

Weak growth and large macroeconomic imbalances

General Information



GDP	USD11.7bn (World ranking 127, World Bank 2015)
Population	2.96mn (World ranking 137, World Bank 2015)
Form of state	Parliamentary government
Head of government	Jargaltulga ERDENEBAT
Next elections	2017, presidential



Strengths

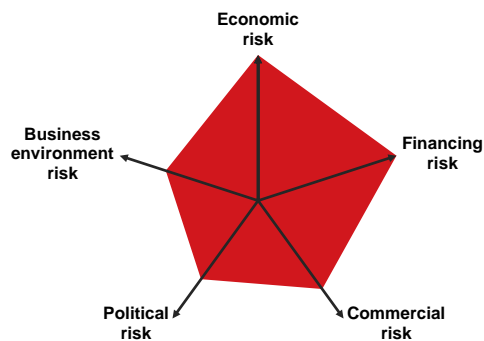
- Large natural resources (copper and coal)
- Proximity with China

Weaknesses

- High external vulnerability including high external debt, large current account deficit and a strong dependence on raw material exports to China
- Poor macroeconomic policy management
- Weak banking sector
- High poverty rate, high inequality pose a risk to social stability

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	91% 1	33% China
Switzerland	2% 2	30% Russian Federation
United Kingdom	2% 3	7% Japan
Italy	1% 4	7% Korea, Republic of
Russian Federation	1% 5	4% United States

By product (% of total)

Exports	Rank	Imports
Metalliferous ores and metal scrap	58% 1	23% Petroleum and related materials
Coal, coke and briquettes	16% 2	10% Road vehicles
Petroleum and related materials	12% 3	6% Iron and steel
Textiles fibres and their wastes	4% 4	6% Specialised machinery
Gold, non-monetary	4% 5	4% Non metallic mineral manufactures

Source: UNCTAD

Economic Overview

A dangerous trend

Economic growth will continue to decelerate in 2016 (+0.5%), far below the growth average of 8.5% over 2006-15. Activity growth will be hindered by lower mining production and weak growth in services. Lower commodity prices and subdued growth in external demand notably from China will hamper exports growth. Tight monetary policy, further fiscal consolidation, weak business confidence, and limited demand prospects will translate into lower investment and weaker domestic consumption. In 2017, a gradual improvement in commodity prices, a rise in investment related to the Oyu Tolgoi copper and gold mine complex could mean a slight increase in activity.

Risks include lower demand from China, another fall in commodity prices, and weaker macroeconomic fundamentals especially weaker public finances and external position. All these might combine to hinder investors' confidence.

Weak policy buffers weaken the outlook

The Central Bank has embarked on a tightening cycle to avert further depreciation of the tugrik and limit capital outflows. While the impact on the currency is yet to be seen, domestic activity can be negatively affected in the short run. The tightening of credit conditions will further hamper demand growth and exacerbate deflationary pressures. Risk related to the banking sector is also elevated with a poor regulatory framework, and poor liquidity buffers.

Public finances have deteriorated since 2011. Debt soared to above 70% of gross domestic product and deficit is still above 5% of GDP. In 2016, the trend is set to worsen with lower fiscal revenues. The newly elected government has announced cuts in expenditures on public servants' salaries and put public projects on hold. The aim is to put public finances on a more sustainable path. It also declared that it would seek help from the IMF to avoid a default on its debt.

External accounts are under pressure

High external debt (above 170% of GDP), much lower foreign reserves and large current account deficit compose the Achilles Heel of the Mongolian economy. Combined with a huge public deficit, these vulnerabilities make the economy sensitive to investor sentiment. In the short run, these imbalances will remain a major source of concern.

Weak commodity prices and modest growth in Chinese demand for industrial commodities will continue to hinder the current account balance. Strong currency depreciation and low reserves will continue to hamper external payments behavior. Thus the already high risk of a balance of payment crisis increases.

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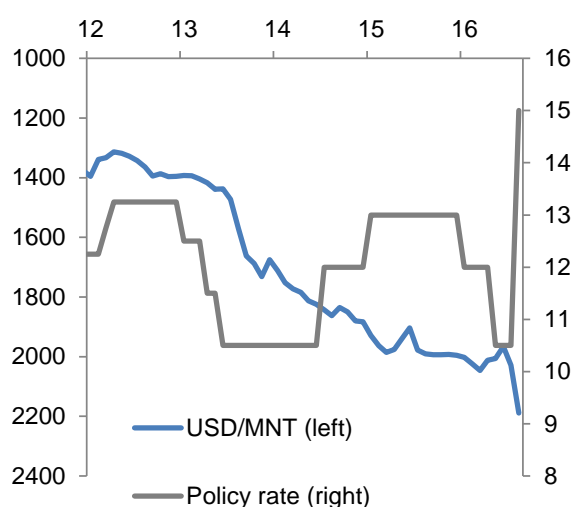
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Key economic forecasts

	2014	2015e	2016f	2017f
GDP growth (% change)	8.1	2.4	0.5	2.0
Inflation (% , year average)	13.0	5.8	0.4	2.0
Fiscal balance (% of GDP)	-11.1	-8.5	-9.5	-7.5
Public debt (% of GDP)	76.6	77.0	78.0	80.0
Current account (% of GDP)	-11.5	-4.6	-7.0	-14.0
External debt (% of GDP)	17.0	183.0	190.0	192.0

Sources: IMF, Euler Hermes

Figure 1 Currency and monetary policy rate



Sources: IHS, Euler Hermes