The economy had robust growth in 2023 as mineral output and exports increased, leading to current account and fiscal surpluses, as well as larger international reserves. Inflation receded but remained elevated. Mining should continue driving growth in 2024 and 2025, while agriculture, confronting unusually harsh weather, will likely contract in 2024 before recovering modestly in 2025. Inflation should continue to ease and the current account will return to deficit. Mongolia needs to accelerate investment in climate change mitigation and adaptation to meet its targets and build economic resilience, for which improved institutional capacity and investment climate are both required.

**Economic Performance**

The economy grew by 7.0% in 2023, supported by mining and the full border reopening with the People’s Republic of China (PRC). Mining, accounting for about 28% of GDP, expanded by 23.4% as coal production and exports surged to multi-year highs. It contributed 2.6 percentage points to economic growth. Improved border processing and transport infrastructure, including additional truck lanes and simplified customs clearance procedures, along with sustained demand from the PRC, pushed coal exports to 69.6 million tons in 2023 from 31.7 million tons in 2022. Copper production and exports also rose as the underground section of the Oyu Tolgoi mine, responsible for around half of Mongolia’s copper production, began operations in March 2023. Agricultural production contracted by 8.9% primarily due to harsh winter conditions that resulted in significant loss of livestock, cutting 1.3 points from growth. Services, which account for 40.1% of GDP, grew by 9.2%, contributing 4.3 points to growth. Within services, transportation and storage grew by 39.3% due to increased mining activity, contributing 1.8 points (Figure 2.10.1). On the demand side, export growth lifted net exports’ contribution to GDP growth to 5.2 percentage points. Private consumption also rose with the improved economic situation, raising growth by 4.8 points, while government consumption added another 1.3 points.

However, investment declined by 4.3 percentage points partly due to reduced outlays at the Oyu Tolgoi mine (Figure 2.10.2).

**Inflation moderated in 2023, but remained elevated.** Average consumer price inflation fell to 10.4% in 2023, compared to 15.2% in 2022, with the year-end inflation rate dropping to 7.9% compared to 13.2% in 2022 (Figure 2.10.3). The moderation came as supply shocks associated with trade disruptions

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from the pandemic and the Russian invasion of Ukraine dissipated, the PRC border fully reopened, tight monetary policy continued (with the central bank policy rate held at 13%), and the togrog appreciated by 1.0% against the US dollar (Figure 2.10.4). However, upward inflationary pressures came from faster economic growth and increased government expenditure, as well as the agricultural challenges affecting food prices, which rose by 12.2%, driven by a 16.2% increase in meat prices.

The current account balance shifted into surplus for the first time since 2007, equivalent to 0.7% of GDP. The balance turned positive due to the large trade surplus (Figure 2.10.5). Merchandise exports rose by 41%, while merchandise imports grew by only 10%, partly due to weaker global food and energy prices, increasing the trade surplus to 21.5% of GDP. However, trade in services recorded a deficit of 12.8% of GDP, with tourism and transport services accounting for a large share, while the income account deficit rose to 8.0% of GDP, with interest payments on foreign debt a significant component. Net capital inflows declined to 7.9% of GDP, as foreign direct investment (equivalent to 8.3% of GDP) fell to $1.7 billion from $2.4 billion a year earlier. Overall, the balance of payments posted a surplus of 7.2% of GDP and international reserves increased from...
$3.4 billion at the end of 2022 to $4.9 billion at the end of 2023, equivalent to 4.3 months of imports (Figure 2.10.6).

The fiscal balance recorded a surplus of 2.7% of GDP in 2023 (Figure 2.10.7). Government revenues grew by 30.7% to 35.3% of GDP as tax revenue rose to 31.0% of GDP on improved economic activity, especially in the mineral sector. Expenditure increased by 23.5% to 32.6% of GDP as both capital and recurrent expenditure grew, the latter due to large increases in public sector wages. Public debt—excluding a $1.7 billion swap between the central bank and the PRC—fell to 44.7% of GDP, down from 59.3% of GDP in 2022, primarily because of robust GDP growth, but also due to a 3.7% decline in debt stock. Mongolia issued two dollar-denominated sovereign bonds, one in January 2023 for $650 million, with the second in December for $350 million, to roll over expiring maturities, with both bonds well over-subscribed.

Broad Money supply (M2) increased by 26.8% during 2023 and credit grew by 23.1% (Figure 2.10.8). The central bank policy rate remained high, as did bank lending rates, which averaged close to 16% at the end of 2023 compared to 15% at end-2022. The banking sector nonperforming loan ratio fell to 7.5% of total loans at year-end, compared to 9.1% a year earlier. During 2023, all systemically important banks complied with the 2021 amendment to the banking law requiring banks to be publicly listed by June 2023.

Economic Prospects

GDP growth is forecast to moderate to 4.1% in 2024 before rising again to 6.0% in 2025 (Table 2.10.1). Mining will drive growth in both years, particularly the Oyu Tolgoi mine, which is projected to double its concentrate production by 2025, with most of the increase expected in 2025. Mining is projected to contribute 1.5 percentage points to growth in 2024 and 2.6 points in 2025. However, agriculture will contract again in 2024, pushing down GDP growth, as Mongolia suffers from one of its worst winters in recent memory—over 5 million head of livestock perished.
as of March, with the number expected to grow. A recovery in agriculture, mining expansion and services growth supported by a mining spillover to other sectors will push up GDP growth in 2025.

**On the demand side, government operations will support growth in 2024.** According to the 2024 budget, government expenditure will increase by 21.8% as recurrent expenditure grows on higher wages and pensions for public servants along with capital expenditure on accelerated investments under the government’s New Recovery Policy. The challenges in agriculture will likely drag on private consumption in 2024, particularly for the 30% of the population that relies on agriculture for income. Investment is forecast to decline in 2024 with falling capital investment associated with the Oyu Tolgoi mine, but it should increase in 2025 supported by a recovery in agriculture. Net exports should contribute positively in both years, particularly in 2025 as mineral exports rise.

**Inflation is expected to stabilize in 2024, although it will remain elevated, and is projected to recede in 2025.** While the overall recent trend in inflation has been downward, the challenging winter conditions will put upward pressure on meat prices, and higher government expenditure will have an inflationary effect. The central bank policy rate was reduced from 13% to 12% in March 2024, but it remains well above the current rate of inflation and will likely have a downward effect on prices. Therefore, average inflation is forecast at 7.0% in 2024 and 6.8% in 2025.

**The current account is likely to return to deficit in both 2024 and 2025.** Imports are expected to increase due to higher government expenditure and more buoyant economic activity following recent strong growth, while export value should stabilize on increased export quantity but softer commodity prices. However, the current account deficit should narrow in 2025 as copper concentrate exports increase with greater production from the Oyu Tolgoi mine.

**Risks to the outlook are balanced.** Downside risks include the ongoing climate-related disaster in agriculture, which will affect tax revenue, along with any reduction in coal purchases by the PRC or lower commodity prices for key exports. In addition, Mongolia’s susceptibility to shocks and its narrow and small economy means that the fiscal balance can diverge significantly from budgeted amounts, affecting growth and inflation. Upside risks include upward movements in commodity prices, the potential for expanded coal sales, or a faster-than-expected ramp up of production from the Oyu Tolgoi mine, all of which can push growth higher over the forecast horizon.

### Table 2.10.1 Selected Economic Indicators, %

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
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<td>GDP growth</td>
<td>5.0</td>
<td>7.0</td>
<td>4.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Inflation</td>
<td>15.2</td>
<td>10.4</td>
<td>7.0</td>
<td>6.8</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.


**Policy Challenge—Increasing Climate Investment**

**Mongolia is committed to reducing its greenhouse gas emissions and increasing resilience to climate change by investing in climate change mitigation and adaptation.** Climate change mitigation poses a significant challenge, with Mongolia the 17th highest per capita contributor of greenhouse gas emissions, of which 44.8% is related to generating energy from coal and 52% from agriculture. The nation is also particularly vulnerable to the impacts of climate change, with rising temperatures and increasing aridity threatening the traditional nomadic herding lifestyle that many Mongolians depend on. The average air temperature increased by 2.5°C over the past 80 years in Mongolia, and climate model projections suggest it will warm up to 4.5°C by 2050. Under its nationally determined contribution (NDC) under the Paris Agreement, Mongolia is targeting a 22.7% reduction in emissions by 2030, compared to the business-as-usual scenario and significant investments in climate resilience.

**Achieving the NDC goal requires substantial investment financing which is far from assured.** It is estimated that Mongolia needs $11.5 billion in climate investments, of which $5.2 billion is for adaptation and $6.3 billion for mitigation. However,
accelerating climate investments is not without its challenges. The country faces several barriers to attract the necessary funding, including a lack of institutional capacity, limited experience with climate finance, and a regulatory environment not always conducive to investment. In addition, the country’s heavy reliance on fossil fuels, particularly coal, makes the transition to a low-carbon economy particularly complex, and the economy’s dependence on revenues from coal exports introduces new economic vulnerabilities resulting from the global shift to net-zero.

Despite these challenges, there are significant opportunities for increasing and speeding up climate-related investments. The country has abundant renewable energy resources—including solar, wind, and hydropower—which could provide a sustainable low-carbon alternative to fossil fuels. Mongolia’s vast grasslands also offer opportunities for carbon sequestration through improved livestock management and restoration of degraded lands.

To capitalize on these opportunities, Mongolia must strengthen its institutional capacity and improve its investment climate. This could include reforms to streamline regulatory processes, enhance transparency, and provide greater certainty for investors. The country is considering introducing a climate law, which can serve as a powerful tool to drive climate action and facilitate investment in low-carbon development. By establishing clear emission reduction targets, creating a comprehensive policy framework that incentivizes climate-friendly practices, and strengthening institutional arrangements, the law can foster an environment that promotes sustainable growth. In addition, the law can ensure transparency and accountability through reporting requirements and independent reviews, while also demonstrating the government’s commitment to addressing climate change. Mongolia can also integrate NDC priorities into its public investment program and support sector agencies to identity, prioritize, and design annual and medium-term climate investments. Mongolia has already developed a green taxonomy—a classification system that defines and categorizes economic activities, investments, or projects based on their environmental impact and sustainability—which could be expanded to include economic activities aligned with sustainable development goals. Finally, Mongolia can explore innovative financing mechanisms, such as green bonds or public-private partnerships, to attract the necessary capital.

International support will be crucial in helping Mongolia accelerate climate investment. Multilateral development banks can provide financing and technical assistance to help the country build capacity and develop low-carbon infrastructure. In addition, Mongolia can learn from the experience of other countries that have successfully attracted climate finance and implemented low-carbon development strategies.