

Mongolia

Summary

Mongolia's economy contracted significantly in first half of 2020 as the COVID-19 pandemic adversely affected exports, private as well as foreign direct investments and domestic activities. Fortunately, IMF assisted restructuring efforts had recently been implemented resulting in significant economic growth and a fiscal surplus immediately prior to the onset of COVID-19. Nonetheless, Mongolia's economy is extremely vulnerable due to worrisome debt levels and over-reliance on mineral exports as a source of revenue. This over-reliance on mineral exports means that the price of these commodities is crucial, which are dependent on global trade, trade disputes and impact by COVID-19. Despite a few signs of recovery since late May, the economy will experience a recession in 2020. Growth will rebound in 2021-22, supported by private consumption, and investment in mining and manufacturing. Key risks to the outlook include low commodity prices for key exporting goods (mainly coal and copper), weather related shocks, and stalled banking sector reforms. Fiscal stance will deteriorate in 2020, due to significant revenue shortfall and spending expansion. Public deficit is expected to increase in 2020 but would decline as fiscal stance improves in 2021-22.

Economic and Fiscal Situation

Mongolia's economic output is projected to contract by 2 percent in 2020, with the country experiencing its first recession since 2009. Due to the weak external demand and COVID-19 containment measures, mining and services sectors are expected to be severely impacted. In fact, 70-90% of herder and self-employed households experienced income losses since the end of January 2020. Despite the Government's social assistance measures, the projected economic contraction is likely to increase poverty levels for the first time since 2016 to 5.2 percent in 2020. Fiscal performance deteriorated substantially in first half of 2020, driven by weak revenue performance and increased spending, reflecting fiscal relief measures and increased capital spending. Revenues are depleted and will be so for a while which is driving up deficit spending especially after considering COVID-19 expenditure shock.

Mongolia	2017	2018	2019	2020f	2021 f
Real GDP growth	5.3	7.2	5.1	-2	6
Government Revenues (%GDP)	28.5	31.4	32.6	26.9	30.2
Government Expenditure (%GDP)	32.3	28.5	31.7	38.4	35.0
Fiscal Balance (% of GDP)	-3.8	2.6	1.4	-11.4	-4.1
Fiscal Debt (%GDP)	84.6	72.2	69.2	83	82

"Revenue Shock"

Government revenue is expected to decline to 27 percent of GDP in 2020. This drop is not only due to the GDP decline but also due to fiscal measures to contain the impact of COVID-19 including tax exemptions on several imported food and medical items, exemptions on CIT, PIT, and social security contributions for the whole year. A supplementary budget to contain COVID-19 (amounting to about 7.5 percent of GDP in total including the previous measures) was approved by Parliament in August. The proposed budget for 2021 expects revenue to grow by MNT 2.1 trillion compared to the 2020 to reach MNT 11.8 trillion and total expenditure will be reduced by MNT 325 billion to be MNT 13.9 trillion representing deficit of 5.1% GDP.

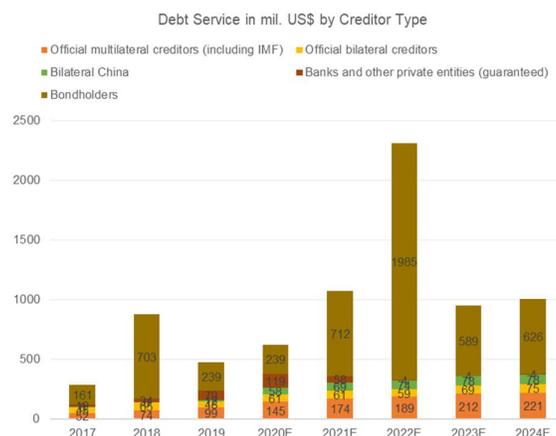
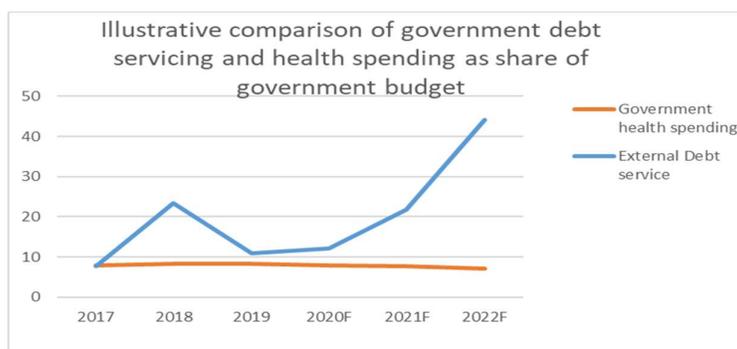
Expenditure Shock”

The Health sector is struggling to stay the government’s priority due to other competing needs including jobs retention or social policy. While accommodative monetary and fiscal policies have been justified to absorb the COVID-19 shock in the short term, prolonged measures could increase the risk of fiscal and financial distress as the level of public debt will increase. On August 5, the government announced the extension or modification of COVID-19 fiscal measures extending child money allowance, increased food stamp allowance, and increased social welfare pensions which will further increase non-healthcare spending. Though Mongolia has minimized the number of cases, the health system has had increased costs from upgrading of key hospital facilities to better prepare for future emergencies, purchase of essential equipment and medical supplies among other costs.

Fiscal measures Covid-19	2020
As share of GDP	9 %
As share of government spending	29%
On health as share of Government spending	0.1%

Turning to Debt Will Limit Future Health Spending

Some countries cannot turn to debt to cover the deficit spending, which leaves diminishing fiscal space for government programs including health. Exacerbated by the COVID-19 outbreak, public debt is expected to increase in 2020 that will in turn increase future external debt servicing levels that are predicted by 2022 to be higher than health as a percent of government spending. Much of the restructuring efforts that took place with IMF support from 2017 resulted in a delay of bondholder debt service payments to when the economy was expected to fully benefit from global economic growth and the restructuring efforts themselves. Unfortunately, this predicted global economic growth was stopped by COVID-19.



How and Why Can Health Spending Be Prioritized?

While per capita health spending was sustained in the next health budget and the overall health budget was slightly increased to cover potential costs of COVID-19 testing, prevention and treatment, this does not mean that per capita health spending for non-health emergency activities will increase or even stabilize in the short to medium term because of the aforementioned fiscal pressures. For example, Mongolia's public spending share of GDP is expected to increase to 38%; however, this will not be enough to offset the decline in per capita GDP. If health's share of public spending remains at 8-9% government spending, Mongolia will see a contraction in its level of per capita public spending on health to US\$80, reversing it back to levels seen several years ago. This means that if Mongolia is to stabilize or increase essential care budgets (non-COVID-19 related) on a per capita basis, then it will have to decrease the percentage of government budget allocated to other sectors as the pool of domestic financed government revenue shrinks (27% GDP in 2020).

In the medium term, this may also be an opportune time for countries to consider significantly ramping up pro-health taxes – taxes on goods and services that have harmful health effects such as on tobacco, alcohol, sugar-sweetened beverages, and carbon emissions – and to remove subsidies on fossil fuels where extant. Given declining outputs and government revenues resulting from the pandemic, pro-health taxes can help plug some of the shortfalls and are far less likely to face political opposition given the tightening fiscal environment.

Ministry of Finance will be focusing even more on the use of medium-term budget and expenditure frameworks so as to be assured that diminished government revenue is put to optimal use. Thus, WCO is encouraged to stress to MOH counterparts that health ministries need to be able to demonstrate what health benefits are being (or likely to be) achieved as a result of the resources provided. The ministry of health's budget submission needs to be realistic and sustainable in the context of the overall resources available to the respective country.

Of note is Mongolia's debt and debt servicing position. The likelihood of debt re-negotiation among various creditors has increased. While debt-renegotiation processes traditionally focus on increasing revenue, there often are discussions around expenditure. These expenditure related discussions would benefit from MOH and WHO input; in particular, around making certain that the objectives of UHC are not set back because of these possible debt re-negotiation processes.

Further, Mongolia WCO could work with MOH colleagues to stress that there is a relationship between Mongolia's UHC gains and rising government per capita health care expenditures. Indeed, Mongolia has continued to make progress on UHC when the The Healthcare Access and Quality (HAQ) Index is taken into consideration. The HAQ provides a summary measure of healthcare access and quality for a given location. Between 2000-2016 Mongolia's HAQ Index rose from 44.7 to 58.5 (0-100 range), as did its government health expenditure on a per capita basis (from 20 USD to 96 USD). Overall, national performance on the HAQ Index is positively associated with higher levels of total health spending per capita. A decrease in per capita health spending is projected to result in a stagnation or decrease in HAQ index measures (as a proxy for UHC coverage).

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