

# **Impact of Ukraine-Russia war on the Mongolian economy**

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# Overview of the Mongolian economy:

GDP	USD 15.1 billion
Population	3.3 million
GDP per capita	USD 4,535
Urban population	69%
Labor force participation	59%
Poverty	27.8%



The conflict will have an impact on the economy through the following direct channels

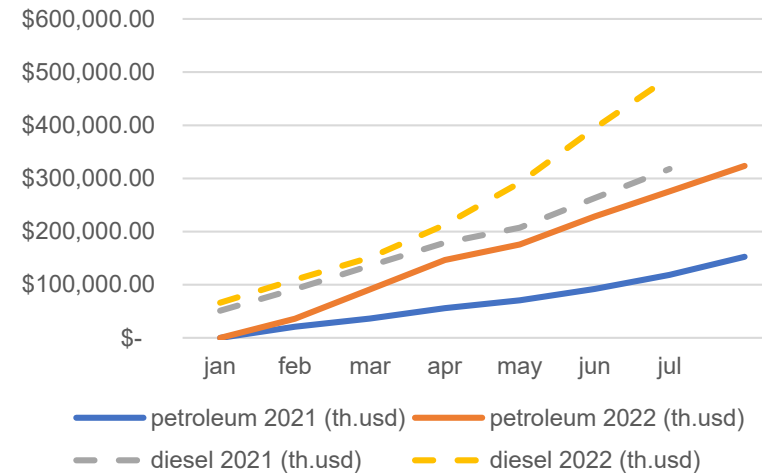
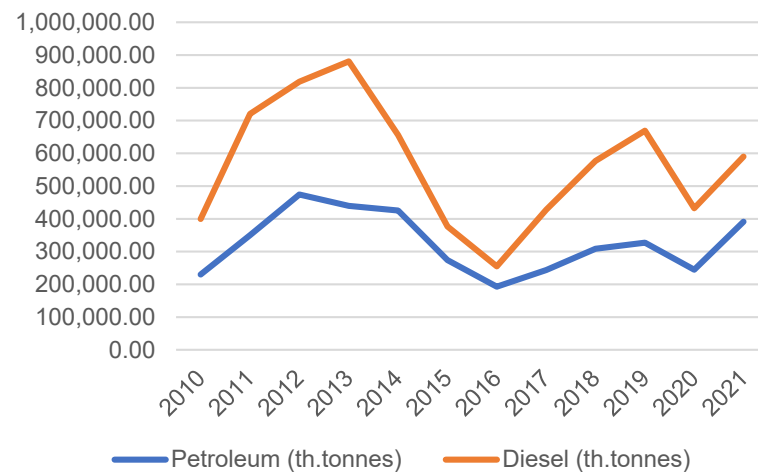
- a) energy supply disruptions and price increases  
Mongolia is dependent on Russian petroleum products
- b) cross-border trade disruptions  
transport and logistics difficulties and disruption of export and supply networks not only due to the Russia-Ukraine war but also because of China's strict policies against Covid-19
- c) frictions in the financial flow and the FDI

The indirect channel is through a global increase in food and other prices

# The direct impact of the Russia-Ukraine war is somewhat muted.

a. 28.6% of total imports is from Russia. In 2022, imports from Russia increased. (38% increase)

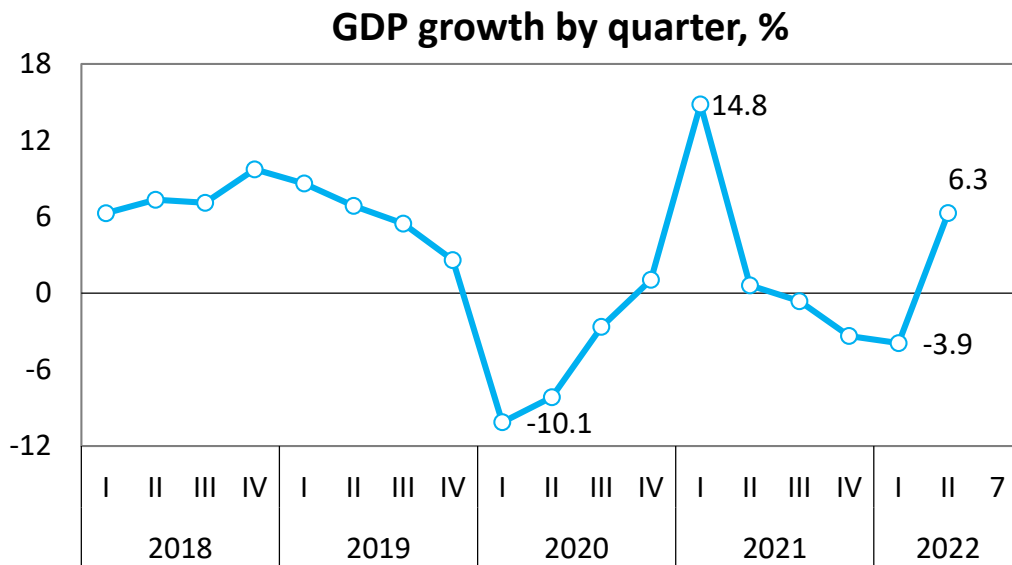
b. ~60% of imports from Russia is petroleum products and ~10% of imports is food products.



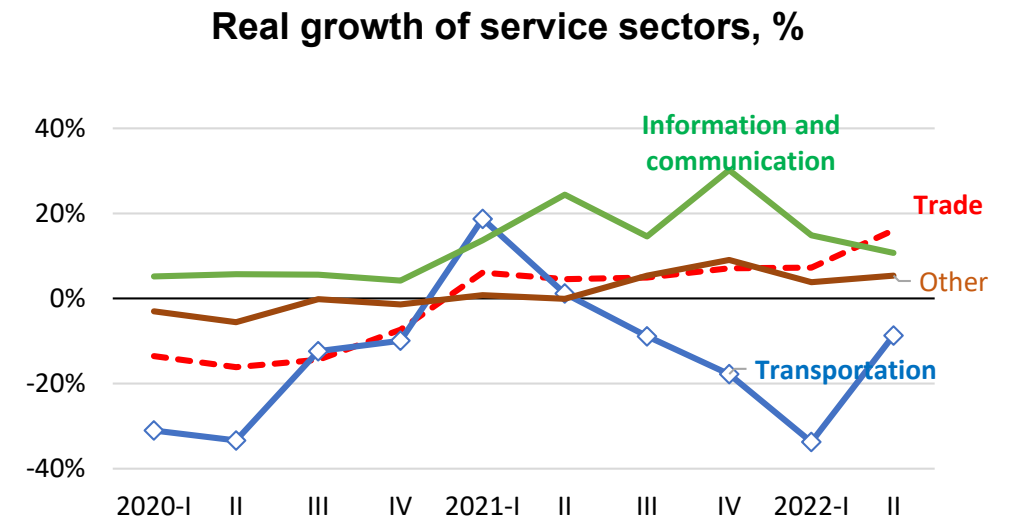
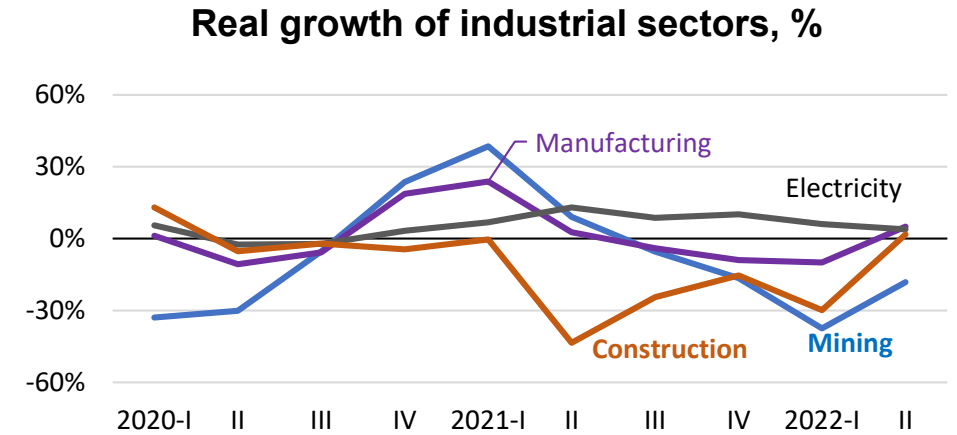
c. Mongolia's financial net inflow decreased from USD 850 million to USD 560 million, but it is not related to Russia specifically. (New foreign loan decreased from 2021 and export financial claim increased.)

# Economic growth

- The economy grew 6.8% in 2022Q2.
- First half of the year growth **1.9%**
- However, real GDP is below the level of 2019.



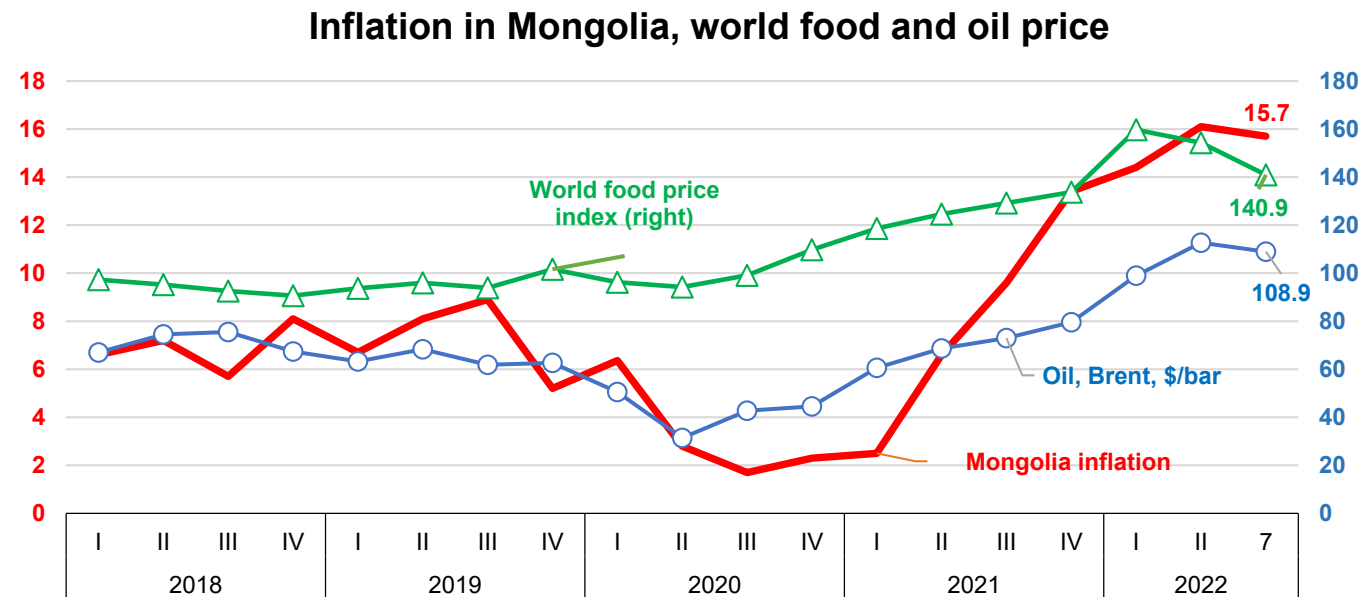
Source: NSO



Source: NSO

# Inflation

- Inflation reached **15.7%** in July.
  - The price of vegetables increased by 82.6%, and the price of gasoline increased by 39.2%
  - Higher imported good price contributed 54.1% of the total price increase. (15.9%-food, 38.2%-non-food)
  - Growth in aggregate demand also contributed
- World food price index began to drop (vegetable oil, grains).
- Also, oil price in the world market decreased.

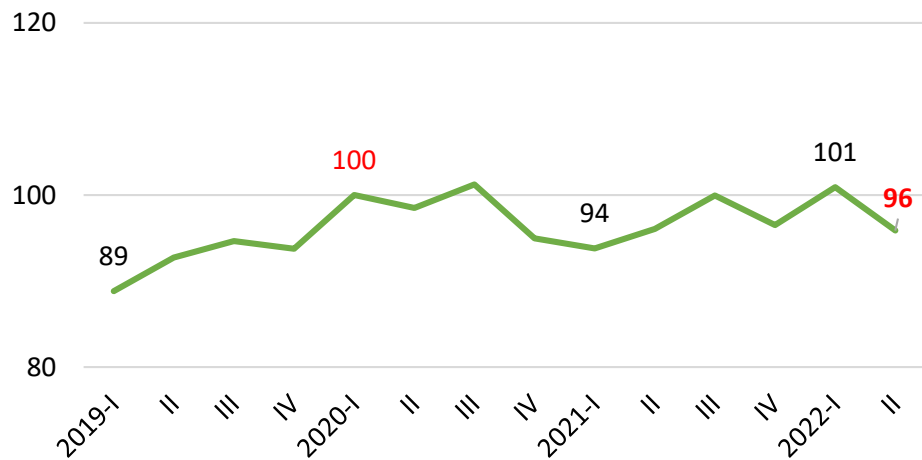


Эх сурвалж: Үндэсний статистикийн хороо, UN Food and Agriculture Organization, World Bank Commodity Market Outlook

# Household livelihood and employment

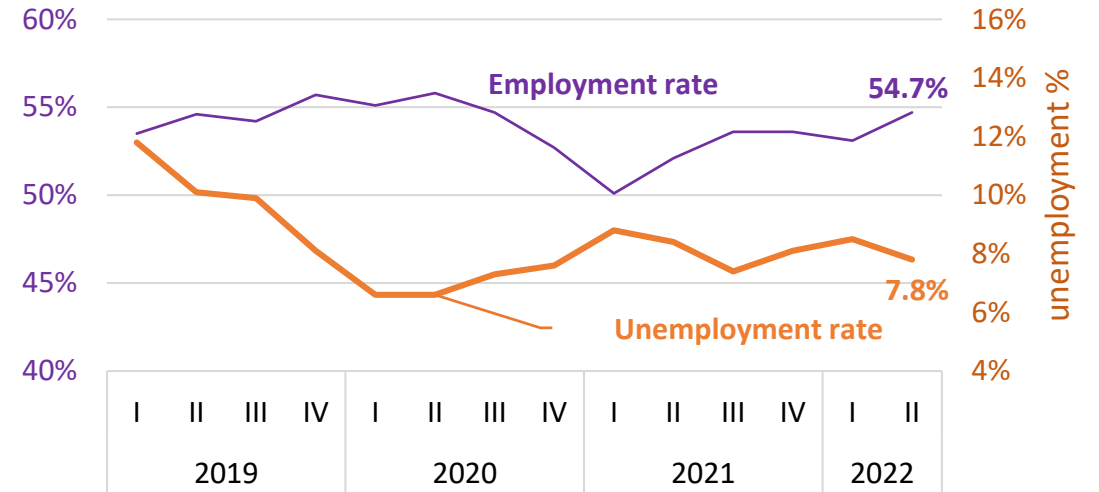
- Labor market is recovering
- In 2022Q2, monthly average household income – MNT 1,787,500 (USD 567) an increase of 15.9% year-on-year.
- However, real income and wage have not increased because of higher inflation rate.

**Monthly average household income (2020.I = 100)**

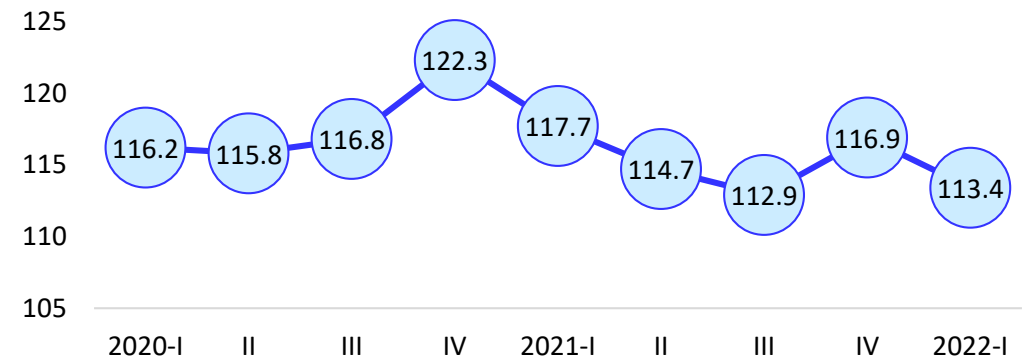


Source: NSO

**Employment and unemployment rate**



**The national average wage index (2015.I = 100)**

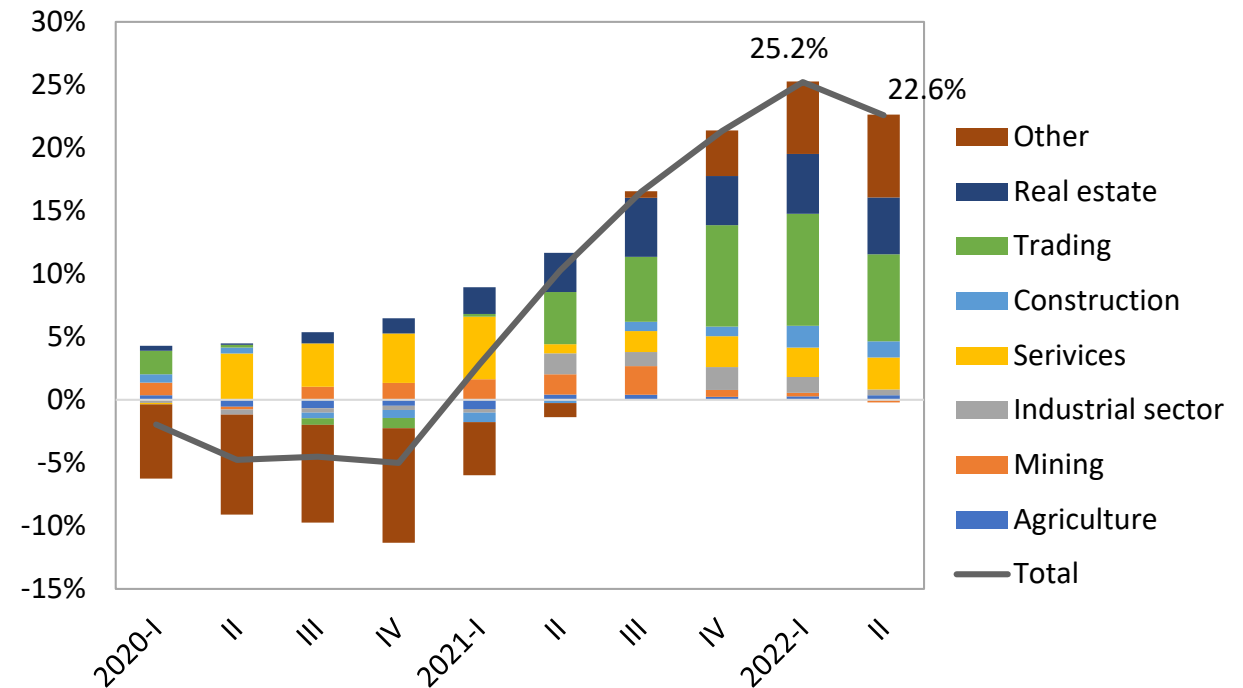


Source: NSO

# Banking sector

- Loan outstanding **23.3 trillion Togrog.**
  - Increase of **22.6% y/y** and **6.3% q/q.**
- Non-performing loan - **9.0%**
- Loan in arrears - **4.7%.**

## Bank Loan Outstanding

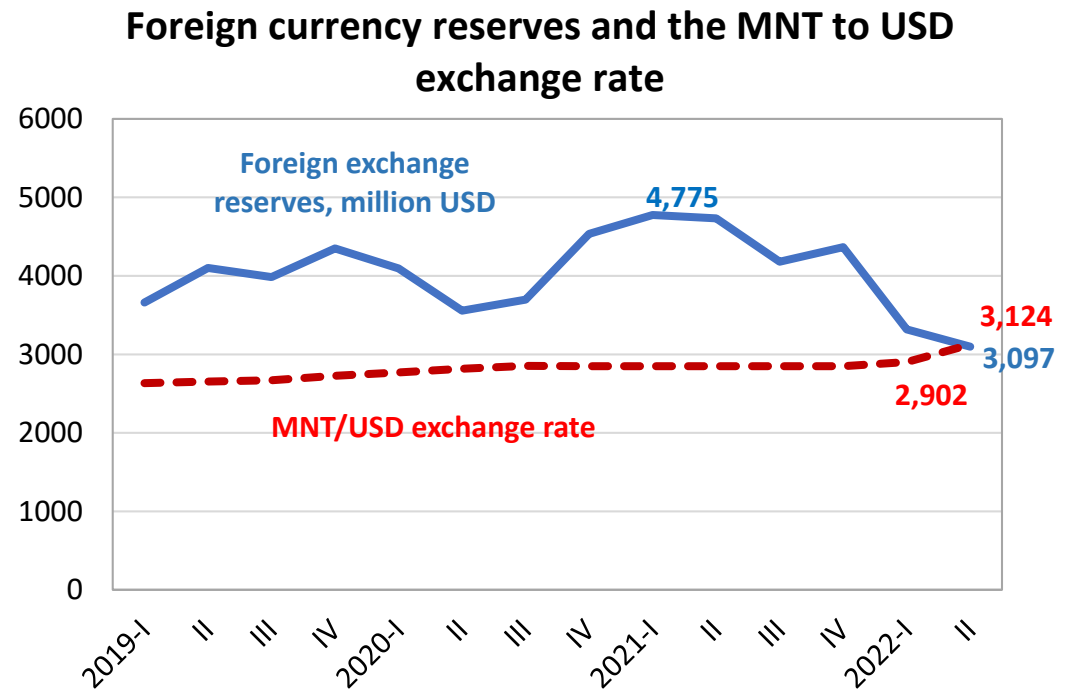


*The Bank of Mongolia*



# Foreign currency reserves, exchange rate

- In 2020Q2, the balance of trade has deficit of USD 543 million and a primary income deficit is USD 440 million.
- As of June 2022, the foreign exchange reserves decreased to USD 3.1 billion.
- MNT/USD exchange rate depreciated by 7.7%, reaching to MNT 3124.



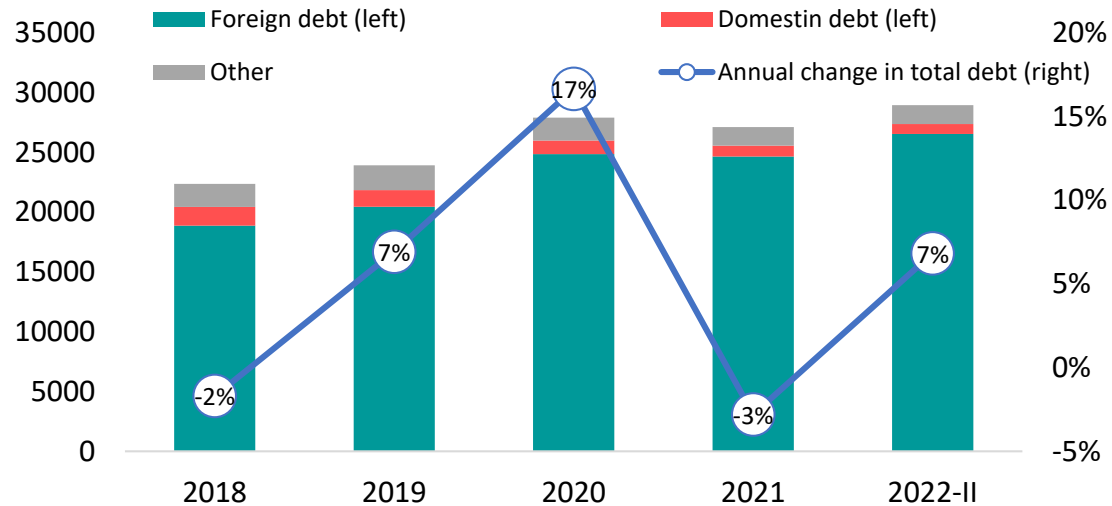
Source: Bank of Mongolia

# Government debt

- Government debt reached 28.9 trillion MNT as of 2022Q, a 21% increase from the pre-pandemic period.
- Government debt / GDP 62.3%

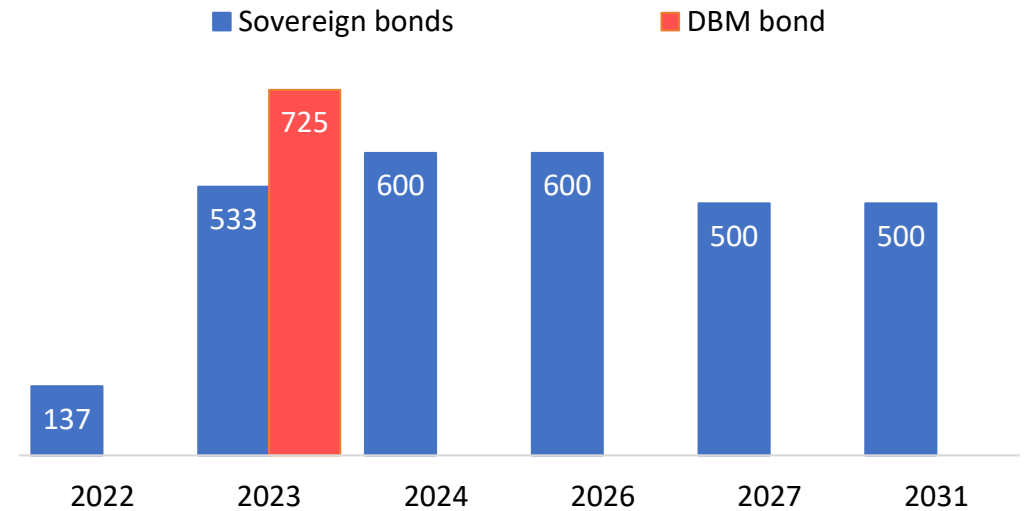
- Several large government and Development Bank of Mongolia bond repayment are becoming due in 2023.
- The government is pursuing a strategy to refinance loans.

**Outstanding government debt, billion MNT**



Source: NSO, Ministry of Finance

**Repayment schedule of sovereign bonds, million USD**

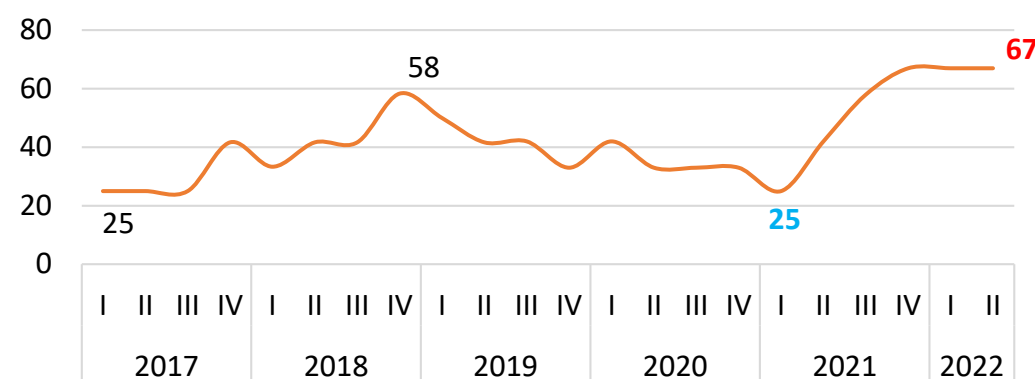


Source: Ministry of Finance

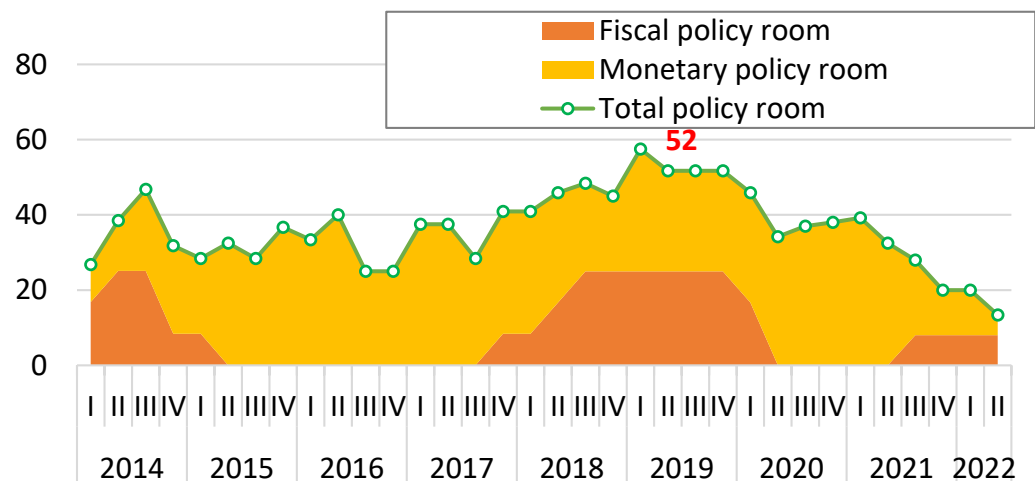
# Economic overheating and policy room

- In 2022Q2, **Economic overheating index** reached 67, which is at a high level.
  - Despite the economic downturn and relatively high unemployment, this was mainly due to high inflation, current account deficit, and high credit surplus growth.
- **Policy room index** remains at 13, the lowest level since 2013.
- Monetary policy room contracted significantly.
  - Inflation accelerated, negative real interest rate, the current account deteriorated, depreciation of MNT
- There continues to be no room to implement any fiscal policies.
  - The budget deficit (3.6% of GDP) and government debt (62.3% of GDP) remain very high

**Economic overheating index (0-100)**



**Policy room index (0-100)**



Source: ERI

# Economic growth forecast

## The World Bank (April 2022)

	2021	2022f	2023f
<b>Economic growth, %</b>	1.4	2.5	5.8
Agriculture	- 5.5	3.0	4.1
Industry (Incl mining)	- 2.8	1.2	7.8
Service	3.6	3.0	5.1
<b>Fiscal balance/GDP (%)</b>	- 3.1	- 4.8	- 4.8
<b>Public Debt/GDP (%)</b>	79.5	83.6	81.7
<b>Current account balance/GDP (%)</b>	- 12.7	- 15.6	- 13.8

## Bank of Mongolia (July 2022)

	2022f	2023f
<b>Economic growth, %</b>	2.4	5.9
<b>Inflation, %</b>	14.7	7.2

## ADB (April 2022)

	2022f	2023f
<b>Economic growth, %</b>	2.3	5.6
<b>Inflation, %</b>	12.4	9.3
<b>Current account balance/GDP, %</b>	- 16.3	- 12.7

# Current significant risks

- China economy downturn → Decrease in mining exports
- Border restrictions → Inflation, shortage of raw materials
- The current account deficit → Depreciation of MNT
- Rise in global interest rate → FDI inflows to Mongolia decreases
- Prolonged Russia-Ukraine war, rising global food price → higher inflation
- Pandemic risk decreases → recovery of trade and service
- Oyu Tolgoi underground mine operation begins in the last half of 2023 → economic growth acceleration, investment in underground mining stops

Thank you for your attention