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**Statement by Mr. Huh, Mr. Khurelbaatar, and Mr. Yoo on Mongolia
Executive Board Meeting
November 19, 2021**

The Mongolian authorities wish to convey their appreciation to Ms. Banerji and her team for the candid and constructive discussions during the Article IV mission.

The authorities responded proactively to containing the spread of the virus including closing borders and providing unprecedented support measures to save the lives and livelihoods of the Mongolian people. The pandemic crisis inevitably caused a deep economic contraction in 2020 and substantial scarring effects are expected over the medium term. Without policy support, however, there would have been more adverse impacts on the economy and the poverty situation.

Despite high uncertainty surrounding the course of the pandemic, the Mongolian government adopted a national long-term vision, Mongolia Vision 2050, that aims to transform the country by fighting poverty, creating a greener economy, improving the education system and gender equality for enhanced job access, and redefining the social strategy in a more citizen-centered way. Continuing reform efforts, together with the swift pandemic response, have contributed to favorable external financing conditions. After a spike in sovereign spreads early in the pandemic, Mongolia's spreads have narrowed faster than those other emerging market peers and Eurobonds were successfully rolled over. External borrowing costs are now at their lowest level since 2015. Going forward, the Mongolian authorities aim to ensure an inclusive recovery and to continue to pursue necessary structural reforms, while preserving macroeconomic stability as well as debt sustainability.

Economic outlook

The economy is recovering strongly after the recession in 2020 with growth projected to be around 4.5 percent in 2021 and around 5 percent over the medium term. The completion of the construction of railway lines to mining sites, and the successful renegotiation and start of

the underground exploration of Oyu Tolgoi mine are expected to improve growth prospects further from 2022 onwards.

Covid-19 cases remained high throughout 2021 despite the strong vaccination campaign. However, cases have started to drop recently. As nearly 95 percent of the population is fully vaccinated, and the country has started administering the third dose of vaccines, domestic economic activity is expected to begin to slowly recover.

Mainly due to higher global commodity prices, the economic outlook is positive, but the authorities are treating the positive outlook with caution. Since Mongolia's economy is closely tied to China, possible economic volatilities in China may significantly impact the economy, especially in the mining sector. For example, the recent closure of the main border points due to a covid-19 outbreak in the bordering areas of China highlights the risks related to Mongolian commodity exports and imports of goods. Moreover, prolonged disruption in trade with major trading partners could seriously hurt the export sector and deteriorate the supply of food and goods.

Fiscal policy

The budget for 2022 envisages policies to support the recovery by increasing capital investment to strengthen export sector productivity and maintaining adequate welfare support to the vulnerable while rationalizing expenditure. The primary budget deficit is expected to be 3.1 percent of GDP for 2021, and to further decrease to 1.1 percent for 2022. The continued fiscal adjustment is planned through 2026 so as to firmly put debt on a downward path from 81.5 percent of GDP in 2021 to 68.1 percent in 2026, which amounts to a reduction of about 13 percentage points.

Given pandemic instigated risks are still high, and the subdued and slow revival of domestic economic activity, the authorities believe that deeper fiscal consolidation at this moment could hurt the recovery and the livelihoods of vulnerable people. Once the recovery is on a firm footing, the authorities plan to undertake fiscal consolidation and explore options to set the appropriate and much lower target level of the public debt.

The current crisis clearly showed a need for reforms in many areas of government finances. Thus, fundamental fiscal reforms to rationalize expenditure are being planned. For example, the pension law is currently being discussed in the Parliament to reform the pension insurance scheme, improve the pension fund's economic viability, and reduce the dependence on budget transfers. The authorities also plan to pursue a number of other significant reforms, such as introducing result-based financing of public entities, civil service reforms, freezing of new hires except in priority sectors, improving SOEs governance, and exploring liquidation and privatization of non-strategic SOEs through the stock market, to name a few.

The child money program proved to be very efficient and effective in providing financial support to households during the covid-19 pandemic. A number of surveys showed that the program helped the vulnerable and assisted most of the population avoid poverty and maintain adequate living standards. Considering that pandemic risks remain and that a reliable and up-to-date database on the household income does not exist, the authorities have chosen to provide an assistance to children without discrimination. For this, the authorities are planning to introduce savings accounts for cash transfers rather than cash handouts, which could help build savings for children's futures. Going forward, when the ongoing crisis is over and dependable data is available, the authorities will seek to better target the social assistance programs.

Monetary and external policies

Inflation was subdued during the covid-19 pandemic, but there has been a sign of inflationary pressures since June of this year. In addition, recent border closures and the global disruptions in the shipment of goods increased supply-side inflationary pressures and may result in double-digit inflation later this year. If inflationary pressures persist, the Bank of Mongolia stands ready to undertake policy measures to curb inflation.

External financial support, including the Fund's RFI and an SDR allocation as well as subdued import activity, helped to increase the gross foreign reserves to 4.2 billion USD, equivalent to 5 months of supply at the end of October this year. Going forward, the authorities are committed to a floating exchange rate regime to accommodate adverse external shocks and maintaining an adequate level of foreign reserves. The Bank of Mongolia is keenly aware that the current level of reserves is not adequate and will take necessary measures to attain additional buffers.

Financial sector policy

An inefficient banking sector has been the root cause of financial instability and the low level of financial inclusion for many years. The lack of competition, weak supervision, and the concentration of banking sector ownership gave rise to an unhealthy banking sector. Deep banking sector reforms have been the Fund's main recommendation for the past decade, and the previous Fund program stalled in 2019 because of inaction reforming the banking sector. After years of setbacks, the Parliament finally approved the banking sector reform package in 2021 to make banks public, improve transparency, and restrict the ownership of individuals and their related parties to no more than 20 percent of shares.

The banking sector reform will proceed gradually through 2024. In the first phase, the initial public offerings of 10 percent of shares of banks through the stock market are planned for June 2022. The authorities are keenly aware of the risks related to this significant reform that staff point out. Hence, they will carefully assess the result of the first phase of the reforms

and based on this analysis will make necessary changes to the banking sector reform strategy, if needed. The authorities are fully committed to delivering this historic reform and are of the view that any delay to reforms could jeopardize the reform momentum and leave unresolved the root cause of financial instability and underdevelopment of the financial market.