

# **Global Headwinds and Mongolia**

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**Mongolia Economic Forum**

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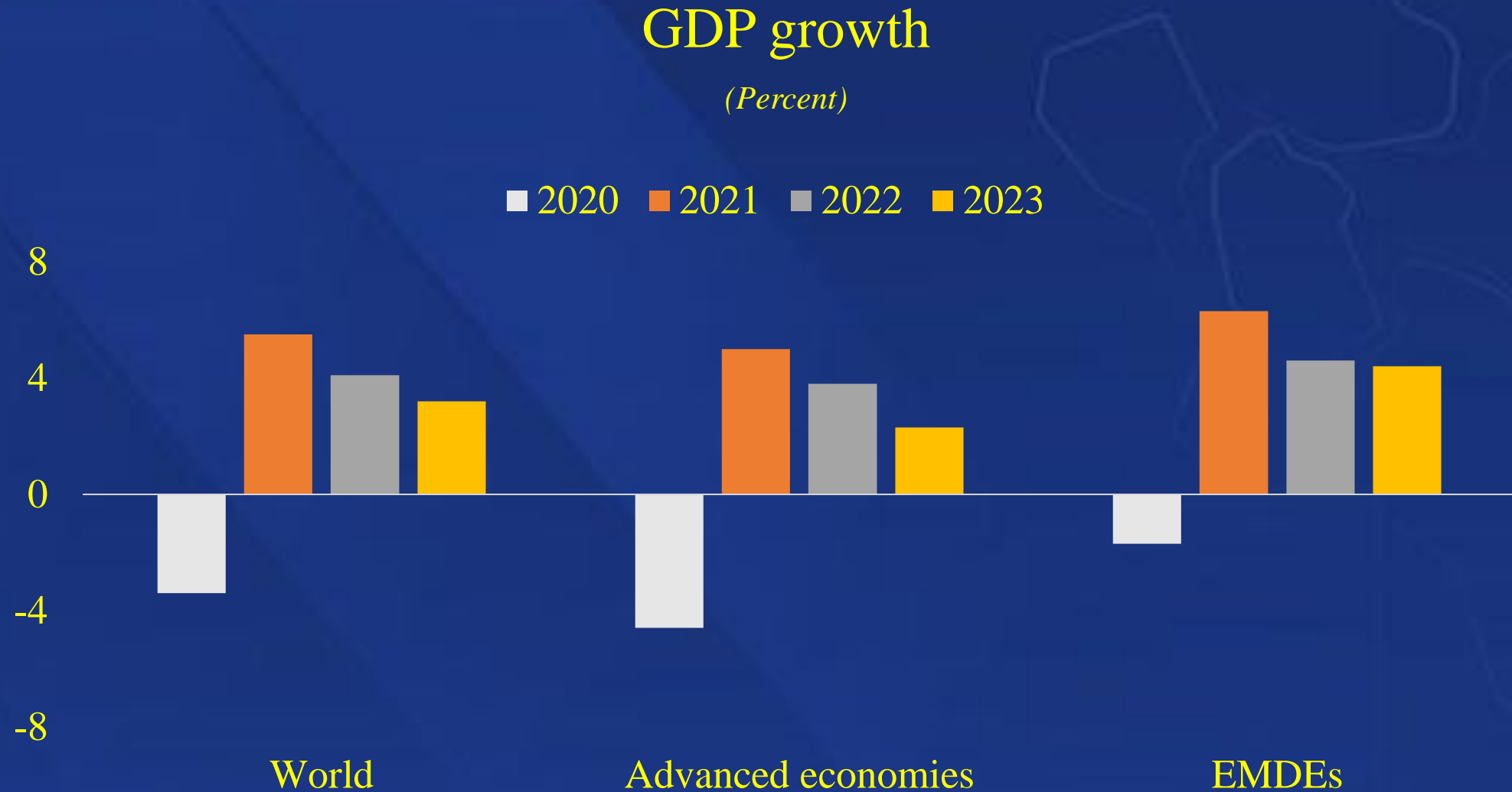
**The World Bank Group**

# A Challenging Global Outlook for Emerging Markets even before the War in Ukraine

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- Slower growth, as base effects and fiscal stimulus fade
- Accelerating inflation and rising global interest rates
- For Mongolia two opposing additional effects
  - Rising commodity prices should boost terms of trade
  - But border restrictions with China have blocked commodity exports and added to import price inflation
- Overall result: A weaker than expected recovery and growing macroeconomic imbalances

# As of January 2022: Substantial Global Slowdown

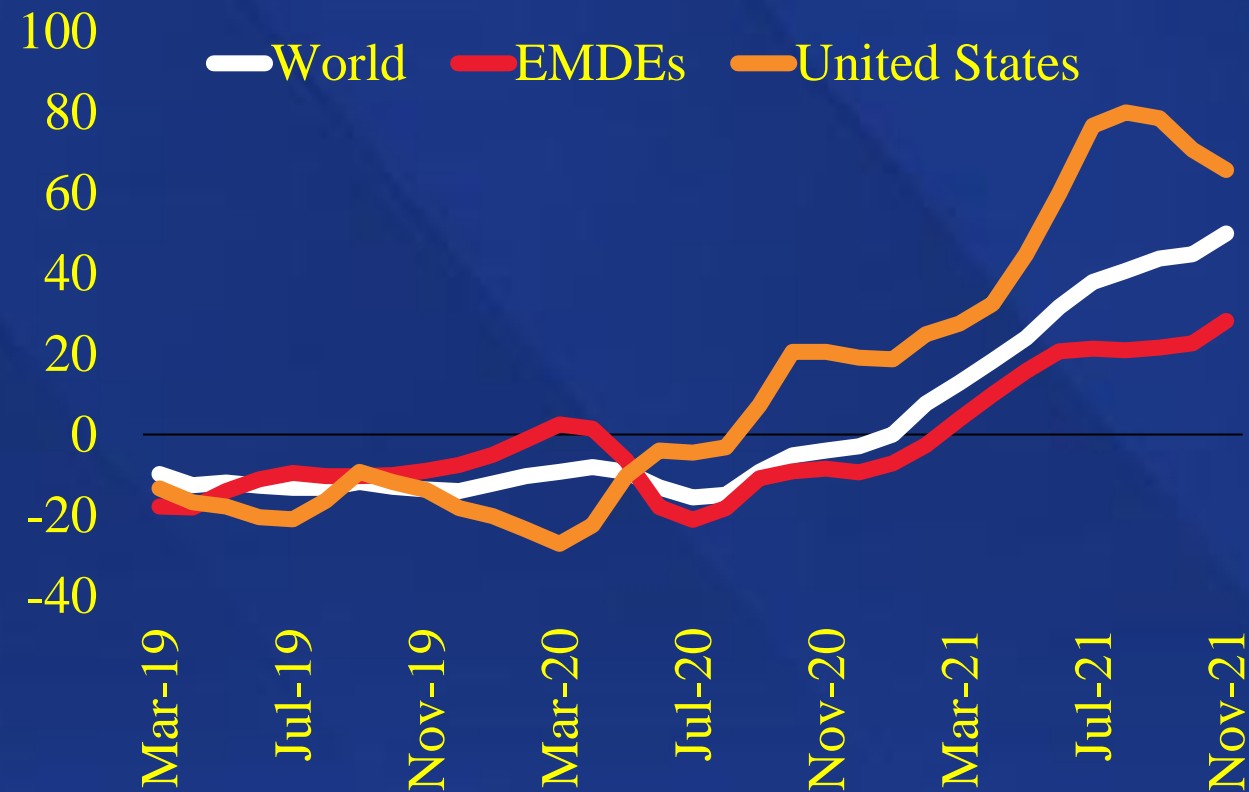


# Interconnected Risks

## *Higher Inflation; Tightening Financial Conditions*

### Inflation surprises

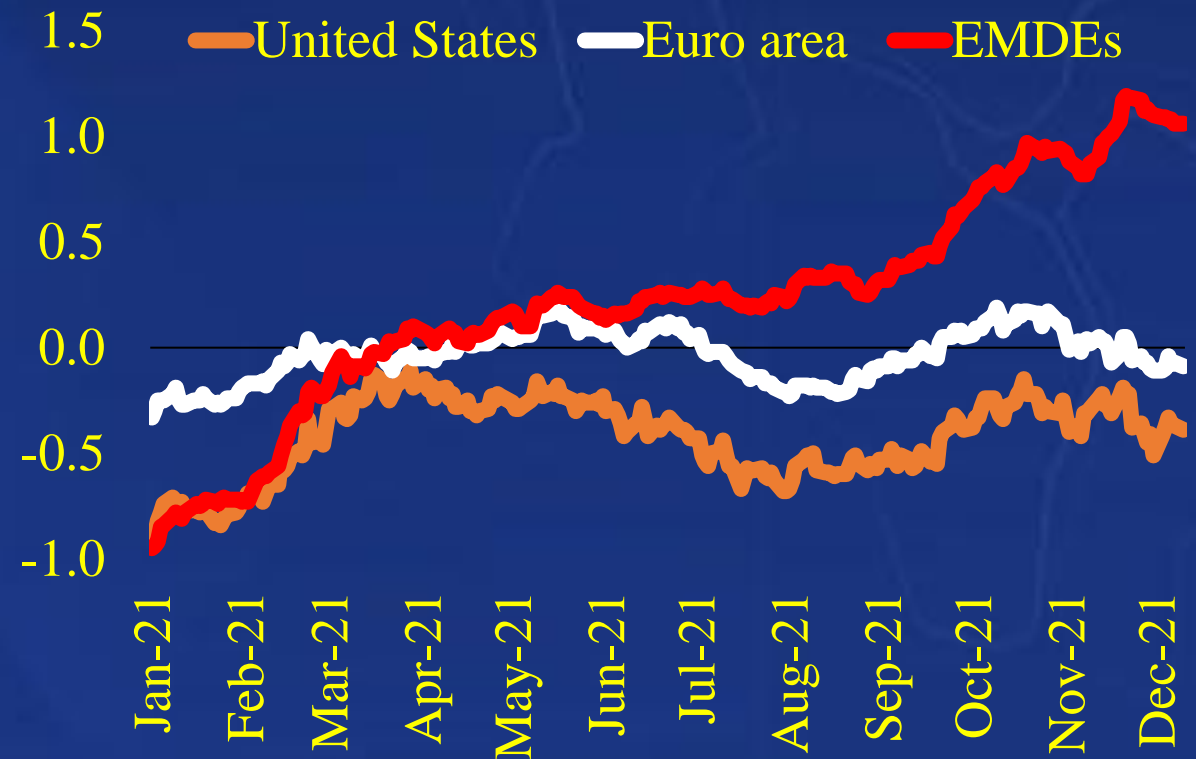
(Index, >0 = upside data surprise)



### Financing conditions

(10-year government bond yields)

Percentage point difference from pre-pandemic average

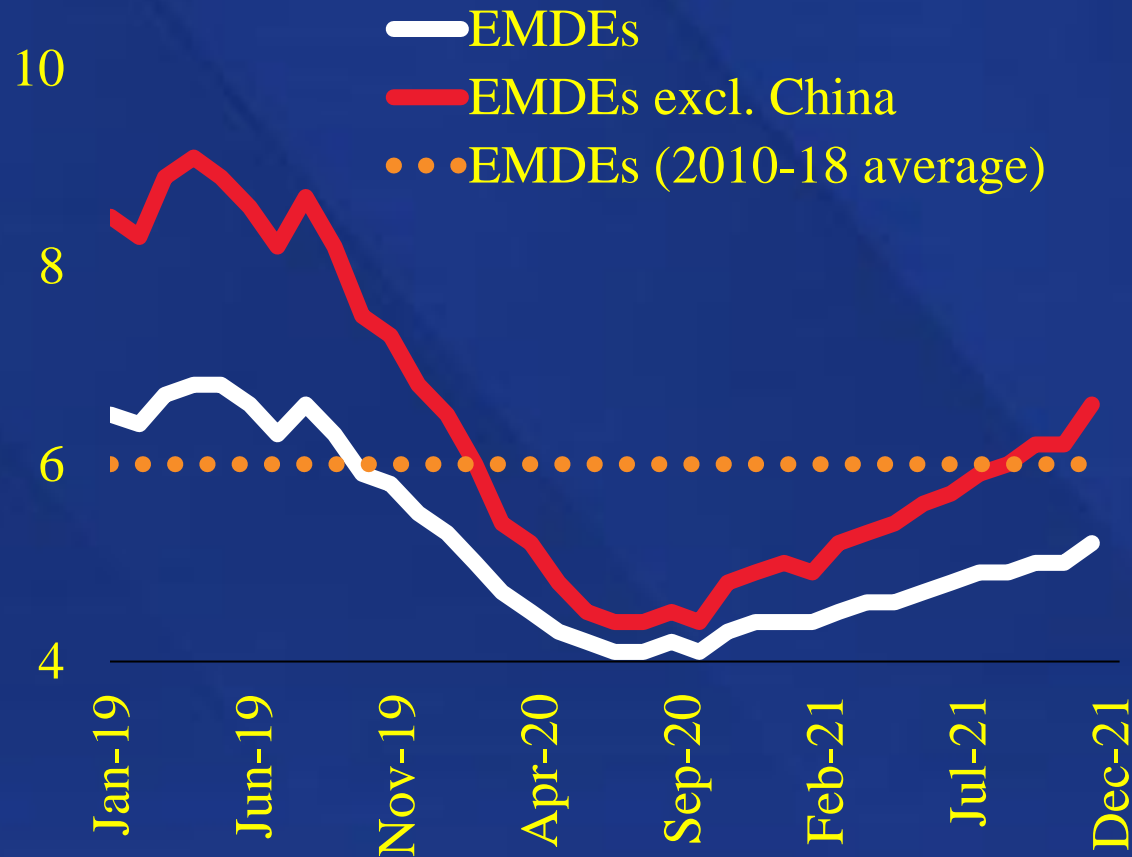


# Monetary and Fiscal Policies

## *Policy Tightening Underway; Space Limited*

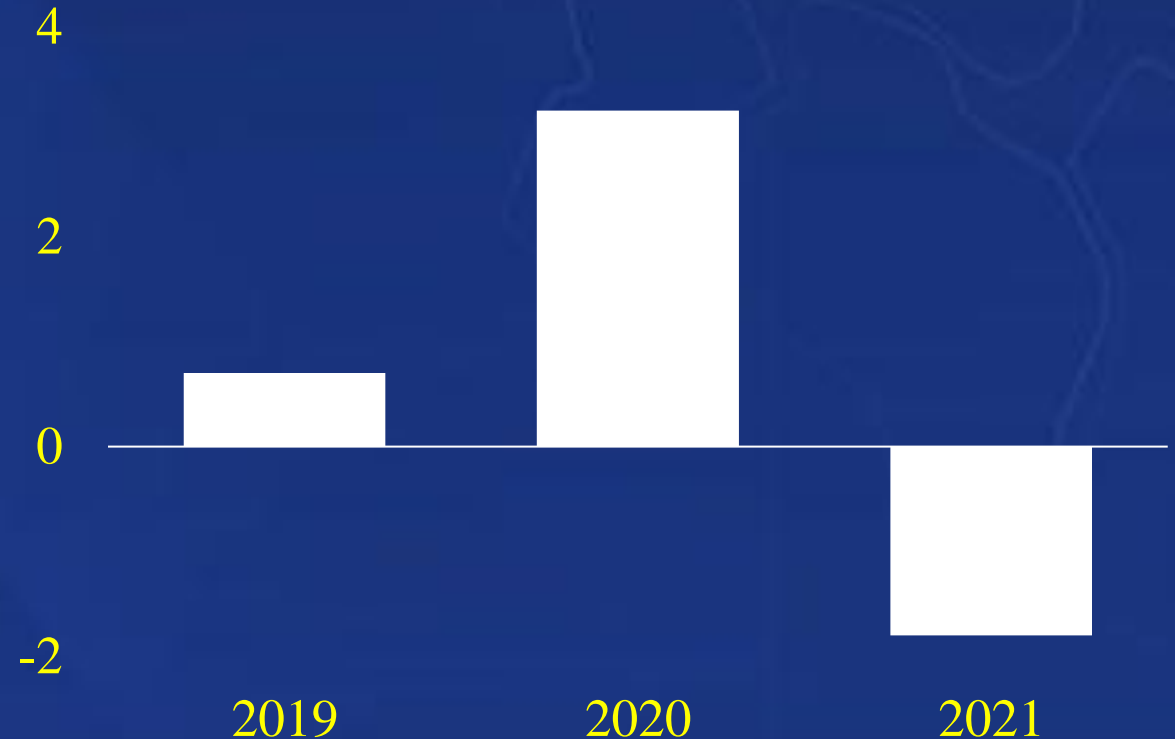
### Policy rates in EMDEs

(Percent)



### Fiscal impulse in EMDEs

(Percentage points of potential GDP)



# Now, the Russia / Ukraine “delta”...

- Adds to pre-existing economic pressures but unlike Covid, exposures vary across countries.
- Fuels global inflationary pressures prompting tighter monetary policy in AE. Borrowing costs impact will be strongest in EMDEs with large debt, limited fiscal space, and who are net commodity importers
- Drags down growth in AE (particularly Euro area), and consequently in the EMDEs through global demand
- Creates sizable spillovers in Central Asia (remittances, export route disruption and high oil prices)

**Let us customize this to Mongolia ...**

# Mongolia: A commodity dependent economy ...

Net commodity exporter  
(mainly copper and coal)

Net importer of energy  
and food

Significantly reliant on  
mining related FDI

10,000 Million US\$

57 % of GDP



Average exports 2019-2021

42 % of GDP



Average imports 2019-2021

3,000  
2,500  
2,000  
1,500  
1,000  
500  
0

19.4 % of GDP

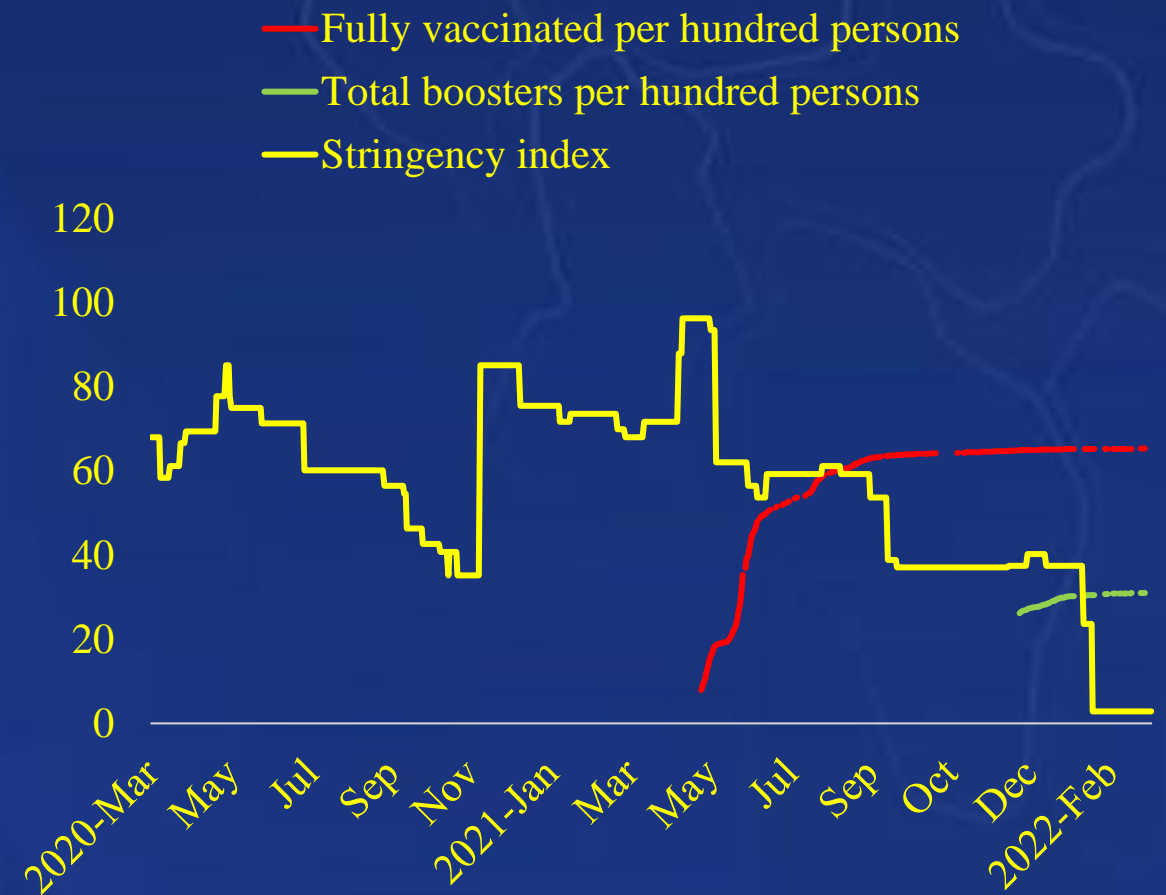


Average FDI during 2019-2021

# ... modestly recovering from the pandemic

Real GDP growth reached 1.4% in 2021 from 4.4% contraction in 2020

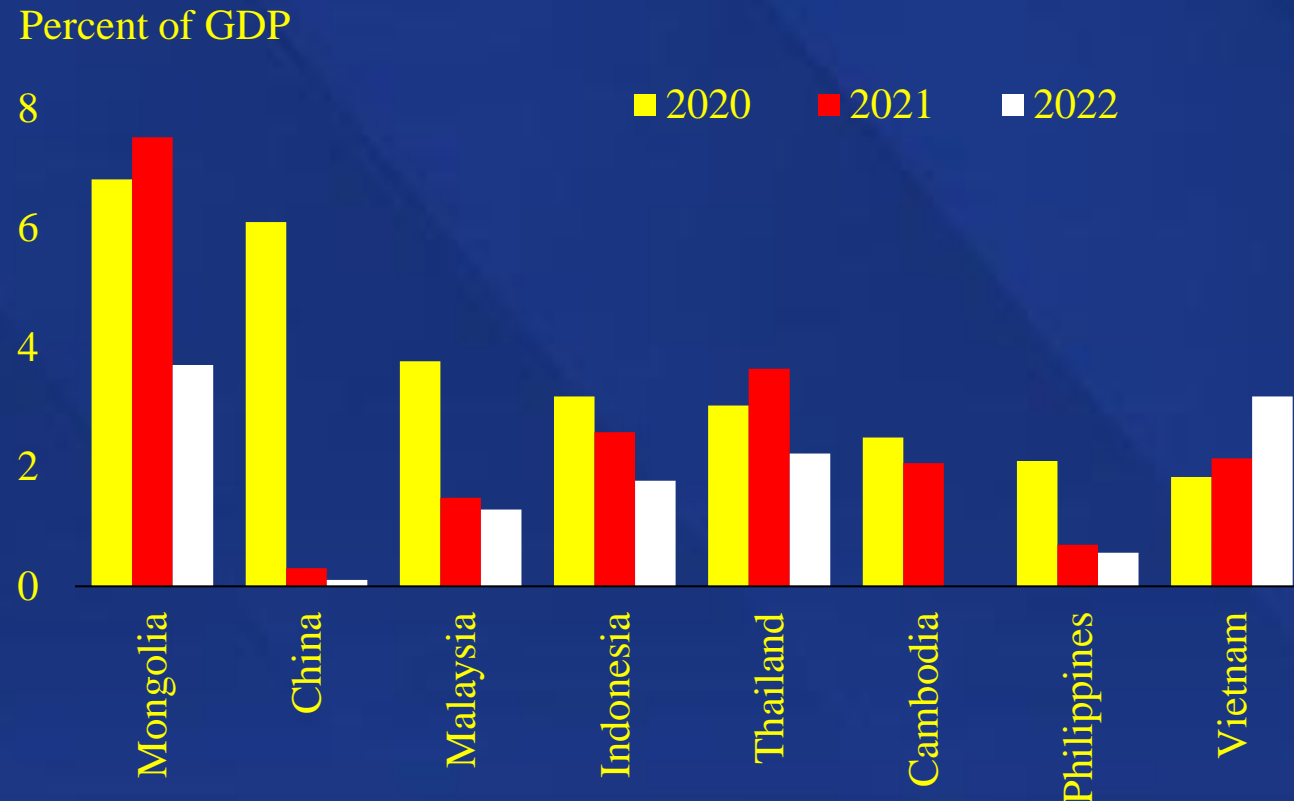
- Relatively successful vaccination campaign
  - Near 70 percent of the population with 2 doses of vaccines
- Less stringent restrictions and therefore gradual reopening of economic activities



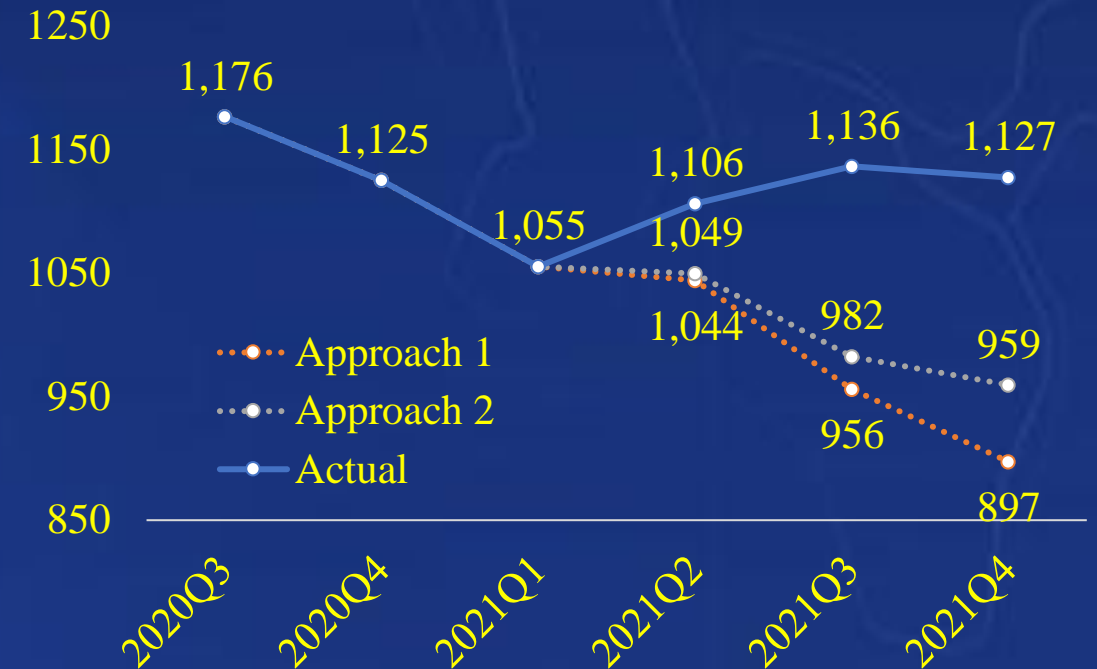


# Growth and incomes were supported by policy measures ...

Generous but poorly targeted support,  
Amongst the highest in the region  
(18% of GDP in 2020-2022)

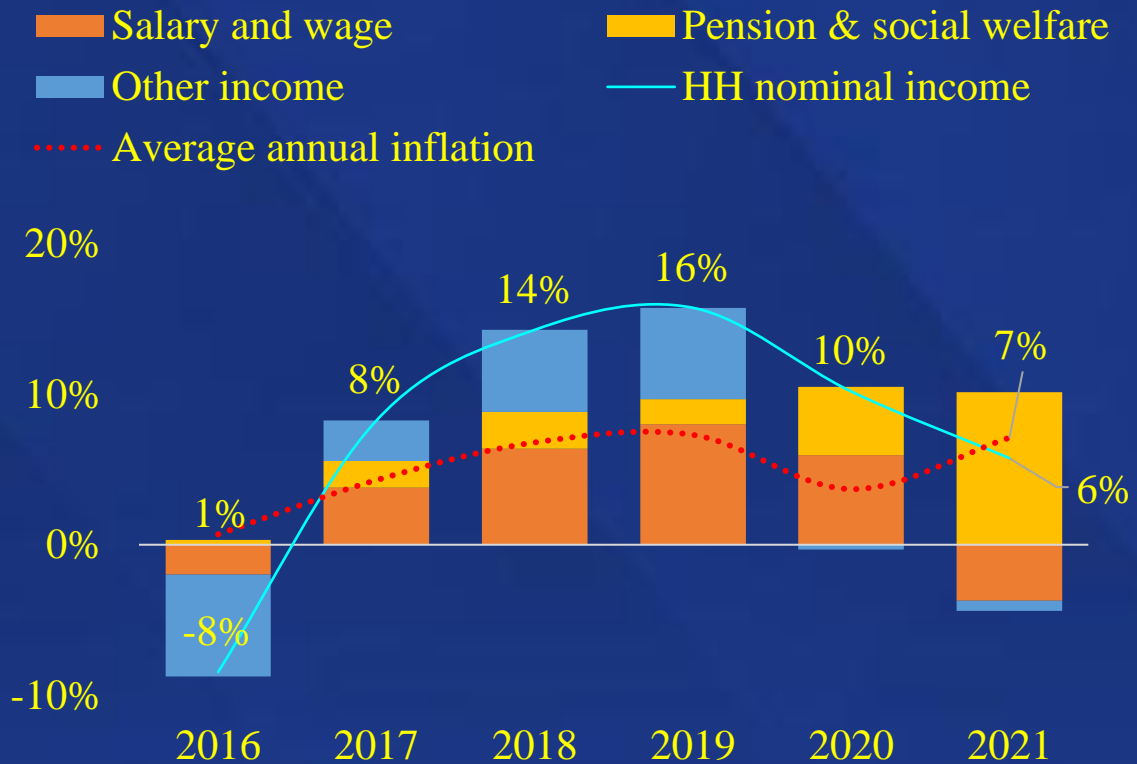


Successful job protection  
168,000-230,000 jobs protected in 2021

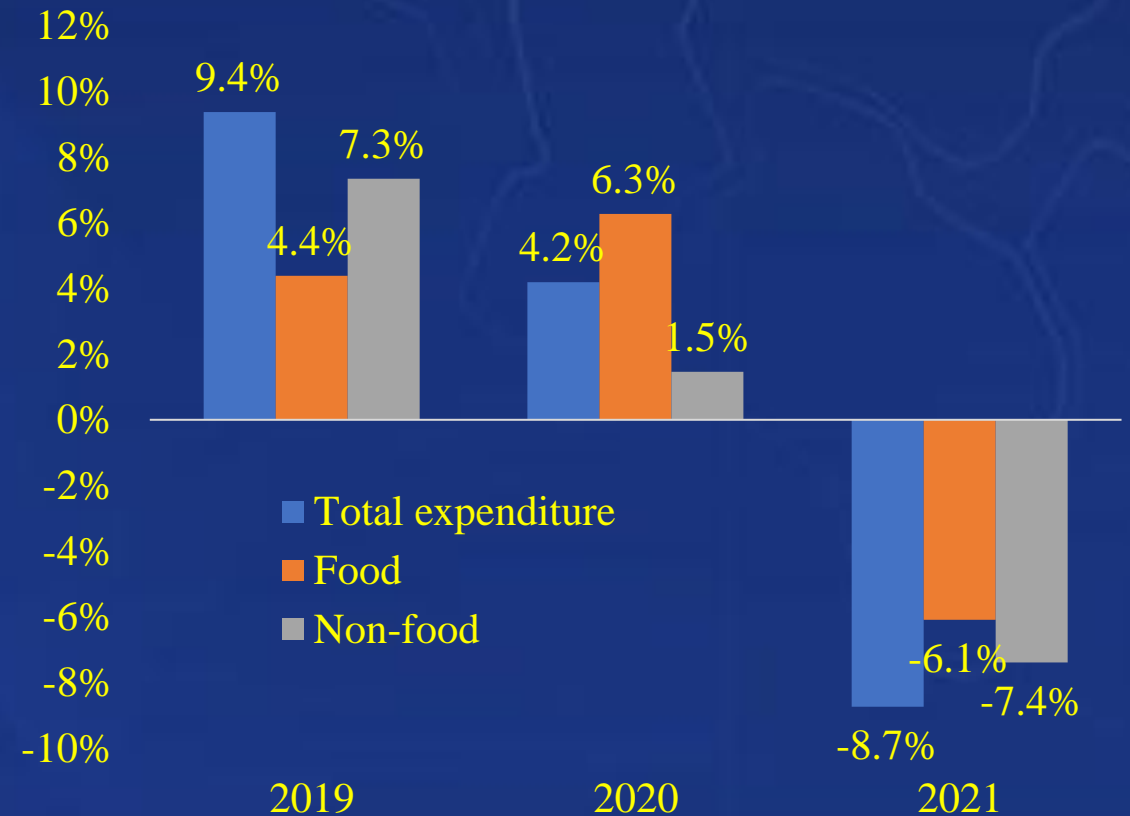


# ... but dragged down by weak consumption and lost earnings (due to COVID restrictions)

Despite large transfers, household income was eroded by inflation ...



... consumption slumped

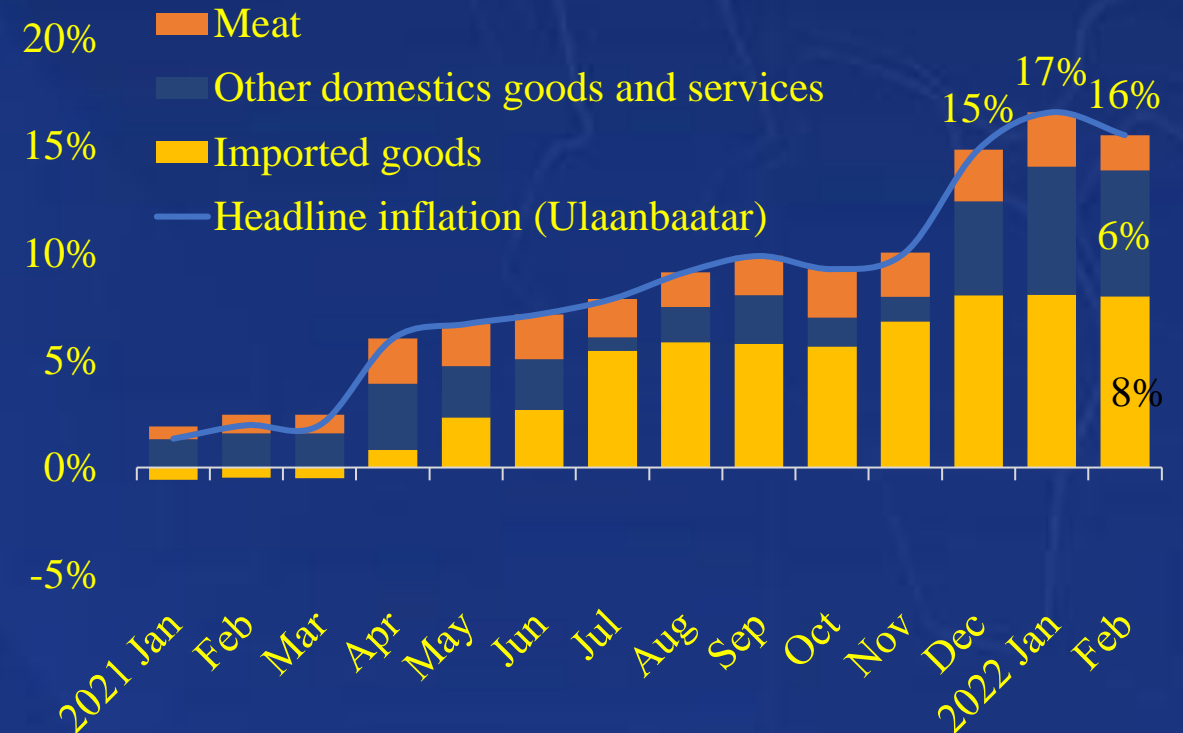


# The protracted border closures with China created additional challenges

Despite higher commodity prices, mining production contracted



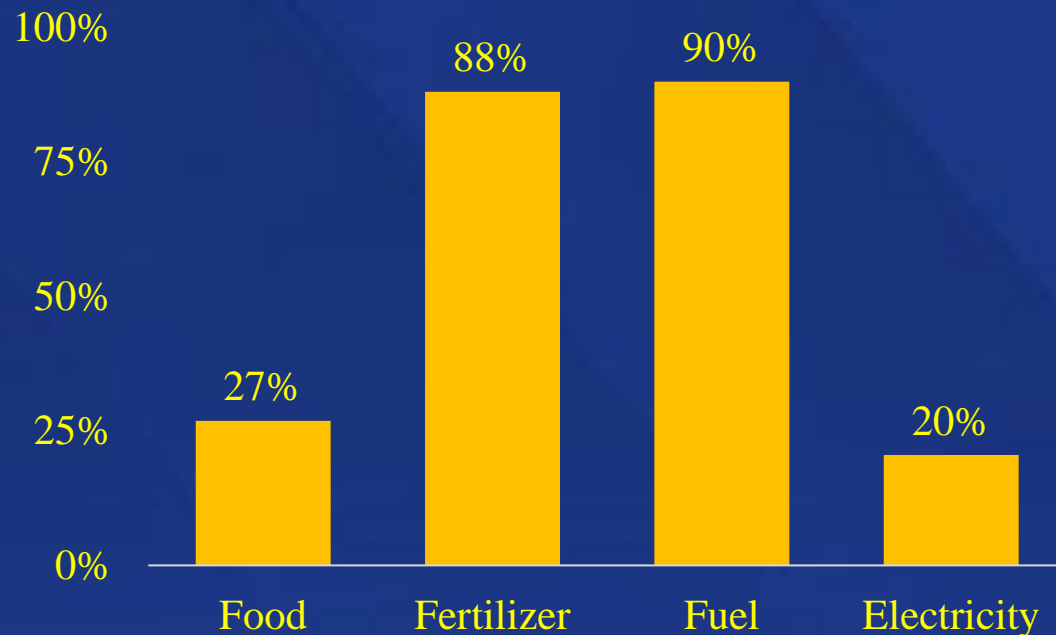
Imports of key production inputs were delayed and added to the cost of production and inflation



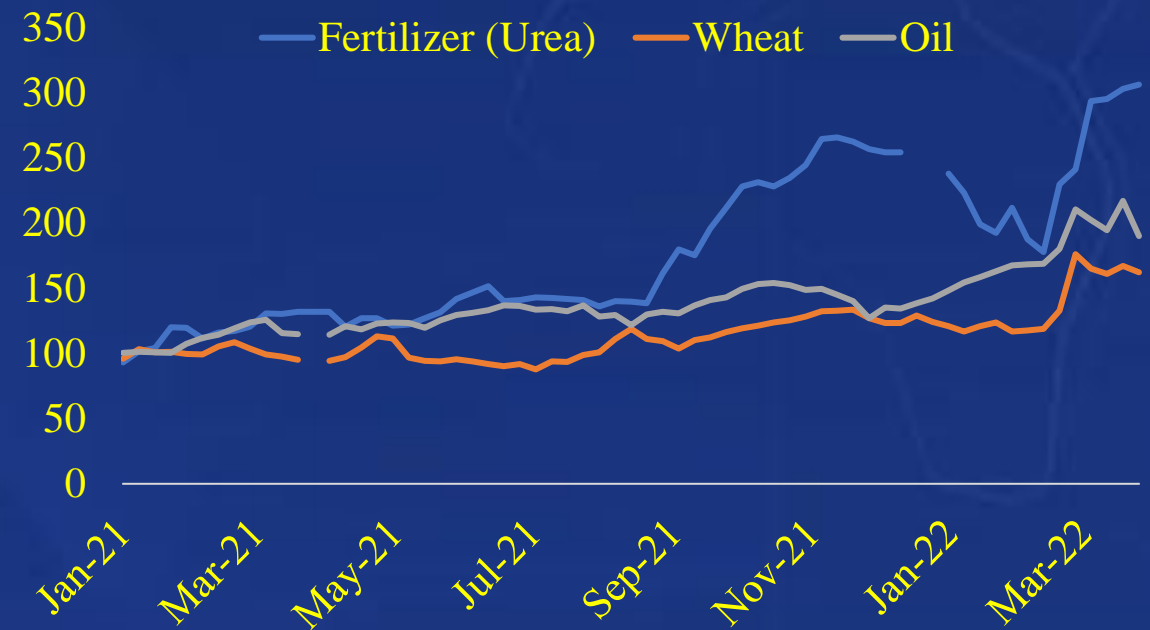
# The war in Ukraine adds uncertainty to the modest recovery

Rising global fuel, wheat, and fertilizer prices → higher domestic CPI, high cost of production, weaker growth and poverty reduction

Mongolia's main imports from Russia  
*(share within imports of each goods)*

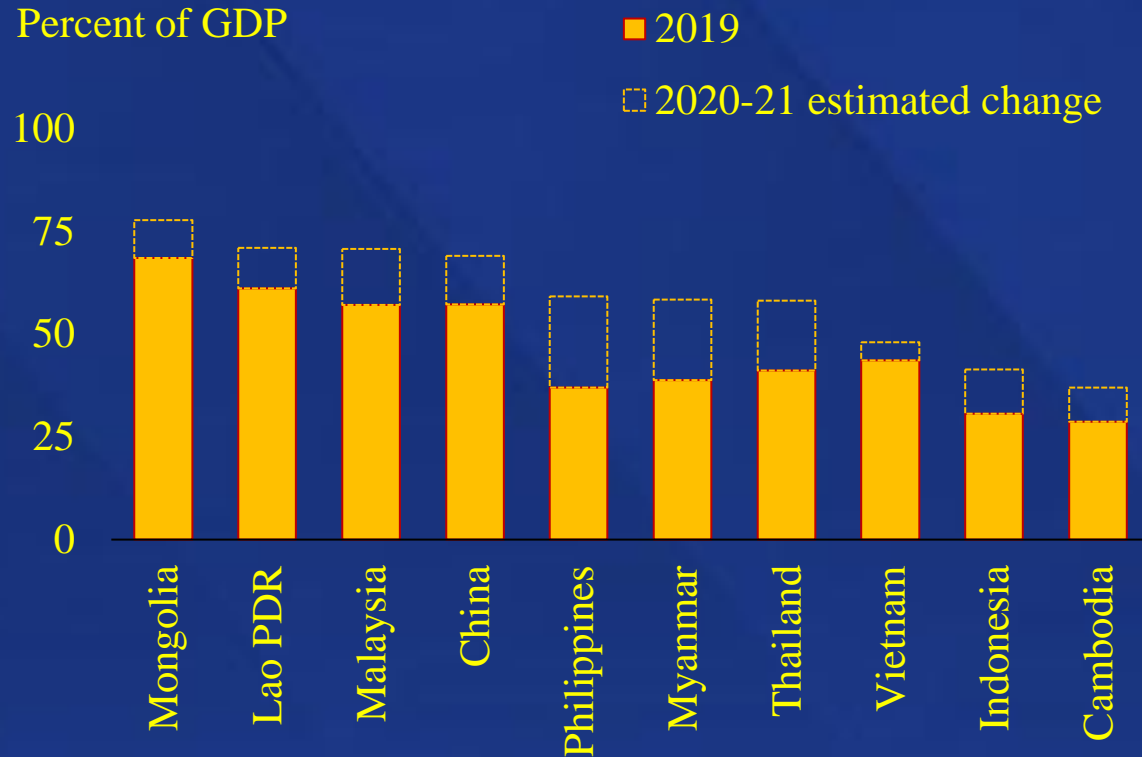


Prices of main import goods from Russia  
*(index, Jan 2021 = 100)*

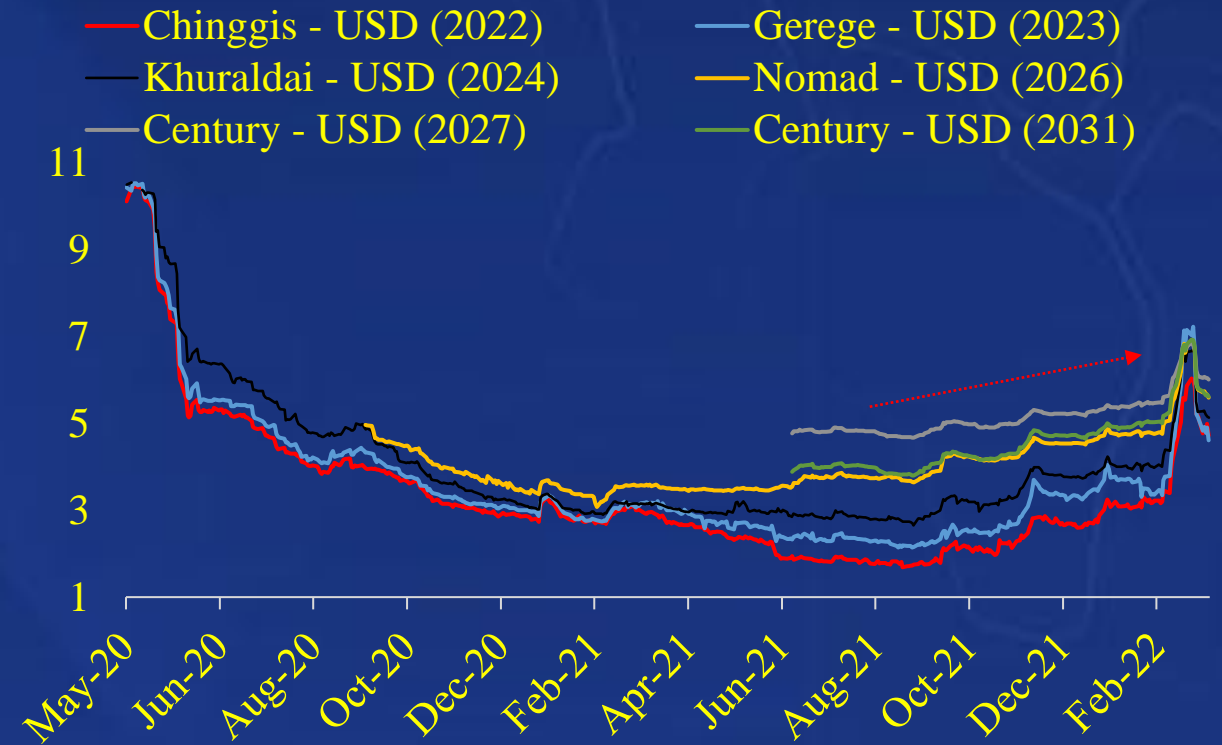


# Rising interest rates further complicates the outlook as public debts remain large

Mongolia's public debt is highest among the EAP region

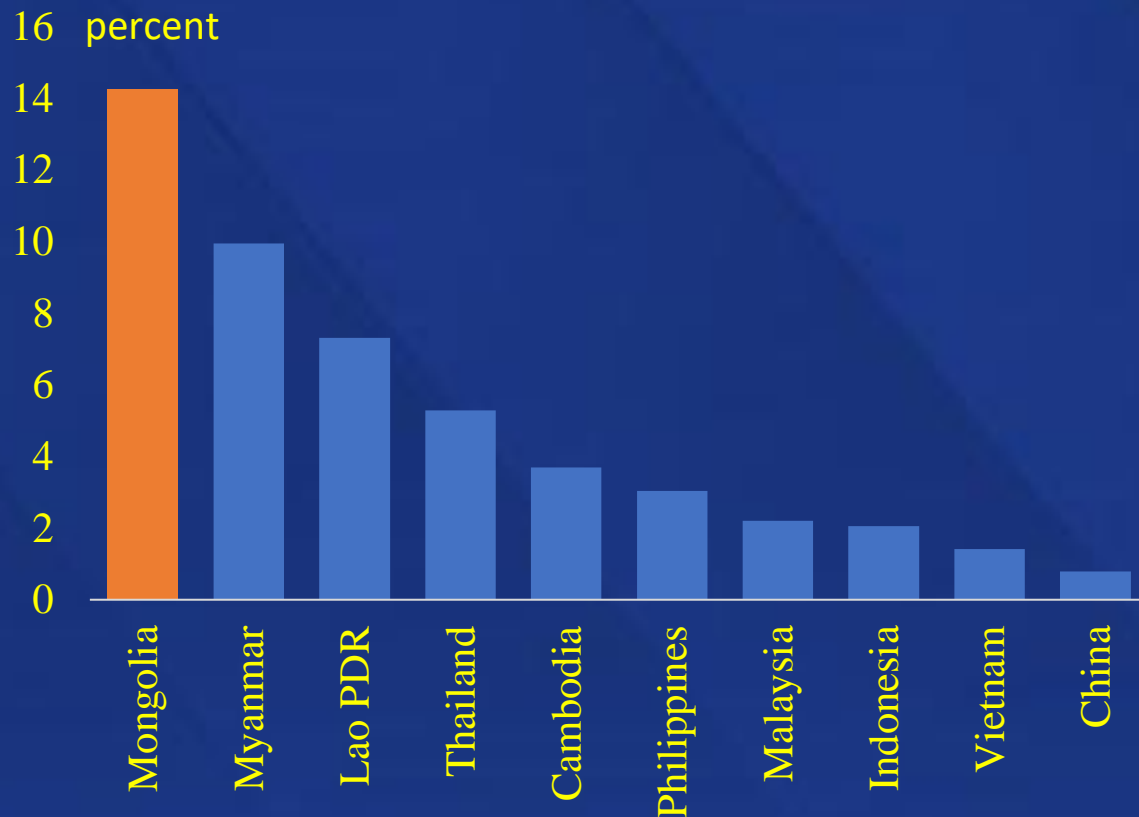


Elevated sovereign bond yields make it difficult to refinance US\$1.4 billion due in 2022-23

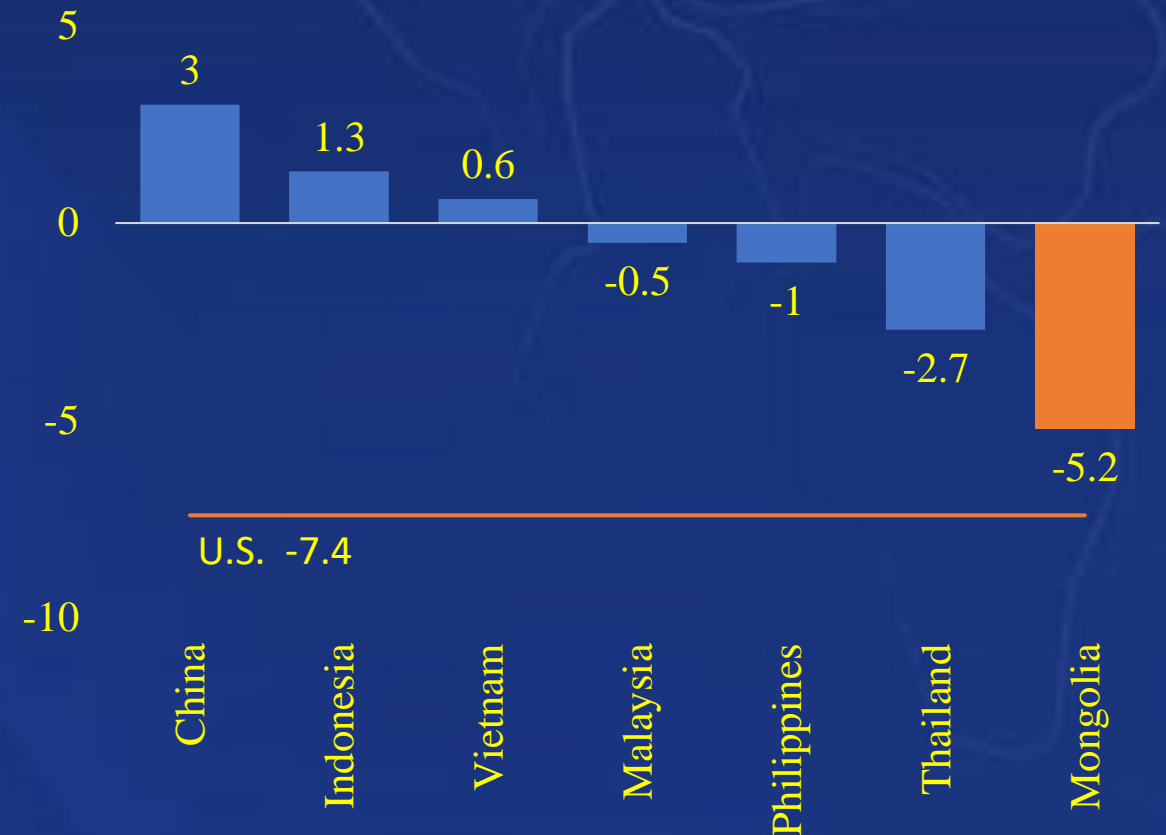


# Rising oil prices will further fuel inflation ...

## Mongolia's inflation is highest in the EAP region

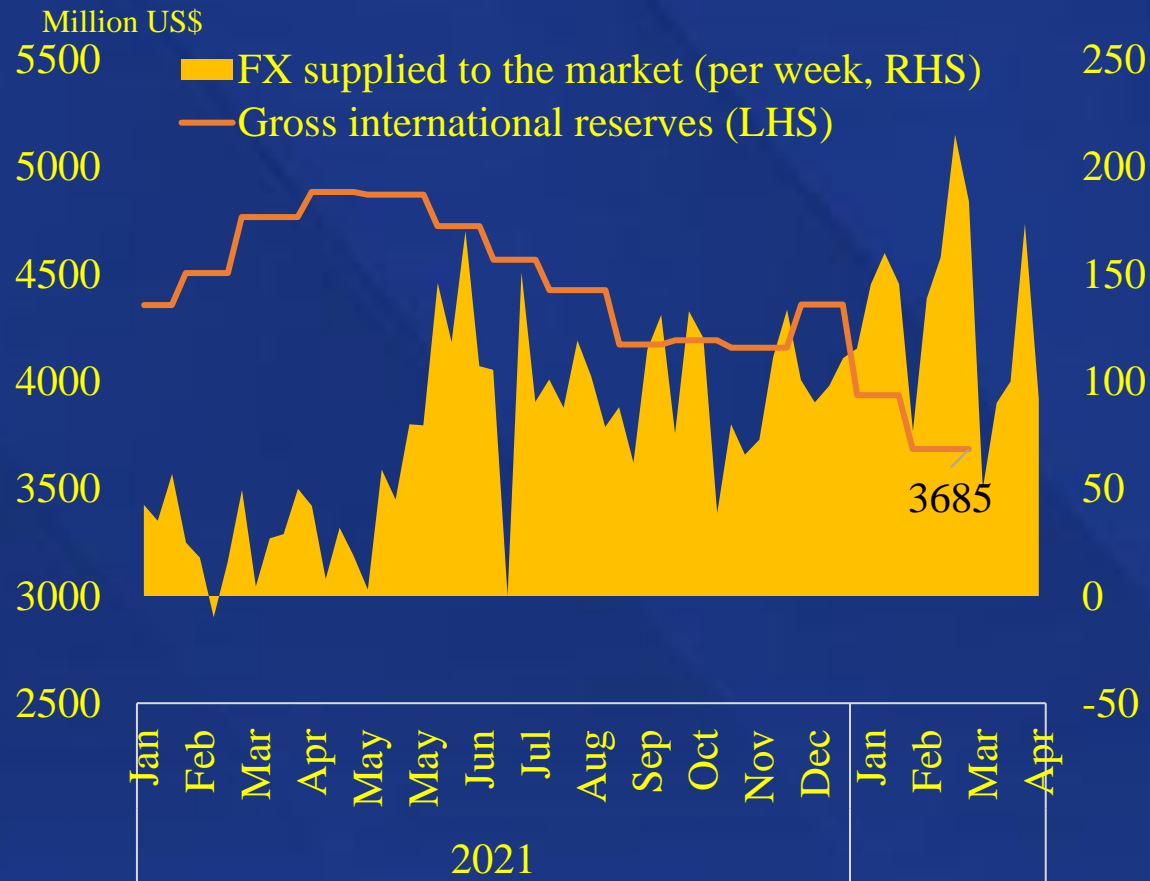


## Real interest rates remain negative

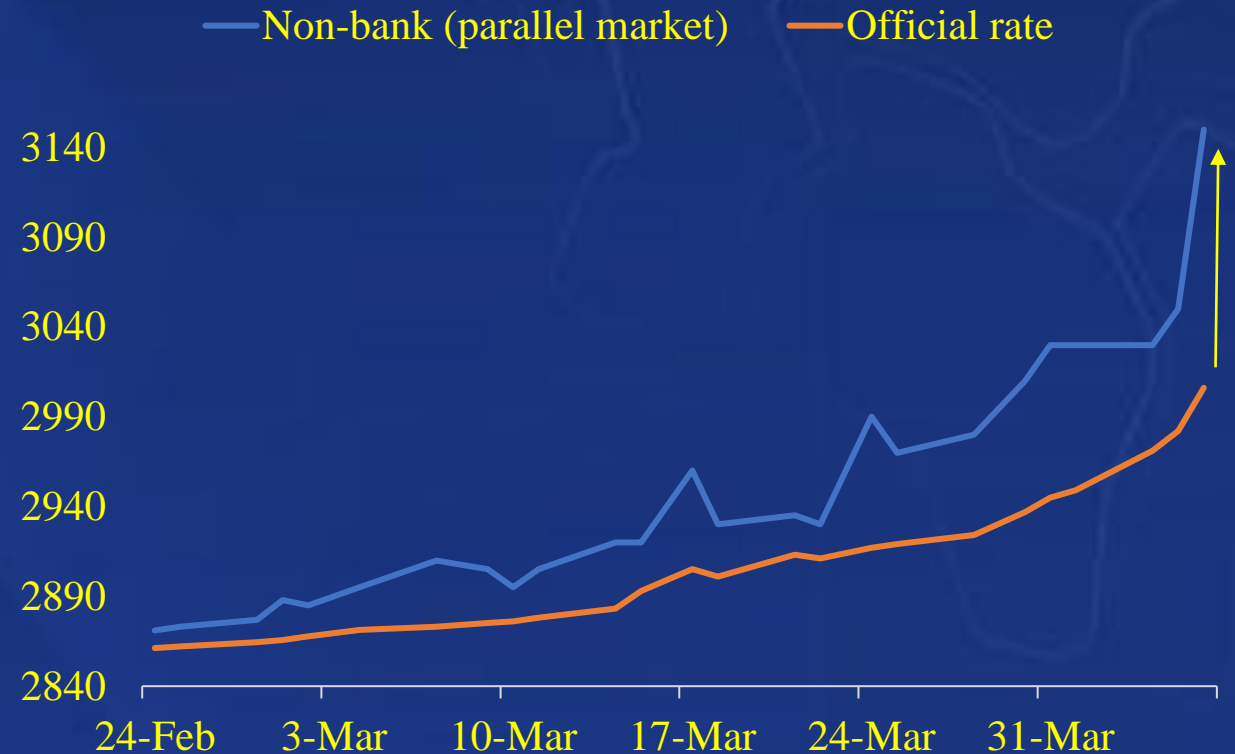


# ... and exacerbate external imbalances already high because of the protracted border closure

## Widening CAD, increased intervention, and eroding FX reserves



## BoP pressure led to shortage of FX, and banks had to resort to rationing → dual exchange rates re-emerging



# To navigate the strong headwinds, effective macroeconomic management is critical

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- Monetary policy needs to return to a credible inflation anchor, raise rates and allow the exchange rate to absorb negative external shocks.
- Fiscal consolidation is needed to stabilize debt.



# In the medium term, structural reforms are key for more diversified and resilient growth

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- Restoring long-term fiscal sustainability and build buffers to manage commodity price volatility
- Prioritizing transport investments along critical corridors and improve customs and logistics to reduce trade costs
- Improving the business climate and economic governance to attract investment
- Addressing the financial sector vulnerabilities through banking sector reform
- Enacting tariff reforms, transparent power purchase agreements to encourage private investment, including in renewables
- Dealing with the risk of climate change to Mongolia's coal heavy energy sector; encouraging sustainable herding practices e.g., through livestock tax

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**Thank you**