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GRAY/20/2258

June 2, 2020

**Joint Statement by Ms. Mahasandana, Mr. Moreno, Mr. Chea, and Mr. Montero on  
Mongolia  
(Preliminary)  
Executive Board Meeting 20/66  
June 3, 2020**

We thank staff for the comprehensive reports and Mr. Ray, Ms. Johnson and Mr. Khurelbaatar for their insightful Buff statement.

We commend the authorities' swift implementation of strong containment measures to mitigate the spread of the COVID-19 outbreak. We also welcome the authorities' recently announced policy mix, which tries to soften the contraction in output without putting excessive pressure on the balance of payments given limited buffers. Notwithstanding these efforts, Mongolia's economic performance is expected to be severely disturbed by the impact of the pandemic, whilst growth is projected to contract by 1 percent in 2020 driven by the sharp decline of mineral exports and remittances. This in turn has resulted in significant fiscal financing and balance of payments needs. Coupled with persisting high public debt level and deteriorating foreign exchange reserves, the economy is fragile and vulnerable to external shocks. We therefore concur with staff and **support the authorities' request for purchase under the RFI equivalent to 100 percent of quota (SDR 72.3 million)**. We would like to offer the following points for emphasis.

**Accommodative fiscal policy is vital to weather the impact of the pandemic.** We welcome the authorities' initial fiscal response to support the affected households and businesses. We trust that the approval of IMF financing will play a catalytic role to unlock donor support from other bilateral and multilateral partners, as the purchase under the RFI will account for only a fraction of Mongolia's financing needs. These external financing will help to free up fiscal resources for higher healthcare and pandemic-related spending needed

to address its social and economic impact. In this vein, we note staff's concern about the adequacy of health spending, as it might be insufficient in the event of a serious outbreak. Additionally, we appreciate the authorities' commitment to adopt safeguards on COVID-19 related spending, including third-party audits. Going forward, given Mongolia's high public debt level, the authorities are encouraged to continue to strengthen fiscal governance and to rebuild fiscal buffers once the COVID-19 crisis subsides.

**We share staff's concerns regarding the quasi-fiscal role of the Bank of Mongolia (BOM) during this crisis.** This could dampen the credibility of the central bank and reduce monetary policy effectiveness. Thus, we take positive note of the agreement to limit quasi-fiscal activities going forward, as well as to disclose all government financing transactions.

**Continued efforts are needed to safeguard financial stability.** We welcome the regulatory measures taken by the BOM to mitigate the negative impact of the outbreak on the financial sector. Going forward, advancing on banking sector reforms by enhancing risk-based supervision and increasing bank capital will be key to preserving financial sector soundness.

With these remarks, we wish the authorities all success.