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November 16, 2021

**Statement by Mr. Hosseini and Mr. Ahmed on Mongolia
(Preliminary)
Executive Board Meeting
November 19, 2021**

We thank staff for the well-written report and Mr. Huh, Mr. Khurelbaatar, and Mr. Yoo for their helpful Buff statement. We broadly agree with the staff appraisal and policy recommendations.

Mongolia's export-led recovery is gaining traction despite the lingering pandemic and the economic outlook is strong, albeit uncertain. Following a sharp contraction in 2020, the real GDP is expected to grow by over 4 percent in 2021, on the back of global recovery, continued policy support and base effect; however, scarring is likely to lower medium term output trends. The authorities are encouraged to take advantage of the export price boom and policies should secure the recovery, while managing the commodity boom prudently to achieve long-term goals.

We note that due to the economic contraction and large fiscal support during the pandemic, public debt has been rising again. Given Mongolia's thin net international buffers, and a difficult near-term amortization schedule, Mongolia's high external debt is most vulnerable to external and exchange rate related shocks and rollover risks. In this context, we would encourage the Mongolian authorities to take necessary measures to attain additional buffers and remain engaged in discussions with Fund staff on a possible UCT arrangement.

We have reservations about the Bank of Mongolia (BOM)'s return to quasi-fiscal operations and underscore the importance of the authorities' commitments, under the 2020 RFI arrangement, to limit such activities, as well as of ensuring the operational independence of the BOM which remains macro-critical. Large and untargeted quasi-fiscal and financial forbearance measures have heightened macrofinancial vulnerabilities, although BOM remains confident that, as the economy recovers, the performance of loans under forbearance will not contribute to an increase in NPLs. We note that previous concerns about

the health of bank balance sheets have intensified and urge the authorities to closely monitor financial stability in the period ahead. We agree with staff that the BOM should recognize IMF holdings of Mongolia's currency on its balance sheet. The 2021 Central Bank Law amendments have strengthened legal protections for supervisors. However, we encourage authorities to complete the remaining recommendations and finalize agreement on the timing and modalities for the transfer of the mortgage program from the BOM to the MOF.

We emphasize the need for continued firm commitment to sound macroeconomic policies and reforms to increase buffers, reduce vulnerabilities and achieve higher inclusive growth. In this context, we welcome the planned fiscal consolidation to bring public debt down to safe levels. We consider greater exchange rate flexibility critical to addressing external imbalances and building reserves, with interventions limited to disorderly market conditions. We encourage the authorities to complete the financial sector reforms, focusing on recapitalization of banks that prevented the completion of six out of eleven EFF reviews. In this connection, we welcome the Parliamentary approval of the banking sector reforms 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.

We welcome the authorities' adoption of 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. Addressing governance challenges and strengthening fiscal transparency and public investment management should also be a key priority.

Finally, we welcome the authorities' commitment to ensure transparency in Covid-19 related expenditures and take note that the commitment to an independent audit and publish the results by end-June 2021 has been delayed due to the pandemic but a National Audit Office audit report on Covid-19 expenditures was recently published.

We wish the authorities success in their endeavors.