

SU/20/113

June 3, 2020

**The Acting Chair's Summing Up
Mongolia—Request for Purchase Under the Rapid Financing Instrument
Executive Board Meeting 20/66
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Executive Directors noted that Mongolia is facing a sharp contraction in economic activity and higher financing needs as a result of the global pandemic. In response, Directors supported emergency assistance under the Rapid Financing Instrument to help fund critical social spending, mitigate the fall in international reserves and catalyze support by other donors.

Directors supported the authorities' decision to allow a widening in the deficit and re-prioritize spending to support those most affected. They also welcomed the authorities' commitment to transparency, including a third-party audit of all pandemic-related spending. Directors expressed some concern about the adequacy of health spending and underscored the importance of contingency planning in the event there is a sharp rise in infections.

Directors supported decisions by the Bank of Mongolia to ease monetary policy and macro-prudential regulations to help avoid a disorderly contraction in credit. They noted that previous concerns about the health of bank balance sheets have likely intensified and urged the authorities to closely monitor financial stability in the period ahead.

Directors expressed concern about the Bank of Mongolia's sharp decline in the already low foreign exchange reserves and called for significantly greater exchange rate flexibility going forward. They also expressed deep reservations about the Bank of Mongolia's return to quasi-fiscal spending, and underscored the importance of the authorities' commitments to limit such activities to 2 percent of GDP in 2020 and zero thereafter, as well as of ensuring the independence of the Bank of Mongolia.

Directors noted the significant downside risks to the global outlook and the potential implications for Mongolia. In this context, they called for additional support by other IFIs and development partners to help smooth the adjustment and ensure sufficient support for the most vulnerable.

As the immediate threat to the economy subsides, Directors emphasized that it will be critical to resume key reforms begun during the recent Extended Fund Facility arrangement. These include a return to fiscal consolidation to reduce still high public debt, a more flexible exchange rate to build up foreign exchange reserves, remedying AML-CFT deficiencies, and stronger supervisory enforcement to ensure that all banks have sufficient capital.