



UNDER EMBARGO UNTIL 07.00 GMT, WEDNESDAY, 6 AUGUST 2014

MONGOLIA

Country briefing notes

High economic growth amid growing structural weaknesses

- Mongolia sustained a high GDP growth of 11.7% in 2013, supported by rising government expenditure, construction sector boom and the start of copper production at Oyu Tolgoi mines.
- However, the growth rate has exhibited a downward trend, dropping from 17.5% in 2011 and 12.4% in 2012. This is mainly underpinned by an economic slowdown in China and subsequent softening in demand for coal, which is Mongolia's key export item.
- In 2014, economic growth is forecast to moderate further to 10%, with persistently high inflation and a weaker currency weighing down on consumption. Exports to China are also expected to remain relatively subdued.

Inflationary pressure remained high

- The inflation rate slowed to 10.5% in 2013, compared to 14.3% in 2012, owing to moderating food and energy prices globally and the implementation of the price stabilization programme in the country.
- However, inflation has been on an upward trend since the second half of 2013 due to expansionary monetary policy and the weakening currency that pushed up import prices.
- In 2014, inflation is forecast to reach 12%. The persistently high inflation appears to have dampened domestic demand and private investment in the first quarter of 2014 and may further drag down economic growth moving forward.

Lower current account deficit

- After reaching record levels of over 30% of GDP towards the end of 2012, the current account deficit narrowed slightly in 2013. While coal exports declined, increases in copper exports and the fall in imports helped narrow the trade deficit in the second half of 2013.
- The capital account surplus shrank, as foreign direct investment inflows plunged by more than 40% in 2013. This was, in part, due to the completion of the first phase of the Oyu Tolgoi Mines but also uncertainty related to the legislation requiring a complex approval process for investment in strategic sectors such as minerals and finance. The government

has since introduced a new investment law to reduce the uncertainty.

Supportive macroeconomic policies amid concern over fiscal sustainability

- In order to maintain output growth momentum, the monetary authorities embarked on monetary easing to inject liquidity and expand credit growth in 2013.
- An extensive amount of off-budget spending occurred using proceeds from the mining-sector bond sales, bypassing the 2% of GDP ceiling set by the Fiscal Stability Law. With off-budget spending is likely to continue in 2014, a key challenge will be ensuring improved fiscal transparency and long-term sustainability.

Policy challenges

- Enhancing domestic resource mobilization and better management of government revenue from the mining sector are key priorities for Mongolia.
- An achievement in these important areas would help Mongolia to alleviate the growing balance of payments pressures and fiscal deterioration, as well as to meet the country's large infrastructure needs.
- Increasing progressivity of income taxes and improving tax administration are some of the policy recommendations for boosting government revenue in the 2014 *Survey*.

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