



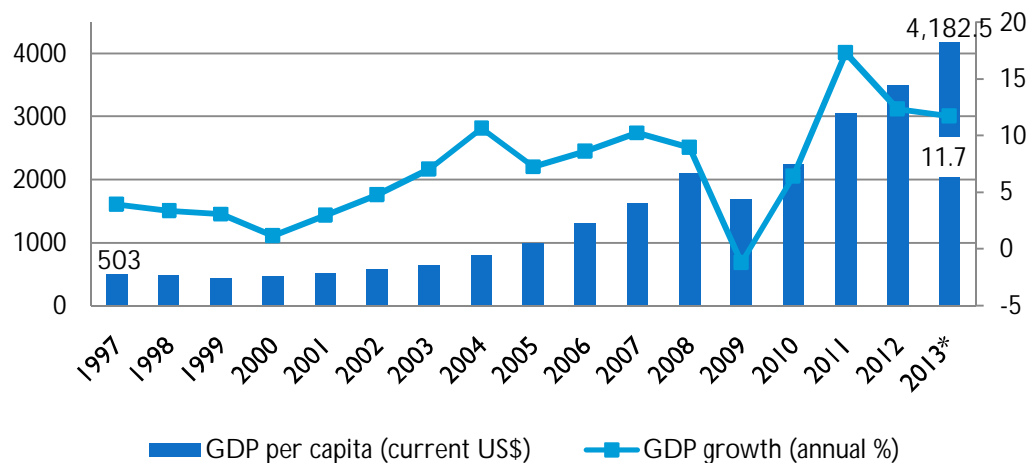
Mongolian Economic Outlook

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Economic Overview: Growing, but volatile

GDP per capita and growth (1997-2013*)



Source: World Development Indicators, World Bank.

*-preliminary estimation by NSO, Mongolia

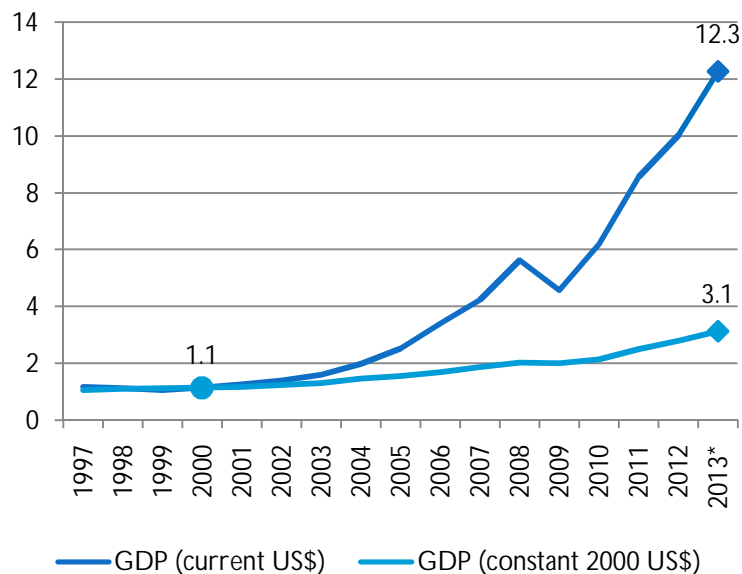
MONGOLIA: country profile

Population:	2 867 700
Labor force:	1 151 100
Area (km ²):	1 564 115
Neighbor countries:	China and Russia
HDI	0.675(108 th)

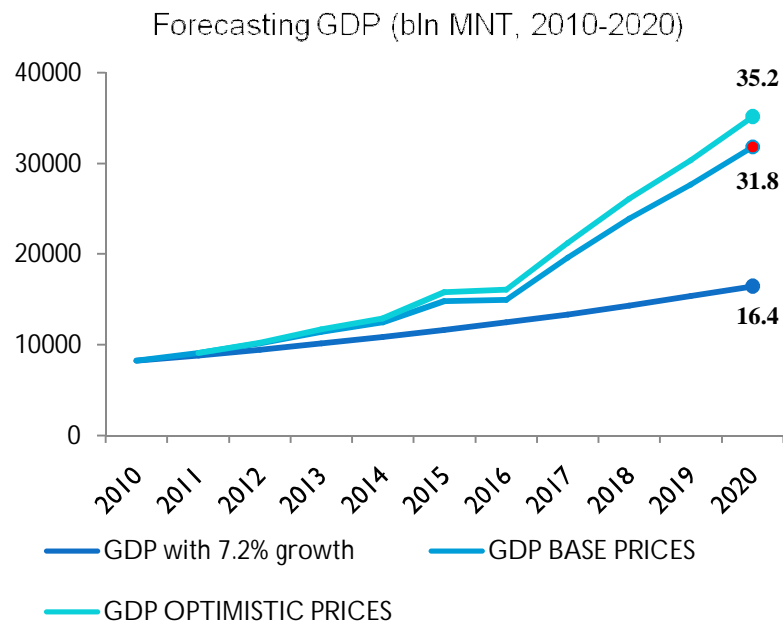
Source: Yearbook 2012. NSO, Mongolia

- Average Growth Rate between 1997-2013 of 6.9%
- Nominal GDP per capita has increased 10.4 times between 1997-2013

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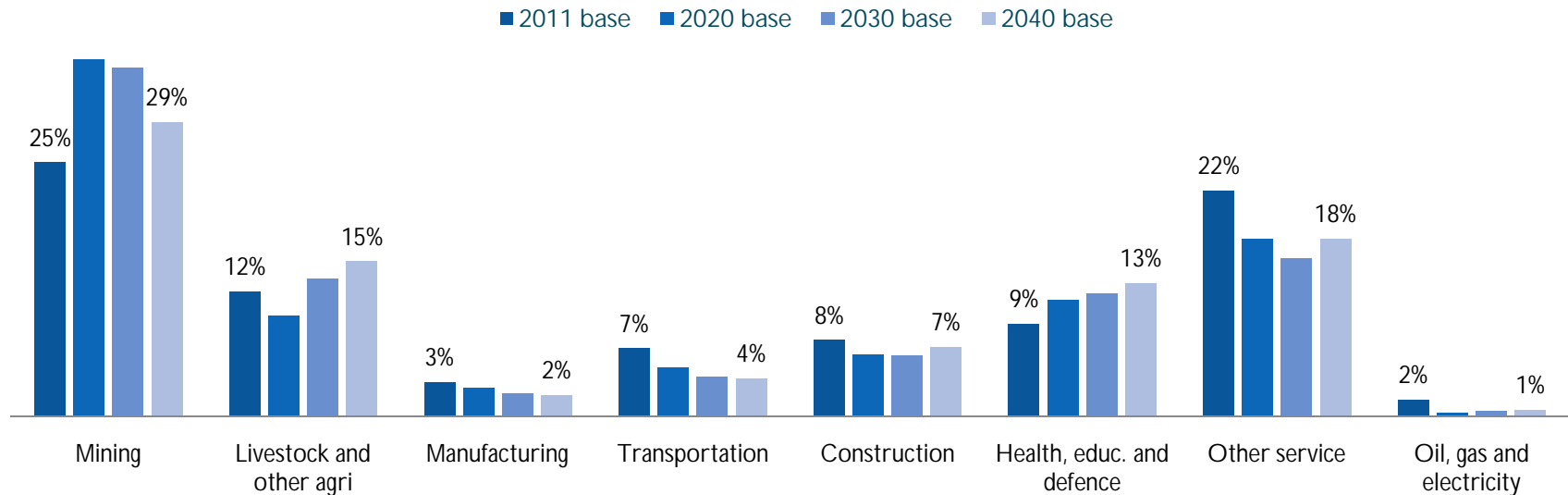
Source: World Development Indicators, World Bank



Source: SES, NUM and BAEconomics Pty, 2011

- Economy almost quadruples by 2020 with average growth of 14.8%.
- Mongolia will be the fastest growing economy in the world between 2010-2030 with average growth rate 9.7% (Citigroup Global Markets, 2011)

Contributors to GDP: mining as a main driver



Source: SES, NUM and BAEconomics Pty, 2011

- Economy is highly reliant on the mining sector
- In the Future (copper \$5,300; gold \$965/oz; coking coal \$ 54): Mining sector will be even more dominant (29% as of 2040) and Agriculture not so much (16% as of 2040)
- Policies remain the same

Future major developments in mining sector

- Oyu Tolgoi: reaches 800,000 tonnes of copper concentrate by 2020 and 28 tonnes of gold. Estimates suggest, 25% of GDP in 2020 (price \$5,300)
- ❖ Tavan Tolgoi: reaches 10 mln tonnes of coking coal by 2020 and 40 mln tonnes of thermal coal

However, there are challenges:

Dutch Disease and Resource Curse

- Many experiences of Dutch Disease and Resource Curse in resource rich countries
- Dutch Disease: RER appreciation combined with high labor cost => dominant Non-tradable and mining sectors; lower economic growth potential; susceptible to high economic fluctuations
- Resource Curse: Low quality of institutions and governance => Rising inequality, low economic growth, rampant corruption
- These challenges are real for Mongolia!
- Why?

Challenges for Mongolia : Institutional and Governance Quality

Review of various surveys point to following major difficulties in conducting business and affecting country's competitiveness in general:

- ▶ Corruption: ranked 94 out of 176 (Transparency International, 2012)
- ▶ Index of Economic Freedom: ranked at 75 out of 177 (Heritage foundation, 2013)
- ▶ Doing Business: ranked 76 out of 185 (World Bank, 2012)
- ▶ World Competitiveness Index: ranked 93 out of 144 (World Economic Forum, 2012-2013)

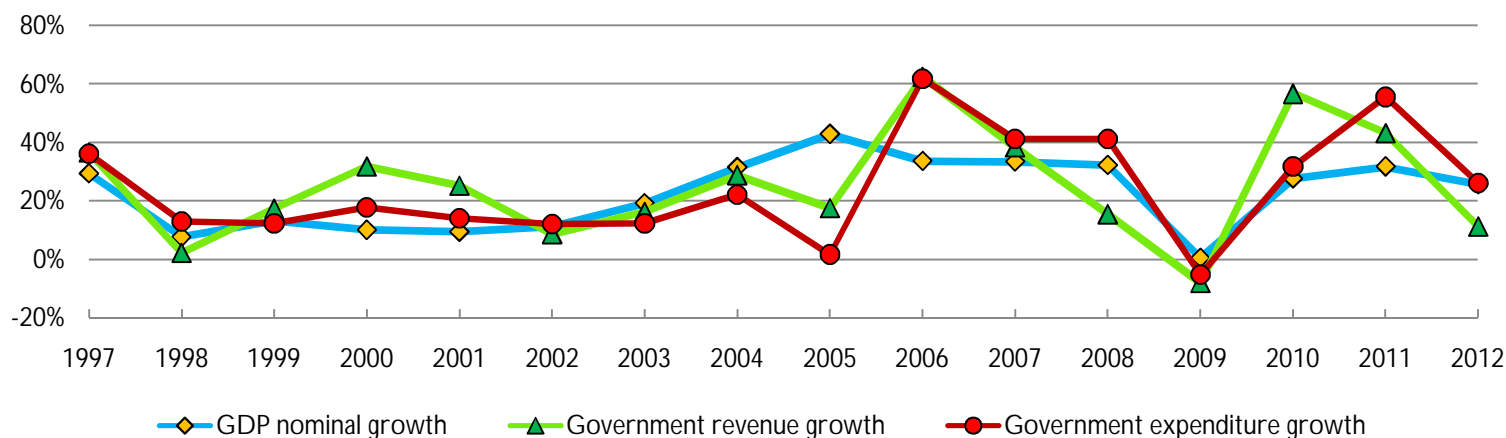
Challenges for Mongolia :

Macroeconomic policies

- Main purpose of macroeconomic policies: *Stable and sustainable growth*
- However, Past Fiscal and Monetary policies has been pro-cyclical:
 - Exacerbates economic volatility and uncertainty
 - Dutch disease effects are more prominent
 - Increasing vulnerability from volatile commodity prices
 - Limited policy room when needed: 2008/2009 crisis

Strongly Pro-cyclical Fiscal Policy

GDP and Fiscal nominal change (%)



Source: Yearbook 1998-2011, and Monthly Bulletin of Statistics December 2012, NSO Mongolia

- ◆ Average growth rate of nominal GDP is 22.5% while government revenue growth is 25.2% and expenditure growth is 24.6%
- ◆ Fiscal Stability Law was ratified in 2010. Fully operational from 2013
- ◆ There are risks: Development bank was established to finance big infrastructure and industrial projects – \$1.5 bln. government bonds for 2013 being discussed. Off-budget?

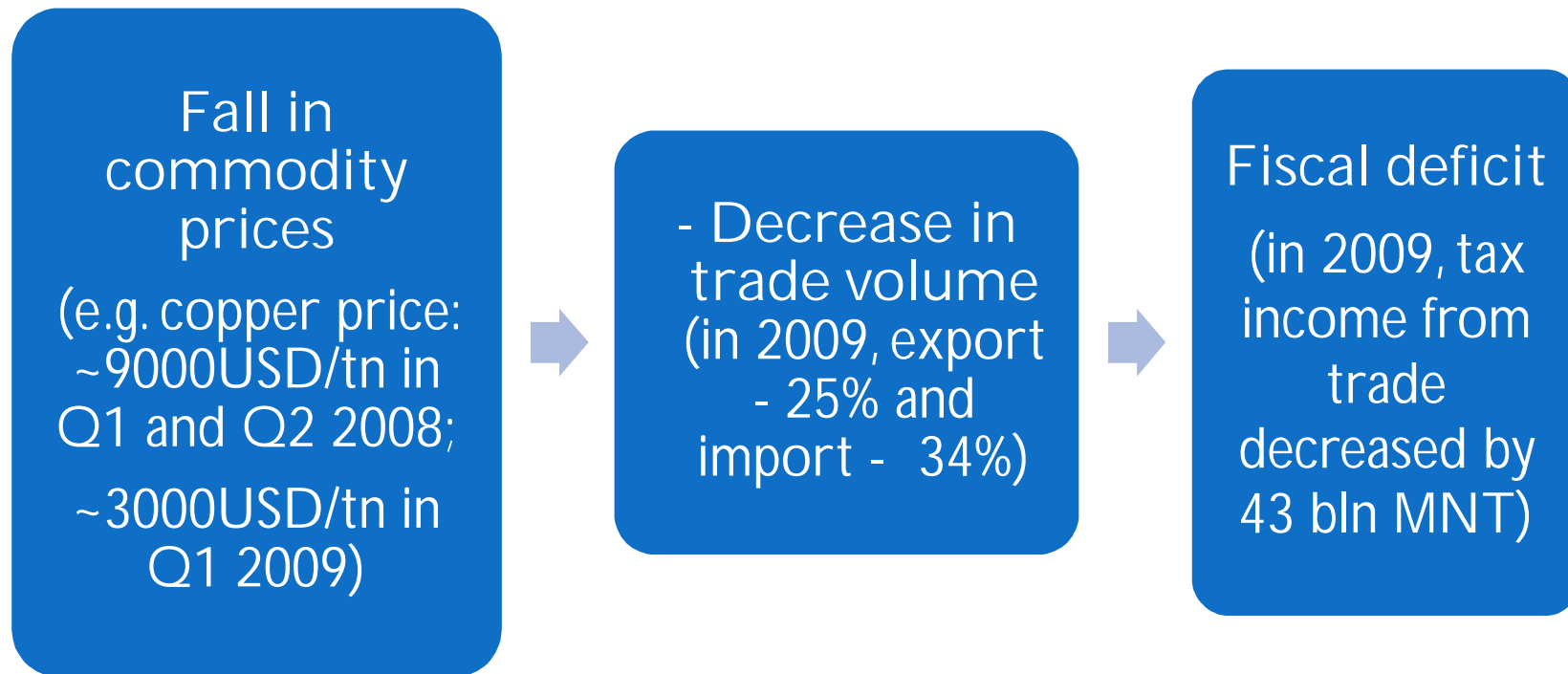
What is Economic Outlook

Unless institutional and economic policy challenges are addressed:

- High Economic growth
- Rising Inequality
- Dominant Non-tradable and Mining sector
- Volatile economy with many uncertainties

The Channel of Economic Crisis

▶ Deteriorating terms of trade



Source: Impact of World Economic Crisis on Mongolian Economy, OSI, 2010

Thank you for your attention!