



THE BANK OF MONGOLIA  
CENTRAL BANK OF MONGOLIA

# IMPLEMENTATION AND OUTCOME OF THE 10 TRILLION COMPREHENSIVE PLAN FOR ECONOMIC RECOVERY

2021



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## EXECUTIVE SUMMARY

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The Covid-19 virus has spread rapidly around the world, becoming global pandemic, causing major changes in the economies and financial markets of countries, and at the same time negatively affecting both supply and demand. It is widely acknowledged that the negative consequences caused by the pandemic are more harmful than the 2008 global financial crisis. This pandemic has had a direct negative impact on the livelihoods of households and the financial condition of businesses, which poses new and major challenges for policymakers.

In Mongolia, the first curfew in March 2020 marked the beginning of the Covid-19 virus impact on the domestic economy. The curfew was put in place due to the incidence and speed of the outbreak and it has led to a sharp decline in aggregate demand, disrupting the normal operation of households and businesses, disrupting transportation and logistics, and shrinking supplies at border crossings, affecting all sectors of the economy. The effects of the pandemic have hit both households and businesses severely, leading households to face with unemployment, disruption of income sources, inability to repay debts on time, declining overall demand for businesses, supply shortages, and financial hardships.

The Parliament, the government of Mongolia, and the Bank of Mongolia have taken phased fiscal and monetary policy measures that were based on experiences of other countries to prevent these difficulties from escalating. As part of these policies and measures, the government formulated and approved a "10 Trillion Comprehensive Plan for Health Protection and Economic Recovery" on February 17, 2021.

This report presents the implementation of the comprehensive plan and its impact on macroeconomic indicators. Key outcomes of 10 trillion package include that it has helped boost money supply and credit growth, reduce interest rates, support employment and investment, and generate revenue through business activity in times of economic stagnation and declining employment. As a result, the economy recovered in 2021 and grew by 1.4 percent (1.7% growth in the mining sector, 1.4% growth in the non-mining sector) (Table 1). However, the increase in the current account deficit, was financed to support domestic economic activity, coincided. This imposed a challenge of ensuring the external balance of the economy in the face of external shocks.

The report has the following structure. The first section introduces the “10 Trillion Comprehensive Plan for Health Protection and Economic Recovery” approved by the Government and the second section provides an overview of the loans and financing

measures planned under the Comprehensive Plan and their implementation. The third section examines the impact of macroeconomic indicators as a result of preventive measures of the pandemic and the impact of a 10 trillion comprehensive plan.

**Table 1.** Evaluation of the comprehensive plan

One trillion MNT	ABRUPT plan is not implemented	With the implementation of a comprehensive plan
1. Money supply	23.8	27.9
annual change	-2.9%	13.8%
2. Outstanding loan	16.6	20.7
annual change	-2.1%	21.3%
Non-mining sector	14.7	18.8
annual change	-3.5%	23.2%
SME	3.4	5.6
annual change	-4.0%	56.7%
3. Interest rate *	14.3%	13.2%
annual change	-0.5%	-1.2%
4. Imports, million \$	6,278	6,849
annual change	18.6%	29.4%
5. Number of employees	851-959 thousand	1,127 thousand
	2020	2021
6. Real GDP	26.7	27.0
annual change	-4.6%	1.4%
Mining GDP	3.67	3.73
annual change	-9.9%	1.7%
Non-mining GDP	23.0	23.3
annual change	-3.7%	1.4%
7. General government budget balance	-4.5	-2.9
8. Inflation	2.3%	213.4%

\* weighted average interest rate on new togrog loans issued in a given month

Source: Researchers' calculations

## **1** 10 TRILLION COMPREHENSIVE PLAN FOR ECONOMIC RECOVERY

Government Resolution No. 42 of February 17, 2021, "10 Trillion Comprehensive Plan for Health Protection and Economic Recovery" was implemented to protect the health of citizens, offer affordable housing plans, support production, services and jobs, and improve agricultural production and herders' incomes (Legalinfo.mn, 2022). The Bank of Mongolia, the Credit Guarantee Fund, the Savings and Insurance Corporation, and banks have entered into relevant agreements to cooperate in the implementation of job creation and agricultural support lending activities outlined in Resolution 5.

The plan has two main objectives, one of which is to recover the economy amid the pandemic. The

following objectives have been set: to intensify lending by banks and financial institutions, to share banks' risks using the credit guarantee system, and to alleviate the borrower's financial burden by paying a certain percentage of interest to the borrower within the government-approved budget. On the other hand, the plan envisages economic stimulus by intensifying the financing of projects funded by the state and foreign loans and grants. Moreover, the government planned to finance the development projects of Erdenes Tavan Tolgoi JSC and other economically viable projects without putting pressure on the state budget and government debt limits.



**Table 2.** Sources of funding to implement the plan

Main work of the plan /implementation period /	Plan (billion ₮)	Sources of funding, ways to implement
Job support loans / 2021 /	2,000.0	Based on the bank's resources, it will provide loan discount of 6% interest rate for businesses and loan discount of 7% interest rate for individuals. The 2021 funding for interest rate discounts will be financed by budget restructuring without causing changes to the pre-approved budget expenditures, and the 2022 interest rate support will be included in the annual budget.
Mortgage financing /2021-2022 he/	2,000.0	It will be financed by a combination of funding from the Bank of Mongolia and banks. No additional burden on the budget.
Repo financings /2021/	2,000.0	Repo financing will be financed by the Bank of Mongolia. No additional burden on the budget.
Agricultural loans /2021/	500.0	Based on the bank's resources, it will be implemented by providing support up to 7.65% interest rate discount on the loans. The 2021 interest rate discount will be financed by budget restructuring without increasing the approved budget expenditures, and the 2022 interest rate support will be included in the annual budget.
Planning for micro-district infrastructure /2021-2024/	1,000.0	The construction of Erdenes Tavan Tolgoi JSC will be financed by issuing bonds in the domestic securities market, and other foreign loans, aid projects and youth employment training will be implemented within the approved annual budget. It is planned to implement and organize financially efficient commercial projects without burdening the government budget and debt.
Training for youth employment /2021-2024/	500.0	
Financing of mega projects / 2021-2024 /	2,000.0	
<b>Total</b>	<b>10,000.0</b>	

Source: Ministry of Finance

The Comprehensive Plan includes 56 measures, 25 of which are planned to be implemented in 2021, 3 measures in 2021-2022, 17 measures in 2021-2024, and 11 measures will be implemented depending on the stage and intensity of the virus infection. The performance evaluation of the plan was at 89 percent at the end of 2021 according to the Ministry of Finance.

The following sections of the report cover in detail the implementation and results of the Bank of Mongolia's participation in 1) Job Support Loans (JSL), 2) Repo Financing, 3) Agricultural Loans, and 4) Mortgage Financing in 2021.

## 2 IMPLEMENTATION OF LOANS AND FINANCING MEASURES

As part of the comprehensive economic recovery plan, a total of 5.5 trillion MNT in soft loans is planned for 2021, and the government arranged to provide an annual average of 70-80 billion MNT support in interest discounts in 2021-2024. It is believed that the plan will provide financial support to businesses, individuals, and herders who have received interest-bearing loans, and will ensure the normal operation of the businesses. As of December 31, 2021, a total of 4.24 trillion MNT has been disbursed to 61,719 borrowers within the framework of job support loans, repo financing, mortgage financing, and agricultural loans. This includes the implementation of a comprehensive plan until the end of 2021:

- A total of 1,965.6 billion MNT was disbursed to 25,514 borrowers under JSL. This helped maintain a total of 109763 jobs nationwide;
- Within the scope of long-term repo financing, 834.9 billion MNT was disbursed to 3,375 borrowers with a total of 36,622 employees;
- A total of 955.7 billion MNT was disbursed to 12,223 borrowers under the mortgage financing;
- A total of 494.3 billion MNT was disbursed to 20,607 borrowers under Agricultural loans.

**Table 3.** Implementation of the measures included in the plan, 2021

Loan and financing program	Loan amount		Number of borrowers	Saved jobs
	The plan in a billion MNT	Fulfillment in a billion MNT		
Job support loans	2,000.0	1,965.6	25,514	109,763
Long-term repo financing	2,000.0	834.9	3,395	36,622
Mortgage financing	1,000.0	955.7	12,223	
Agricultural loans	500.0	494.3	20,607	
<b>Total</b>	<b>5,500.0</b>	<b>4,241.4</b>	<b>61,719</b>	<b>146,385</b>

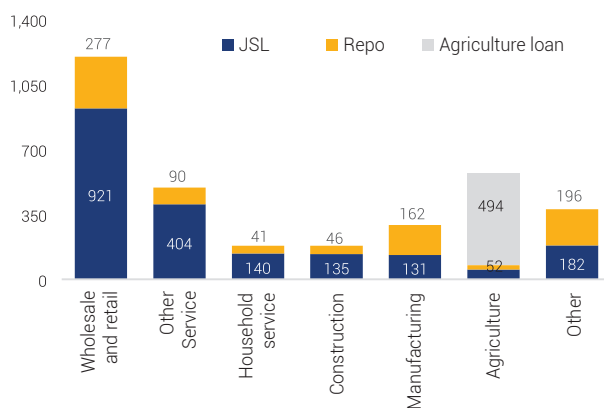
Source: Bank of Mongolia, Ministry of Finance

Of the total job support loan funding and long-term repo financing, 43% was provided to the wholesale and retail sector, and 18% to other services (Figure 1).

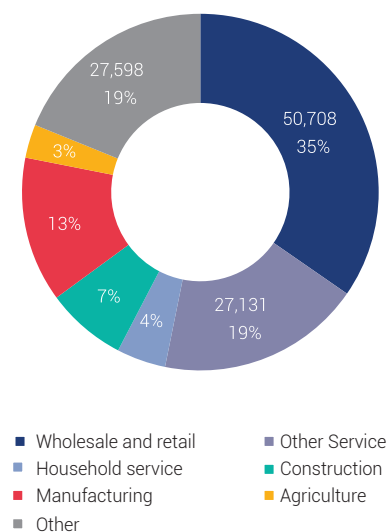
Out of the total of 146,000 jobs maintained, 50,708 (35%) jobs were in the wholesale and retail sector,

27,131 (19%) jobs were in other services activities, 19,289 (13%) jobs were in manufacturing, 7% jobs were in construction, and 27,598 (19%) jobs were in other economic sectors. (Figure 2).

**Figure 1.** JSL, repo financing, agricultural loans granted under the comprehensive plan in 2021 (by sectors)



**Figure 2.** Jobs maintained through JSL and Repo Financing (by sectors)



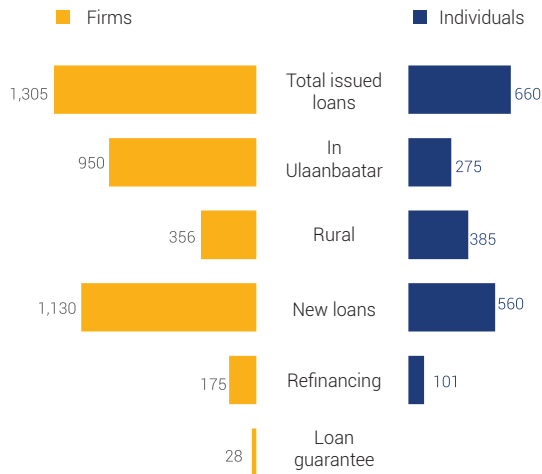
Source: Bank of Mongolia, Ministry of Finance

## 2.1 Job Support loans

The “Job Support Loans” outlined in Clause 2.1 of the Comprehensive Plan implemented on 5 May 2021 aims at reducing the credit risk of banks, supporting business activities and jobs of individuals and

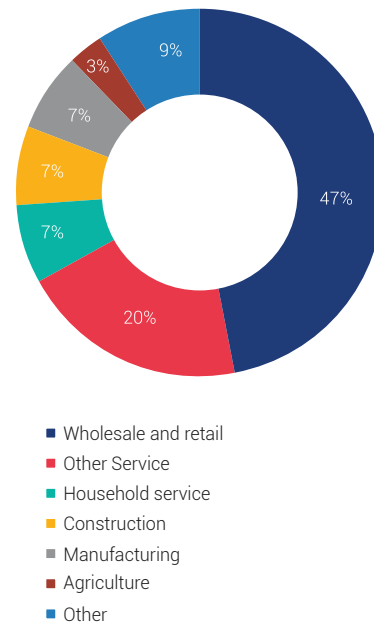
businesses within the scope of the goal of mitigating the adverse impact of the pandemic on the economy and supporting the economic recovery (Ministry of Finance, 2021).

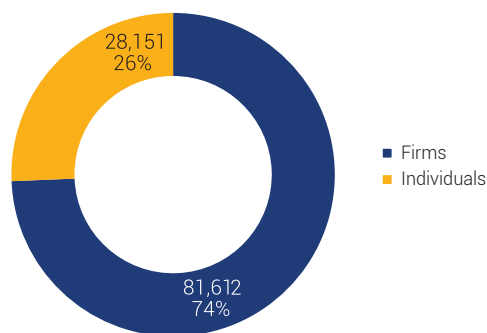
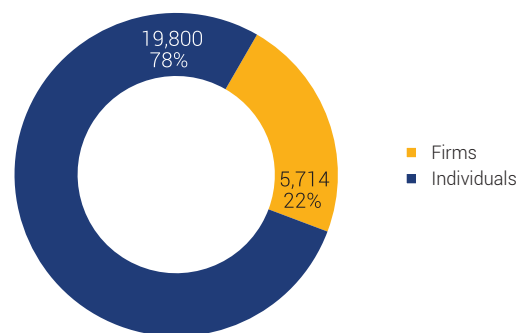
**Figure 3.** Loans issued to enterprises and individuals under JSL



Source: Bank of Mongolia, Ministry of Finance

**Figure 4.** Loans issued under JSL, by sectors (billion MNT and percent)



**Figure 5.** Number of jobs maintained (by borrowers)**Figure 6.** Number of loans issued (by borrowers)

Source: Bank of Mongolia, Ministry of Finance

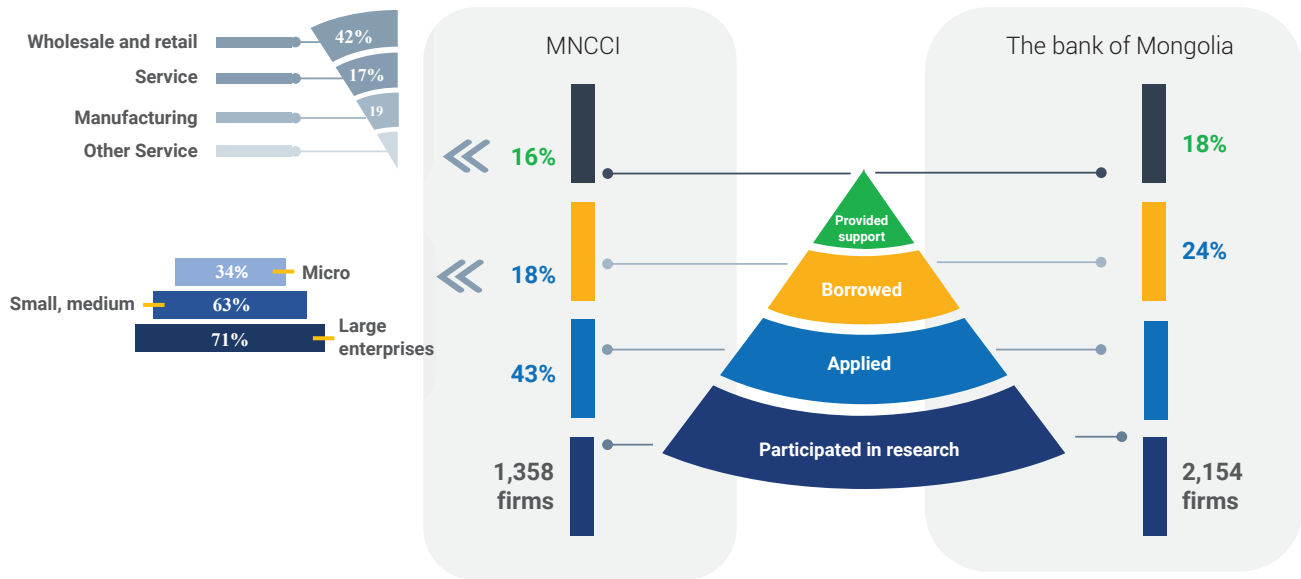
As of December 31, 2021, 62.9 thousand loan applications worth 6.4 trillion MNT were received by banks, which is three times more requests than the

planned amount of JSL. Of this amount, 1,952.6 billion MNT was disbursed to 25,439 loans, accounting for 98.3% of the initial plan.

### Box 1. Employment loan coverage

According to the Business Sample Survey (2021) conducted by the Bank of Mongolia, responses to the policy measures taken by the government on the activities of business entities (enterprises) that benefitted the most include (1) social security and CIT incentives, (2) 3% job support loans (3) discounts on water and electricity.

A quarter of all enterprises were able to obtain a job support loan, with an average of 17 percent of all enterprises reporting real support. The results of the sample survey conducted by the Bank of Mongolia and the Mongolian National Chamber of Commerce and Industry are similar to each other and are consistent with the actual statistics of job support loans. For example, according to the survey, the majority of job support loans (49%) were disbursed in the wholesale and retail sector, 8% in the construction sector, and 10% in the manufacturing sector.



Within the scope of the total amount of JSL, 1,305.4 billion MNT was disbursed to 5,714 enterprises, which helped maintain 81,612 jobs, and a loan of 660.2 billion MNT was disbursed to 19,800 individuals, which helped keep 28,151 jobs (Figure 3 , Figure 5).

The majority of job support loans or 47% was disbursed to the wholesale and retail trade and

20% to other service activities. Domestic worker services, manufacturing and construction sectors got disbursed a total of 458 billion MNT (23% of the loans), while 9% were disbursed to 17 other sectors of the economy. The purpose of the loan is to support activities in the wholesale and retail sales sector.

## ■ 2.2 Long-term repo financing of the Bank of Mongolia

In the fourth quarter of 2020, the Bank of Mongolia introduced a long-term repo financing instrument, that package loans and secure them on a repo basis, based on the best practices in central banks around the world amid the Covid-19 pandemic. As a part of

this measure, the Bank of Mongolia infiltrated liquidity of up to 2 years to the banking systems, to enable them to provide new loans to final borrowers at 10.5 percent of interest rates and loan refinancing.

**Table 4.** Funding (in a billion MNT, as of 2021)

Total funding	Borrower	Of which:								Maintained job	
		Firms		Individuals		Ulaanbaatar		Province		UB city	Province
		Amount	Number	Amount	Number	Amount	Number	Amount	Number		
834.9	3,395	648.8	1,814	186.1	1,581	690.1	2,110	144.8	1,285	32,609	3,780

Source: Bank of Mongolia

In 2021, a total of 1,128 billion MNT was requested by 4,126 borrowers, of which 834.9 billion MNT was disbursed to 3,395 (1,814 firms and 1,581 individuals) borrowers. As a result, a total of 36.6 thousand jobs were maintained nationwide. On a per-individual and per-firm basis, the average amount of funding was 117.1 million MNT and 355.3 million MNT, respectively. According to the additional long-term repo trading terms<sup>1</sup>, approved funding allocation for new loans and loan refinancing was 70 and 30 percent respectively

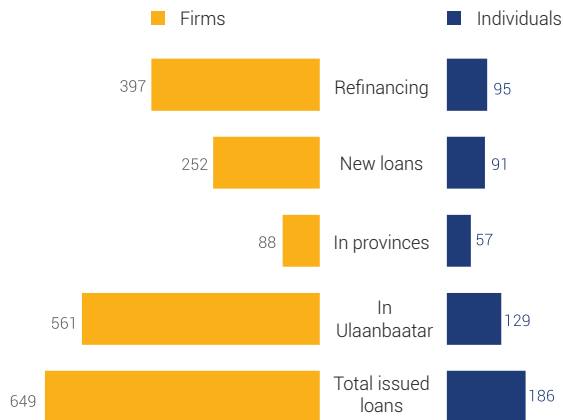
with additional incentives to reduce borrower's debt burden. However, the performance was 41 percent for new loans and 59 percent for refinancing in the reporting period. The Bank of Mongolia's long-term repo financing was initially provided to businesses and individuals, engaged in SME and non-mining export sectors, considering their contribution to creating inclusive growth and supporting economic diversification by mitigating their debt burden. However, sectors were later expanded by services, manufacturing, wholesale and retail with incentives to address the adverse impact of the pandemic in the short term and to maintain employment. Furthermore, as Job Support Loan and Repo financing were

<sup>1</sup> A-47 of the Governor of the Bank of Mongolia on February 4, 2021, A-58 of February 19, 2021, A-89 of March 26, 2021, and July 6, 2021 A-185 and A-247 orders of September 22, 2021

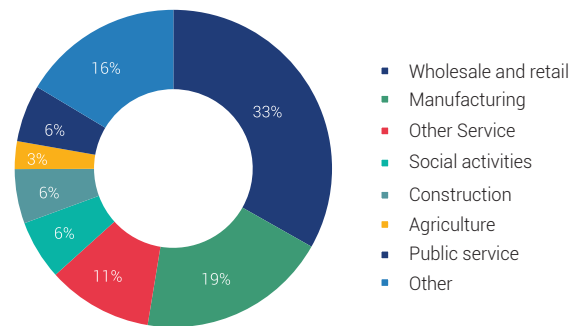
mostly disbursed to wholesale and retail tradesector, which accounts for 30 percent of the funding. In addition, 19 percent of the funding were disbursed to manufacturing, 11 percent to other services, and only 6 percent to construction (46 billion MNT), health

and social services (51 billion MNT), and hotel and catering services. The remaining 16 percent of the funding was distributed to the other 13 sectors of the economy (Figure 8).

**Figure 7.** Loans issued to enterprises and individuals under Repo financing

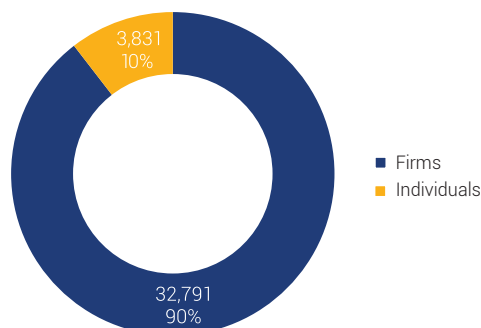
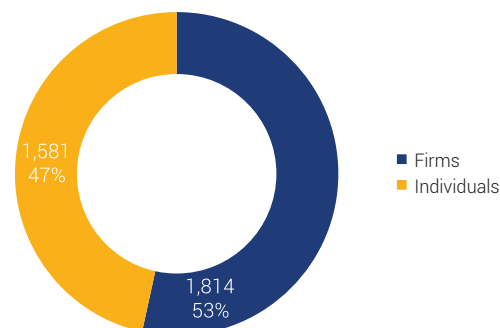


**Figure 8.** Loans issued under Repo financing (by sectors, in percents)



Source: The Bank of Mongolia



**Figure 9.** Number of jobs maintained, (by borrowers)**Figure 10.** Number of loans issued (by borrowers)

Source: The Bank of Mongolia

### ■ 2.3 Agricultural loan program

The comprehensive plan includes a 500 billion MNT loan program to support the agricultural sector. The program consists of three main parts: a loan of 100 billion MNT for support of spring planting, 200 billion MNT for wool and cashmere production, and 200 billion MNT loan to support herders. Under the program, loans were dispersed from commercial banks' funds.

By looking at the performance of agricultural loans by the end of 2021, a total of 494.3 billion MNT has been disbursed to 20,607 borrowers, accounting for

99 percent of the initial plan (Table 5). By comparing economic sectors, the majority of Agricultural loan (40%) was distributed to herders (199.6 billion MNT), 17 percent to leather production (86 billion MNT), and cashmere and wool production while 20 percent (98 billion MNT) were disbursed to meat stockpiling. In terms of the total number of borrowers, the majority of agricultural loans, or 19,870 borrowers (96 percent), obtained funding in a support of herders' incomes and livelihood.

**Table 5.** Funding under Agricultural loan program (in a million MNT), by the purpose

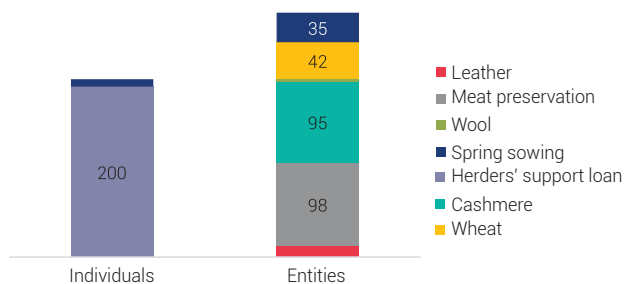
Loan type	Funding	Percentage	Number of borrowers
Supporting herders	199,643	40%	19,870
Meat preservation	97,597	20%	46
Cashmere preparation	94,921	19%	38
Spring planting	43,301	9%	629
Purchasing wheat and oilseeds	42,415	9%	11
Leather preparation	13,202	3%	9
Wool procurement	3,215	1%	4
<b>Total agricultural loan</b>	<b>494,294</b>	<b>100%</b>	<b>20,607</b>

Source: Bank of Mongolia

Forty-two percent of total agricultural loans were disbursed to individuals (96 percent to merely herders), whereas firms' proportion accounts for 58 percent. On the other hand, the majority of firms' funding was engaged in meat preservation, cashmere production,

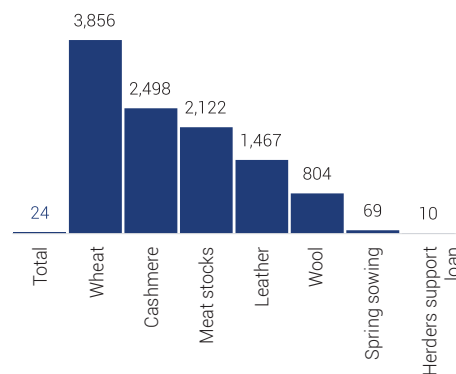
wheat production, and spring planting. By looking at the average amount of funding by loan category the maximum amount of 3.9 billion MNT was allocated to wheat and oilseeds purchase.

**Figure 11.** Lending in the form of a legal entity, (in a billion MNT)



Source: Bank of Mongolia

**Figure 12.** Average funding amount, (in a million MNT)



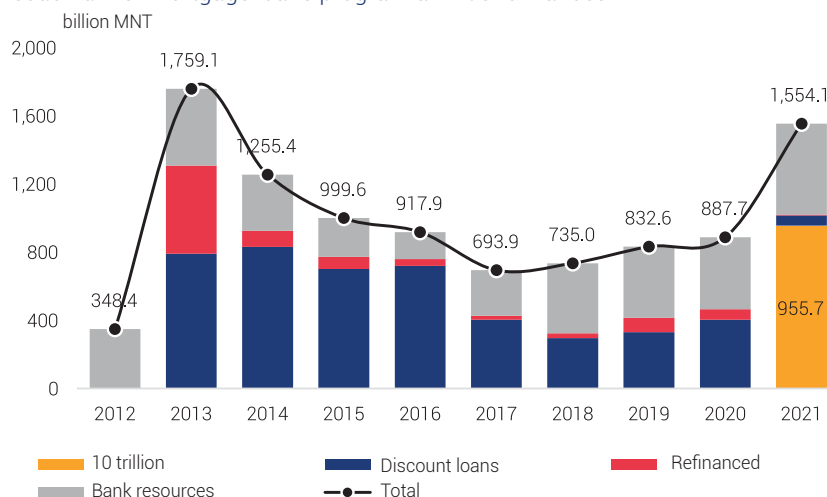
## 2.4 Housing Mortgage loans

Part of the Government's "10 Trillion Comprehensive Plan for Health Protection and Economic Recovery", with total estimated funding of 2 trillion MNT, the Housing Mortgage Program offers financing to low- and middle-income people with homeownership assistance in the context of reducing air and environmental pollution. Under the program, in order to ease loan terms and conditions and strengthen accessibility, the Bank of Mongolia has cut the annual lending rate on mortgage loans to 6 percent from October 1, 2020 (Bank of Mongolia, 2021). The Bank of Mongolia's financing and commercial banks'

own sources is accounted for 60 and 40 percent respectively.

In terms of mortgage loans, the Bank of Mongolia and commercial banks provided a total of approximately 1.6 trillion MNT in 2021, which is a 75.1 percent growth from that of previous year, resulting in the highest funding since 2013 (Figure 13). In 2021, on average, a total of 129.5 billion MNT was disbursed per month for mortgage financing, which increased a total of 55.5 billion MNT from that of previous year.

**Figure 13.** The loans issued under Mortgage loans program and it's refinances



Source: Bank of Mongolia

Within the framework of the Comprehensive Plan, 11,105 loan applications worth MNT 837.2 billion were received by banks, of which 955.7 billion MNT was disbursed to 12,223 borrowers between March and December 2021 (Table 6). This results in 61.5 percent

of the approved funding this year. Furthermore, the average amount of mortgage loan received by individuals is 76.1 million MNT while 82.9 million MNT and 55.7 million MNT for those from Ulaanbaatar and other provinces respectively.

**Table 6.** Mortgage loan from March to Dec 2021 (in a billion MNT)

Total loan amount	Borrower*	Of which:					
		Ulaanbaatar		Province		New loan	Refinancing
		Amount	Number	Amount	Number	Amount	Number
955.7	12,223	794.1	9,382	161.6	2,841	921.2	34.5

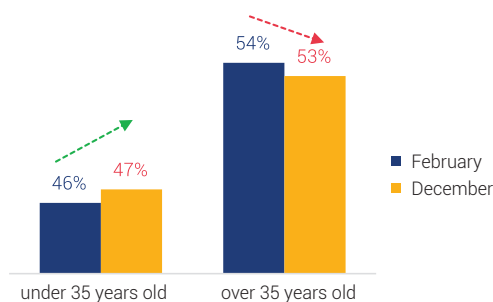
\* Number of refinanced borrowers are not included

Source: Bank of Mongolia

The fact that Mortgage loans under the Comprehensive Plan are more focused on low- and middle-income youth, indicates that mortgages are reaching their target group (Figure 15, Figure 16). For example, in December 2021, compared to February, both shares

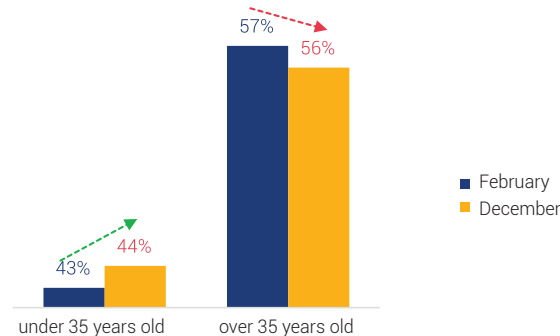
of people under age 35 in total loans and in the total number of borrowers increased, while the share of people aged 35 years and over declined. Furthermore, more than half of mortgage loans were distributed to individuals with income below 2.5 million MNT.

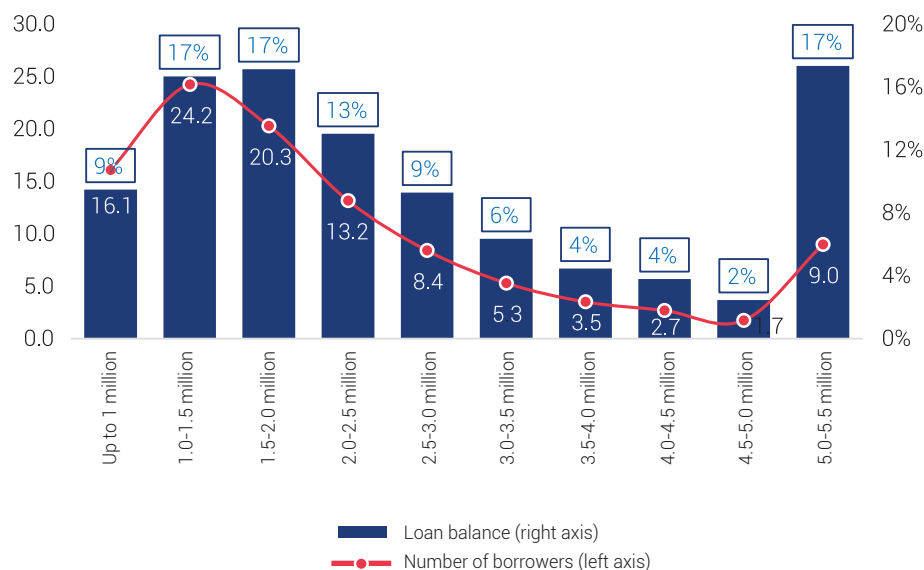
**Figure 14.** Proportion of total mortgage loan 2021 (by age group)



Source: Bank of Mongolia

**Figure 15.** Percentage of total borrowers 2021 (by age group)



**Figure 16.** Total mortgage loans issued (by salary ranges)

Source: Bank of Mongolia

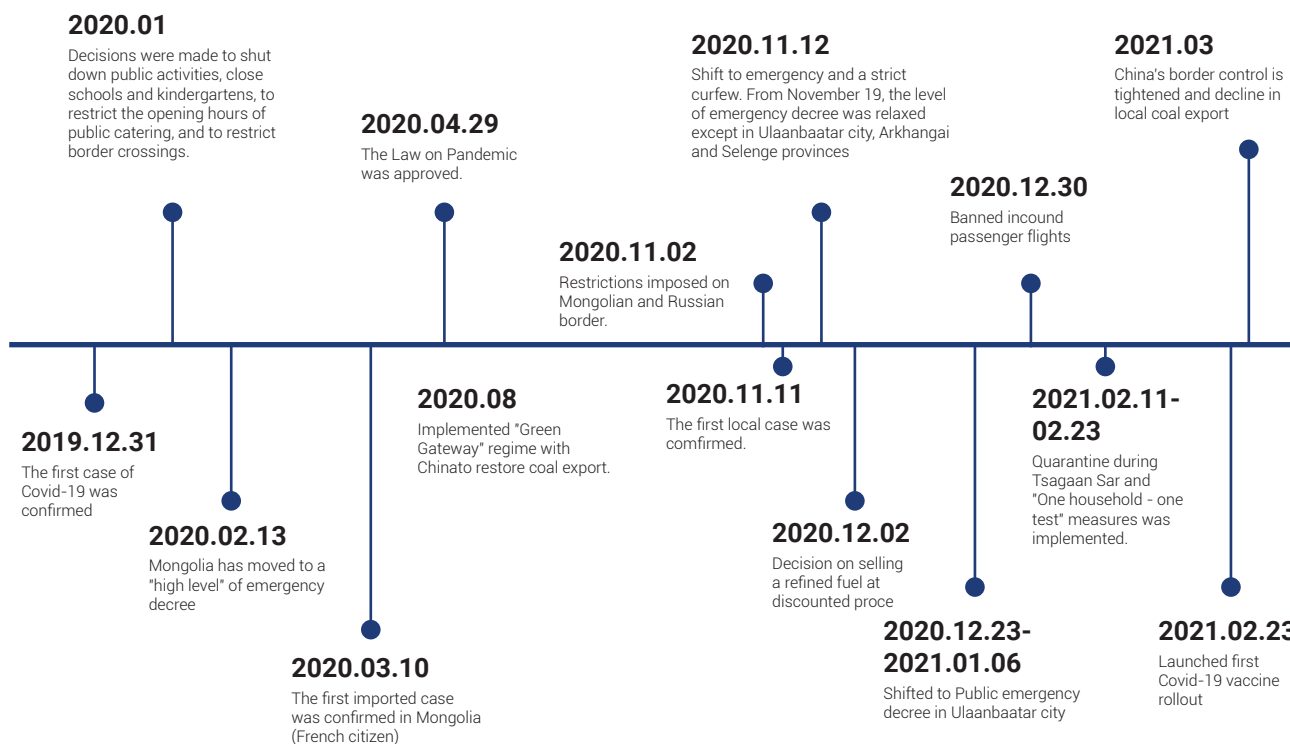
Due to the outbreak of the Covid-19 pandemic in Mongolia and the introduction of strict quarantine measures, the loan under the Program were designed to provide real support for strengthening household income and protecting their purchasing power amid the economic downturn. Therefore, loan payments

were suspended five times based on individuals' requests, with no interest accrued. As a result of the measures, a total of 276 thousand borrowers with total loan outstanding of 3.5 trillion MNT were released from total payments of 1 trillion MNT for an average of 2.5 years.

### 3 ECONOMIC CONDITIONS BEFORE AND AFTER THE COMPREHENSIVE PLAN

Since the outbreak of the Covid-19 pandemic worldwide, strict measures were taken in Mongolia to prevent the spread of the virus, including the shift to an emergency decree by closing schools and kindergartens, imposing lockdown and quarantines, and establishing border controls (Figure 17).

**Figure 17.** Timeline of Covid-19 in Mongolia: Official cases and Key policy responses (December 2019-March 2021)

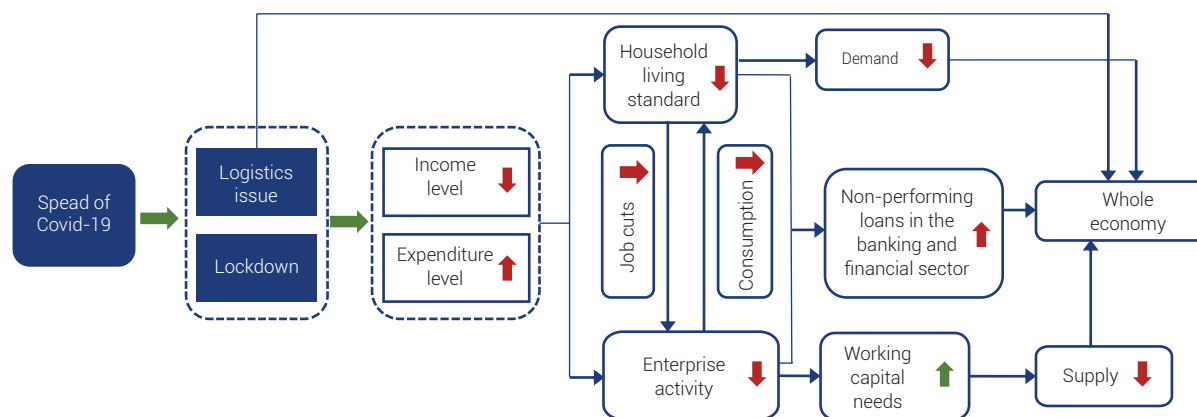


Source: Bank of Mongolia, Ministry of Finance

While these measures have reduced the pandemic health impact and prevented premature death, they also cause a severe negative impact on households, businesses, and financial institutions. In particular, an economic downturn occurred because of the sharp decline in aggregate demand and the disturbance

of production and services by households and businesses, as well as major disruptions in transportation activities, logistics and supply chains, and border closures caused by the Covid-19 pandemic worldwide. The impact of the pandemic on the economy is simplified and shown in Figure 18.

**Figure 18.** Channels of the potential economic impact of Covid-19



Source: Byambatsogt, Anand, Bilguunzul, Tuguldur (2021)

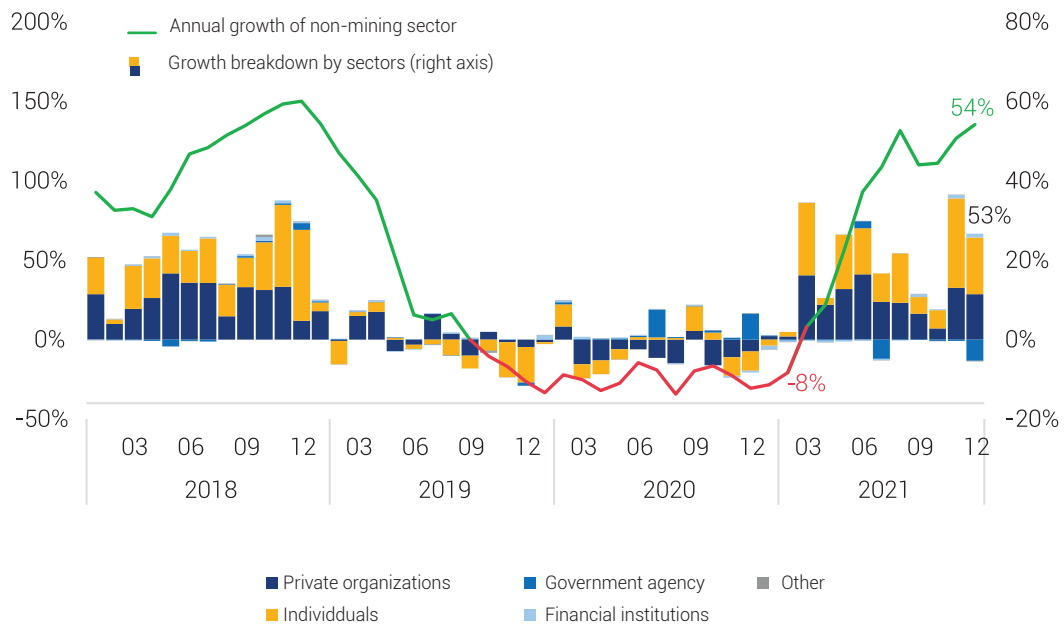
Due to the pandemic, the demand for goods and services in enterprises has declined, there has been a shortage of working capital, and sales revenues of enterprises in most sectors have shrunk significantly. According to the Business survey, it is reported that measures preventing the spread of the pandemic and imposing lockdown and quarantines have led to a decline in demand for goods and services, a

shortage of working capital, and supply disruptions in most enterprises, regardless of sectors in which they operate. Moreover, sales of businesses in the non-agricultural, education, and health sector, of which past annual growth before Covid-19 was approximately 20 percent, fell by 37 percent. When looking at the sales growth rate, roughly all sectors except health, education, and agriculture experienced

a decline in their sales. Owing to the circumstances of the epidemic, the economy faced the risk of credit crunch. As a consequence of Covid-19, economic and business activity has weakened and banks' interest in financing has declined hereby newly issued loans grew by -4 percent year-on-year in 2020, after stagnating since 2019 (Figure 19). A closer look into economic

sectors shows that wholesale and retail trade, finance, insurance, manufacturing, and construction sectors experienced loan decline in 2020. In addition, as of January 2021, 50.8 percent of total loans were at risk of not being paid due to the Covid-19, and therefore credit and liquidity risk deterioration would arise in the scenarios of no policy action.

**Figure 19.** Annual growth in loan repayment (by entities)



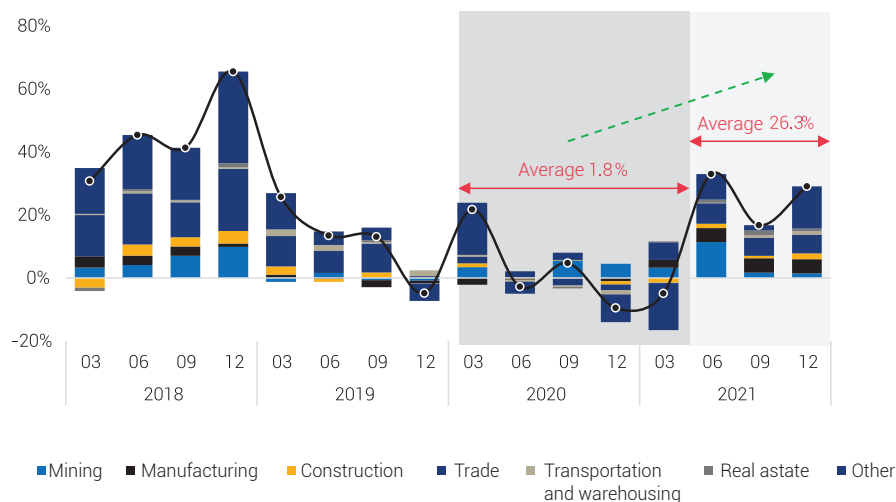
Source: Bank of Mongolia



As a result of a 10 trillion Comprehensive Plan for Economic Recovery, the risk of a credit crunch has been averted and credit supply increased. The fact that implementing the Comprehensive Plan and boosting credit supply following Covid-19 vaccination, the easing of restrictive measures and the recovery in the economic activities dramatically increased the new loans issued to the economy, which reached 53 percent year-on-year growth at the end of 2021. Looking at the composition of the credit growth by sectors, loans to private institutions and individuals

are the main components. One of the goals of the 10 Trillion Comprehensive Plan was to promote import-substituting producers and provide them with financial resources. Therefore, delivering finance to the non-mining sector is of the utmost importance for our country being a mining-dependent country. Prior to the implementation of the Comprehensive Plan, loans to the non-mining sector had declined by 8 percent while it grew by 54 percent, year-on-year as of December 2021 (Figure 19).

**Figure 20.** Annual growth in loan repayment (by economic sectors)

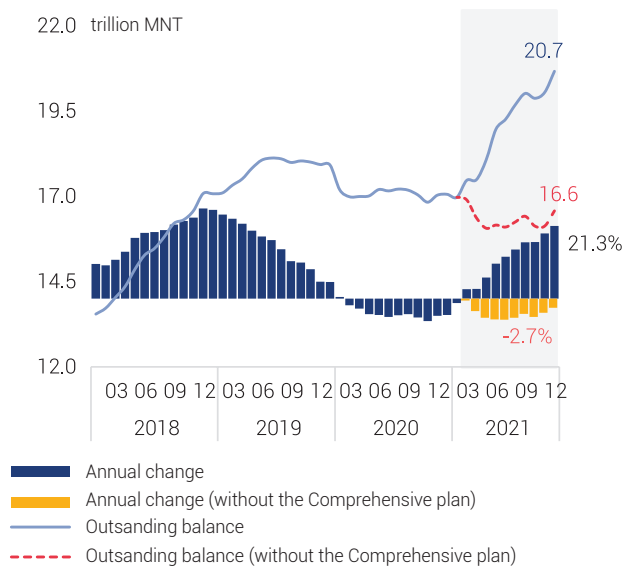


Source: Bank of Mongolia

One of the measures taken by the Government during the Covid-19 was loan forbearance. As a result, loan repayments in the banking sector declined, with an average annual growth rate of 1.8 percent until the first quarter of 2021. However, loan repayments, particularly in the trade, construction, and manufacturing sectors, have increased (26.3 percent growth year-on-year) and resumed to normal levels (Figure 20). An increase in new lending fostered the expansion of the loan and money supply. Total outstanding loans reached 20.7 trillion MNT at the end of 2021, of which non-mining sector loans account for more than 90 percent, with an annual growth of 21.3 and 23.2 percent, respectively (Figure 21). It can be drawn that total outstanding loans would have

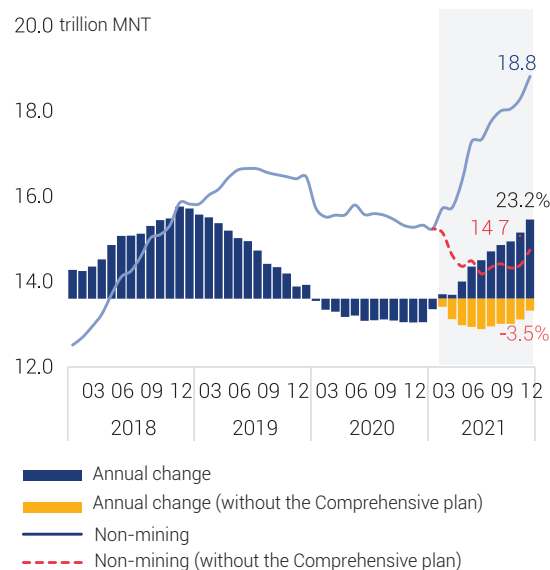
fallen by 2.7 percent, accounting for 80 percent of the current level in the absence of the Comprehensive Plan (Figure 21). Furthermore, non-mining loans were at risk of declining 3 percent annually and accounting for 78 percent of the current loan outstanding if the plan was not implemented (Figure 22). Consequently, it could precede a major contraction risk in both economic activity and employment. Furthermore, Figure 23 shows that Employment Support Loan and Repo financing were mostly disbursed to small and medium enterprises (SMEs). For example, the fact that outstanding loans for SMEs reaching 5.6 trillion MNT has preceded a 40 percent surge compared with excluding the Comprehensive plan impact.

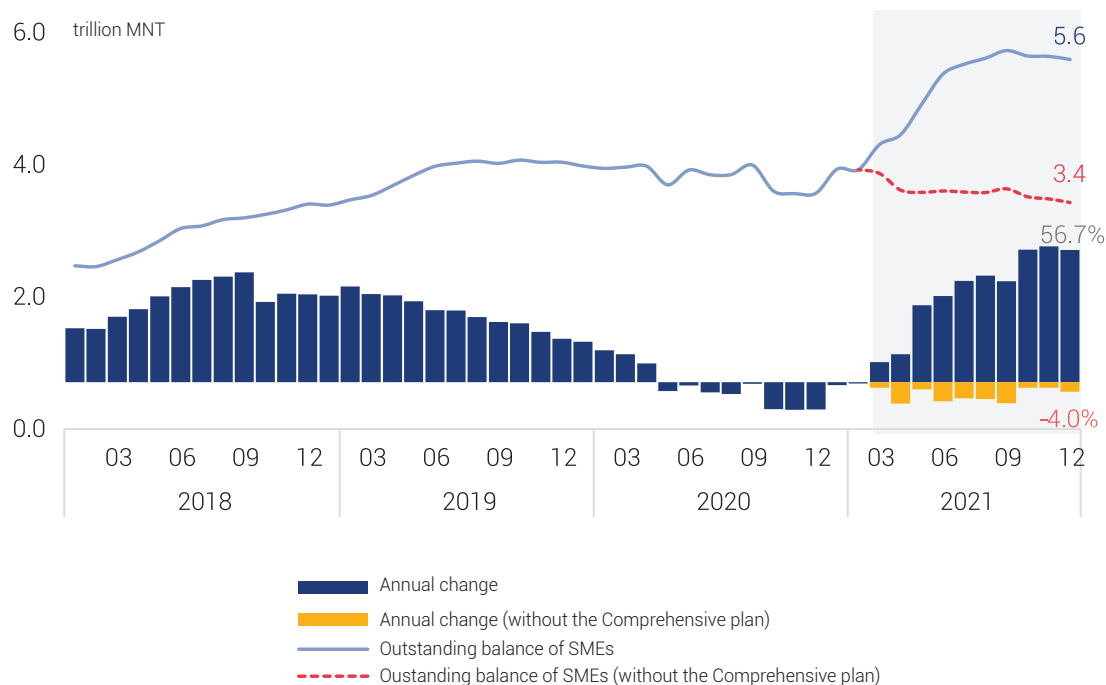
**Figure 21.** Loan outstanding



Source: Bank of Mongolia

**Figure 22.** Non-mining sector loan outstanding



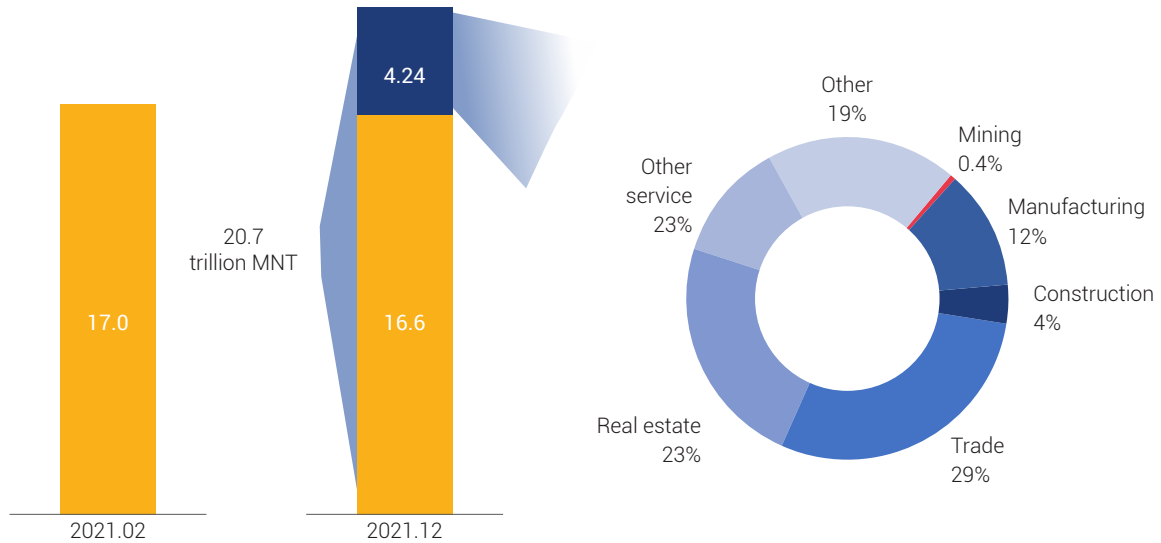
**Figure 23.** SME loan outstanding loans

Source: Bank of Mongolia

To revive the economy after Covid-19, about 4.2 trillion MNT loans were provided to enterprises and service providers in 2021. In terms of economic key sectors,

the retail and wholesale sector received 29 percent of the total loan while the mining sector obtained the least (Figure 24).

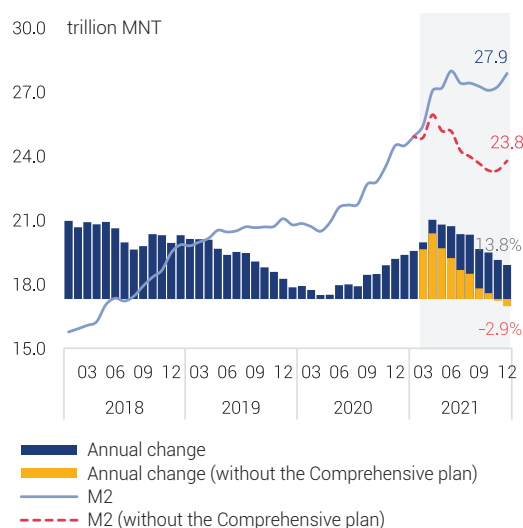
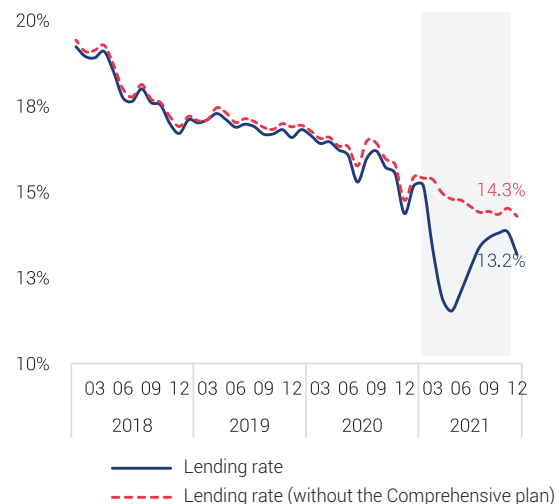
**Figure 24.** Total outstanding loans (by economic sector)



Source: Bank of Mongolia

The money supply has increased by 2.8 trillion MNT following the implementation of the Comprehensive Plan. It shows that the total money supply would have fallen by 15 percent or 4.1 trillion MNT, were it not for the stimulus package of 10 trillion MNT Plan (Figure

25). Furthermore, as a result of the “Strategy to reduce loan interest rates”, market interest rates have been declining last 3 years and the average interest rate reached a record low of 11.5 percent in May 2021 including the Comprehensive Plan effect

**Figure 25.** Money supply**Figure 26.** Lending rate

Source: Bank of Mongolia

## Box 2 . Impact of Covid-19 related measures on household living standards and creditworthiness

Ts.Byambatsogt, S.Bilguunzul, B.Anand (2021) assessed the impact of Government's and Bank of Mongolia's policy measures in 2020 to mitigate the pandemic's economic fallout on household living standards and ability to repay loans. The preliminary assessment was found employing Stress test analysis and following main results were obtained:

Social security and personal income taxes relief contributed to a 1.4 percent decline in the probability of non-performing loans and a 2.8 percent increase in the share of households under minimum income level.

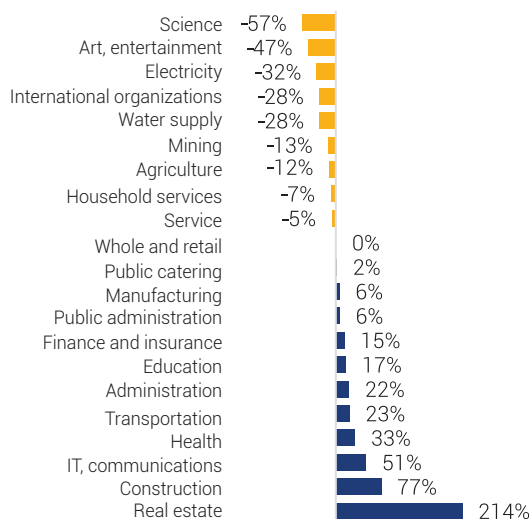
In absence of freezing loan repayments measure, the probability of non-performing loans and the probability that households do not meet the basic need of life would increase by 1.3 percent, respectively. Furthermore, in the absence of all recovery measures targeted for the households, non-performing loans and poverty rate would increase by 10.2 and 8.0 percent respectively compared with the actual performance.

Although economic stimulus measures supported to mitigate the lingering impact of the pandemic on households, measures- that did not reflect the needs of the households, and was solely focused on the equality of opportunity for each individual and household- resulted in high costs of the policy.

Covid-19 pandemic shock affected sharply declining employment in the labor market. Total employment (1124.5 thousand in 2020) decreased by 63.9 and 131.8 thousands relative to 2019 and 2020, respectively. In the meantime, roughly 50 percent

of all sectors of the economy, particularly science and technology, arts, entertainment and household activities, mining, and agriculture sectors posted a considerable decline in their employment (Figure 27).

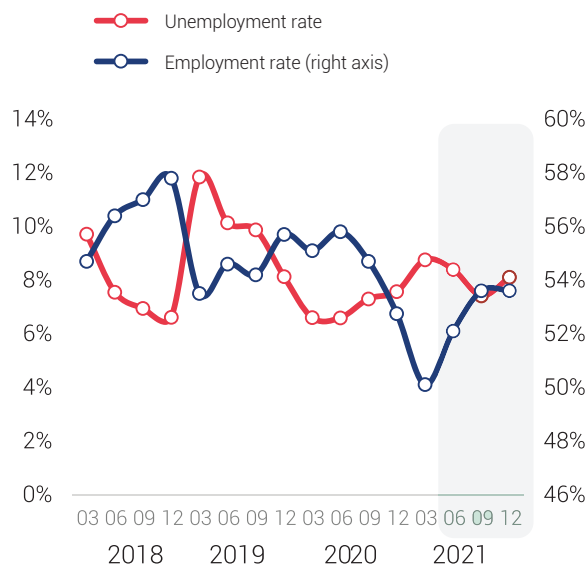
**Figure 27.** Employment growth in 2020 (by sector)



Source: NSO

The government's strict implementation of mobility restrictions and quarantine measures between November 2020 and February 2021 with incentives containing the spread of the Covid-19 pandemic in fact triggered a contraction in the demand and supply of the labor market. Overall, the labor force participation

**Figure 28.** Employment and unemployment rate

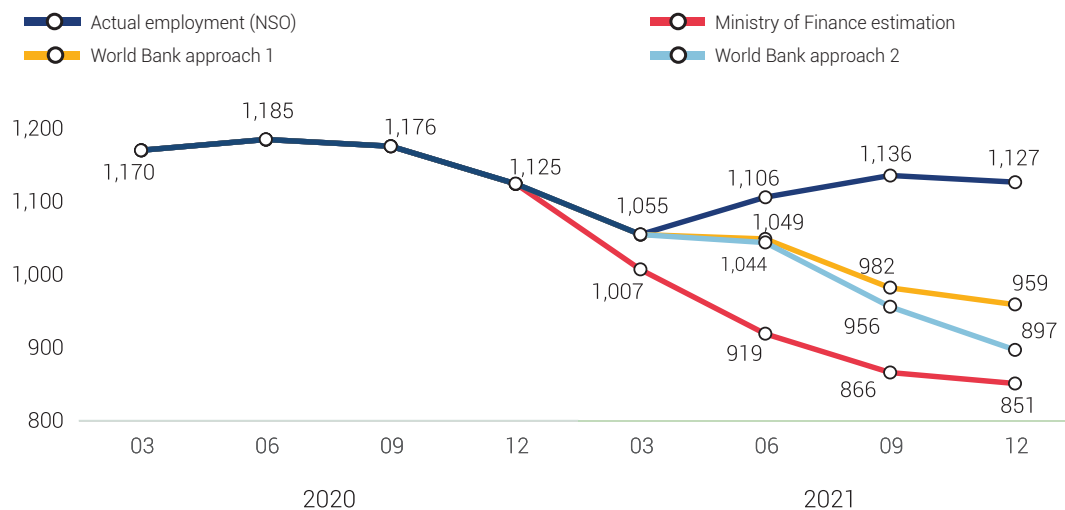


rate shrank by 5 percent, and the employment rate fell by 11 percent in the first quarter of 2021 from a year ago (Figure 28). In addition, the adverse impact of Covid-19 on the financial conditions of enterprises partly contributed to the shift from economically active to inactive population.

There is some evidence that the Comprehensive Plan has protected jobs from the risk of a sharp decline, as a result labor market has recovered close to the pre-Covid level. With the gradual easing of the curfew and the implementation of the Comprehensive Plan, the labor market situation improved in 2021. Employment rate increased by 3.5 whereas unemployment rate fell to 8 percent in the fourth quarter compared to the first quarter of 2021. As mentioned in the previous

section, the economic recovery plan has kept 146,385 jobs. Moreover, the World Bank and the Ministry of Finance estimated the impact of the Comprehensive plan on the employment. They reported that with this stimulus package, about 168,000-276,000 jobs were protected as of 2021 (Figure 29). In other words, in the absence of the Comprehensive Plan, total employment could have dropped by 20 percent, to about 900,000 by 2021.

**Figure 29.** Number of jobs maintained (in thousands)



Sources: NSO, Ministry of Finance, World Bank<sup>1</sup>

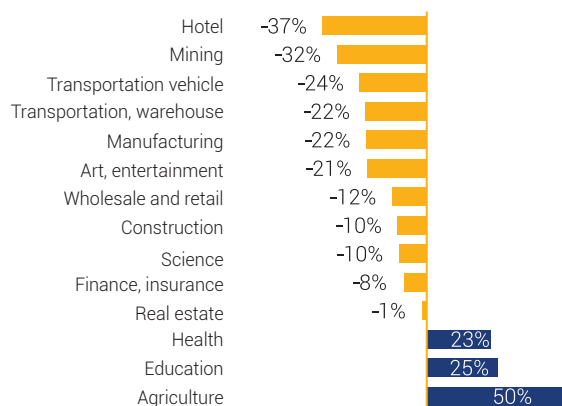
<sup>1</sup> Both of the World Bank's methodologies were seasonally adjusted, and the second method included quarantine levels and mobility estimates.

**Table 7.** The main problems facing enterprises(in duplicate numbers)

The main difficulties	ADB (2020.12)	NSO (2021.03)	MNCCI (2021.09)
Demand decline for goods and services	53%		51%
Shortage of working capital	44%		51%
Supply shortage	72%		43%
Uncertainty	57%		33%
Financial difficulties		55%	
Temporary suspension of operation		47%	
Difficulty paying employees	19%	32%	
Revenue decline	77%		

Source: ADB, NSO, and MNCCI sample survey results

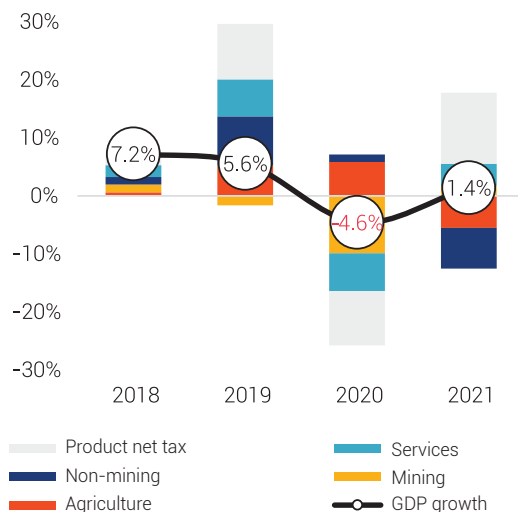
**Figure 30.** Enterprises' sales revenue growth, 2020



Source: Bank of Mongolia, General Department of Taxation

Economic activity has weakened due to the Covid-19 outbreak and associated precautionary measures. Mongolia's economy faced its worst severe contraction in the last 30 years, at 4.6 percent (Figure 31). There was a higher uncertainty in the business environment, a sharp decline in business activity, declining employment, and the suspension of some sectors' activities reflecting Covid-related strict restrictions and quarantine measures. As a result, a severe contraction in most mining and services sectors and a slowdown in industrial growth contributed to the weakening domestic economic activity.

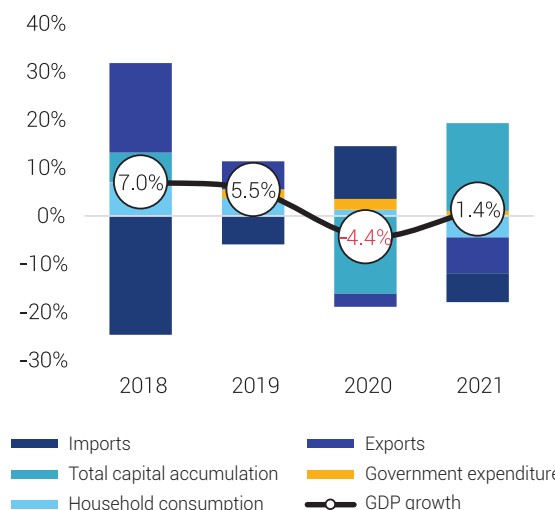


**Figure 31.** Supplyside contributions to GDP growth (in percentage points)

Source: NSO

The government's strict restriction measures, border closures, and weak external demand contributed to plummeting exports, lower FDI, and depressed domestic demand. Moreover, household and government consumption made a positive contribution to output growth in 2020 as a result of the Government's and Bank of Mongolia's policy measures<sup>1</sup> to cushion the pandemic's economic fallout.

<sup>1</sup> Tax and social security contribution relief, exemptions from housing payments, subsidies for coal briquesttes, the child money allowance, one-time cash allowance for vaccination and other allowance measures are taken by the Government under "Law on prevention, combat and mitigation of social and economic impacts of the Covid-19". The Bank of Mongolia implemented policy measures to reduce policy rates, extend loan repayments, extend loan maturity without deteriorating its quality and continue offering housing mortgage loans.

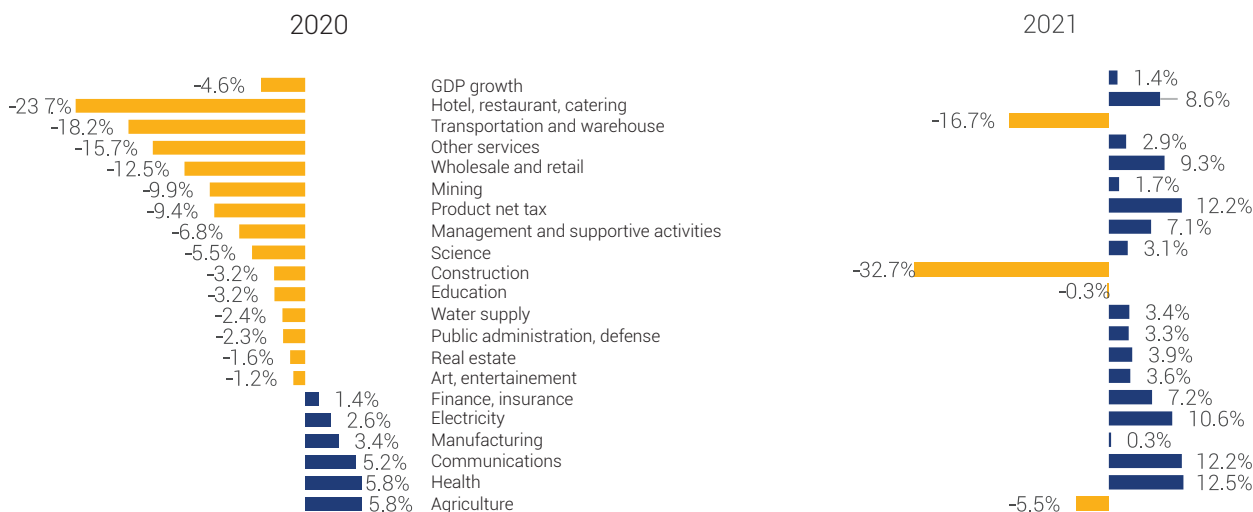
**Figure 32.** Demandside contributions to GDP growth (in percentage points)

The Comprehensive Plan supported the activities in the non-mining sector. Implementing the stimulus plan at a time when real sector risks and uncertainties were high proceeded positive effect on the non-mining sector's operations and business activity. In terms of economic sectors, there has been a recovery in employment and production in the wholesale and retail trade, hotels, housing and catering sectors, and management and support activities, which obtained financing under the Comprehensive Plan. Furthermore, loan funds under the Plan strengthened working capital and investments of businesses and hereby supported substantial output growth mainly on the demand side (Figure 33). However, a significant

contraction in mining production, transportation, warehousing, and construction sectors caused by

border disruptions and external shocks has limited economic growth converging back to their pre-pandemic levels in 2021.

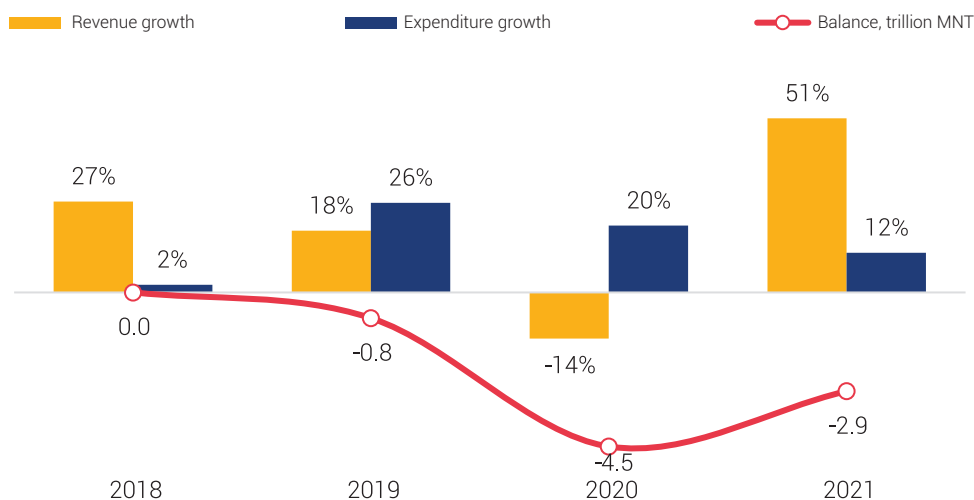
**Figure 33.** Real GDP growth



Source: NSO

As a result of the fiscal relief package during the pandemic, the budget deficit widened sharply, while the budget revenue expanded and the deficit narrowed under the 10 trillion comprehensive plan. A contraction of 4.5 trillion MNT (12 percent of GDP) in the overall budget balance in 2020 is explained by a 14 percent decline in budget revenue and a 20 percent increase

in budget expenditures relative to the previous year. However, in 2021, budget revenues increased by 51 percent, and the budget deficit narrowed to 2.9 trillion MNT (6.8 percent of GDP) primarily driven by the global rollout of vaccines, the gradual easing of Covid-19 precautionary measures, and recovery in business activities (Figure 34).

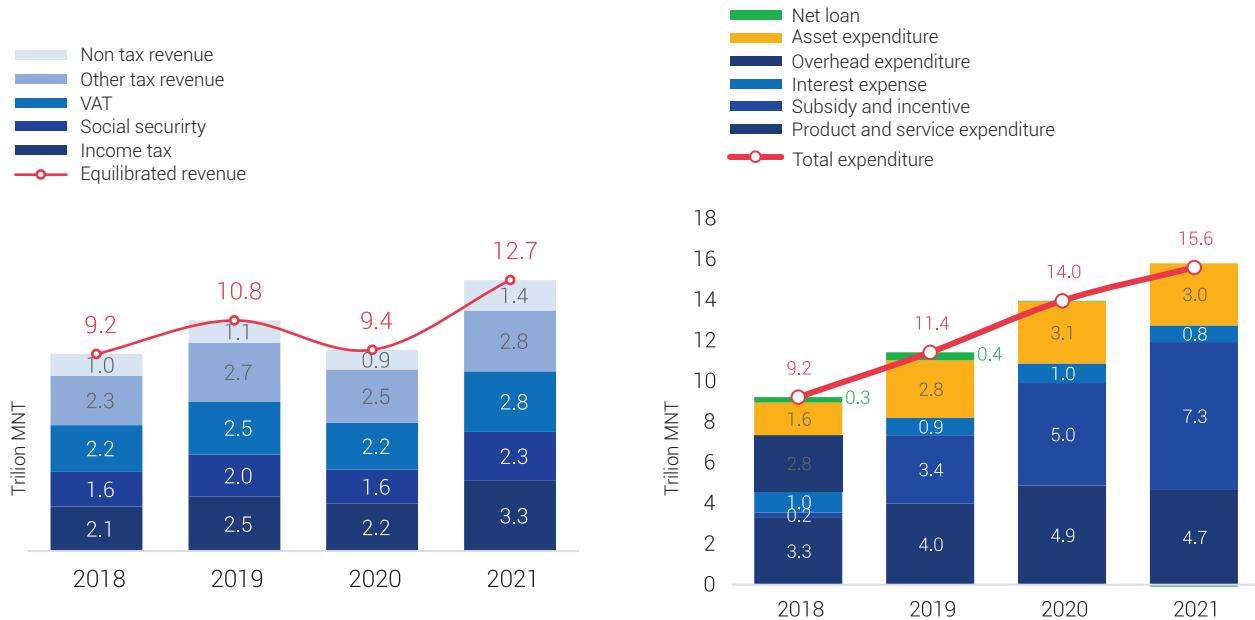
**Figure 34.** Total budget balance, revenue and expenditure growth (year-on-year, percent)

Source: NSO

State budget revenue in 2020 declined by 1.4 trillion MNT from the previous year, which was mainly due to the tax relief measures of 0.92 trillion MNT for personal income taxes and social security contributions under the fiscal relief package during pandemic. However, in 2021, the budget revenue increased by 51 percent

from the previous year despite the continuation of tax relief measures of approximately 0.5 trillion MNT. The growth was induced by end of lockdown, recovery on the business activity supported by the Comprehensive Plan, and higher commodity prices (Box 3).

**Figure 35.** Budget revenue and expenditure structure



Source: NSO

Spending related to Covid-19 measures entailed a sizable fiscal burden and contributed to 20 and 12 percent growth in budget expenditures in 2020 and 2021, respectively. Although fiscal relief measures

have helped foster economic activity during the pandemic, the Government's external debt increased in 2020.

### Box 3. The impact of the Government policy measures on the budget amid Covid-19 pandemic

To alleviate the negative impact on the economy during Covid-19, the government has taken several recovery measures step by step, which have significantly expanded public spending and reduced revenues. For example:

**Child Money Program:** In April 2020, the child money allowance was increased to 100,000 MNT, accounting for 3 percent of GDP in 2020 (1.06 trillion MNT) and 3.1 percent of GDP in 2021.

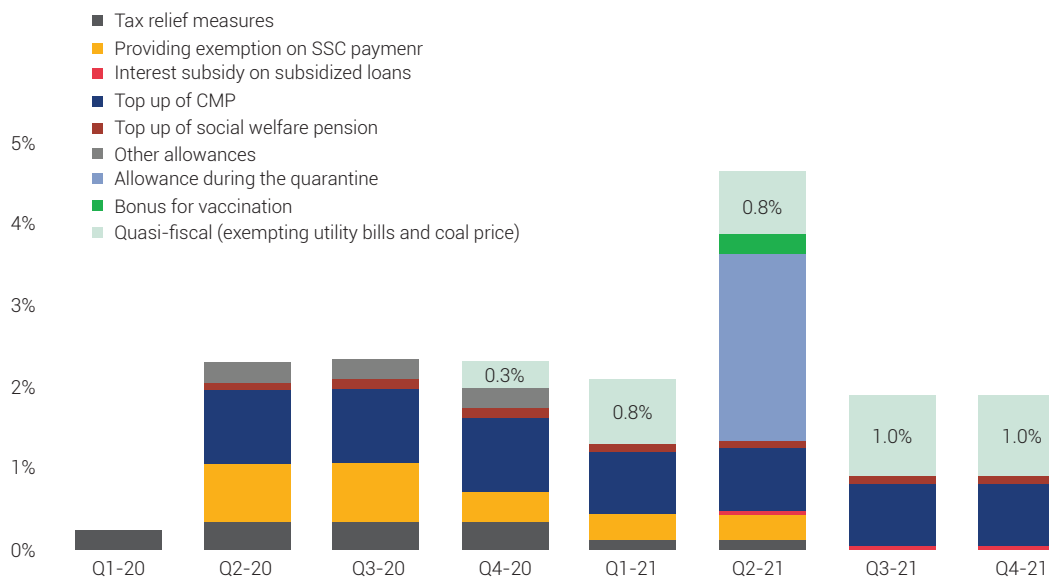
**Tax relief measures:** Income tax and social security breaks is implemented from April 2020 to June 2021. In 2021, about 1 percent of GDP will be exempted from taxes or the same amount of tax revenue reduction.

**A one-time allowance of 300 thousand MNT to each citizen:** During the long-term quarantine of May 2021, a one-time allowance was provided to each citizen, representing about 2.3 percent of GDP on the budget.

**A one-time cash incentives:** A reward of 50,000 MNT was given to people who received two doses of the Covid-19 vaccine (approximately 0.2 percent of GDP, on the budget).

**Waiver of monthly payments of housing utility bills combined with subsidizing the price of coal briquesttes:** It accounted for 3.8 percent of GDP, but was financed by state-owned enterprises.

Covid-19 Fiscal relief measures (as a percentage of GDP)

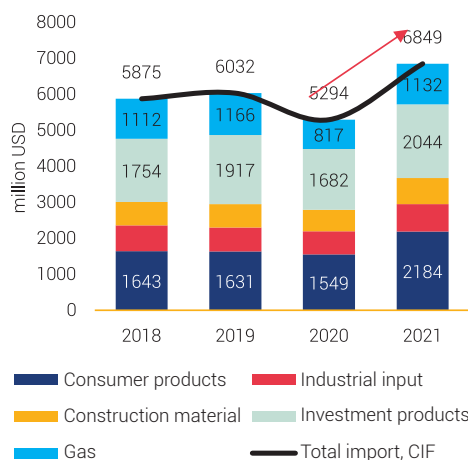


Source: Mongolia economic update, World Bank, 2022

Despite the economic recovery of 2021, imports expanded rapidly and the current account deficit widened. At the beginning of the Covid-19, 12.2 percent contraction (\$ 0.7 billion) in import was mainly driven by lower commodity prices, lesser investment and decline in domestic demand. However, cutting quarantine and implementing 10 Trillion MNT program, coincided with the recovery in business activity has resulted in 29.4 percent year-on-year growth in import (Figure 36). Major disruptions in transportation activities, logistics and border closures that emerged in mid-2021 have limited import growth to some extent, and in absence of those restrictions,

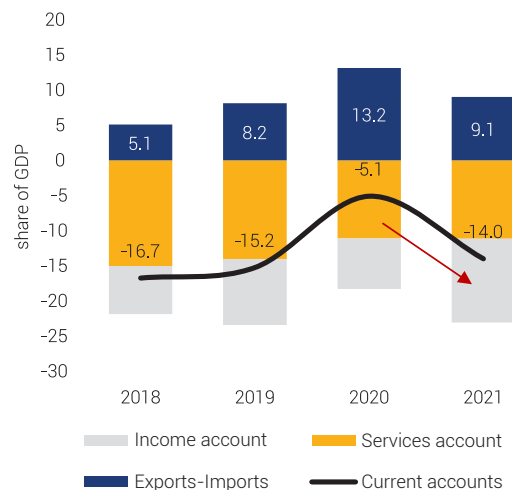
import would have expanded even more. By looking at the import structure, all segments of import expanded, particularly consumer good and investment products import. Regarding the impact assessment of loans under the 10 Trillion MNT stimulus program on import demand, the program contributed to 570 million USD<sup>1</sup> demand in import, representing import input is 44 percent on average, totaling about 4.2 trillion MNT. With relatively low export growth, but rising imports and ensuing diminishing trade surpluses contributed to the widening current account deficit from 5.1 percent of GDP in 2020 to 14.0 percent of GDP in 2021 (Figure 37).

**Figure 36.** Import components (in million USD)



Source: General Customs Office, Bank of Mongolia

**Figure 37.** Current account balance (in percentage of GDP)



Source: Bank of Mongolia

<sup>1</sup> The impact of imports was taken from the "Intersectoral Balance" for direct and indirect multipliers of imports for economic sectors, and weighed for sector-specific financing under the program.

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