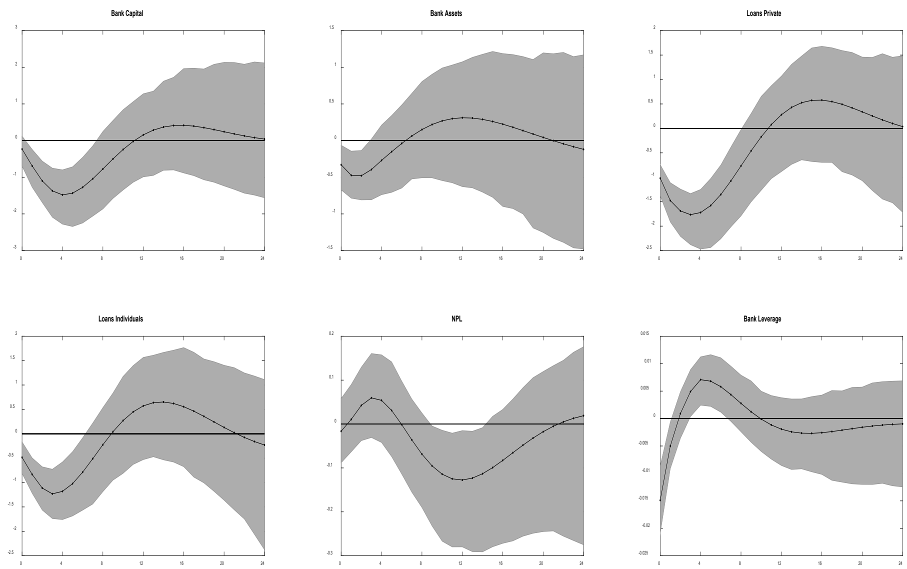
7. Turning to the interest rate channel, all interest rates—interbank, lending, and new mortgage rates—rise in tandem with the increase in the policy rate, albeit to varying degrees. The monetary policy shock is transmitted more forcefully to the interbank and new mortgage rates than to the lending rate, reaching increases of 0.8 and 0.7 percentage points, respectively, while the pass-through to the lending rate is only 0.2 percentage points. The modest response of the lending rate may reflect weak monetary policy transmission, stemming from a lack of an effective domestic debt market and substantial liquidity injections via the BOM’s quasi-fiscal operations, which have characterized the Mongolian economy since the pandemic.

Annex X. Figure 2. Mongolia: Interest Rates, Real Variables, and CPI



8. **Bank balance sheets are adversely affected, as both individual and private bank loans decline, subsequently resulting in a reduction of bank assets** (Figure 3). These impacts are short-lived, lasting just over a year for loans to individuals and closer to two years for loans to the private sector. Loans to the private sector contract significantly, peaking at a reduction of 1.8 percentage points after one year, while loans to individuals decrease by 1.2 percentage points. Initially, non-performing loans (NPLs) rise, likely due to an increased probability of default among borrowers; however, this trend eventually reverses as loan volumes decrease. The decline in lending activity also contributes to a reduction in bank profitability, which further negatively impacts bank capital. Similar to loans, the effect on bank capital reaches its maximum after about a year before gradually recovering. Consequently, the leverage ratio experiences a sharp decline, followed by a gradual recovery as banks implement measures to clean up their balance sheets.

Annex X. Figure 3. Mongolia: Commercial Banks' Balance Sheet



9. The effectiveness of direct monetary policy transmission in Mongolia may be compromised by other policies, such as fiscal policy, which can operate in the opposite direction, thereby creating a disconnect in achieving desired economic outcomes. This situation highlights the need for coordination between monetary and fiscal policies. Additionally, monetary policy authorities must avoid adopting quasi-fiscal policies that undermine the transmission of monetary policy, as this can jeopardize the independence of the central bank. Adopting a more flexible exchange rate regime would further enhance the effectiveness of monetary policy transmission and could have a stronger impact on inflation. Moreover, a more developed financial market would significantly improve the efficiency of the transmission mechanism, facilitating smoother interactions between monetary policy actions and their effects on the real economy. Together, these strategies contribute to an IT framework for the effective implementation of monetary policy.

Annex XI. Distribution Impact of Inflation: Evidence from Household Survey

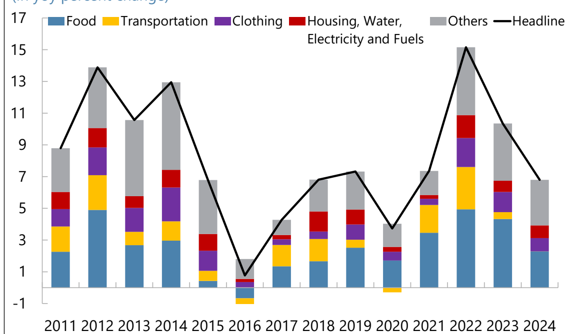
The analysis draws on household survey data to examine the distributional impact of inflation across households with different characteristics. While inflation affects all households, its burden is more pronounced for lower-income and rural households. Although the differences in impact are moderate, the results underscore the importance of means-tested and well-targeted support.

1. **The highly expansionary fiscal policy and strong consumer spending have driven inflation higher since 2024H2, with a November 2024 electricity tariff hike intensifying the rise**. While headline inflation moderated to 8.2 percent y/y in June 2025, it still exceeds the BOM's 6±2 target range. On the other hand, inflation can vary widely across categories. For example, while the inflation rate of housing and utilities reached 20.9 percent y/y, transportation inflation was only 4.3 percent. As a result, the same headline inflation rate affects households differently based on their consumption baskets.

2. **This study analyzes the distributional impact of inflation using household consumption data from the 2021 and 2022 annual Household Social Economic Survey (HSES)**. Inflation peaked in 2022 at 15.2 percent y/y—the highest since 2009—making it a particularly relevant year for examining how inflation affects households differently. The use of household-level data enables an assessment of how inflation impacts vary across income groups. For instance, a previous study using HSES data found that economic growth affects the lowest and highest income quintiles more significantly than middle-income households, largely through the labor income channel.[1]

Inflation Contributions

(In yoy percent change)



Sources: Haver Analytics; IMF staff calculations.

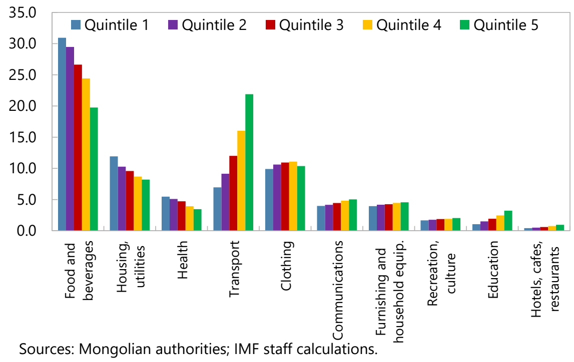
3. **Household consumption patterns vary significantly across income groups**. Households in the bottom income quintile allocate nearly half of their total expenditure to basic goods and services—such as food, housing and utilities, and health—which is over 50 percent more than the corresponding share for households in the top income quintile. In contrast, higher-income households devote a larger portion of their spending to categories like transport, furnishings and household equipment, recreation, education, and hotels and restaurants. There also appear to be some shifts in consumption patterns between 2021 and 2022. For example, the shares of spending on food and beverages, communications, and education declined in 2022, while expenditures on transport and housing and utilities increased. It should be noted, however, that the two surveys do

[1] Khosbayar, Enkhsaikhan, and Tsolmon, 2024, "Does Economic Growth Support Household Income?" The Bank of Mongolia.

not track the same households. In 2022, the National Statistics Office surveyed around 1,800 households each month, totaling approximately 22,000 households for the year. In comparison, the 2021 survey covered about 11,000 households.

Average Household Consumption, 2022

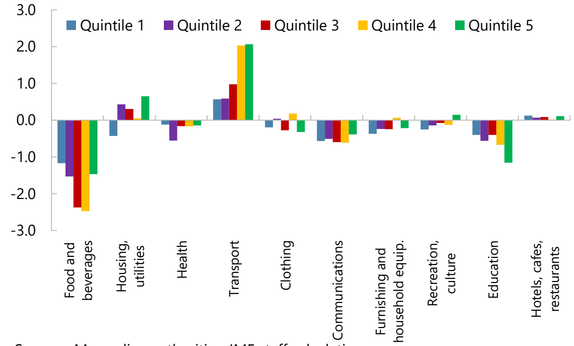
(In percent of total consumption)



Sources: Mongolian authorities; IMF staff calculations.

Changes in Household Consumption, 2022/2021

(In percent of total consumption)



Sources: Mongolian authorities; IMF staff calculations.

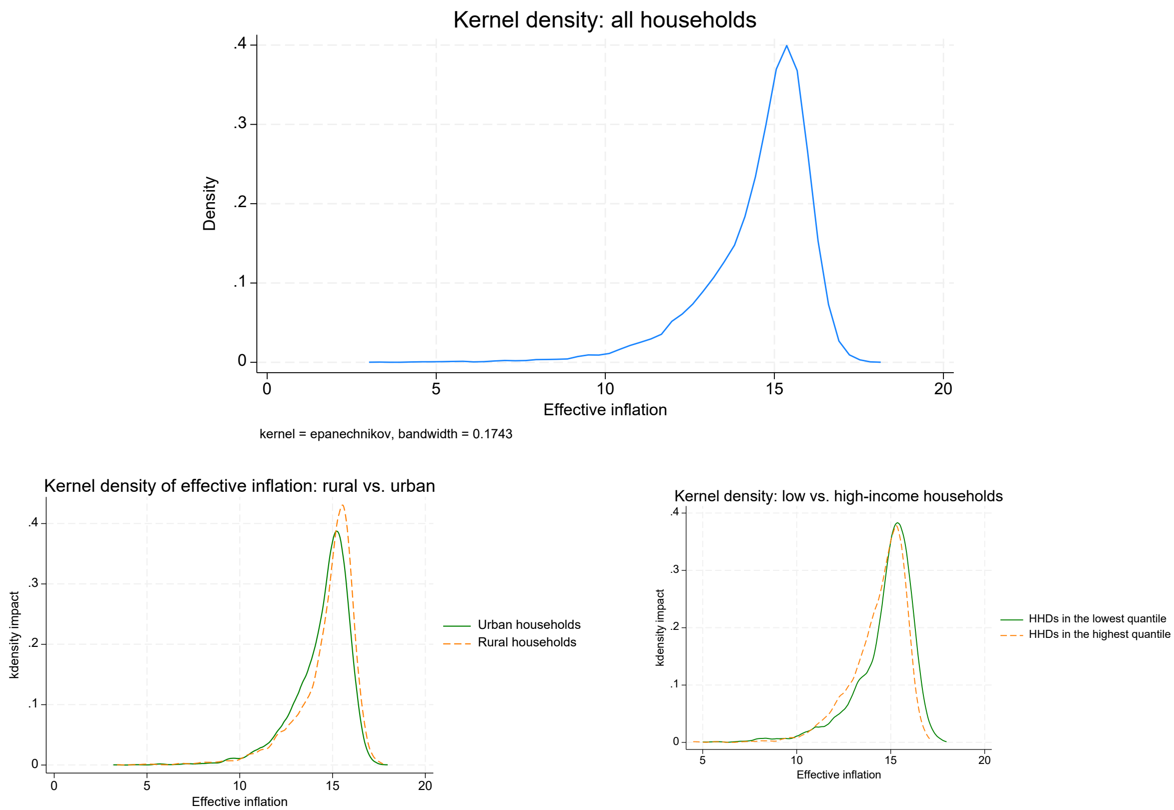
4. **The impact of inflation on the cost of living varies across households, as price increases differ by consumption category**. For instance, lower-income households spend a larger share of their income on housing and utilities compared to higher-income households. As a result, the recent electricity tariff increase could have a disproportionately greater effect on poorer households barring targeted measurers.[2] To assess this impact, the analysis follows a well-established methodology. It calculates the compensating variation—the amount needed to offset the loss in purchasing power caused by rising prices across different components of the CPI basket.[3] When prices rise, the compensating variation is a measure of the effective inflation facing the household since it controls for individuals' expenditure share across different categories and the price increase in each category.

5. **There are differences in the effective inflation faced by individual households**. While the most common inflation rate experienced by households—where the distribution peaks—stands at 15.4 percent, similar to the inflation rate in 2022 (15.2 percent), some households faced higher, while others experienced lower rates. Specifically, rural households and low-income households would generally face higher effective inflation, although differences across different groups are moderate. Better-educated households and larger households also faced lower effective inflation. For larger households, this may be due to a smaller share of their spending going toward housing and utilities, which contributes to a smaller increase in their overall inflation rate.

[2] For households, the electricity tariff increase is consumption-based, with those receiving social assistance continuing to be charged the previous rate.

[3] Specifically, for household i with consumption bundle $\{c^{i,j}_{2021}\}$, basket of goods and services indexed by j, when prices change from $\{p^{j}_{2021}\}_{i,j}$ to $\{p^{j}_{2022}\}$, the compensating variation is calculated as $CV^{i}_{2021,2022} = \sum_j s^{i,j}_{2021} * \pi^{j}_{2021,2022}$, where the share $s^{i,j}_{2021} = \frac{c^{i,j}_{2021} * p^{j}_{2021}}{\sum k\, c^{i,k}_{2021} * p^{k}_{2021}}$, and the price increase $\pi^{j}_{2021,2022} = 100 * \left(\frac{p^{j}_{2022}}{p^{j}_{2021}} - 1\right)$.

Annex XI. Figure 1. Mongolia: Effective Inflation and Household Characteristics



Annex XI. Table 1. Mongolia: Effective Inflation and Household Characteristics

Rural dummy	0.242***	0.189***	
	(0.030)	(0.039)	
Ln(household income)	-0.136***	-0.097***	-0.087***
	(0.020)	(0.028)	(0.027)
household size		-0.089***	-0.073***
		(0.017)	(0.017)
Years of education		-0.030***	-0.028***
(oldest household member)		(0.007)	(0.007)
Education dummy (1 for more than high school)		-0.165**	-0.142**
(oldest household member)		(0.068)	(0.067)
R-squared	0.01	0.02	0.04
No. of observations	11,178	7,521	7,521
Cluster dummies	No	No	Yes
Aimag dummies	No	No	Yes
Region dummies	No	No	Yes

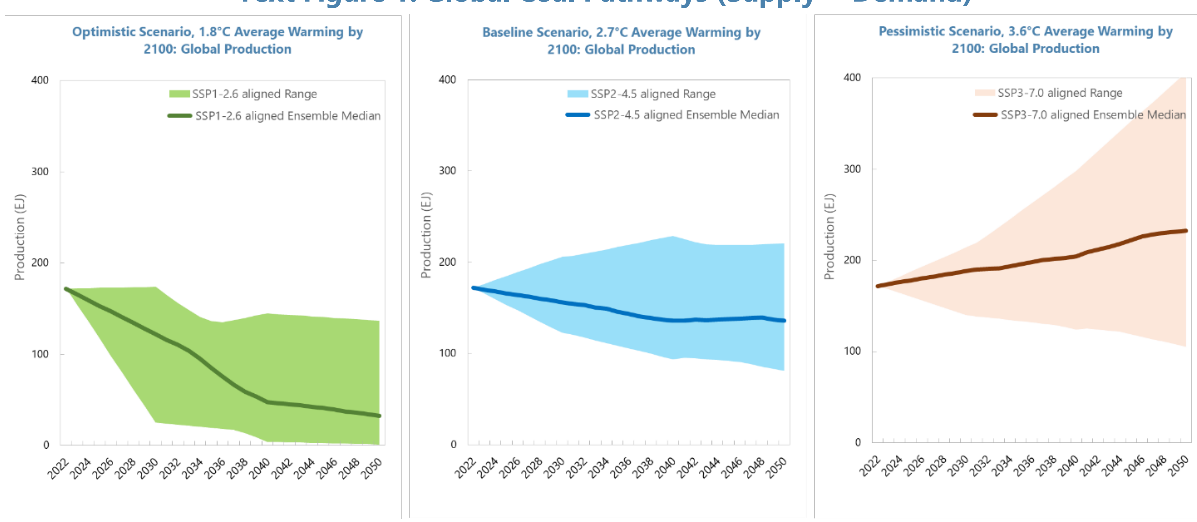
6. **The analysis underscores the need for more targeted support to help households cope with rising inflation**. Although inflation affects all households, its impact is more severe for lower-income and rural households. This highlights the importance of means-tested and well-targeted assistance, which will be a more efficient use of government resources and ensure supports reach those most affected.

Annex XII. Impact of Coal Transition on Mongolia[1]

The global shift away from fossil fuels is underway, suggesting a decline in demand for coal—Mongolia's key mining export. However, there remains significant uncertainty about the pace of this transition and its economic impact. This analysis applies the IMF-ENV model to simulate China's coal demand for iron and steel production and assess the implications for Mongolia. Under a decarbonization scenario for China, with a 13 percent decline in Mongolia's coal exports by 2040 in line with findings by the World Bank (2024), Mongolia's GDP would be 1.9 percentage points lower than the baseline.

1. **With COP28's historic agreement to transition away from fossil fuels in energy systems and achieve net zero by 2050, global coal demand is expected to decline in the next decade, but the speed is uncertain**. Using over 3000 global scenarios from the UN's IPCC Sixth Assessment Report database, IMF staff calculations (Figure 1) show that median global coal production will decline by 21 percent between 2022 and 2050 under the baseline scenario of 2.7°C average warming by the end of the century. However, the range of uncertainty is very wide depending on the speed and depth of the energy transition. Under the optimistic scenario, corresponding to an average warming of 1.8°C relative to preindustrial levels, median demand for coal will decline by around

Text Figure 1. Global Coal Pathways (Supply = Demand)



Notes: Demonstrating the uncertainties arising from future global warming, these figures show a range of possible global production (supply) between 2022 and 2050. The range is based on model runs from the IPCC AR6 database that are aligned with assumptions on the average global temperature by the end of the century under the combination of Shared Socioeconomic Pathway (SSP) scenarios (i.e. potential future pathways of societal development, focusing on factors like population, education, urbanization, economic development, and their impact on greenhouse gas emissions) and radiative forcing levels called Representative Concentration Pathways (RCPs). SSP2-4.5 (middle-of-the-road" socioeconomic development and climate change mitigation under current policies), SSP1-2.6, and SSP3-7.0 correspond to warming of 2.7°C, 1.8°C, and 3.6°C relative to preindustrial levels by 2100. These scenarios also correspond to the baseline, optimistic, and pessimistic warming scenarios applied by the Fund.
Sources: IMF staff calculations; IEA World Energy Balances (2024) and IPCC AR6 Scenarios Database (2022).

[1] Prepared by Sneha Thube, Alice Tianbo Zhang, and Yi Wu.

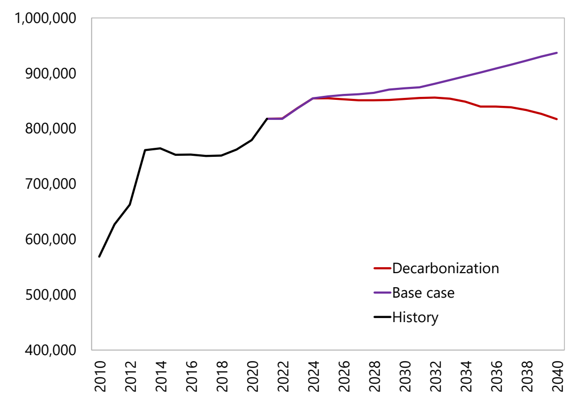
81 percent with the possibility of a full phase-out by 2050. On the other hand, under the pessimistic scenario of 3.6°C average warming, rising and unabated coal use could materialize. In addition, regional supply compositions could shift during the energy transition as each country has unique decarbonization priorities and policies.

2. **Coal is a key driver of Mongolia's exports and fiscal revenue**.[2] In 2023, Mongolia's coal production and export volume more than doubled, fueled by strong demand from China, its main market. Metallurgical coal, used for steel production, makes up approximately 70 percent of output, followed by 15 percent lignite, with the rest being bituminous and sub-bituminous coal (U.S. Energy Information Administration (EIA)). Mongolia's share of global metallurgical coal production rose to 4 percent in 2023. About 85 percent of coal production is exported, with coal comprising just over half of total exports in 2024. Imports from Mongolia accounted for 15 percent of China's total coal imports in 2024. Coal also generated about 20 percent of Mongolia's total fiscal revenue in 2024.

3. **The IMF-ENV model is used to simulate two scenarios for Chinese coal demand for iron and steel production and assess the impacts on Mongolia**. The IMF-ENV model is a global dynamic computable general equilibrium model based on input-output tables from 160 countries and 76 commodities. It offers a flexible framework ideal for analyzing policies that cause major structural changes. The model offers a high level of sectoral and country granularity and can evaluate the general equilibrium effects of domestic policies and their cross-border impacts through trade flows which are modelled with the Armington specification (Chateau et al. (2025)). Using data from the World Bank (2024), we developed two scenarios to illustrate possible trajectories for metallurgical coal demand in China's iron and steel sector.[3] Changes in coal demand are driven by various factors, including enhanced decarbonization efforts in Chinese steel manufacturing, declining demand for construction, or advances in alternative steel production technologies. Under the decarbonization scenario, Mongolia's coal exports to China decline in proportion to the fall in Chinese coal demand for iron and steel production.[4]

Text Figure 2. Annual Coal Demand for Iron and Steel Production in China

(In kton)



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[2] ETT' coal reserves are estimated at 6.3 billion tons—making it one of the largest in the world—including 3.3 billion tons of metallurgical coal and 3 billion tons of thermal coal. In 2024, Mongolia exported 83.8 million tons of coal.

[3] The IMF-ENV model does not differentiate between types of coal. Coal used for iron and steel production is treated as metallurgical coal.

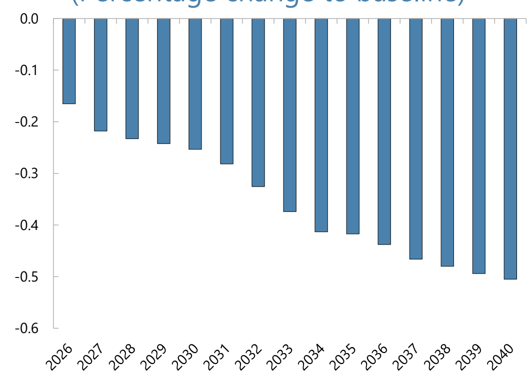
[4] Unlike the World Bank (2024), which relies solely on an input-output (IO) table approach, this modelling assessment employs the IMF-ENV model that includes general equilibrium effects alongside the IO framework.

4. Simulations suggest that, under the decarbonization scenario, a decline in China's coal demand could reduce Mongolia's GDP by 1.9 percent by 2040. Economy-wide employment levels will also be affected, with jobs in the coal mining sector decreasing by 9.8 percent and overall employment falling by 1 percent relative to the baseline by 2040. Reduced employment would also lead to lower wages, which in turn would reduce household income and private consumption.

5. The uncertainty surrounding global coal demand could also leads to reduced investment in the coal mining sector. As coal demand falls, so does the incentive for new investment. The simulated 13 percent decline in coal exports to China would reduce the need for capital investment in Mongolia's coal mining sector by about 11 percent by 2040 (Figure 3). Should China's demand for Mongolian coal falls more, for instance due to reorienting toward domestic coal or other political and economic factors, the investment decline would be even larger. Given this uncertain outlook, investors would carefully assess both short- and long-term investment strategies, particularly for capital-intensive sectors like mining.

Text Figure 3. Capital in Coal Mining in Mongolia

(Percentage change to baseline)



6. Some offsetting factors may mitigate the impacts of the global coal transition in Mongolia. Firstly, Mongolia benefits from very low extraction costs for metallurgical coal and its proximity to China, allowing it to potentially export coal to China longer than some other trading partners. Secondly, most studies anticipate a significant reduction in thermal coal used for power generation due to the availability of cheaper alternatives such as solar and wind power. Conversely, the alternative to coal in iron and steel production, green hydrogen, is not yet widely deployed with current technology. Thirdly, the large-scale implementation of carbon capture and storage plants could also extend the use of coal, although this technology has not yet been adopted on a large scale. The IMF-ENV model accounts for the first factor but does not explicitly model the latter two technologies. Lastly, the decline in coal could be partially offset by increased demand for Mongolia's other mineral products, particularly copper. Copper is Mongolia's second most important mining product, accounting for around 20 percent of Mongolia's exports in 2024. A substantial boost in copper production in 2025 is expected to increase its share in total exports to more than 30 percent. Finally, the authorities are also trying to attract significant FDI in the renewable sector with the goal of exporting electricity to China.

References

Chateau, J., Rojas-Romagosa, H., Thube, S. D., & van der Mensbrugghe, D. (2025). IMF-ENV: Integrating Climate, Energy, and Trade Policies in a General Equilibrium Framework. *IMF Working Papers*, *2025*(077).

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INTERNATIONAL MONETARY FUND

MONGOLIA

July 23, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Asia and Pacific Department (in collaboration with other departments)

CONTENTS

FUND RELATIONS

(As of June 30, 2025)

Membership Status: Joined: February 14, 1991; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	72.30	100.00
Fund Holdings of Currency	138.31	191.31
Reserve Position in Fund	5.54	7.67

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	118.05	100.00
Holdings	66.52	56.35

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
	Extended Arrangements	71.49
98.88		

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	05/24/2017	05/23/2020	314.51	157.25
Stand-by	04/01/2009	10/01/2010	153.30	122.64
ECF[1]	09/28/2001	07/31/2005	28.49	12.21

Latest Financial Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	06/03/2020	06/05/2020	72.30	72.30

Overdue Obligations and Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2025	2026	2027	2028	2029
Principal	13.10	26.21	23.88	8.30	0.00
Charges/interest	2.11	3.40	2.48	1.73	1.51
Total	15.21	29.61	26.35	10.03	1.51

[1] Formerly PGRF.

Safeguards Assessment:

1. Safeguards assessments of the Bank of Mongolia (BOM) were conducted in 2002, 2003, 2009, 2017, and 2023. The 2023 safeguards assessment found that safeguards risks at the BOM remain elevated given the autonomy and governance weaknesses in the Central Bank Law that were not addressed in the previous round of amendments, and an increase in the BOM's quasi-fiscal role. This has contributed to a significant decline in the BOM's equity position which will need to be resolved. Reforms are also needed to strengthen the Central Bank law and governance arrangements and to prohibit quasi-fiscal activities.

Exchange Arrangement:

2. On March 24, 2009, the BOM instituted a foreign exchange auction allowing the determination of the exchange rate mainly by market forces. The de jure exchange rate arrangement is floating, and the de facto exchange rate arrangement is crawl-like, effective March 3, 2022.

3. Mongolia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement on February 1, 1996. Mongolia maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.[2]

4. Mongolia imposes exchange restrictions for security reasons in accordance with United Nations Security Council Resolution No. 92/757 concerning certain transactions with the Federal Republic of Yugoslavia (Serbia and Montenegro) that have been notified to the Fund under Decision 144 (11/4/94).

Article IV Consultation:

5. The 2023 Article IV consultation was concluded by the Executive Board on September 14, 2023. Mongolia is on a 12–month cycle.

[2] Mongolia previously maintained two multiple currency practices. First, the modalities of the multi-price auction system gave rise to an MCP since there is no mechanism in place that ensures that exchange rates of accepted bids at the multi-price auction do not deviate by more than 2 percent. In addition, Mongolia has an official exchange rate (reference rate) that is mandatorily used for government transactions (as opposed to the commercial market rate). Therefore, by way of official action, the authorities have created market segmentation. While the reference rate is determined based on the weighted average of all commercial bank's FX trades from 3:30 PM of the previous day to 3:30 PM of the current day, staff were of the view that this practice does not eliminate the market segmentation and the multiplicity of effective rates arising from it. Accordingly, in the absence of a mechanism to ensure that the commercial rates and the reference rate do not deviate by more than 2 percent, the way the reference rate is used in government transactions gave rise to an MCP (SM/23/201). In line with the revised MCP policy that became effective on Feb 1, 2024, all MCPs maintained by members under the previous MCP policy are considered eliminated as of Feb 1, 2024.

ROSC Assessments:

6. The following ROSC assessments have been undertaken: Data Dissemination (May 2001), Fiscal Transparency Module (November 2001), Fiscal Update (May 2005), Data Dissemination (April 2008), Monetary and Fiscal Policy Transparency (September 2008), Banking Supervision (September 2008).

Recent Financial Arrangements:

7. A Rapid Financing Instrument in an amount of equivalent to SDR 72.30 million (100 percent of quota) was approved on June 3, 2020.

8. A 36-month Extended Fund Facility in an amount of equivalent to SDR 314.5054 million (435 percent of quota) was approved on May 24, 2017. The Executive Board completed the fifth review on October 31, 2018. The program expired on May 23, 2020.

FSAP Participation:

9. The first FSAP for Mongolia was conducted by the IMF and World Bank in 2007, with the final report issued in May 2008. IMF staff subsequently conducted a Financial Sector Stability Module in 2010 (report issued in May 2011), which was followed by a Development Module, conducted by the World Bank, in 2012.

Capacity Development:

10. Mongolia is an intensive recipient of IMF technical assistance (TA). Since the 2023 Article IV consultation, assistance has focused on tax and customs administration, fiscal laws and fiscal risks, banking supervision, and macroeconomic forecasting and statistics.

IMF TA Missions (July 2023–April 2025):

- GFS/PSDS (CCAMTAC), July 2023
- LEG review of draft Investment Banking Law, March 2023.
- FAD review of draft Amendments to Fiscal Stability Law and Integrated Budget Law, March 2023
- FAD review of draft Investment Law, April 2023
- Tax administration – Enterprise risk mission (FAD), August 2023
- Tax administration HQ review mission (FAD), August 2023
- Macroeconomic framework mission (ICD/CCAMTAC), October 2023
- Customs organizational risk management and strategic management (FAD), October - November 2023
- Macroprudential policy implementation (MCM), November 2023 - April 2024

- Tax administration – VAT fraud mission (FAD), November - December 2023
- Macroeconomic framework mission (ICD/CCAMTAC), February 2024
- Tax administration – Large taxpayer compliance, February – March 2024
- Fiscal risk management and SOEs (FAD), March 2024
- Customs role in AML (FAD), March – April 2024
- Customs administration (FAD), March – April 2024
- Macroeconomic framework mission (ICD/CCAMTAC), April – May, July 2024
- GFS and PSDS mission (STA), August and October 2024
- Tax administration – Strategic plan, disputes, and debt (FAD), August – September 2024
- Fiscal risk statement (CCAMTAC), September 2024
- Macroeconomic framework mission (ICD/CCAMTAC), September - October 2024
- National Accounts mission (CCAMTAC), September – October 2024
- Central Bank recapitalization (CCAMTAC), October 2024
- Tax administration – Extractives risk assessment (FAD), October – November 2024
- The Bank of Mongolia Law (LEG), November 2024.
- GFS scoping mission (CCAMTAC), December 2024
- Tax administration – Auditing extractives (FAD), December 2024
- Balance Sheet Stress Testing of Bank of Mongolia (MCM and CCAMTAC), January 2025
- Macroeconomic framework mission (ICD/CCAMTAC), March–April 2025
- Tax policy - tax reform desk review (FAD), March-April 2025
- Enhancing Macroprudential Stress Testing Capacity (MCM), April 2025
- Fiscal risks, Scoping mission (FAD) – April 2025
- IFRS9 Regulations and Internal Procedures, virtual (CCAMTAC), May 2025
- Joint Tax and Customs Visit (FAD), June 2025
- Support to SOE fiscal risk analysis (CCAMTAC), June – July 2025
- National Accounts mission (CCAMTAC), June - July 2025

Resident Representative:

11. Since July 2023, Mr. Tigran Poghosyan has been the resident representative based in Ulaanbaatar.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/mongolia

Asian Development Bank: https://www.adb.org/countries/mongolia/main

Statement by Mark Blackmore, Alternate Executive Director for Mongolia and Sukh-Ochir Batsukh, Advisor to Executive Director
September 5, 2025

On behalf of the Mongolian authorities, we thank Mr. Saadi Sedik and the team for the candid and constructive discussions during the 2025 Article IV consultations. The Government highly values the IMF staff's continued engagement and takes their recommendations into careful consideration in the policymaking process. Mongolian authorities broadly concur with the staff's assessment on the economic outlook and policy recommendations.

Recent Developments and Outlook

In recent years, the rapid expansion of the mining sector has elevated Mongolia to the upper middle-income country classification, and the authorities remain optimistic about Mongolia's medium-term outlook. The revised Medium-Term Fiscal Framework (MTFF) projects higher real GDP growth for 2026–28, supporting stronger fiscal revenues, though still below 2025 budgeted levels. A booming mining sector, combined with strong government and household spending, underpinned robust growth in 2024 despite severe weather shocks in agriculture, including the loss of 9.4 million livestock from a harsh dzud. Higher wages, pensions, and dividend payouts by Erdenes Tavan Tolgoi (ETT) boosted household incomes and credit-driven consumption, further supporting growth.

In 2025H1, economic activity weakened as coal exports receipts fell sharply, weighing on the current account, fiscal revenues, and the exchange rate. While agriculture showed a strong recovery, the decline in coal prices led to a sizeable shortfall in mining revenues. Nonetheless, fiscal buffers were supported by earlier savings in the Sovereign Wealth Fund and Fiscal Stability Fund, sovereign rating upgrades, and proactive refinancing of Eurobonds maturing in 2026 and 2028, which helped reduce rollover risks.

Inflation moderated in early 2025 but remained above the Bank of Mongolia's (BOM) 6±2 percent target band. In response, the BoM raised the policy rate, increased reserve requirements, and tightened consumer loan regulations for both banks and NBFIs. Despite some moderation, credit growth remains high, with household debt rising to 42.3 percent of GDP by early 2025. External vulnerabilities also remain significant: the current account deficit widened to over 10 percent of GDP in 2024 and further in 2025H1, while reserves declined to 88 percent of the IMF's adequacy metric under a floating exchange rate classification.

Looking ahead, growth is projected at 5.5 percent in 2025, supported by agriculture, but lower coal prices are expected to widen both the fiscal and external deficits. Over the medium term, growth is expected to converge to about 5 percent, while inflation should return to the target range by 2026. Risks remain tilted to the downside, particularly from weaker coal demand, larger-than-expected price declines, global trade tensions, and elevated credit growth. Longer term, Mongolia remains exposed to China’s energy transition and falling global coal demand, though faster implementation of mega projects and new mining production could provide upside support to growth.

Fiscal policy

While substantial financing demands exist for social and economic programs, the government has focused on safeguarding fiscal discipline and ensuring compliance with the fiscal rules. They highlighted recent amendments to the fiscal framework, which enhanced the role of the Fiscal Stability Council, restricted Parliament’s ability to modify fiscal rules, and introduced a nominal debt ceiling of 60 percent of GDP, a 30 percent of GDP ceiling for current expenditures, and a structural deficit ceiling of 2 percent of GDP. The government emphasized that these reforms are key to preserving fiscal discipline, even as they acknowledge that the expenditure rule could introduce procyclicality. They stressed their determination to ensure that fiscal rules remain a credible policy anchor, noting that the supplementary 2025 budget was formulated precisely to address revenue shortfalls and maintain compliance with the deficit ceiling.

The supplementary budget envisages expenditure cuts amounting to about 2 percent of GDP relative to the approved 2025 budget. These cuts largely stem from cancelling domestically financed capital projects that had not been appraised or procured by end-May, as well as freezing operational spending. At the same time, the government reaffirmed that externally financed capital projects will continue as planned, with a potential fast-tracking of three major infrastructure projects—an oil refinery, a hydropower plant, and a housing complex in Ulaanbaatar’s ger area. The planned 9 percent reduction in civil servants over 2025–26 will exclude the health and education sectors to safeguard essential social spending and protect the most vulnerable.

On taxation, the government acknowledged staff’s concerns regarding the proposed tax package but underscored that it remains under review and has not been finalized. They explained that the package is designed to reduce the tax burden on low- and middle-income households and eligible businesses, while also modernizing tax administration. They recognized implementation challenges, especially in light of planned civil service cuts and limited administrative capacity, but pointed to a medium-term restructuring strategy to support rollout. The government emphasized their commitment to preserving fiscal sustainability, noting that any reform will be carefully sequenced and aligned with good international practices.

The authorities agreed with staff that Mongolia’s sovereign risk is best assessed as moderate, reflecting the recent decline in public debt and improvements in debt management, but they were more optimistic about the medium-term fiscal outlook. Mongolia’s debt management capacity has strengthened significantly in recent years, with a disciplined adherence to debt management and successful execution of external liability management and refinancing on an annual basis. Through the renewal of domestic debt issuance, the authorities are gradually deepening the market and reinforcing the yield curve. They reaffirmed their commitment to gradual expenditure rationalization, better targeting, and efficiency measures to address expected revenue shortfalls, while maintaining fiscal space for priority projects. The approved 2026–28 MTFF provides a clear framework to support this approach. At the same time, the authorities underlined the importance of carefully prioritizing large capital projects, ensuring that external financing is secured, and implementing them within sound public investment and PPP frameworks to contain fiscal and external risks.

Monetary policy

The authorities agreed on the need to maintain a tight monetary policy stance until inflation returns to target. They emphasized that inflation, expected to remain above the mid-point of the target 6 percent through 2026, disproportionately affects poorer and rural households, making price stability a key priority. Alongside the policy rate, they will continue to use complementary tools to curb credit growth, including adjusting the reserve requirement ratio to absorb excess liquidity and moderating credit expansion. The authorities noted that the recent resumption of market-based domestic government securities issuance is a positive step that will aid liquidity absorption, reduce reliance on costly central bank bills, and help establish a benchmark yield curve to strengthen monetary policy transmission.

The authorities reaffirmed their commitment to gradually reducing the BOM's quasi-fiscal activities to allow it to focus on price and financial stability. They viewed the gradual transfer of the subsidized mortgage program from the BOM to the government as an important step in this direction. They also highlighted their efforts to reach consensus on amendments to the Central Bank Law, which would strengthen the BOM's mandate, independence, and governance. These amendments will clarify the hierarchy of the BOM's objectives, prohibit quasi-fiscal operations, and strengthen internal oversight and accountability, thereby ensuring closer alignment with international best practices.

The authorities underscored the importance of maintaining an adequate level of gross international reserves (GIR) and preserving exchange rate flexibility. A joint BOM–Ministry of Finance strategy has been developed to strengthen reserves by supporting exports, containing imports, and attracting greater FX inflows, including FDI. The authorities noted that the partial repayment of the PBOC swap line in 2023–24 created space to rebuild reserves, while the adjustment of BOM's FX swap terms to align with market conditions has reduced central bank losses. They agreed that over time, the BOM should reduce its role as an intermediary in the FX market and allow for more effective price discovery, while developing the domestic FX derivatives market to reduce contingent liabilities.

Overall, the authorities reaffirmed their commitment to monetary and external stability, acknowledging the need to strengthen GIR buffers in light of Mongolia's exposure to external shocks and commodity price volatility. They considered a flexible exchange rate regime to be critical in supporting adjustment to shocks and enhancing resilience. At the same time, they emphasized their readiness to recalibrate policies if inflationary pressures intensify, including further policy rate increases, tighter reserve requirements, or enhanced liquidity management, while ensuring that reforms remain consistent with fiscal sustainability.

Macroprudential and financial sector policies

The authorities recognized that while the banking sector remains well capitalized and profitable, the rapid pace of credit growth poses risks to financial stability, particularly if macroeconomic conditions were to deteriorate. They noted that banks' foreign currency borrowing from abroad increased substantially in 2024, which has heightened reliance on swaps with the BOM to manage FX mismatches. In response, the authorities have tightened debt-service-to-income (DSTI) ratios for both banks and NBFIs and introduced limits on certain products, such as car leases, to mitigate risks from household indebtedness. They agreed on the importance of aligning DSTI ratios across banks and NBFIs, broadening the macroprudential toolkit, and ensuring its independence from monetary policy.

The authorities emphasized their ongoing efforts to strengthen financial supervision, including the adoption of risk-based supervision and Basel III standards with support from the IMF and other IFIs. They acknowledged the rapid expansion of NBFI lending, which is increasingly concentrated in consumer loans and financed through diverse channels, including domestic and foreign banks, trust loans, and securities issuance. To curb associated risks and limit excessive interconnections between banks and NBFIs, they have introduced measures prohibiting NBFIs from obtaining financing from domestic banks. At the same time, they underlined the need to further enhance oversight to address leverage build-up and vulnerabilities in the sector.

The authorities also highlighted the importance of broader structural reforms to strengthen the resilience and efficiency of the financial system. Priorities include improvements in credit information sharing, collateral valuation, contract enforcement and foreclosure procedures, as well as amendments to insolvency and credit information laws to better address asset quality issues. They acknowledged the benefits of fully implementing bank shareholder diversification and enhancing supervision of complex ownership structures to reduce related-party lending risks. In addition, they agreed that strengthening bank resolution frameworks remains essential and noted ongoing work within the Financial Stability Council on crisis management arrangements, inter-agency coordination, and developing resolution manuals and bank-specific plans.

Structural policy

The authorities recognize that, despite recent progress, further improvement in Mongolia's business environment is essential. They are committed to advancing legal and regulatory reforms aimed at reducing red tape, facilitating licensing and taxation, and expediting insolvency resolution. The forthcoming FDI Law is expected to enhance investor protection and introduce a robust dispute resolution mechanism, while amendments to the PPP Law will address existing gaps. At the same time, efforts are underway to increase judicial efficiency, strengthen transparency, and ensure consistent regulatory enforcement, including in tax administration. The authorities acknowledge that the State's large footprint in the economy can deter private investment and FDI, and they aim to create a more predictable and competitive business climate.

Policies to address corruption and improve governance remain a priority. The authorities intend to build on recent anti-corruption legal reforms by strengthening enforcement, including through digital oversight, greater transparency in SOE operations, and capacity building for prosecutors and judges. They see the need to address corruption vulnerabilities in revenue institutions and public procurement, and to swiftly put in place a strong governance framework for the new Sovereign Wealth Fund and its sub-funds. Long-standing balance sheet and governance issues at the Development Bank of Mongolia will also be tackled before it resumes lending operations. These steps are aimed at reinforcing institutional credibility, fostering private sector confidence, and supporting sustainable growth.

The authorities are also focused on climate transition and financial integrity. While acknowledging the challenges posed by high renewable energy costs and limited affordable financing, they remain committed to Mongolia's climate goals under the National Determined Contribution, which seeks to raise the share of renewable electricity to 30 percent and achieve a 22.7 percent reduction in total national greenhouse gas emissions by 2030 compared to the emissions under the business-as-usual scenario for 2010. They are aware of the macro-critical nature of the energy transition, given Mongolia's dependence on coal revenues, and aim to promote economic diversification and investment in minerals and renewables. To strengthen resilience, they will enhance AML/CFT implementation following recent legal reforms, building on Mongolia's progress in being assessed "compliant" or "largely compliant" with FATF standards. These reforms will also support other policy priorities, including tax collection and transparency of beneficial ownership information, while mobilizing the large-scale climate-related investments—estimated at 43 percent of GDP over the next 25 years—needed to advance the green transition.