SUMMARY DEBT SUSTAINABILITY ANALYSIS[1]

1. According to the Public Debt Sustainability Analysis conducted by the International Monetary Fund (IMF) in June 2020, Mongolia's public debt is sustainable under the baseline scenario, but risks of debt distress remain elevated.[2] The public debt-to-gross domestic product (GDP) ratio fell by more than 18 percentage points to 69.1% by end of 2019, from 2016. As a result of the coronavirus disease (COVID-19) crisis, under the baseline scenario, the debt-to-GDP ratio will temporarily rise by 14.5 percentage points to 83.6% of GDP in 2020 before resuming a downward trajectory in subsequent years. Based on the assumption of a return of economic activity from 2021, debt-to-GDP is forecast to fall to 66.4% of GDP by the end of 2025. This IMF baseline scenario reflects the following core assumptions:

(i) real GDP growth is expected to reach 8.0% in 2021 and average 5.9% in 2022–2025;
(ii) a moderate level of annual inflation increasing from a low of 5.2% last year to stabilize at just close to the Bank of Mongolia's (central bank) current inflation target of 6.0% in 2021–2025, and the nominal exchange rate is expected to depreciate;
(iii) the primary fiscal balance is projected to deteriorate to –8.1% in 2020 and will improve to –0.3% in 2021 and stay stable around 0.0% over 2022–2025; and
(iv) Mongolia would retain access to concessional budget support and project loans in line with current commitments and Mongolia would maintain access to international bond markets over the forecast period.

2. The IMF assessment also highlighted that the public debt and financing needs are sensitive to shocks to (i) GDP growth, (ii) exchange rate depreciation, (iii) financial sector contingent liabilities related to banking sector recapitalization, and (iv) primary fiscal balance.

3. Using the Asian Development Bank's (ADB) definition, public debt-to-GDP ratio was calculated using two scenarios and have assumed no change in the central bank's external liabilities.[3] In the first or baseline scenario, it is supposed that assumptions in the IMF's debt sustainability analysis will materialize, which will increase the public debt-to-GDP ratio by 14.5 percentage points to 93.6% (higher than the end 2018 level, but still well below the end-2017 level). However, this will be followed by an immediate decline in 2021 by 3.8 percentage points. In the second scenario, it is assumed that the ratio will increase by 6.6 percentage points to 85.7%, consistent with the parliament approved plan.[4] In this case, the ratio is expected to remain stable at 85.4% in 2021 before falling by 5.4 points in 2022 and by 3.3 points to 76.7% in 2023. Figure 1 shows a temporary increase in the debt-to-GDP level in 2020. This is due to the unprecedented and substantial economic contraction and its spillover resulting from the temporary deterioration of fiscal balances and exchange rate depreciation.

4. After 2020, the downward trajectory on debt-to-GDP resumes from 2021 to 2025. This assumes that an economic recovery would start in 2021 and that there is a stable growth trajectory in 2022–2025. The ratio remains sensitive to risks associated with GDP growth, balance of payments shock, its impacts on exchange rate, inflation and fiscal balances, and the realization

[1] This document is primarily based on the debt sustainability analysis conducted by the IMF as part of the disbursement report under the Rapid Financing Instrument in June 2020 (footnote 2) and revised economic forecasts in IMF Assessment Letter dated 4 December 2020. The Asian Development Bank (ADB) has undertaken additional analysis to update the storyline to reflect ADB's definition on debt.

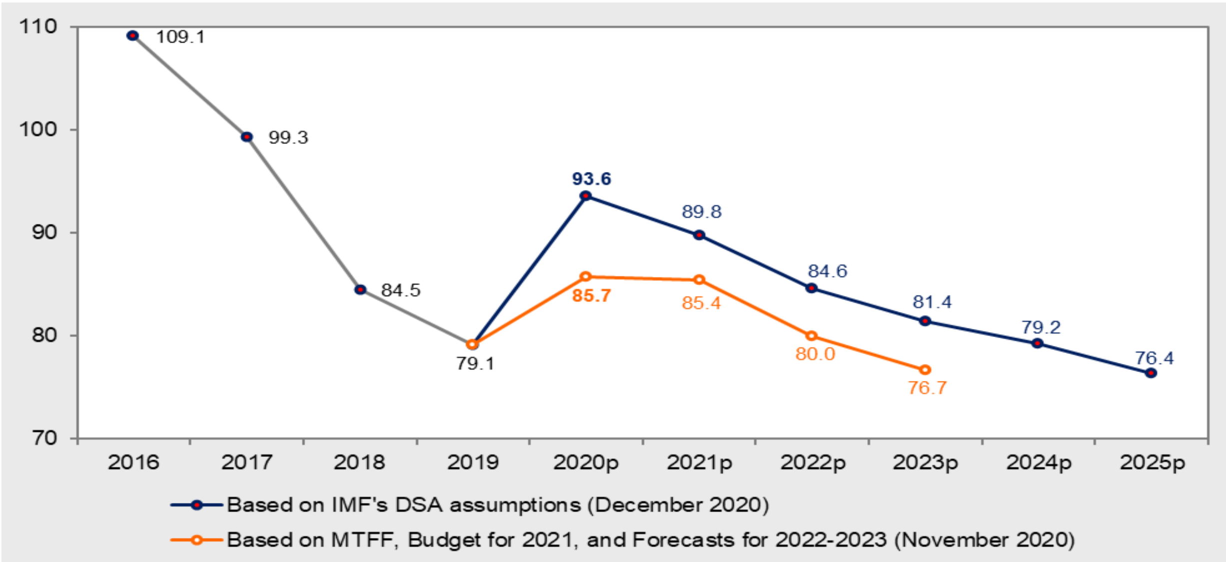
[2] IMF. 2020. *Mongolia: Request for Purchase Under the Rapid Financing Instrument-Press Release; Staff Report; and Statement by the Executive Director for Mongolia*. Washington, DC.

[3] The main difference between the definitions of ADB and IMF is that ADB includes central bank liabilities in public debt.

[4] Budget amendment for 2020, and budget forecasts for 2021–2022 (August 2020).

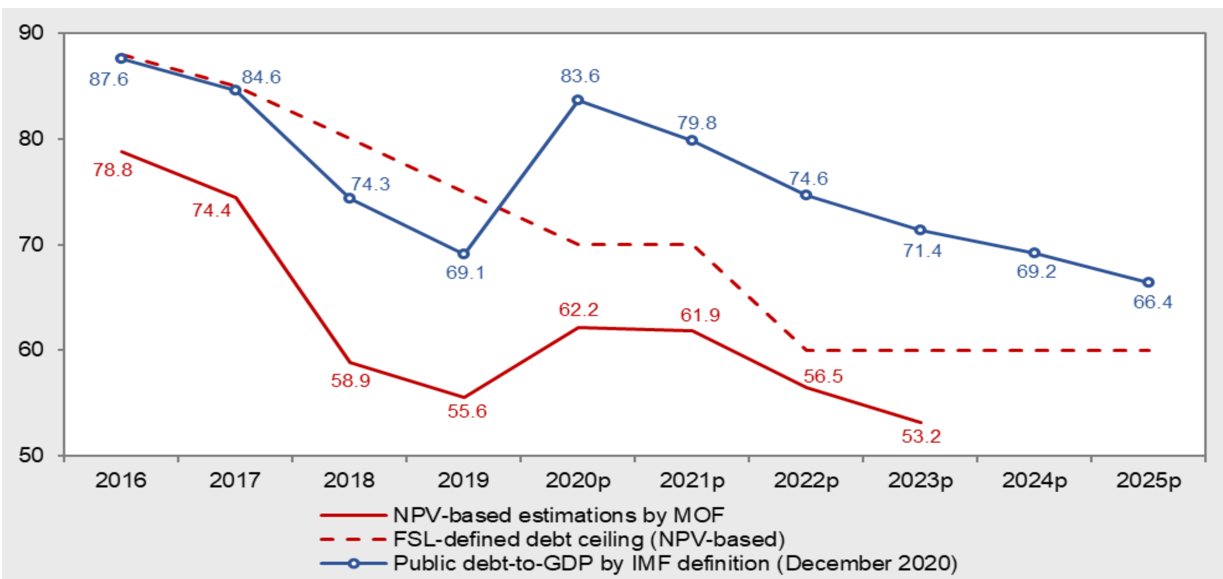
of contingent liabilities. In both scenarios, the level remains much lower than the recent peak of 109.1% in 2016.

Figure 1: Public Debt Ratio, as a Percentage to Gross Domestic Product
(ADB definition)



ADB = Asian Development Bank, DSA = debt sustainability analysis, IMF = International Monetary Fund, MTFF = medium-term fiscal framework.
Source: ADB.

Figure 2: Government Debt Ratio, as a Percentage to Gross Domestic Product
(Government and IMF definition)



FSL = Fiscal Stability Law, GDP = gross domestic product, IMF = International Monetary Fund, MOF = Ministry of Finance, NPV = net present value.
Note: NPV-based estimations of the debt-to-GDP ratio (red) is compared to NPV-based and FSL-defined debt ceiling (dotted). Debt ratio by IMF definition (blue) is not NPV-based, so it should not be compared with the FSL debt ceiling.
Sources: Asian Development Bank estimates, IMF Public Debt Sustainability Analysis and Assessment Letter (June, December 2020), Medium-Term Fiscal Framework and Budget Amendments for 2020 (August 2020), and The Government Budget Proposal for 2021 and Budget Forecasts for 2022–2023 (October/November 2020).