

November 22, 2021

**The Acting Chair's Summing Up
Mongolia—2021 Article IV Consultation
Executive Board Meeting 21/108
November 19, 2021**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities on a successful vaccination campaign and welcomed the export-led recovery underway. Notwithstanding the strong economic outlook, Directors noted that significant downside risks remain given uncertainties associated with the pandemic, Mongolia's limited buffers and high external public debt. In that context, they stressed the importance of managing the export boom prudently to secure the recovery while achieving the country's long-term development goals.

Directors agreed that in the near term, policies may need to remain supportive, given the lingering pandemic and weak recovery in domestic activity. Calling for an ambitious fiscal consolidation strategy, Directors emphasized the importance of bold structural fiscal reforms to address untenable debt dynamics. To this end, they underscored the importance of better targeted and more effective social assistance programs, ambitious pension reforms, improved public investment management, and tax administration. Commendable plans for e-governance and state enterprise reform should be fleshed out and implemented. Directors also emphasized that the integrity of the Future Heritage Fund should be preserved to maintain investor confidence.

Directors stressed the need to enhance the Bank of Mongolia's (BOM) operational independence to ensure monetary and external stability. Continued vigilance is needed to ensure that inflation does not become persistent. Directors emphasized that quasi-fiscal operations should be moved to the budget and phased out, and the Parliament should resist making decisions on monetary and financial operations. Greater exchange rate flexibility could serve as a shock absorber. The BOM should continue building its external buffers and drawdown non-concessional external liabilities.

Noting with concern the possibility of potential vulnerabilities in the banking sector, Directors called for greater supervisory focus on strengthening banks and contingency planning. In that context, they stressed the importance of a well-sequenced approach to bank reforms to minimize the risk of systemic instability. Phasing out regulatory forbearance by end-2021 and promptly undertaking a fresh and independent asset quality review for potentially capital deficient banks would be imperative for transparency and a proper assessment of bank balance sheets. Emphasizing the need for putting in place the necessary pre-conditions for successful IPOs and contingency plans, they called for delaying the deadline for the IPOs.

Directors welcomed the authorities' long-term development strategy focused on sustainable, inclusive, and green growth. To improve the business climate, they urged the authorities to decisively address the long-standing concerns about corruption, governance, and

AML/CFT to strengthen the investment climate and promote diversification. Revamping the insolvency framework and judiciary reforms should be prioritized to address impaired balance sheets. Directors stressed the importance of the publication of the full audit report on COVID-related expenditures, including the missing information on beneficial owners.

It is expected that the next Article IV consultation with Mongolia will be held on the standard 12-month cycle.