

SU/18/146

November 1, 2018

**The Acting Chair's Summing Up
Mongolia—Fifth Review Under the Extended Fund Facility
Arrangement and Request for Modification and
Waiver of Applicability of Performance Criteria
Executive Board Meeting 18/88
October 31, 2018**

Executive Directors welcomed Mongolia's performance under the Fund-supported program. The macroeconomic outlook and debt dynamics have improved on the back of strong external demand, renewed confidence, and sound policy implementation. However, Directors noted that significant vulnerabilities remain and emphasized the need to build additional external buffers. With rising pressure on emerging markets generally, they emphasized that continued strong commitment to the program will be critical to foster sustainable growth that is less volatile and more inclusive.

Directors welcomed the strong fiscal outturn so far in 2018 and commended the authorities' intention to save the revenue over-performance. However, with public debt still relatively high and balance of payments pressures rising, they expressed concerns about the loosening fiscal stance in the proposed 2019 budget. Nonetheless, Directors recognized Mongolia's expenditure needs especially on critical infrastructure and social protection programs and thus supported the program target of 1 percent of GDP primary balance surplus in 2019. They also highlighted the need to strengthen tax administration, improve public financial management and advance fiscal reforms. Directors also underlined the scope to make social spending more targeted and efficient.

Noting the need to accumulate further foreign exchange reserves, Directors welcomed the authorities' readiness to raise interest rates and urged swift policy action in coming months if the balance of payments does not strengthen sufficiently. Directors also advised caution on foreign exchange intervention and encouraged greater exchange rate flexibility going forward.

Directors welcomed the ongoing efforts to strengthen the financial sector. These include steps taken by the Bank of Mongolia to ensure that bank balance sheets better reflect asset quality and that the capital which banks are raising is sufficient in amount and quality. At the same time a prompt response would be required to preserve financial stability should banks be unable to raise adequate capital by the end-December deadline. Directors also called for further efforts to strengthen banking supervision, facilitate the resolution of

non-performing loans, and improve the AML/CFT framework. Noting that the rapid increase in credit growth raises both macro and financial stability concerns, Directors supported the authorities' efforts to address potential risks with macro-prudential policies while noting that further tightening may be necessary.

Structural reforms remain key to sustained, inclusive growth and greater resilience. Directors emphasized the need for reforms to improve the business environment and diversify the economy.