



SOCIO-ECONOMIC IMPACT OF GLOBAL CRISES IN MONGOLIA

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Global Crisis and its Impact

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Background

First Wave of Impact

Energy Price Shock

- Import price
- Transportation Price
- Inflation

Food Price Shock

- Unaffordability
- Shortage
- Insecurity

Cost of Financing

- Price Distortion increased financing need
- Increase in interest rate

Policy Challenge

- Tight Monetary Policy
- Fiscal Subsidies

Second Wave of Impact

Uncertainty

- Prolonged war
- High economic and financial volatility
- Fiscal imbalances
- Capital Outflows
- Limited access to Global finance
- FDI decline
- Crypto Speculations

Demand slowdown

- Lower exports
- High cost of imports
- High cost of travel
- Lower remittances and tourism earning

Exchange Rate Shock

- Strong Dollar causing distortion
- Forex intervention increasing financial pressure

Cost of Debt Financing

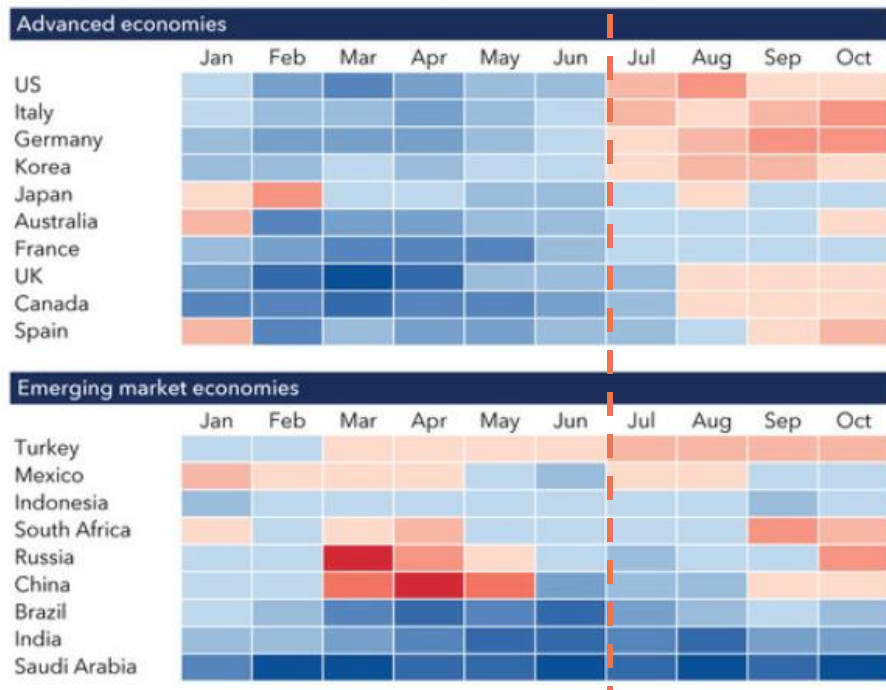
- Dollar denominate debt is increasing distress for low and middle income economies
- Debt sustainability issues

Global and Local Economic Outlook

Global Growth Slowdown

Red zone

Indicators of economic activity confirm the gloomy outlook.
(purchasing manager indexes, 2022: blue signals expansion, red signals contraction)

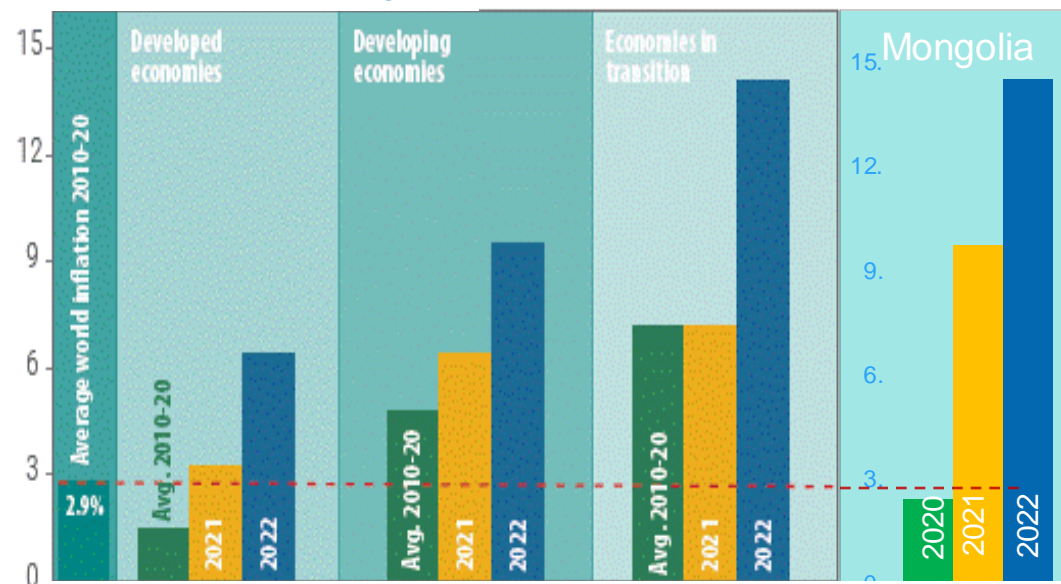


Source: Caixin, CIPS, CommBank, HSBC, Jibun Bank, RBC, S&P Global, via Haver Analytics.
Note: Readings are composite except for Canada, Indonesia, Korea, Mexico and Turkey, which are manufacturing alone. Argentina is excluded due to data limitations.



Persistent and Stubborn Inflation

Inflation - Percentage



Source: UN DESA. UNDP CO – NSO Data

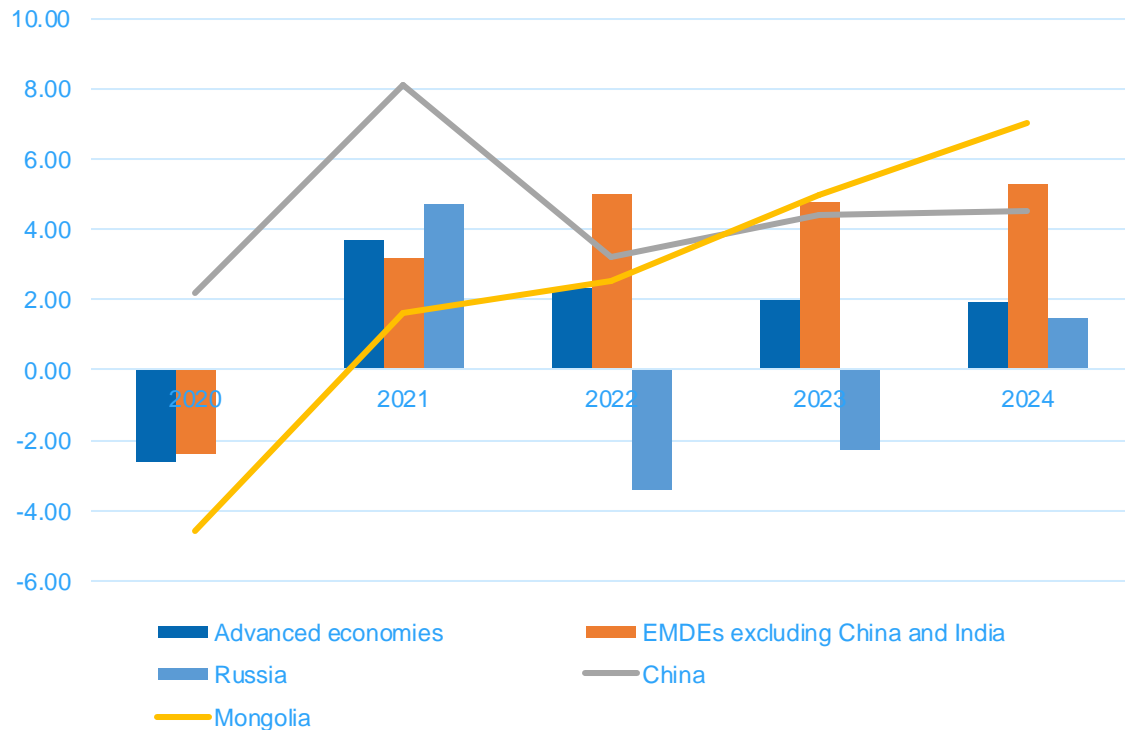
Note: Data for 2022 are projections. Data excludes the Bolivarian Republic of Venezuela.

Source: UNDP CO – Based on IMF Data

- Major Economies heading for recession
- Risk to Outlook Remains Large

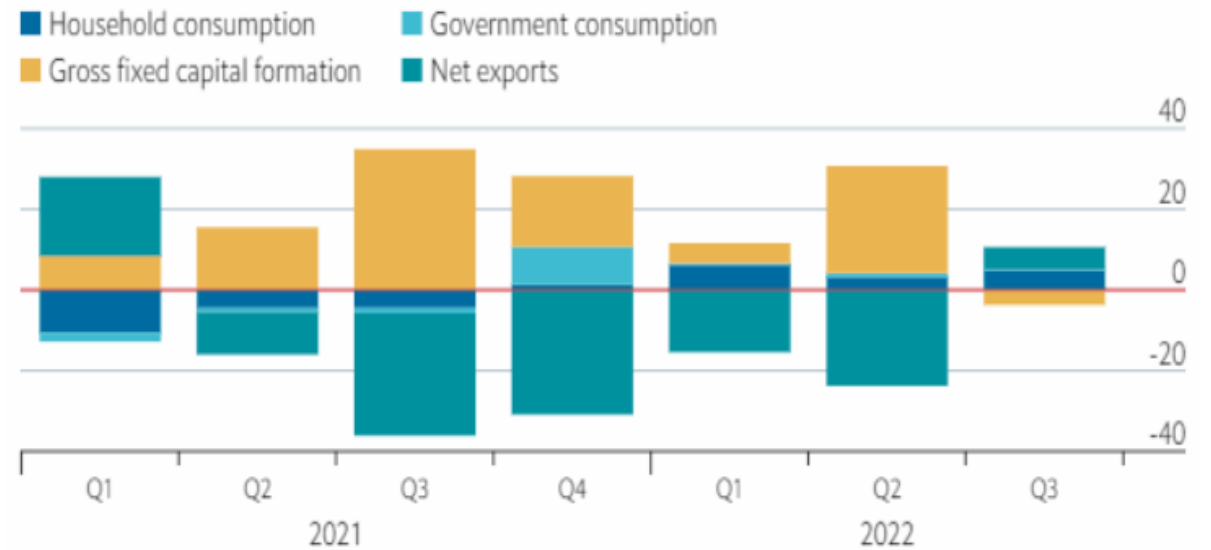
Mongolia's Growth Depends on China

Monoglia Economic Outlook in the Region



Source: UNDP CO from IMF Data

Trade becomes a net driver of Mongolia's growth again
(contribution to year-on-year growth; %)

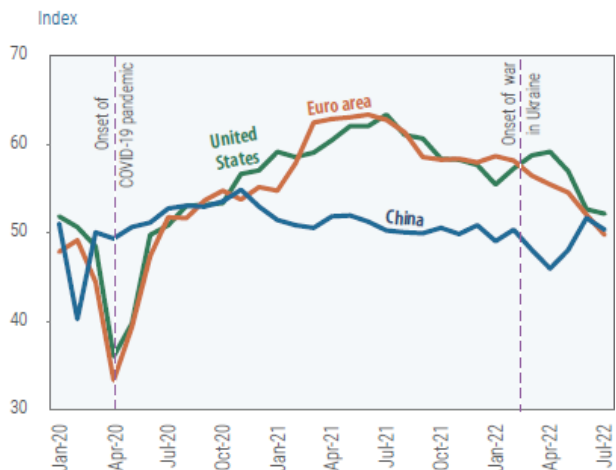


Source: National Statistical Office of Mongolia.

Courtesy: EIU

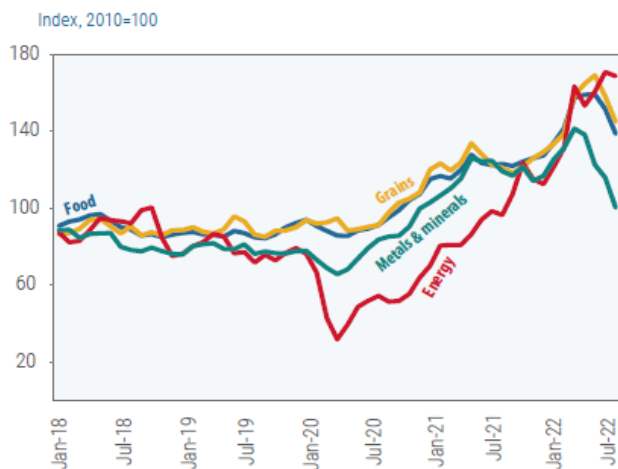
Commodity Price Shocks

Manufacturing Purchasing Managers' Indexes



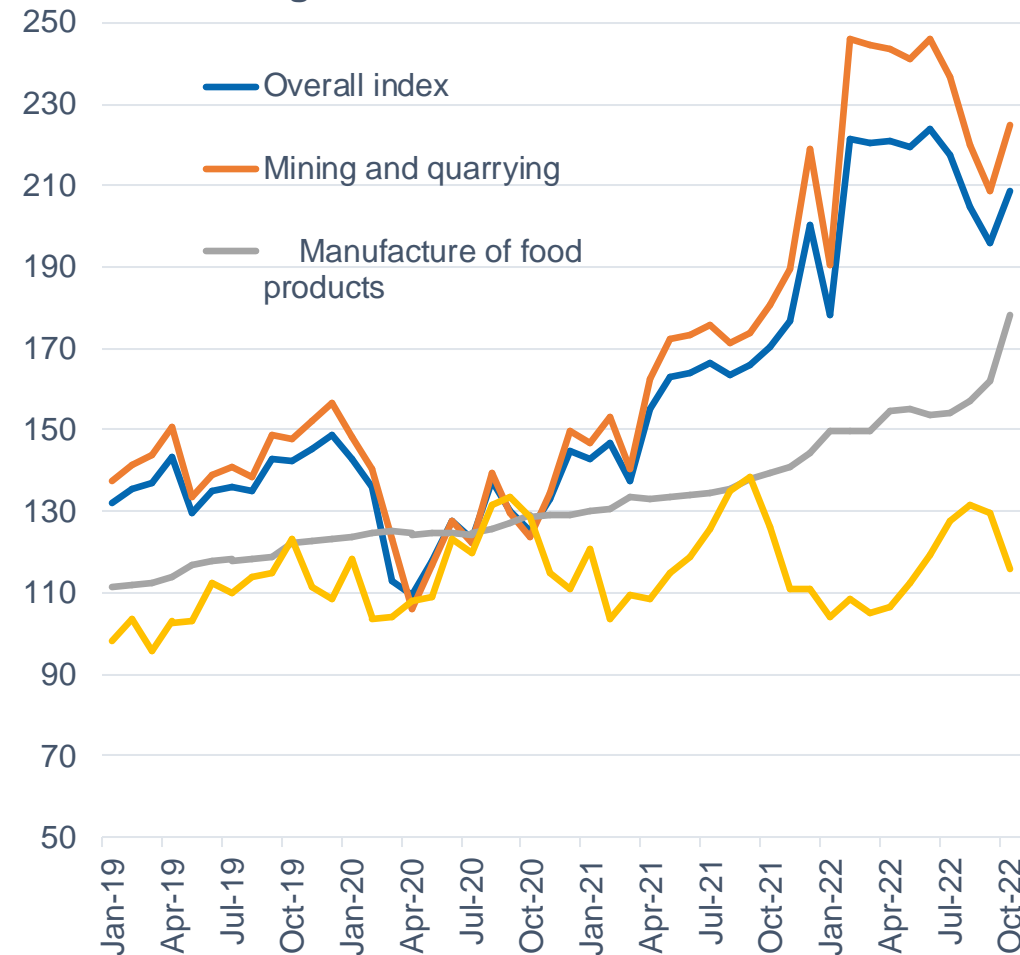
Source: UN DESA, based on data from Trading Economics.

Commodity prices



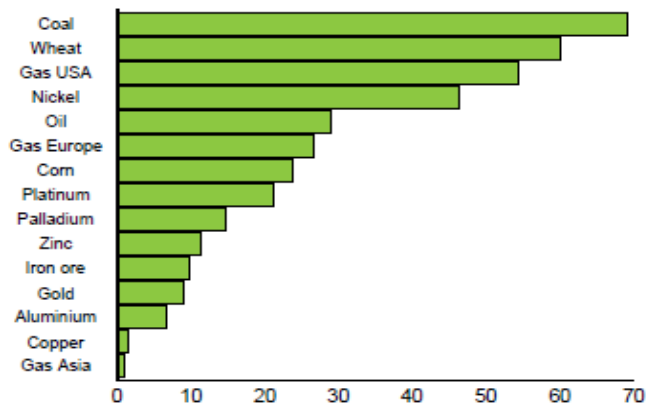
Source: UN DESA, based on World Bank data. <https://www.worldbank.org/en/research/commodity-markets>

Mongolia Industrial Producer Prices



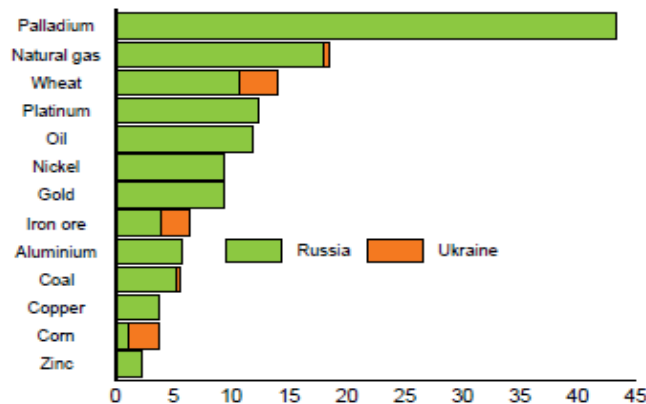
Source: UNDP CO - NSO Data

A. Commodity prices % change from Jan 2022 average



Source: OECD Impact of Russia Ukraine Conflict

B. Russia and Ukraine commodity production % share of World, 2020



Exports Boom, Boon or Bane

- Like any other mineral resource rich economy, Mongolia's growth depends on its export performance
- Recent opening of the border and completion of the rail and road network for coal exports through China has increased net exports
- However, the global dampening in demand is now reflected in drop and volatility in commodity prices of minerals, which can translate into decline in value of exports if global economy does not recover soon

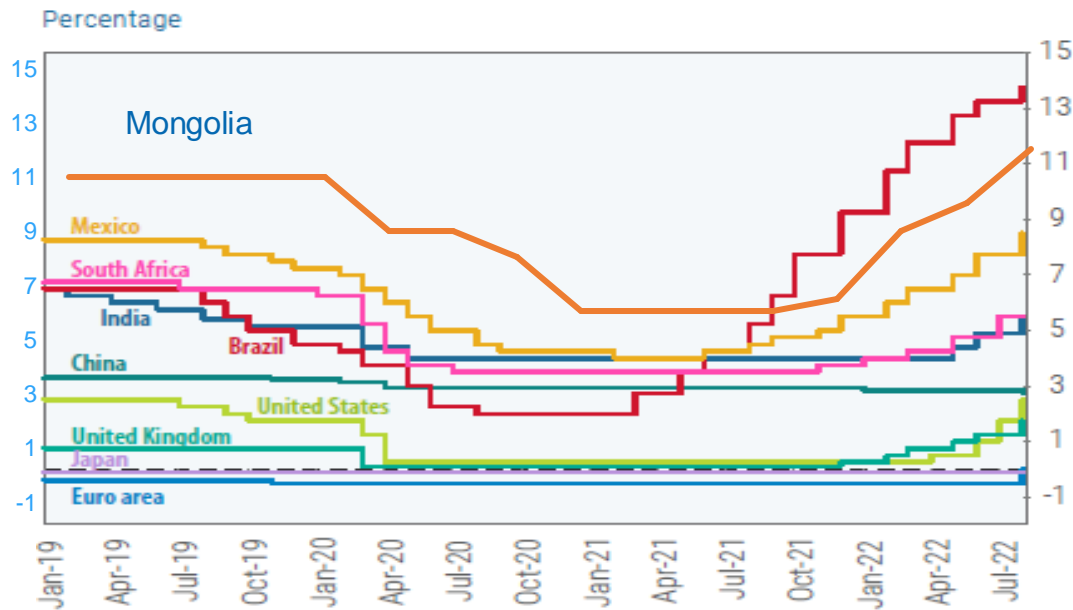
FIGURE : EXPORT'S MAIN PRODUCTS AVERAGE BORDER PRICE, by month, US dollars



Courtesy: NSO Bulletin

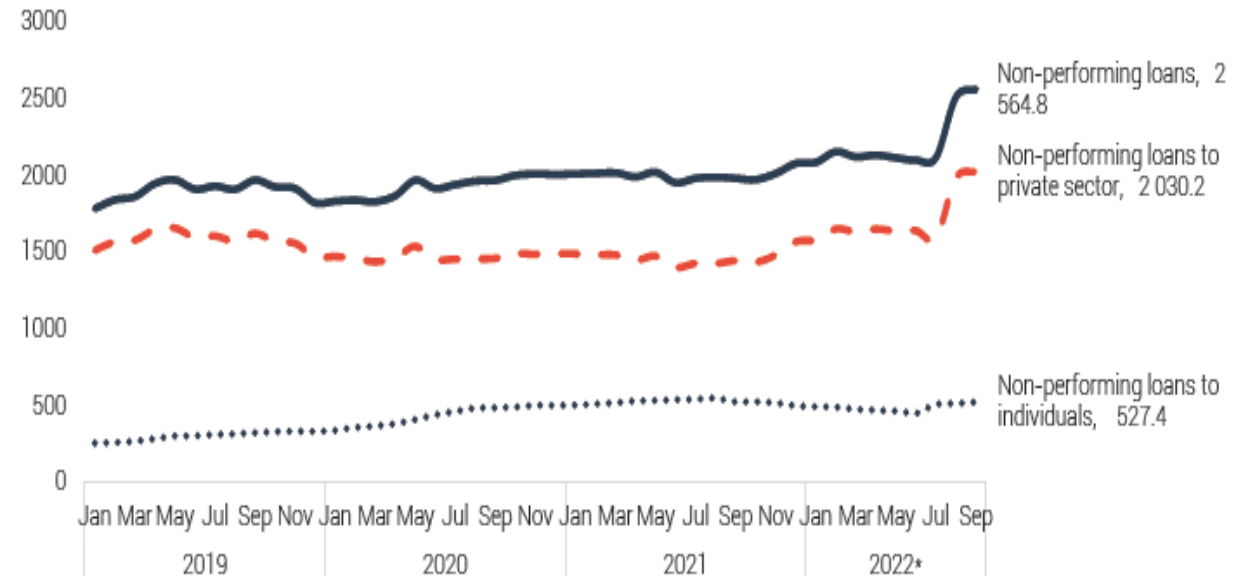
Financial Repression

Central bank policy rates in selected large economies



Source: UN DESA, based on CEIC and national data and UNDP

Non-Performing Loans in Billion of MNG Tugric



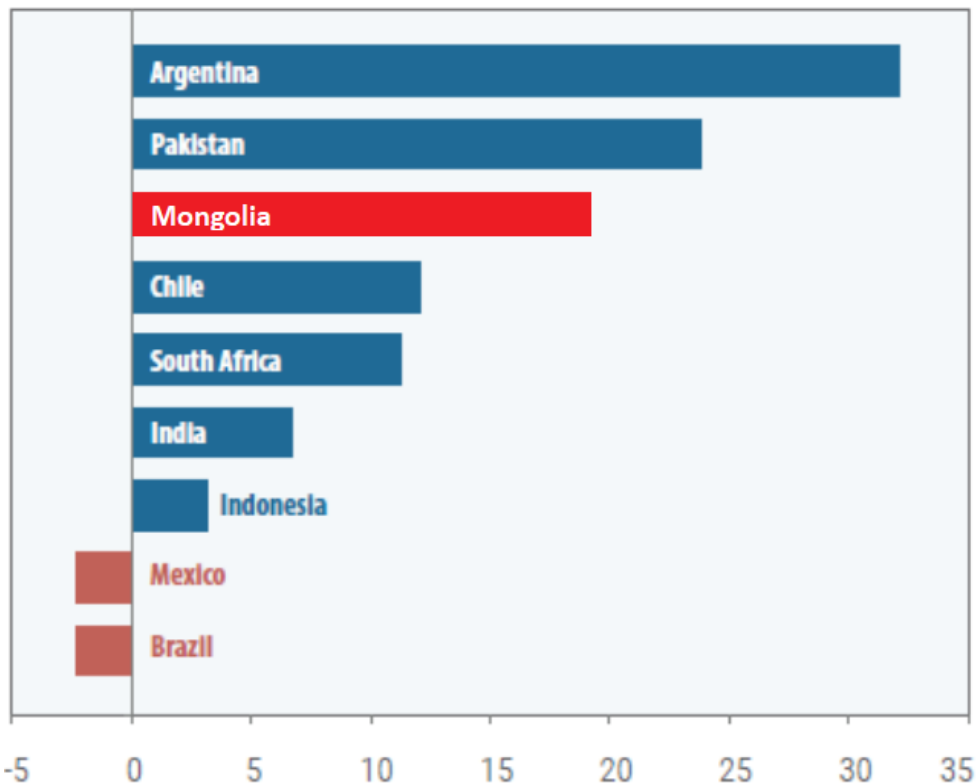
Source: NSO

- Aggressive Monetary Policy Worldwide and in Mongolia to fight inflation is impacting businesses
- Non-performing loans started to increase in Q3

Exchange Rate and Reserve Pressures

Exchange rates: selected currencies versus USD

Percentage change January–August 2022

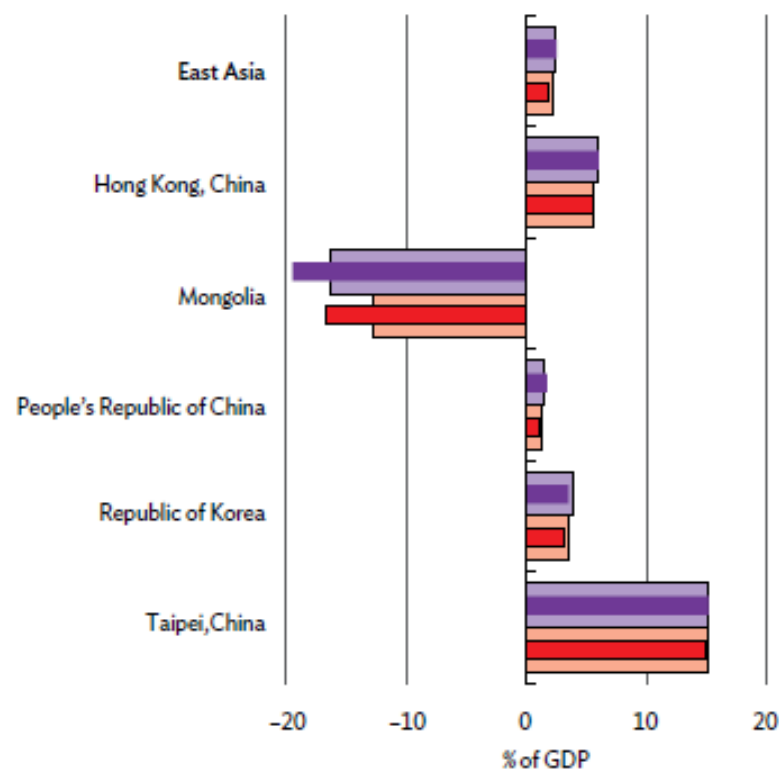


Source: UN DESA, based on data from Trading Economics.

UNDP CO - Mongolia BOM Data Oct 2022

Projected balances are similar to those forecast in April.

■ 2022 ■ 2023



GDP = gross domestic product.

Note: Lighter colored bars are Asian Development Outlook 2022 forecasts.

Source: Asian Development Outlook database.

- Strong U.S. Dollar, Jan - Oct \$ Viz MNT increased by 18%, amid high inflationary pressures, and rising interest rate
- Unfavorable for developing and Emerging Economies, increasing vulnerability
- Mongolia projected to have negative CAB in the region due to demand for investment and debt financing needs

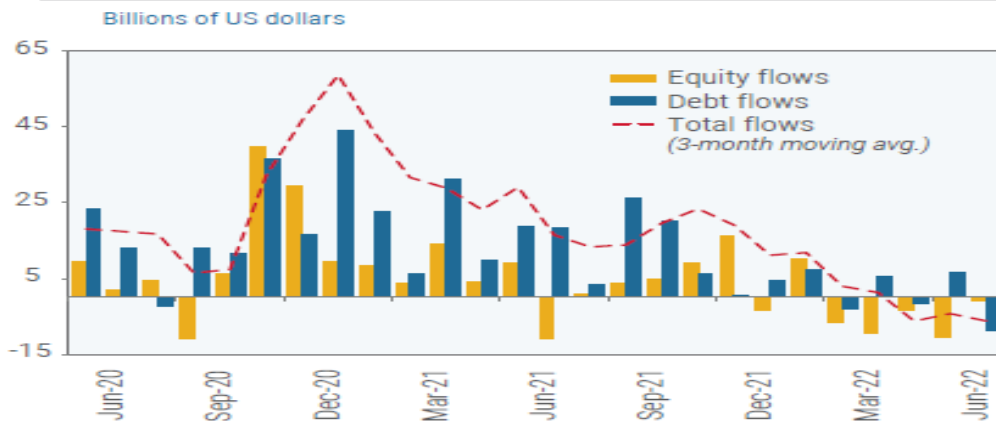
Expensive Finance and Risks

10-Year sovereign bond yields



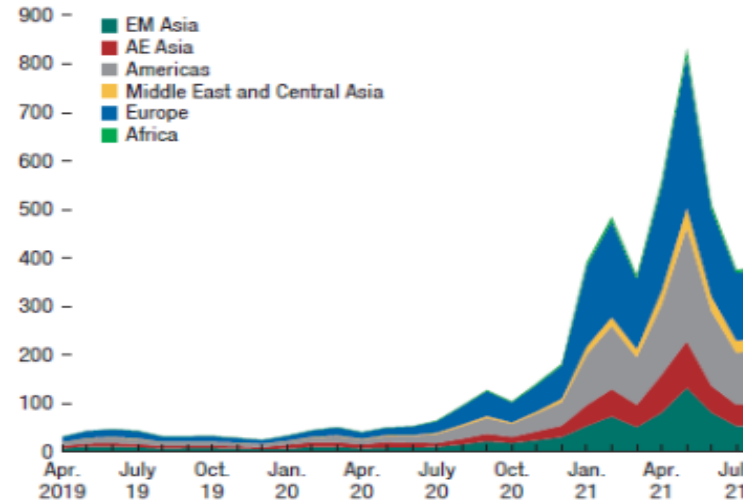
Source: UN DESA, based on data from Trading Economics.

Capital flows to emerging economies

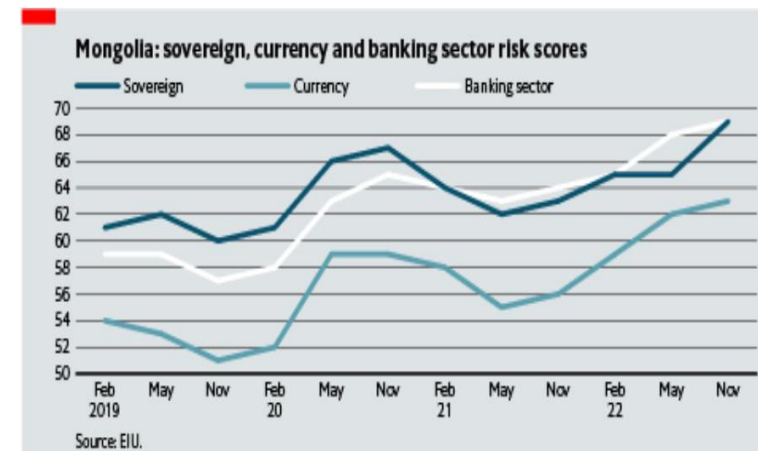


Source: UN DESA, based on data from The Institute for International Finance.

Total Crypto Assets Volume



Source: IMF AP Outlook



Source: EIU.

Higher bond yields are indicative of increasing borrowing costs resulting in increasing fiscal consolidation pressures

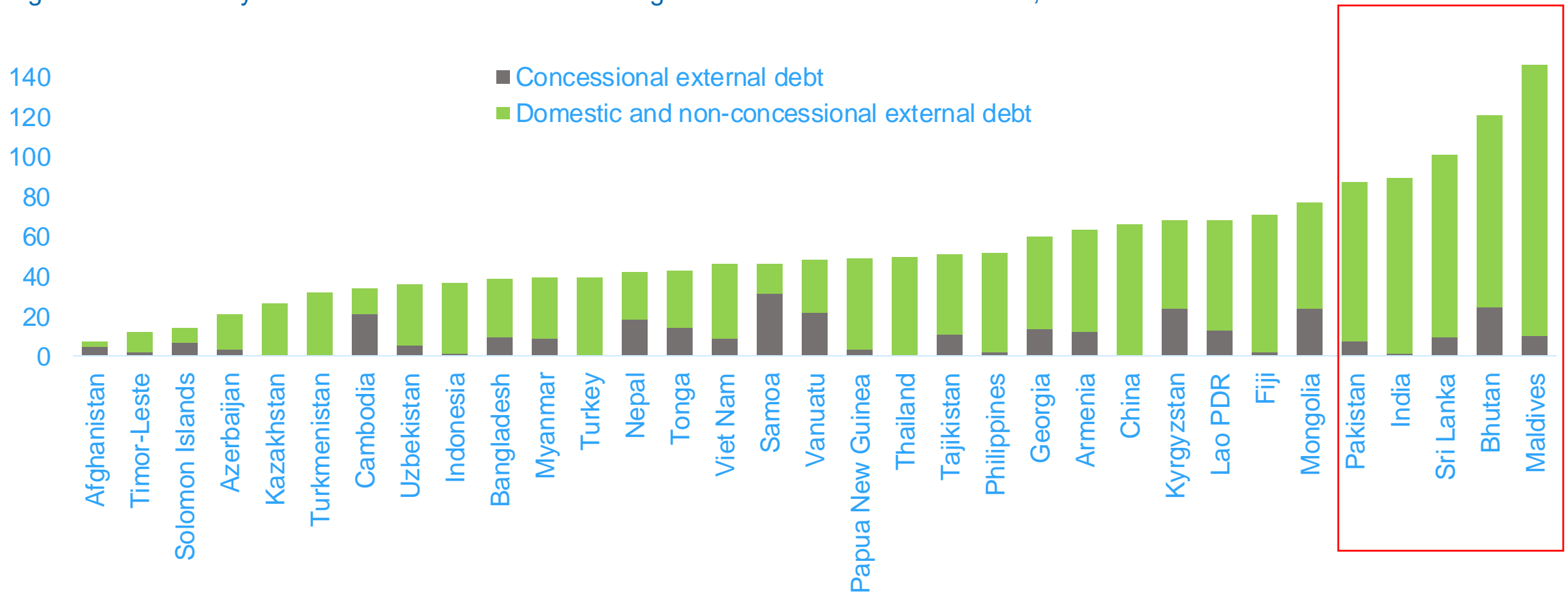
Higher speculative returns and no regulatory controls diverted assets towards Crypto. Crash of FTX has exposed the tip of the iceberg. Diversion of financial assets squeezed liquidity for real investments

Stronger Dollar worsening Debt Burden. Capital outflows in EMEs. Risks of sovereign defaults among developing and Emerging Economies is high. More than 10 countries have reached out to IMF indicating distress.

Risks to finance will affect financing of SDGs and debt

As debts are not on concessional terms in most high-debt Asia-Pacific countries, they are vulnerable to potential increases in financing costs

- Note: countries with higher debt ratio are not necessarily those with higher risk of debt distress. The proportion of concessional loans is one factor, but there are many other factors that determine a country's repayment ability, e.g. share of government debt held by non-residents, government's ability to tax more and borrow more from global markets at reasonable cost, etc.



Source: UN ESCAP Bangkok

Conclusion



- A global recession will deteriorate exchange rates further
- Persistent inflation and slowdown in growth will increase uncertainty and risk
- Supply chain disruption and Inflation increasing food insecurity for vulnerable, especially for women headed households (Women are found to be more food insecure)
- Though Mongolia's growth depends on China, but a lower growth in advanced economies will impact growth prospects for China posing risk for Mongolia
- Tough year ahead especially for financing of new recovery policy, SDGs, and financing of debt in 2023-24
- It is time that rich economies also fulfil their commitment in support low- and middle-income countries through necessary technical and financial assistance that minimize harm to the environment and fragile economies
- 'Debt Service Suspension Initiative' (DSSI), which was established for COVID in May 2020 and ended in December 2021 need to be revived again. It would take too little now but too late if not done as the opportunity cost and risk will continue to increase with further delays and may result in more harm.



Thanks