



SOCIO-ECONOMIC IMPACT OF GLOBAL CRISES IN MONGOLIA

21 NOVEMBER 2022 | WORKSHOP

Rapid Assessment of the Impact of Russia-Ukraine War on Mongolia's Households and Businesses

Manlaibaatar Zagdbazar
Economic Research Institute

Contents



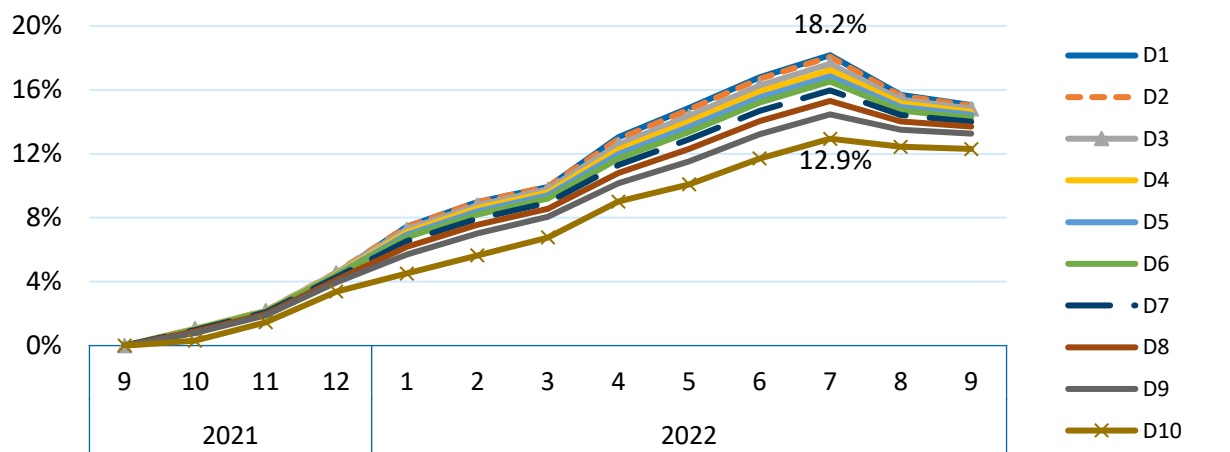
- **Objective and scope of the study**
- **Impact of Price Increases on Households: A Microsimulation Analysis**
- **Current Household Socio-Economic State of Vulnerable Groups**
- **Current Issues for Small and Medium Businesses**
- **Conclusion and Recommendations**

Objective and scope of the study

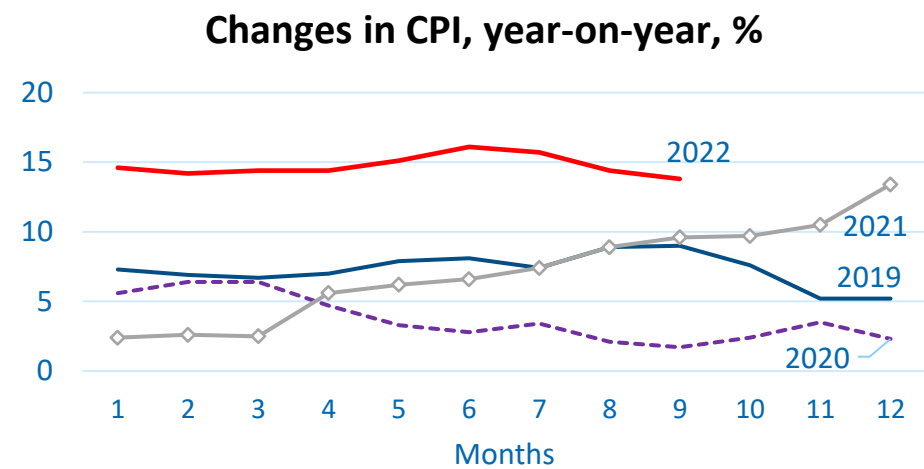


- **Objective:** To define the nature and extent of the systemic impacts of Russia's war in Ukraine on Mongolia's households and business environment.
- **The following 3 types of data were collected and analyzed:**
 - **Microsimulation analysis** of the primary data of Household Socio-Economic Survey-2021 by the National Statistics Office: Estimating the impact of price increases on the livelihoods of all households and targeted groups.
 - **Vulnerable households survey:** Interviewed 602 vulnerable group households, 80 businesses, and 20 local authorities in Ulaanbaatar and rural provinces such as Bayan-Ölgii, Hovd, Selenge, Arkhangai, Umnugovi, and Dornod.
 - **Interview with SMEs:** Representatives of 80 enterprises and industry associations from Ulaanbaatar city, local areas and various sectors were included.
- **Qualitative data on changes in household socio-economic situation after March 2022 were mainly collected.**

Impact of price increases on selected vulnerable groups

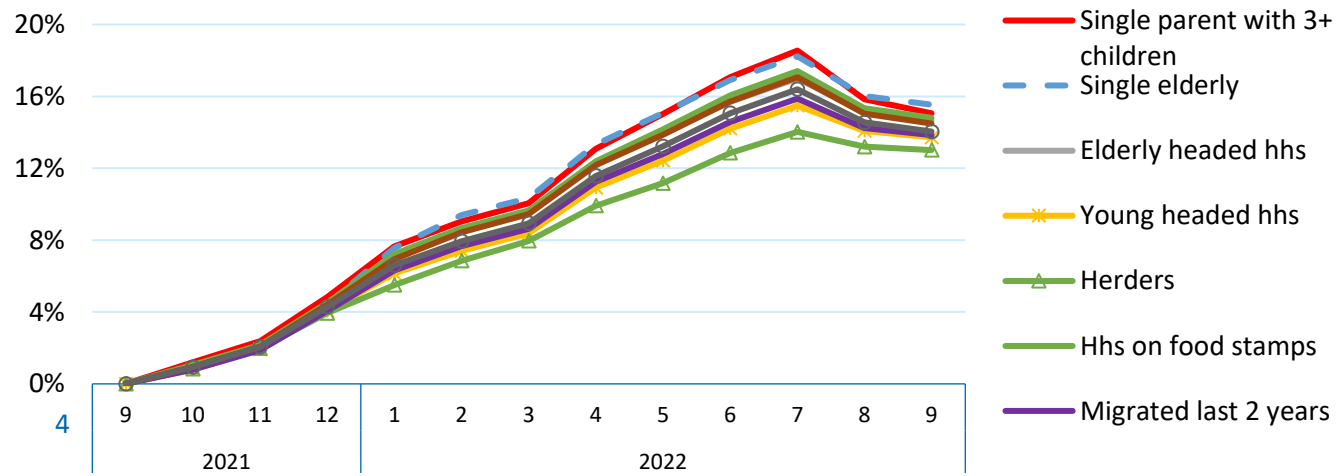


Source: Microsimulation analysis based on HSES-2021



Source: NSO

Inflation compared with September 2021, by target groups



Source: Microsimulation analysis based on HSES-2021

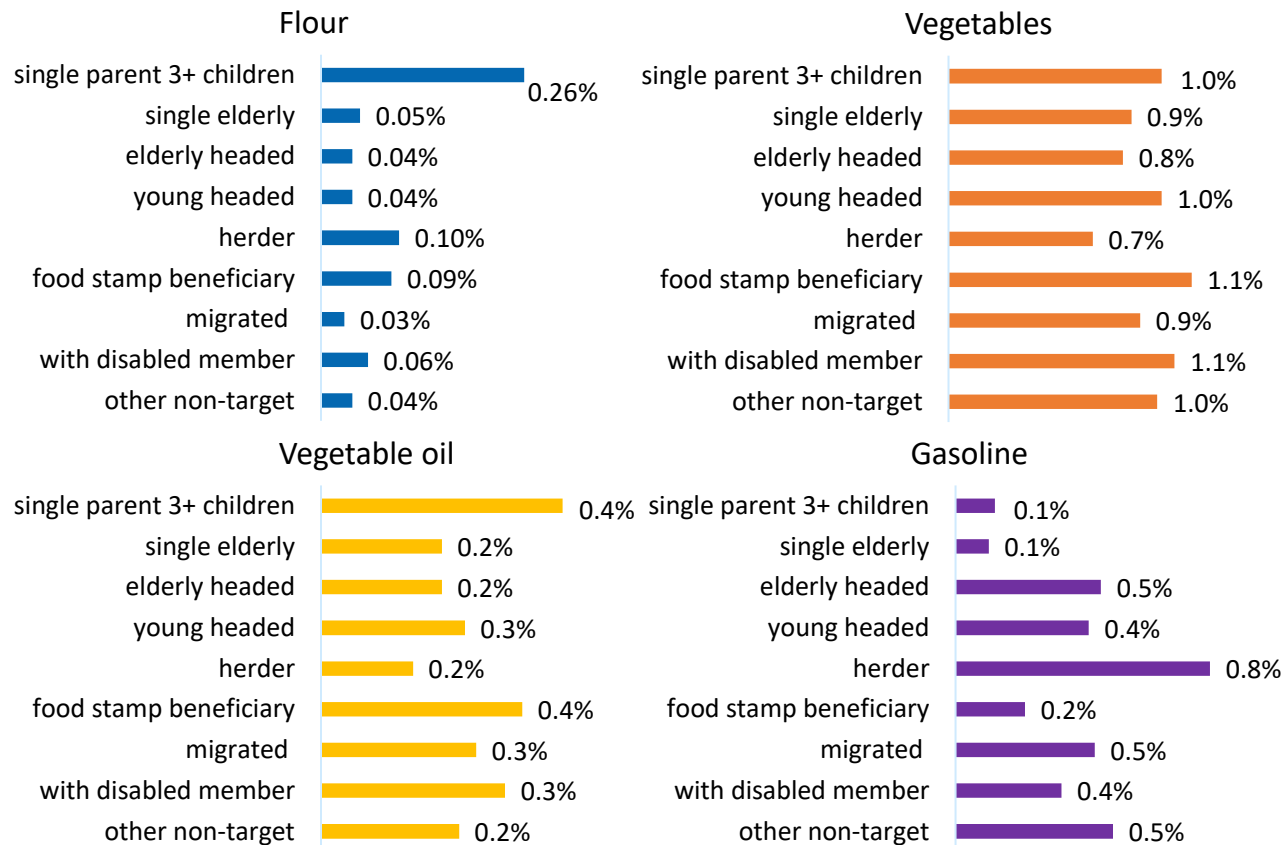
The price increase is higher for the low consumption groups

The most suffered groups from the price increases are single-parents with three or more children and households with disabled members or members who need special care.

Inflation pressure on female-headed households is 1-2 percentage points higher.

Impact of price increases on selected vulnerable groups

The burden of recent price changes of selected goods on household budget, by vulnerable group

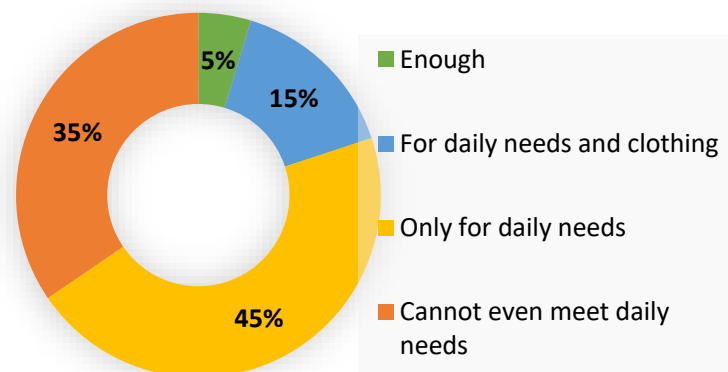


- A recent flour price increase would put 0.26% more burden on total expenditures for single parents with three or more children while this share is much smaller for other groups.
- Vegetable price increase would push households to increase expenditures by 0.7-1.1 percentage point to continue their vegetables consumption.
- Vegetable oil price increases push households to grow expenditures by 0.2-0.4 percentage points.
- Herders bear more pressure from the gasoline price growth.
- Vulnerable households experience less direct pressure from gasoline price increases as they tend to have less or no vehicle than other groups.

Source: Microsimulation analysis based on HSES-2021

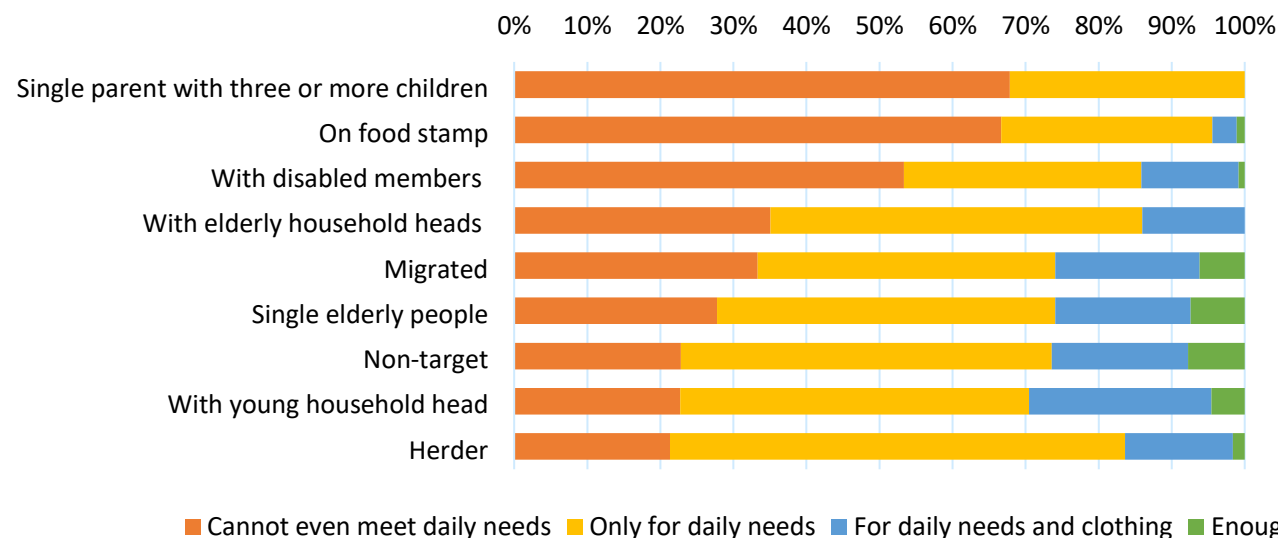
Vulnerable households' income adequacy

Household's income adequacy



Source: Household survey

Household's income adequacy by household groups

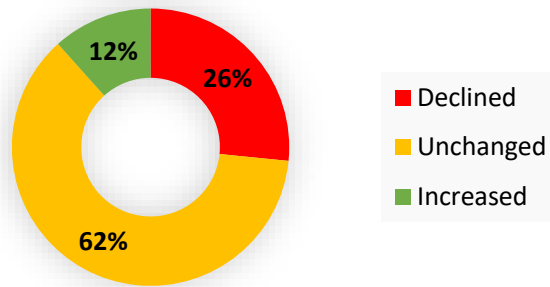


Source: Household survey

- 35% (or 208 households) could not even afford their daily needs.
- Households with a single parent with three or more children, households on food stamps, and households with disabled members cannot even afford their daily needs.
- The inability of households to meet their daily needs was observed in 43.8% of households with a female household head and 30.9% of households with a male household head.

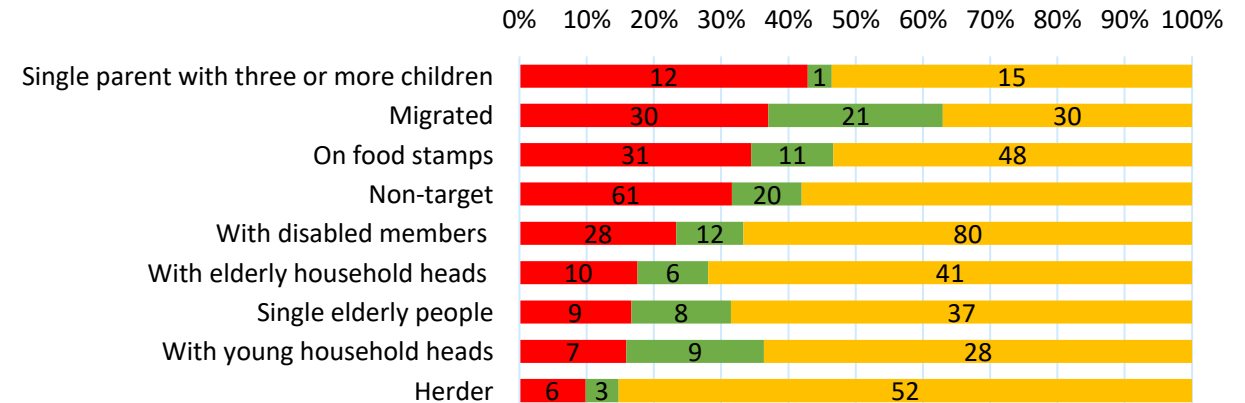
Change in vulnerable households' income

Changes in nominal household income since March 2022



Source: Household survey

Change in nominal income since March 2022 by household groups



Declined

Increased

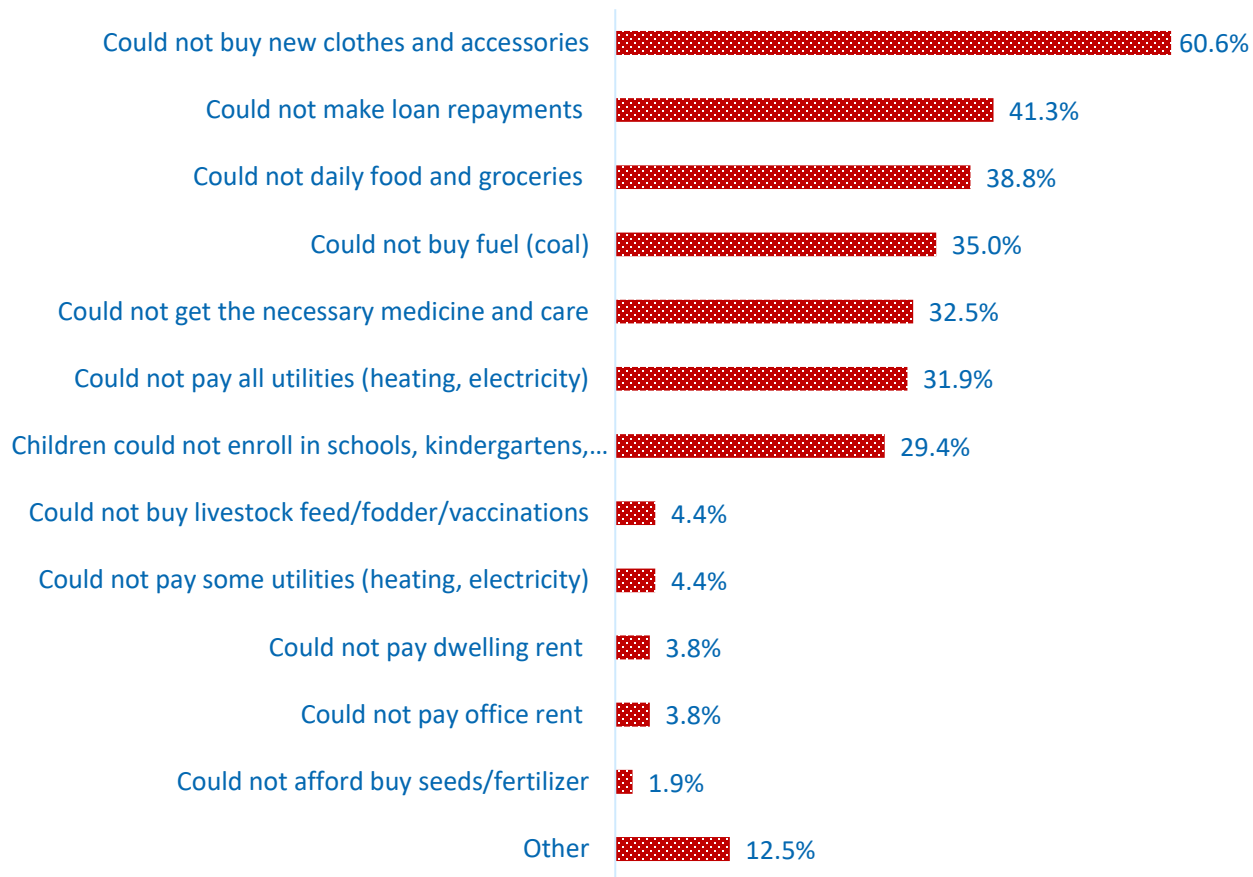
Unchanged

Source: Household survey

- Nominal income of 26 percent of surveyed households (or 160 households) has dropped since March 2022.
- The income of single parents with three or more children, migrated households, and households on food stamps has dropped since March 2022.
- 30.8% of female-headed households and 24.9% of male-headed households experienced a decrease in income.
- The decline in household income caused by the drop in income from wages, pensions, and private business.

Change in vulnerable households' income

Challenges faced due to the decline in household income

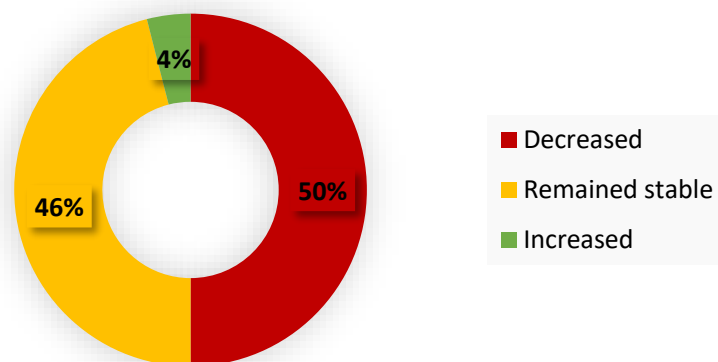


Source: Household survey

- The main challenges faced by the vulnerable households could not buy clothes and could not repay their loans.
- 51.2% of households did not take any measures to improve their income adequacy.
 - 19.1% started working more, 14.5% got a new loan from the bank.
- Since March 2022, the prices of grain and fodder plants have risen.
 - Herder households tended to sell their cattle.
 - Farmers began to grow more cost-effective crops.

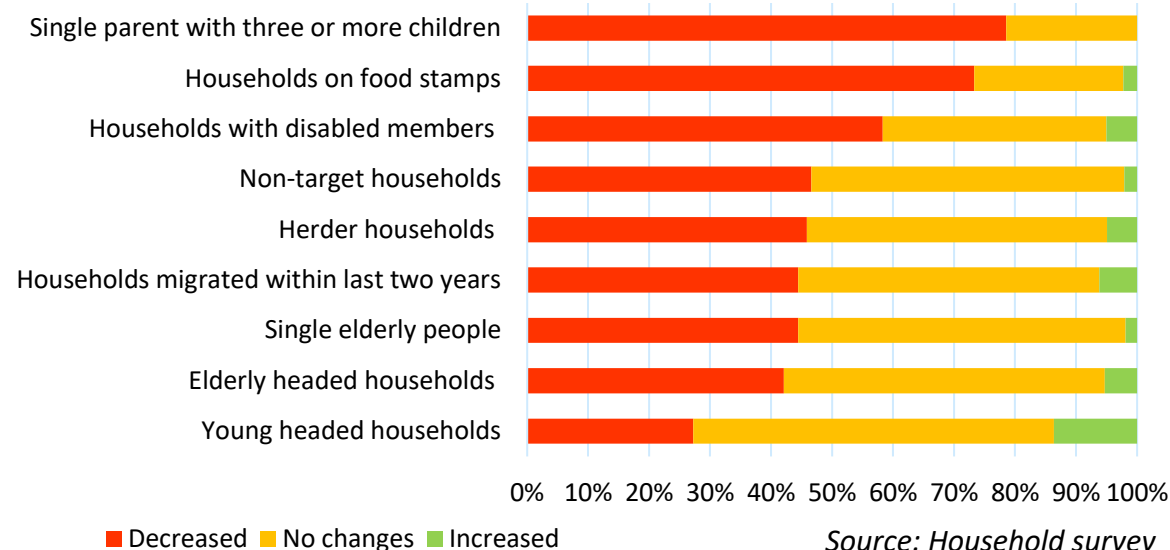
Vulnerable households' consumption

Changes in household consumption since March 2022



Source: Household survey

Changes in household consumption since March 2022, by household groups

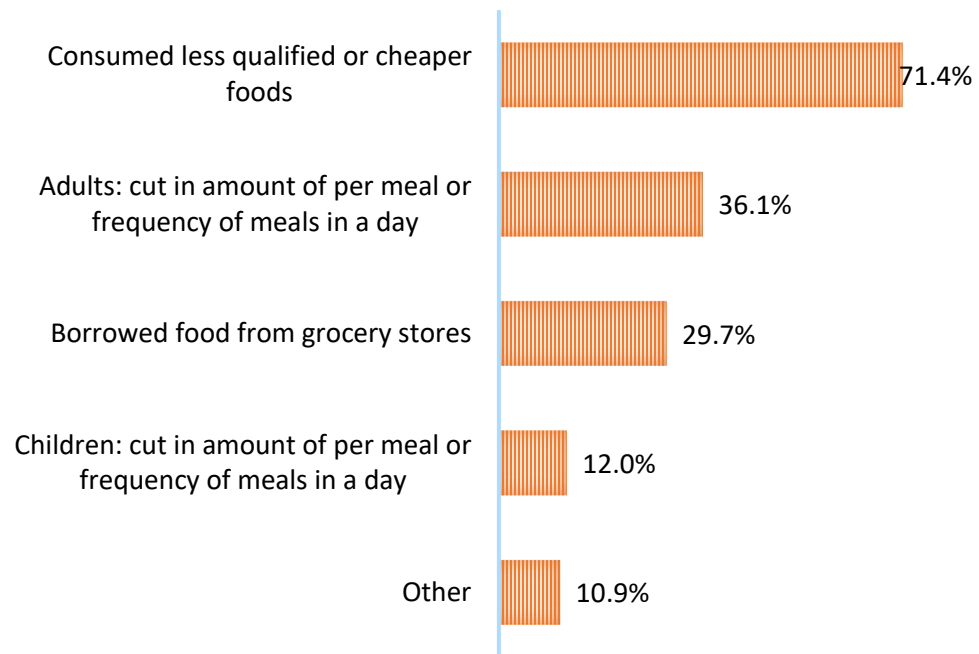


Source: Household survey

- Half of the households surveyed had a consumption decrease since March 2022.
- Single parents with three or more children, households on food stamps, and households with disabled members experienced a consumption decrease.
- 60% of female-headed households surveyed had contracted household consumption. While this indicator is 46% for male-headed households.
- The main reason for the drop in household consumption is the increase in product prices.
- Households cut expenses on clothing, household items, fuel, electricity, and travel at first.

Households' food and nutrition situation

Food management when their food consumption was decreased



Source: Household survey

71.4% of 266 households that reported a decline in food consumption consumed cheaper or poor-quality foods.

36.1% and 12% of the households that experienced a decline in food consumption, reported a cut in food portions or frequency of eating per day for adults and children, respectively.

29.7% or 79 households borrow food from nearby grocery stores.

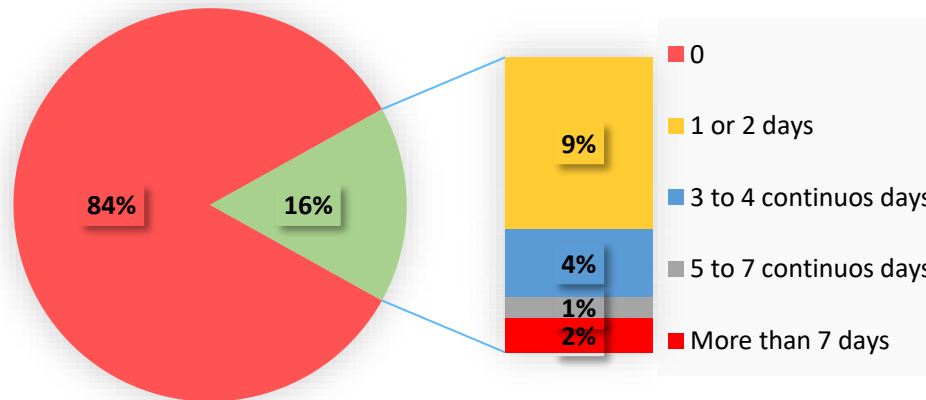
Vulnerable households have not only reduced their non-food consumption, but also reduced their consumption of staple foods such as meat, flour, and vegetables.

75% of the households on food stamps reported a decrease in the amount of food purchased with food stamps.

The malnutrition issue is widening among the vulnerable households.

Households' food and nutrition situation

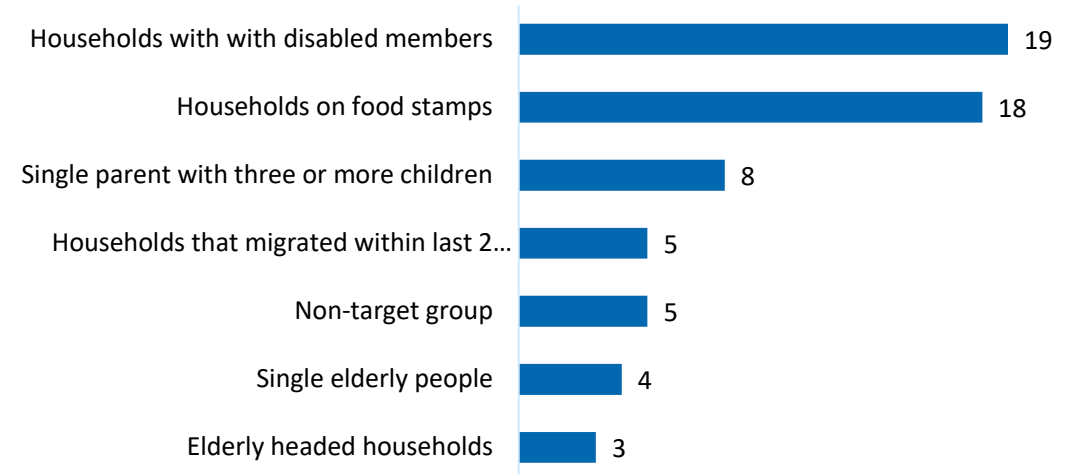
Days went without warm meal, by number of days*, percentage share



Source: Household survey

*Between March to September 2022

Spent at least a day without warm meal, by household groups*, frequency

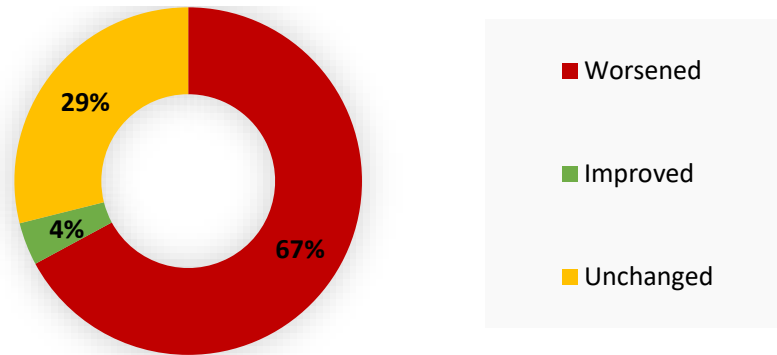


Source: Household survey

- **16.2% (43)** of the 266 households that experienced a food consumption decrease did not eat any warm meal for at least a day.
- **Of the 43 households that spent at least a day without warm meal, 58.1% (or 25) were female-headed, and remaining 42% were male-headed.**
- **83.7% (or 36)** of the 43 households were residing in urban areas.

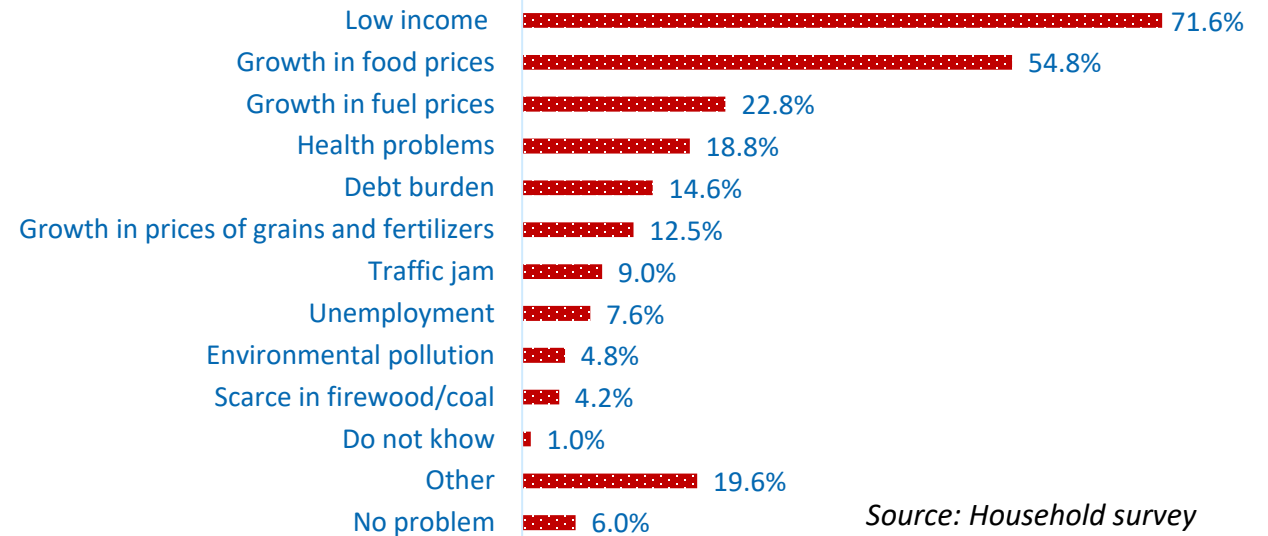
Overall Challenges Faced in Household Livelihood

Change in household general livelihood since March 2022



Source: Household survey

Challenges faced by households



Source: Household survey

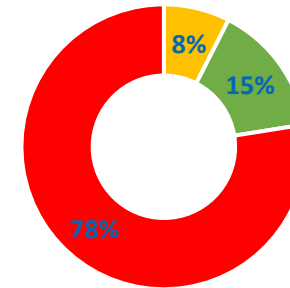
- **67% (or 404 households) reported that their household livelihood had worsened.**
- **The main challenges faced by households are low income, rising food and fuel prices, and health problems.**
- **Households answered that the economic conditions, unemployment, health conditions, the COVID-19 epidemic, and the RU conflict were the main reason for their household issues.**

Business environment for SMEs: Supply of goods and raw materials

Reasons for disruption or failure of raw materials



Source: Business survey



- Prices of some of items increases
- Price of any supply materials didn't increase
- Prices of most of items increases

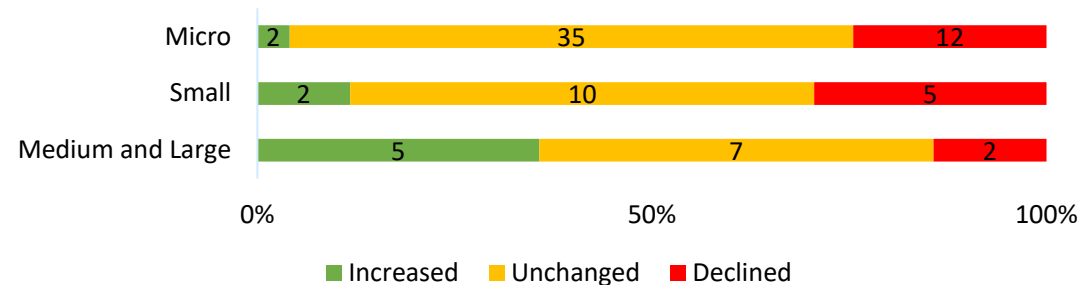
Source: Household survey

- **43.8% or 35 enterprises reported disruptions in their supply chain since the RU conflict commenced.**
 - 12 out of 23 enterprises that import raw materials directly from Russia reported there was a supply disruption.
- **16 of the 35 enterprises whose raw material supply were disrupted said it was related to border customs, and 7 to the conflict.**
 - Border delays are mainly driven by China's "Zero Covid" policy.

- **78% or 62 businesses reported that the price of most raw materials and inventories rose.**
 - Since March, most enterprises that buy raw materials only from Russia said that the price of raw materials has grown.
- **41.3 percent (or 33 businesses) reported the increase in fuel prices had a "very high" impact on the rise in expenses, and in 17.5 percent (or 14 enterprises) said it had a "high" impact.**
- **Due to the war, the fuel price grew, which boosted the cost of transportation. As a result, the total operation cost expanded.**

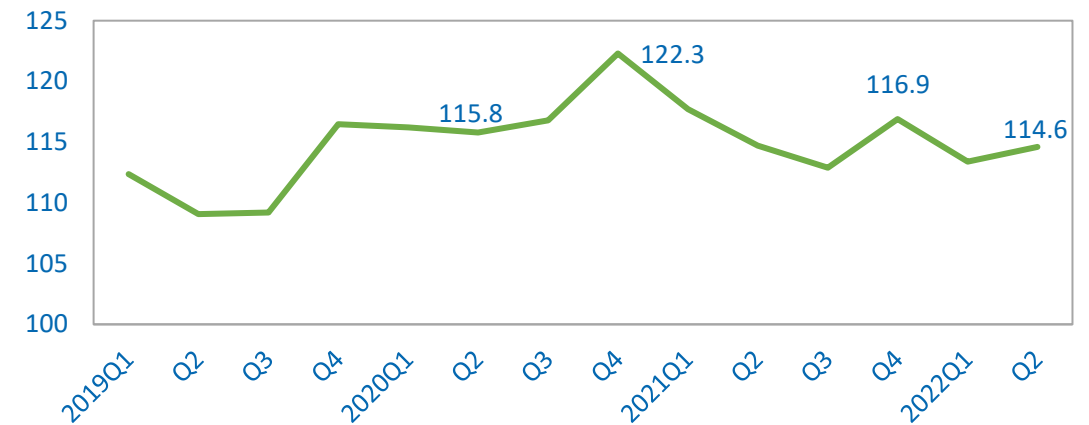
Business environment for SMEs: Sales income

Change in sales revenue, since March 2022 by enterprise size



Source: Business survey

Real wage index, 2015=100



Source: NSO

- 65% (or 52 businesses) reported a sales dropped.
- The sales revenue of micro and small businesses has worsened compared to large and medium-sized enterprises.
- However, due to the RU conflict, some businesses along the border have improved their sales revenue or are operating normally.

- The leading factors of sales drop include increased prices of goods and deteriorated purchasing power caused by inflation.
- 68.7% (or 55 businesses) reported that the purchasing power of citizens has declined.
- Since 2020, real wages decreased

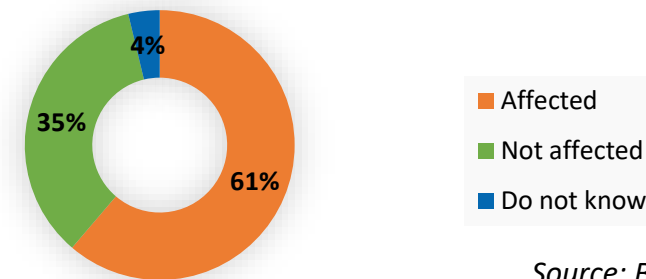
Challenges faced by SMEs

Financial difficulties

- **57.5 percent or 46 enterprises reported that they faced financial difficulties.**
- **The main financial difficulty experienced by businesses is the decline in profits.**
 - The increase in business costs (raw material shortages, rising prices, devaluation of domestic currency)
 - Sales have dropped as people's purchasing power is deteriorating.
- **There were also several financial problems faced by businesses, such as inability to pay for raw materials and inventory on time and inability to repay loans.**

- 93% of businesses rated the country's economy as deteriorating or drastically deteriorating since the start of the RU conflict.

Whether the RU conflict has affected enterprises



Source: Business survey

- 61% of businesses surveyed were affected by the war in some way.
 - The increase in fuel and inventories
 - disruptions in the supply of raw materials imported from and through Russia and Ukraine
 - expanded transportation costs,
 - currency exchange rates

Vulnerable households survey and micro-simulation

Due to the war, the global market price of fuel and food has increased dramatically, indirectly impacting households' livelihood through inflation.

The most suffered groups from the price increases are single-parents with three or more children and households with disabled members or members who need special care.

These households are reducing food consumption, including nutritious foods such as meat and vegetables.

Rising prices of fuel have significantly increased herders and farmers cost of herding and farming

Therefore, rural households are also taking measures to reduce their essential needs, sell more livestock, and take loans.

Qualitative business survey

- Difficulties of the pandemic continue for small and medium-sized enterprises.
- Due to the R-U conflict, transportation through Russia has been delayed, while due to China's "Zero Covid" policy, transport through the southern border has been slow.
- High inflation increases business costs.
- Reducing households' purchasing power shrinks market demand.
- The price of grains and vegetables will grow due to the increase in the costs.
 - Fuel, seeds, fertilizers, machinery, and spare parts are mainly supplied from Russia and Ukraine.

Recommendations



- Preventing malnutrition by improving the supply and quality of the meal in schools and kindergartens, as there is a severe risk of reduced food consumption among vulnerable children.
- In order to stabilize prices, increase the supply of meat, flour, vegetables, and gasoline and paying attention to building reserves.
- Tightening monetary policy is necessary to reduce underlying inflation, but adjustments should be made to minimize the negative impact on vulnerable households and small businesses.
- It is necessary to increase the pensions and allowances of these citizens in line with inflation and to open more business opportunities for self-employed people and SMEs, where the vulnerable population mainly employs.
- Welfare programs with high participation, such as child money, should be more targeted to vulnerable groups.
- Increase the number of countries that import fuel, seeds, fertilizers, and agricultural equipment.
- When implementing any subsidizing program, evaluating its distributional impacts is essential.
- It is necessary to make significant cuts in inefficient budget expenditures, reduce state involvement, liquidate state-owned enterprises, and make privatization reforms.
- It is important to expand the tax base, such as VAT, PIT, CIT, and Livestock tax, or to include all eligible citizens and enterprises to pay tax and stop tax evasion.



SOCIO-ECONOMIC IMPACT OF GLOBAL CRISES IN MONGOLIA

21 NOVEMBER 2022 | WORKSHOP

Thank you for attention.

Manlaibaatar Zagdbazar
Economic Research Institute