SECTOR ASSESSMENT (SUMMARY): HEALTH

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. A series of large economic shocks. The global financial crisis (2008–2009), the global commodity price shock (2013–2014), and a domestic crisis in 2016 posed severe economic challenges for Mongolia. In these episodes, public debt as a share of gross domestic product (GDP) increased by 14–26 percentage points and global international reserves (GIR) fell by 49–67%.1 Mongolia’s authorities responded with expansionary fiscal and monetary policies. It used borrowed funds, including a People’s Bank of China (PRC) swap and sovereign bonds, to prevent exchange rate depreciation and spur economic recovery. These policies resulted in double digit credit growth, fiscal deficits, and large-scale money creation.

2. Quick recent rebound. The stronger policy framework adopted by the authorities had combined with significant official financing to help achieve accelerated growth of 8.6% in the first quarter of 2019 and a $2.5 billion expansion of GIR since 2016. Mining investments had recovered swiftly due to sharply improving external conditions, and exports had risen to historical highs of $7.6 billion in 2018 and $3.1 billion in 2019. Overall and primary fiscal balances recorded surpluses in 2018 and 2019 that were equal to 1.4% and 3.7% of GDP, respectively. The government maintained the structural deficit at 1.7% of GDP, which is consistent with the country’s Fiscal Stability Law. Foreign direct investment (FDI) remained stable at $2.1 billion, and a balance of payments surplus of $0.5 billion increased gross reserves to $4.4 billion.

3. Narrow, vulnerable economic base and insufficient buffers. Mongolia is highly exposed to external factors and change. Its dependence on mineral product exports, which grew from 68% of total export value in 2004 to 89% in 2019.2 A single country, the PRC, accounts for about 90% of these exports, and a single project for half of all FDI. While exports of goods and services increased from $2.3 billion to $8.5 billion during 2009–2019, imports grew from $2.6 billion to $9.0 billion.3 Although the export-led economic model helped generate annual average growth of 6.9% during the period, it is highly vulnerable to fluctuations in mining-related FDI, commodity prices, and the levels of trade with the PRC.

2. Economic Impact of COVID-19

4. Sharp 2020 economic slowdown expected due to pandemic. Turmoil in the global capital and commodity markets following the outbreak of the coronavirus disease 2019 (COVID-19) pandemic has greatly dimmed growth expectations globally, across Asia and the Pacific, and within Mongolia itself. The Asian Development Bank (ADB) has reduced the 2020 growth forecast for Mongolia from 6.1%4 to 2.1%,5 with the risks firmly tilted to the downside. If the pandemic leads to a protracted global economic crisis, this outlook would worsen considerably and possibly require ADB support beyond that proposed in this operation. The less favorable commodity market conditions and slower expected PRC growth resulting from the pandemic have lowered

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1 International Monetary Fund. 2019. Mongolia: Article IV Consultation, 2019, Washington, DC.
2 Based on statistical data from the Customs General Administration of Mongolia in 2020, ADB estimates that copper makes up 24% of exports, and coal 40%.
5. **A prolonged and critical pandemic impact.** The damaging economic effects of the COVID-19 outbreak are likely to extend deep into 2021. Mongolia’s recent macroeconomic improvements are being reversed. The generally reduced economic prospects and lower commodity prices globally and the pandemic’s adverse impact on economic growth in the PRC, its largest trading partner, mean Mongolia will experience lower budget revenues, lower export earnings, and lower FDI. These worsening economic fundamentals will impact the financial sector, where systemic risks may grow as assets deteriorate, balance sheets shrink, and credit is constrained. These significant economic disruptions signal the need for significant additional development and external financing over the remainder of 2020.

6. **Government revenue falling as spending must rise.** The pandemic’s effect had already reduced government revenue by 10.6% year-on-year as of February 2020. A revenue drop of at least 9.2%—the equivalent of $428 million—is currently projected for 2020 overall. Projected expenditure has risen to $4.6 billion, or 11.7% higher than in 2019. This includes countercyclical spending to try to offset the shocks from COVID-19. The budget deficit is expected to increase from 1.4% surplus in 2019 to a 2.7% deficit in 2020. The structural deficit is expected to increase by 3.4% points to 5.1% of GDP.

3. **Government Strategy**

7. **Mongolia’s pandemic response decisive.** Mongolia reacted quickly to the COVID-19 outbreak by imposing strict border closures, suspending all passenger travel, enforcing quarantine for all arriving travelers, closing schools, and restricting retail trade to minimize the spread of infection. The COVID-19 emergency has been assigned the highest possible risk rating under the country’s Law on Disaster Protection. In the first quarter of 2020, the Ministry of Finance had already allocated $4.3 million from the state budget to fund the patient treatment and transmission prevention of dedicated hospitals and health institutions.

8. **More funding for local health services.** The government intends to increase spending to strengthen the ability of local health authorities and medical facilities to respond to COVID-19 and other ailments. Respiratory diseases are a big part of Mongolia’s disease burden; the Ministry of Health considers 20% of the population, or 771,805 citizens, to be at high risk of contracting them. The ministry identified funding needs of $50 million. Initial estimates from the draft Coronavirus Pandemic Response Plan suggest overall needs currently stand at about $240 million. The capital, Ulaanbaatar, has ready-to-use, fully staffed training, maternity, and other dedicated medical facilities available, but the equipment and medical supplies most needed for the COVID-19 response are in short supply.

9. **Countercyclical development expenditures.** The government plans to counter the pandemic’s economic effects of falling exports and commodity prices with a more expansionary budget. Budgetary expenditures and net lending will increase 29.2% ($122 million) year-on-year, compared with 6.6% average annual growth in 2017–2019. Subsidies and current transfers will account for 10.5 percentage points of this 29.2% rise, capital expenditures for 10.5 percentage points, and goods and services for 7.0 percentage points. As of February 2020, budget revenues had decreased by 10.6% ($63 million) when compared with the same period in 2019. The government has no intention of significantly deviating from this spending plan, believing positive
fiscal support for growth and vulnerable low-income households to be crucial during these turbulent times. This policy will require that approved budget spending items be reprioritized so that the focus can be sustained on essential social investments and the protection of the most vulnerable.

4. **ADB Sector Experience and Assistance Program**

ADB has been a major partner in the government’s efforts to reform the health sector since the early 1990s. As of March 2020, ADB has provided five loans in the sector totaling $84.90 million, as well as seven grants totaling $37.00 million and 15 technical assistance operations amounting to $10.65 million. The ADB assistance has been and is consistent with Mongolia’s health strategies, aligned with government priorities, and responsive to the sector’s critical needs. Among the significant reforms in the health system ADB has supported are the Health Law of 2016 and other laws related to health insurance, medicines and medical devices, and medical care and services. ADB support continues for several government policy actions related to health security, all of which are relevant to helping the government respond to COVID-19, prepare for other outbreaks, and improve public health.

The COVID-19 Pandemic Response Option (CPRO) will help Mongolia safeguard critical health sector expenditures through a period of global medical crisis and domestic economic and fiscal distress. The CPRO will allow the government to spend what is necessary now on health care goods, services, and wages crucial to the continued containment of COVID-19 pandemic. It will also accelerate government actions to (i) strengthen the functions to regulate medicines, and thus ensure patient safety, and conduct the post-market surveillance especially relevant after the introduction of new vaccines and drugs; (ii) enhance pooled procurement of medicines and medical supplies to ease supply shortages in health facilities and ensure distribution of goods based on need; (iii) advance hospital autonomy and pandemic preparedness, including through the provision of isolation and quarantine facilities and overall infection control and prevention; (iv) strengthen the One Health approach by adopting relevant guidelines and enhancing an intersectoral task force; and (v) adopt interoperability standards in the health information system and digital health approach to allow for seamless information flow between laboratories and the health information systems.
Disproportionate impact on the poor and vulnerable groups

Inadequate fiscal space to respond to COVID-19 outbreak

- Inadequate public health system capacity
- Significant economic impact of COVID-19 (with further downside risks)
- Increase in budget deficit to support economic stimulus plan for expenditures