

Caution for the Future: Looking Beyond Resource Swings in Fiscal Policy

Mongolia's Fiscal Policy

Context:

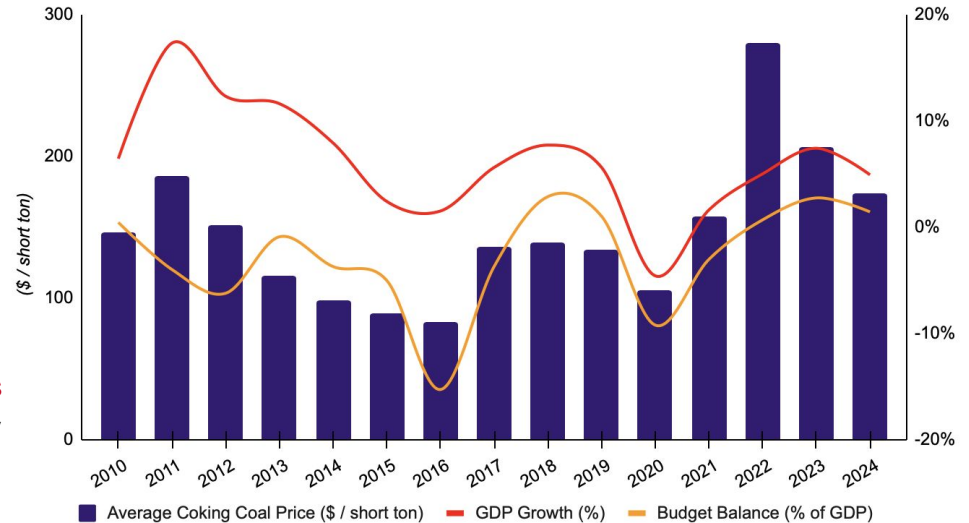
- The Government of Mongolia submitted the 2026 Budget Framework Statement for the Unified Budget of Mongolia on September 1, 2025.
- Alongside this, the government also submitted a draft law on amending the Budget Projection Law for 2027-2028 and a draft law on the 2026 State Budget.

Mongolia's budget heavily relies on commodity exports. When commodity prices are high, government revenues surge, leading to budgets planned with **overly optimistic expectations** of sustained high revenues. However, when global commodity prices drop, revenues decline, forcing the government to **reduce spending** or **increase borrowing**.

Persisting Policy Problem:

In “good years,” **we spend excessively**. “In bad years,” we **struggle to manage deficits**. Rather than mitigating the cyclical volatility driven by fluctuating commodity prices, Mongolia's fiscal policies tend to amplify these external shocks.

Mongolia's Coal-Driven GDP and Budget Cycles



Sources:

GDP growth (annual %) - Mongolia, World Bank; Budget balance in relation to GDP in Mongolia, Statista; USA Metallurgical Coal Export Quarterly Prices

The graph reflects the economy's heavy reliance on coal exports, driving both GDP growth and budget balance. **The procyclical pattern appears evident:** “booms” in coal prices tend to coincide with stronger growth and smaller deficits, while “busts” in prices drag the budget balance into deficit.

Past Mistakes from Fiscal Policies

Inefficient Spending During “Boom” Times

- The record-high coal “boom” of 2023-2024 was accompanied by sharp increase in public spending, fueling rapid credit growth, inflationary pressures, and ultimately a current account deficit in 2024.
 - The **deficit worsened in 2025** when the coal “boom” began to slow down, leaving a **significant shortfall** in budget revenues.
- The government has historically responded to such gaps in budget by **cutting spending mid-year** or **borrowing more**, disrupting planning in ministries and agencies, especially in social spending.
 - Moreover, **periods of unsound fiscal discipline typically precede elections**.
- Frequent policy shifts that accompany such times of macro-fiscal instability have **impacted private sector confidence** and **slowed the progress towards economic diversification**.

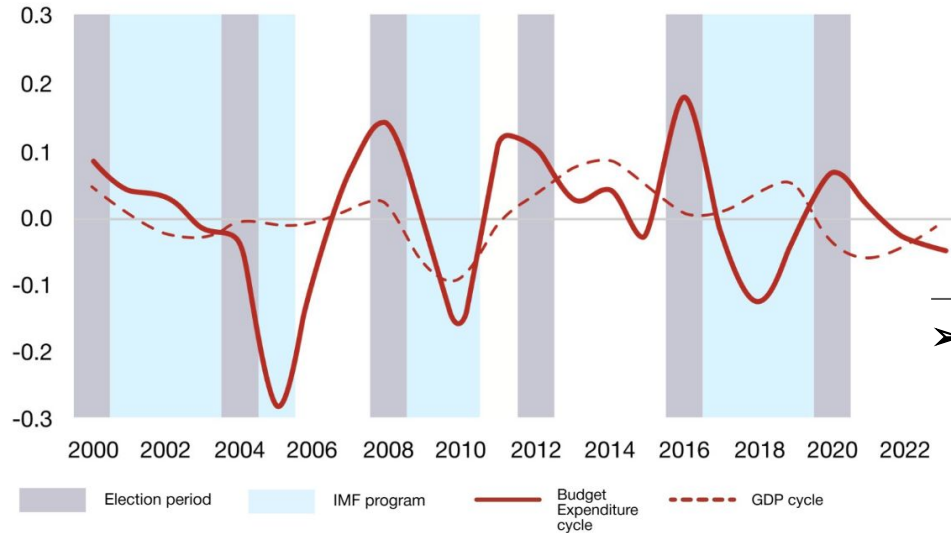
Reliance on Over-Optimistic Forecasts and Debt Pressures

- This year, actual coal export price has fallen more than 30% below the projected price in the initial budget proposal, forcing the PM to call for urgent measures to reduce public spending and amend the 2025 budget.
 - **Moreover, budgeting with over-optimistic commodity forecasts risks repeating Mongolia’s debt crisis**.
- Following the 2012 “boom,” when commodity prices fell sharply, Mongolia’s public debt ballooned, rising to **over 80 percent of GDP** in 2016, ultimately requiring an IMF bailout.
- This debt crisis appears to have stemmed from **wildly over-optimistic budget forecasts** from unrealistic expectations of sustained commodity revenue growth and **government overspending**, including the numerous politically motivated infrastructure projects.
 - The result – growth dropping to 1.2% in 2016 from its peak of 17.3% in 2011 and collapsing FDI.

Economic and Social Strain During “Bust” Times

- During “bust” times, sectors tied to mining – transportation, services, and manufacturing – also stagnate or contract, cascading into overall **lower economic output** and **shortage in tax revenues**.
 - In the first 4 months of 2025, tax revenue reached MNT 8.0 trillion, a decrease of MNT 1.4 trillion (15.2%) compared to the same period of the previous year.
- Mongolia’s “bust” periods have historically been tied to **higher poverty, lower employment, and slower growth** in private sector credit.
 - From 2014 to 2016, poverty headcount increased by 8 percentage points.
- Other peer countries experience less adverse impacts from these “boom and bust” cycles due to their different sets of policies.
 - Mongolia’s fiscal policies, however, **exacerbate the shocks** from the volatility of commodity markets and **disrupt the welfare** of firms and households.

Short Lessons for the Future



Source: Otgonbat, T. (2025). The fiscal expenditure cycle and its efficiency. Bank of Mongolia.

Question to Think about

In the past two decades, Mongolia has **spent more than 97 cents of every dollar** earned from its mineral wealth, saving less than three cents.

→ Is Mongolia's government **squandering** its resource windfalls, or is its spending truly **forging a resilient, sustainable future**?

➤ The country remains vulnerable to external shocks

- Mongolia has become more dependent on mining. Yet, commodity prices are expected to decline from slower-than-expected global growth, bringing potential challenges to Mongolia.
- Coal consumption in China is expected to decline with China's move towards carbon neutrality by 2060, bringing significant impact on trade and economic growth.
- Global risks including increasing geopolitical tensions and impacts of climate change on resource extraction could further amplify volatility.

➤ Be wary of overly optimistic revenue forecasts

- Inaccurate, inflated revenue forecasts have been used consistently to justify higher government spending. When revenues fall short of forecasts, the government responds with abrupt spending cuts or, more often, unexpectedly large budget deficits, which triggers non-strategic, reactive fiscal measures such as dipping into SWFs or issuing unplanned and costly debt.

➤ Stronger commitment to stable, sustainable policies

- Mongolia should emphasize creating long-term sustainable growth.
- Mongolia's efforts to address macroeconomic volatility, while extensive on paper, have not been effective in practice with weak commitment to compliance. Mongolia has, through various means, frequently bypassed its fiscal rules — indeed, the Law on Fiscal Stability has been amended **more than 13 times** since its enactment in 2010.

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