

On the Special Feature: Mongolian Economy – Challenges and Opportunities

ENKHBAYAR Shagdar

Senior Research Fellow, Research Division, ERINA

Mongolia's economy experienced the deepest contraction in decades in 2020, when the COVID-19 pandemic hit and varying restrictions were placed on economic activities worldwide. The scale of economic contraction was far larger than that of the "Lehman Shock" impacts of 2009. Nevertheless, the merest of economy revivals occurred in 2021, and it continued through 2022. According to latest estimates by the National Statistical Office (NSO) of Mongolia, the country's real GDP contracted by 4.6% year-on-year (yoy) in 2020, but it grew by 1.6% yoy in 2021, the lowest growth since 2016. The real GDP growth rate equaled 3.7% yoy during the first three quarters of 2022. That said, the real GDP was only 0.4% higher than its pre-pandemic level in 2019; thus, the economy is still in stagnation for the third year in-row due to the pandemic.

On this background, the 12th ERINA Joint Workshop on Mongolian Economy in Mongolia held under the theme: "Mongolian Economy–Challenges and Opportunities" on 24 August 2022 at the Mongolia-Japan Center for Human Resources Development (MOJC). The co-organizers of the workshop were the National Research and Consulting Center (NRCC) and MOJC. Over 30 participants joined the workshop.

This special feature presents three papers discussed at the workshop as follows:

- *Monetary and Macprudential Policy Measures of Mongolia during the Covid-19 Pandemic* co-authored by Bayardavaa Bayarsaikhan, Director General, Monetary Policy Department, Bank of Mongolia, Batbayar Baatarkhuu and Munkhbayar Gantumur, Economists at the same Department, argues that the policy packages implemented by the Bank of Mongolia during the pandemic addressed at easing the risks posed by the pandemic on the country's economy, notably its banking and financial sectors, were effective for supporting macroeconomic stability, economic growth, and preventing credit crunch. In compliance with international best practices, these measures targeted both creditors and borrowers, and included reducing the Bank of Mongolia policy rate to a historical low, easing commercial banks' reserve ratio requirements, loan restructuring, discouraging deposit dollarization etc.
- *Consumer Confidence Index in Mongolia-Q2 2022* co-authored by Soyolmaa Batbekh, Senior Researcher at the NRCC, Altantsetseg Batchuluun, CEO of the NRCC and Davaadorj Tsenddavaa, Director, MOJC, reports the results of the Consumer Confidence Index survey conducted in Mongolia in the second quarter of 2022. According to this survey, the Consumer Confidence Index (CCI) in Mongolia increased compared to the same period a year earlier supported by significant improvement in the current situation index. Consumers' appraisal of job availability helped to raise the current situation index earlier than expected. However, consumers had mixed expectations for the near

future. Demand for durable goods would be stable in the next 6 months, while the household financial index dramatically decreased. Moreover, more consumers expect the depreciation of the Mongolian local currency, tugrik, to continue. The authors indicated that the CCI is closely associated with economic growth, and the consumers became pessimistic when the quarterly growth rate fell below 2.6%.

- *Mining and Regional Disparity in Mongolia* co-authored by Soyolmaa Batbekh, Senior Researcher and Altantsetseg Batchuluun, CEO of the NRCC, argues that although Mongolia's mining-driven rapid economic growth since the mid-2000s led the country's per capita GDP to more than double over the past two decades, the mining sector had negative impacts on the employment of local economies in mining regions. Mongolia's 21 provinces (*aimags*) and the capital city of Ulaanbaatar were classified into mining and non-mining regions depending on their share of production in the mining sector. The cut-off share was 21.8%, which is the national average share of mining sector in the country's GDP during the period 2010-2021. According to this classification, six provinces were mining regions, while the other 15 provinces and Ulaanbaatar are non-mining regions.

In addition, this Special Feature includes a paper titled "*Issues on the Application of Civil Service 'Merit' Principles in Mongolia*" by Amartugs Tsenddavaa, Permanent Member of The Civil Service Council of Mongolia. The number of civil servants in Mongolia grew by around 1% per annum since 1996, equaling 208,864 in 2021, and accounting for 6.3% of total population. More than half of the civil servants are females, and the ratio was 62.7% in 2021. The author argues that while the 'merit' principle provides opportunities for civil servants to improve their performance, experience, and professional manner in order to be promoted, inaccurately defined criteria on capability and competencies are leading to ambiguity and improper actions, and sometimes to 'unlawful' handling and/or appointments. Thus, many trustworthy, responsible, more capable civil servants tend to leave and/or become reluctant to be innovative and productive. Therefore, a better performance management system as well as evaluation, monitoring, and auditing mechanisms must be further developed to implement the recently amended Law on Civil Service and ensure better responsibility and accountability of civil servants and public institutions.

The other presentations delivered at the above-mentioned joint workshop were:

- *Challenges to the Pension System in Mongolia and its Projections in the Long-Run* by Munkhzul Lkhagvasuren, Team Leader, EU Project on SDG-Aligned Budgeting to Transform Employment in Mongolia, Ministry of Finance of Mongolia. The number of persons insured with social insurance in the country was 1,181,300 persons (including

double counting) at the end of 2021, accounting for 96.4% of total workforce. In the past five years, social insurance fund expenditures have doubled, while the fund contribution income increased by 1.6 times, excluding health insurance. 33-49% of the total social insurance expenditure have been financed by state budget subsidies since 2016. The GDP share of pensions and social welfare allowances has been increasing recently, and it accounted for 6.6% in 2022. An estimation found that pension fund loss would increase abruptly after 2030, reaching 5% of GDP by 2040 and accelerate further thereafter. Consequently, reform of the pension and other social welfare systems is desirable to render it sustainable and ensure reliable social protection of the population. Such reform would include inflation indexation, wage base extension, contribution rate increase, and actuarially fair benefit reduction.

- *Meat Export and its Potential for Mongolia* by Erdenechuluun Tumur, Senior Lecturer, Mongolian University of Life Sciences, who explored the challenges and potential opportunities of foreign trade for Mongolia's meat industry. He underlined that meat is the second most important cash income source for herder households and is

one of the major export items within the livestock sector. The study revealed that current meat exports do not adequately support herder households' income levels, owing to the lower prices of meat exports and the limited direct involvement of herders in the export process. Therefore, the government should further promote herder's involvement by engaging rural cooperatives in meat export activities or initiating other arrangements that make the meat trade more beneficial to the livelihoods of herder households.

- *The Impacts of Air Pollution on Kindergarten Absences: Evidence from Mongolia* by Dulbadrakh Sanduijav, Associate Professor, National University of Mongolia. Heavy air pollution has become the most pressing issue in Ulaanbaatar, the capital city of Mongolia. According to Air Visual, Ulaanbaatar was one of the 50 most polluted cities globally in 2019. An assessment of the ambient air pollution impacts on kindergarten attendance found statistically significant positive correlation between air pollution and kindergarten absences. Moreover, the cumulative effect of air pollution was larger in magnitude than its contemporary effect.