World Bank Urges Mongolia to Boost Resilience of Slowing Economy

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Vulnerabilities in the Mongolian economy demand actions to bolster its resilience, according to the World Banks latest Mongolia Economic Update.
Economic growth slowed in 2014 as high inflation and a persistent current account deficit weighed on domestic demand. Inflation eased recently as the economy has cooled, but remains in double digits.
The current account deficit, which reached close to 30 percent of GDP in 2011-13, is expected to drop to around 11 percent of GDP in 2014. However, the balance of payments pressure remains high, due in part to declining foreign investment.
Without a strong rebound in foreign investment, pressure on the balance of payments will increase vulnerabilities and continue to dampen economic growth next year. Domestic demand will continue to be under pressure, particularly affecting the non-mining sector.
The report also cites a deterioration in the quality of bank loans and urges closer attention to the financial strength of the banking system because of its importance to the economy.
"The measures needed to put the Mongolian economy on a firmer footing are not easy and will take time to show full effect, but they will strengthen the resiliency of Mongolias economy, providing the basis for prosperity in the future," said James Anderson, the World Bank Country Manager for Mongolia. "We welcome the new governments frank and forthright acknowledgement of the current state of the economy and its resolve to address Mongolias challenges, and we stand ready to assist in any way we can. "
External factors could compound Mongolias challenges, according to the report. Global commodity markets are expected to remain weak, with prices of major commodities projected to decline further. Meanwhile, a slowing economy in China, Mongolias main trade partner, will also dampen demand.
"The urgent priority now is to tighten economic policy to address the persistent pressure on the balance of payments," said Taehyun Lee, the World Bank Senior Economist for Mongolia. "This will also help strengthen the capacity of fiscal and monetary policy to cope with headwinds in the future,"
Lee cited an "overly expansionary" economic policy during a period of strong growth and foreign investment after 2011.
"The pro-cyclical approach that was adopted fueled unsustainable pressure on the balance of payments and high inflation, and contributed to a weakening of the banking system," he said.
The report welcomed recent steps by the Central Bank to raise the policy interest rate and gradually reduce lending programs including the Price Stabilization Program. The Central Bank also strengthened some regulations on the financial sector to respond to the declining quality of bank assets, although the report called for more strengthening of prudential regulations.
In the report, the World Bank urges further actions to tighten monetary policy, especially by avoiding direct Central Bank injections into the economy.
The report calls for off-budget spending to be brought under control and recommends that that all spending by the Development Bank of Mongolia be included in the budget.
It also calls for more realistic revenue projections than the overly optimistic predictions of the past, as well as a credible medium-term fiscal consolidation plan to strengthen confidence in deficit reduction.
In particular, Mongolia needs to prepare now to refinance or repay its external public debt of $1.08 billion in 2017 and 2018. Without tighter economic policies and renewed foreign direct investment, the economy will remain vulnerable, the report noted.

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