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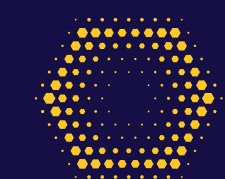
Policy Brief N°4

Mining Diversification is Critical for Mongolia's Future

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1. The hard truth: Mongolia has failed to escape from mining

Mongolia has consistently pursued a national objective of achieving stable, non-cyclical growth and reducing its dependence on fluctuating global commodity markets. However, the success of this objective has been limited, and paradoxically, Mongolia's pursuit of stability has led it to greater dependency.

The economy increasingly relies on mining

- **Export monopoly:** Mining now accounts for 92% (compared to an average of 89% in 2010 – 2019) of total national exports and a dominant portion of these exports (often over 90%) is destined for a single market, China.
- **Budget reliance:** The mining sector's contribution to the State budget has nearly doubled in just over a decade, accelerating from an average of 16% (2005–2012) to a staggering 31% in the last five years.
- **GDP contribution:** Mining's influence on the national economy has similarly intensified, growing from an average of 21% of GDP (2000–2009) to 30% in the last five years.

As mining's dominance in the economy deepens, Mongolia's economy is now increasingly vulnerable to the “boom-and-bust” cycles of global commodities.

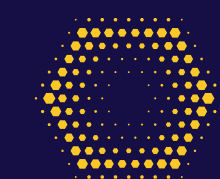
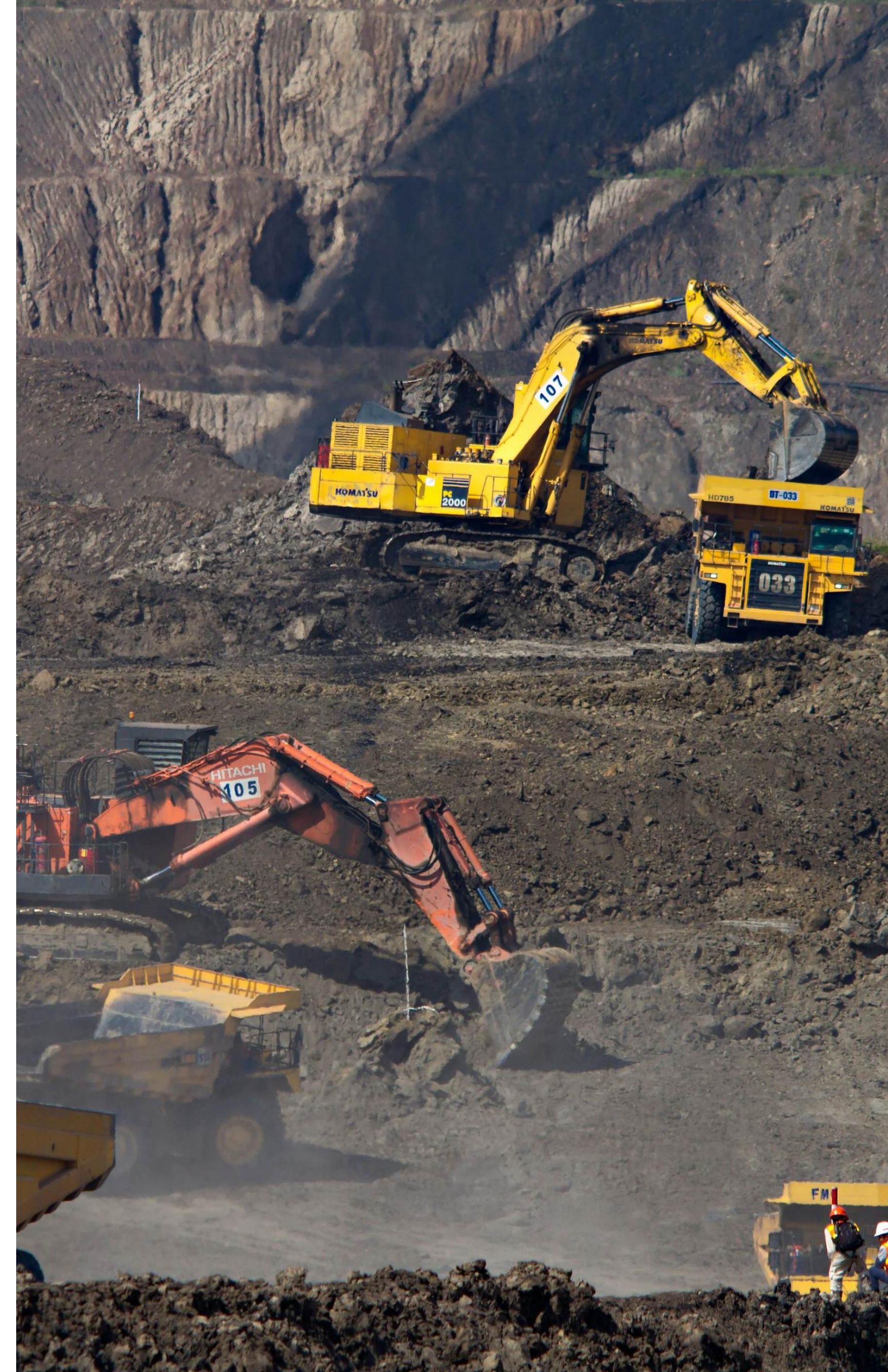
There's a deepening copper and coal “trap”

The share of total mining exports comprised by just copper and coal has increased, surging from an average of 67% in 2010–2020 to ~77% in the 2021–2025 period.

- **Concentration risk:** Not only is the economy increasingly reliant on mining exports, but it's stability and growth are increasingly tied to the volatile price cycles of just copper and coal, magnifying the country's structural risk exposure to global markets.
- **Compounded shock:** Historically, there appears to be a modest positive correlation between Mongolia's copper and coal prices. Thus, if a price crash occurs, there's a chance that both export pillars will be hit at the same time, delivering a magnified shock to the economy.



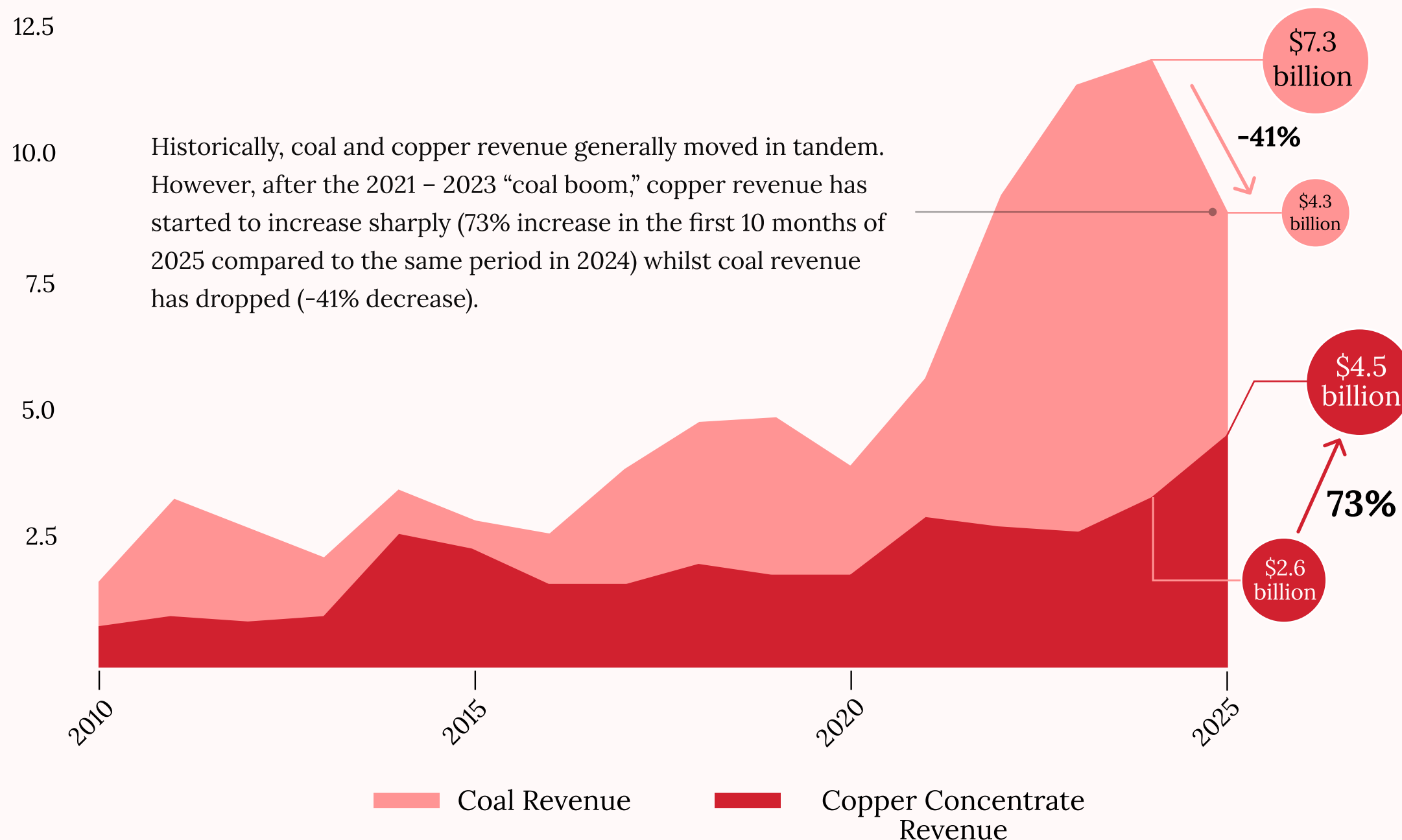
Since mining remains the undisputed driver of economic growth, the most immediate and effective path to stability may de-risking, or **diversifying, the mining sector itself.**



2. Copper saves the 2025 budget: mining diversification may be the solution

Copper Revenue Rises whilst Coal Revenue Declines

billion USD



Source: Bank of Mongolia, external sector statistics

Note: As of October, 2025.

As of October 2025, the copper price surge coupled with an increase in export volume prove to be a temporary saving grace to the economy. While copper is bringing in desperately needed revenue, this reliance, yet again, is a symptom of the underlying concentration risk.

Copper prevented significant risks to the budget

- Coal prices began to fall significantly (dropping over 30% or more compared to 2024 alone) in 2025, and the State budget for 2025 was amended mid-year to maintain fiscal stability.
- The ~\$2.97 billion decline in coal revenue for the first 10 months of 2025 (compared to the same period in 2024) was largely offset by a ~\$1.9 billion increase in copper revenue. Although copper was not enough to overcome the massive drop in coal, it nevertheless reduced the overall revenue decline by 64%.

The lessons taught by copper in 2025

The dramatic expansion of the budget and the near budget-collapse averted by copper warn of Mongolia’s **current fiscal** and **diversification strategies**.

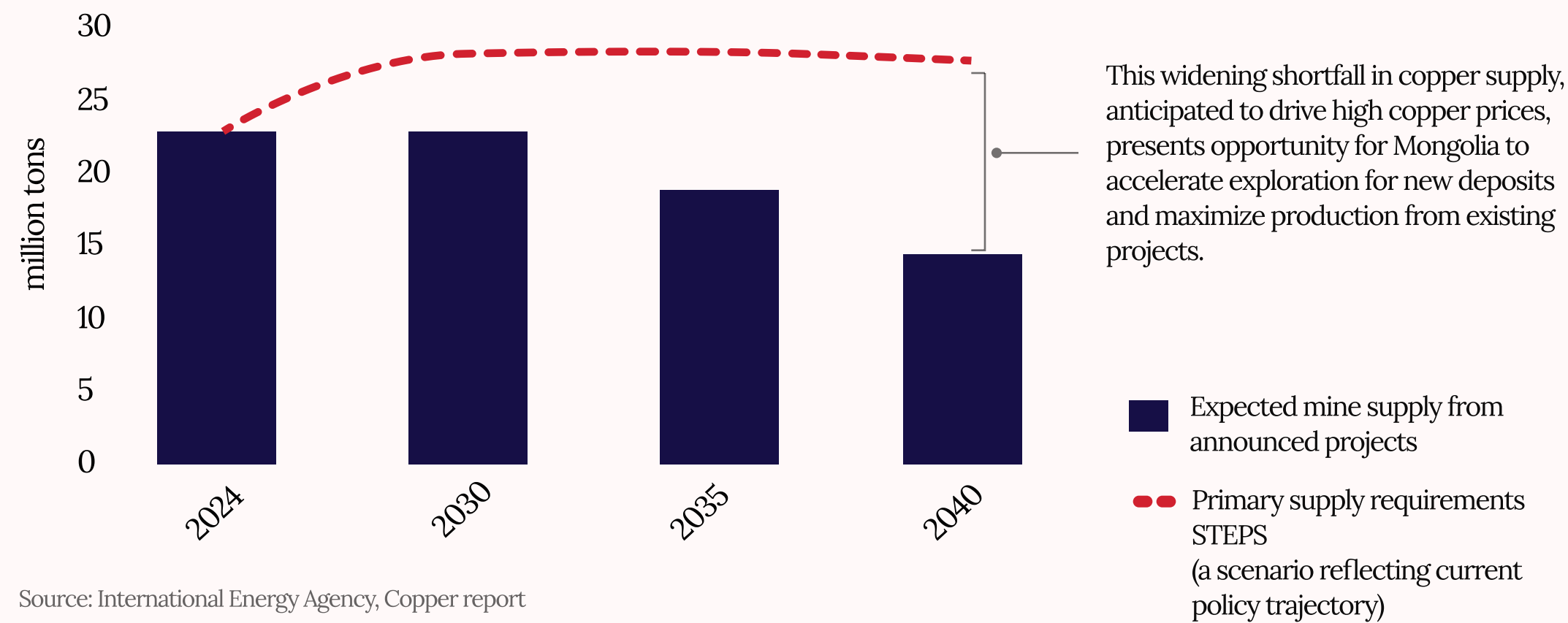
- The 2021–2023 revenue surge was an anomaly driven by a rare alignment of high coal prices and export volumes. Yet, the government expanded its spending by over 100% (from ₮15.6 trillion in 2021 to ₮33.4 in 2025 before the amendment), treating a temporary windfall as a permanent increase in revenue.
 - Had copper prices and volume simply stayed at 2021 levels, the resulting \$7.2 billion in revenue (as opposed to actual \$8.9 billion so far in 2025) would likely have been insufficient to cover the current inflated budget. The copper surge was thus the primary buffer preventing a drastic fiscal shortfall in 2025.
- This underscores **the risks of procyclical policy**. To avoid future crises, Mongolia must urgently pursue diversifying the mining sector itself to create more fiscal buffers.

! The 2025 copper surge suggests a diversified mining base is an effective tool for shock absorption and fiscal stability. **Mongolia should attempt to replicate this success across other commodities.**



3. Mongolia's abundant yet untapped copper opportunities

There's a Massive Projected Global Copper Supply Deficit by 2030

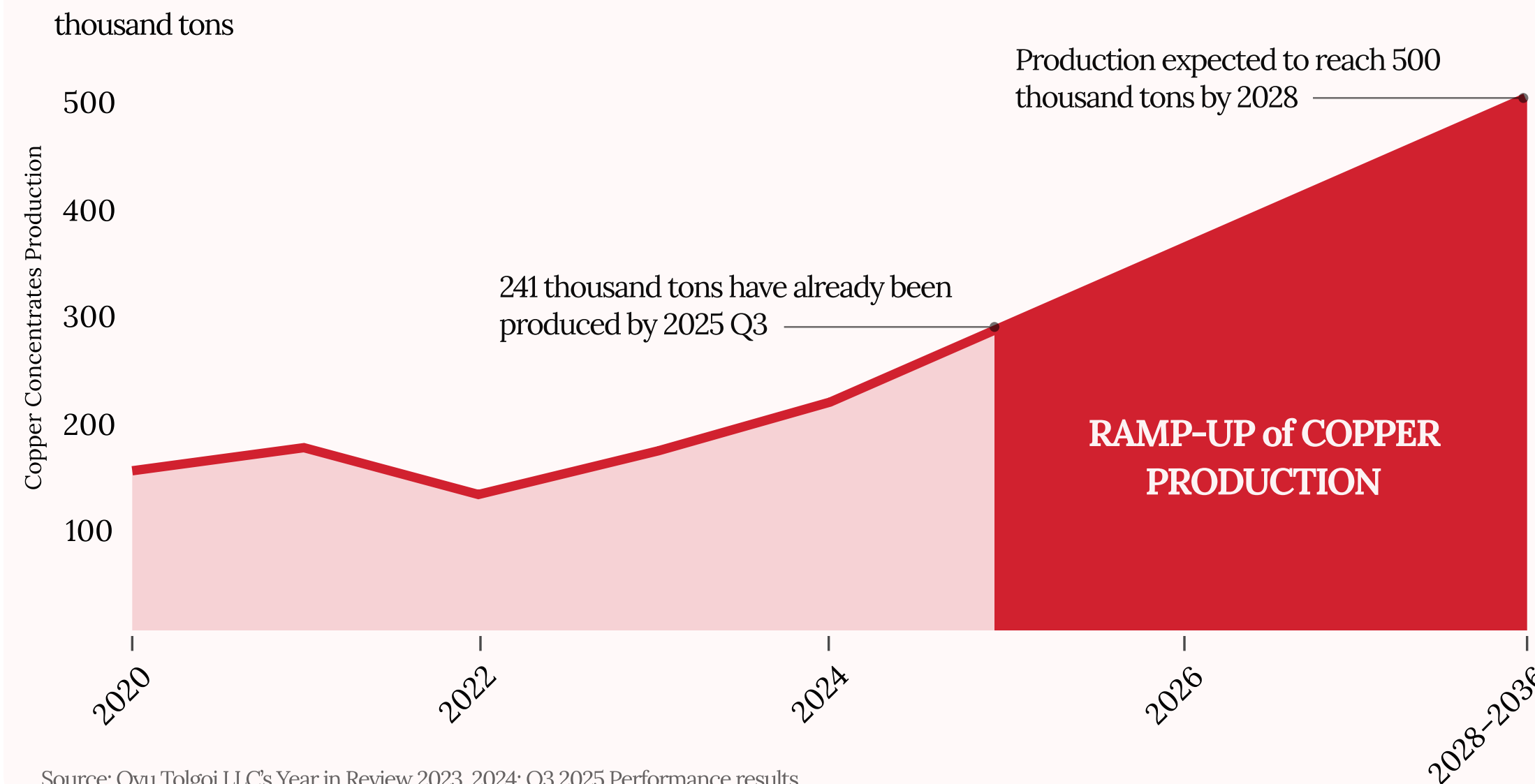


The world faces a structural copper deficit driven by accelerating demand from the energy transition against a severely constrained supply pipeline, creating an urgent opportunity for high-grade assets like Mongolia's Oyu Tolgoi, as well as for emerging copper projects in the country.

Mongolia has vast copper potential at a time where copper demand is surging

- Just in the first half of 2025, Oyu Tolgoi mine's copper production increased 54% year-on-year. The project is expected to ramp-up further, producing an average of 500 thousand tons per year between 2028 and 2036, becoming the fourth largest copper mine globally by the end of the decade.
 - While the Oyu Tolgoi mine proves the fiscal importance of strategic copper assets, future stability depends on converting Mongolia's vast copper potential into **the next generation of operational mines.**

Oyu Tolgoi's Copper Production is Set to Increase Significantly



Mongolia must unlock the next "Oyu Tolgoi"

Ranking around 12th globally with ~60 million tons of copper resources and reserves, Mongolia has several emerging copper opportunities in various stages of development.

- **Tsagaan suvarga:** expected to produce 320,000 tons of copper concentrate annually with development progressing slowly due to financing and political challenges.
- **Kharmagtai:** completed pre-feasibility study, expected to produce 60,000–80,000 tons of copper annually.
- **Zuun Mod** and **Bronze Fox:** both undergoing drilling programs.



Driven by years of legal and policy uncertainty, mining and exploration licenses currently cover only 1.3% and 3.1% of total land area, respectively, **preventing the discovery and development of new copper projects**, like Oyu Tolgoi.

4. Mongolia's self-imposed copper challenges

In 2022, Mongolia's Effective Tax Rate for Copper was Far from Optimal

	At Start of Exploration	At Start of Feasibility	At Decision to Build
Optimum tax rate	25 – 35%	40 – 45%	42 – 47%
Mongolia's tax rate	60%	70%	73%

Source: MinEx Consulting, 2022.

Note: Mongolia's effective tax rate includes Corporate Tax+DWT+Royalties+Tax Holidays, etc. See AMEP's report, "Effective Tax Rate for Mining, 2022."

While Mongolia Corporate Tax Rate (25%) is low relative to its peers, its large royalty payable on copper (equates to an effective tax of ~16%), among others factors, results in an Effective Tax Rate (ETR) of ~60% for copper projects at the Start-of-Exploration Stage, **making it one of the highest amongst its peers**, as of 2022.

Mongolia's prohibitively high royalty rate is barring copper investments

Mongolia's high ETR for copper is largely due to its **very high royalty rate**.

- The final royalty rate for copper in Mongolia is the sum of the base rate (5%) and the tiered surcharge based on market prices and the level of processing.
- This outdated benchmark pricing system causes **artificially high tax burden** for copper mining companies – the export benchmark price for copper concentrate is multiplied by the export volume and a royalty rate is imposed, irrespective of the actual contract price or the company's real revenue. This means the royalty rate is calculated without proper adjustment for elements that the company cannot monetize.
 - In comparison, other jurisdictions such as Western Australia and Ontario use royalty rates of 5% of Net Revenue and 10% of Net Profit, respectively, as of 2022, employing a system that taxes the actual value or profit realized as opposed to inflated international benchmark prices.
- To somewhat mitigate this, the Government has recently introduced a new procedure: if exporters sell at least 25% of their total product through the Mongolian Stock Exchange, the royalty for the entire volume will be calculated based on the exchange price.
 - However, many uncertainties still remain concerning this new procedure.

Copper Royalties Increase in Tiers Based on Market Price

	Copper market price (\$)	Percentage to be imposed in addition to the base rate, dependent on the level of product processing		
		Ore	Concentrate	Cathode
Copper (tons)	0–5000	0.00	0.00	0.00
	5000–6000	22.0	11.0	1.00
	6000–7000	24.0	12.0	2.00
	7000–8000	26.0	13.0	3.00
	8000–9000	28.0	14.0	4.00
	+9000	30.0	15.0	5.00

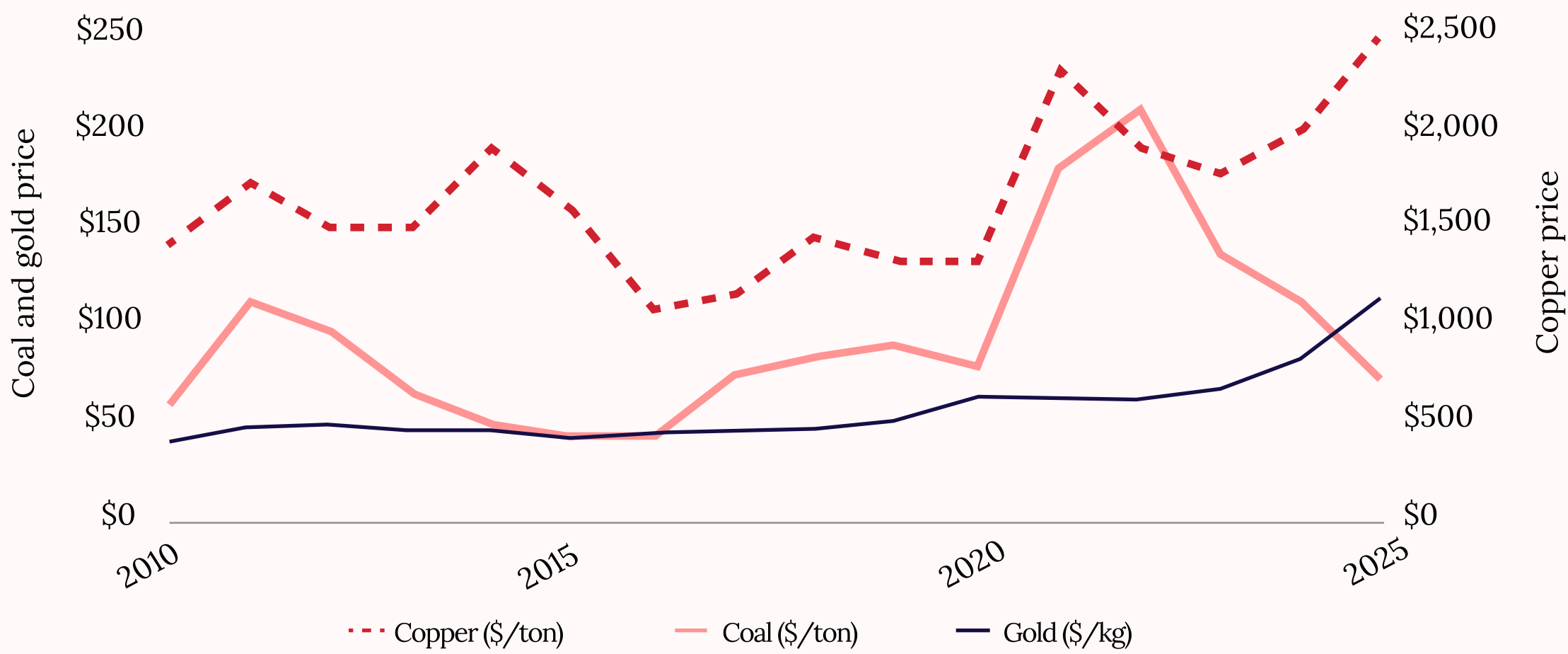
Source: The Law on Minerals, Mongolia



To establish a more standardized and predictable legal framework for investors, amendments to the Law on Minerals are being considered, spearheaded by the proposed Law on Supporting Critical Minerals Projects.

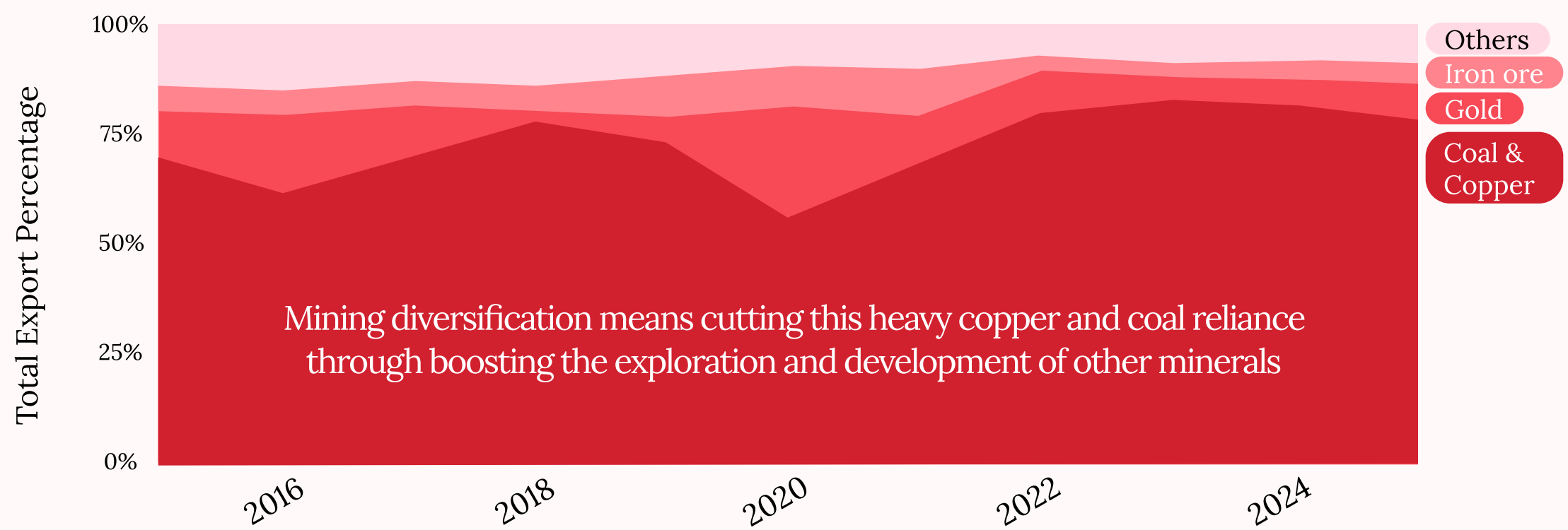
5. Mongolia should look to diversify beyond copper and coal

Gold's Price Stability May Offer Mongolia a Buffer Against High Coal and Copper Volatility



Source: Bank of Mongolia, external sector statistics, as of October 2025

Coal and Copper Average 77% of Mining Exports in the Last 5 Years



Mining diversification means cutting this heavy copper and coal reliance through boosting the exploration and development of other minerals

Source: Bank of Mongolia, external sector statistics, as of October 2025

Mongolia's severe reliance on just two volatile commodities – copper and coal – poses risk to its fiscal stability. Thus, for steady growth, the country needs to aggressively develop other non-copper and non-coal mining revenue streams.

Mongolia's strategic minerals beyond copper and coal

Gold:

- Historically, gold prices appear to have been less volatile compared to those of copper and coal, underscoring the importance of a broad resource base to hedge against “boom-and-bust” cycles.
- Erdene Resource Development and Steppe Gold are key TSX-listed companies driving the development of Mongolia's gold sector.

Uranium:

- France's Orano Group signed an agreement with the Government for the development and operation of the Zuuvch Ovoo mine. Targeting a Q1 2028 start date, it would establish Mongolia as the site of the world's fifth-largest uranium mining facility.
- Besides Zuuvch Ovoo, Mongolia has other substantial uranium deposits, ranking in the top 10 largest resources globally.

Rare Earths (REE):

- Mongolia is thought to have substantial REE reserves, second only to China.
- Valuable, strategically important REE deposits include Khalzan Buregtei and Khotgor, with the former having a final feasibility study underway.
- Mongolia and South Korea signed a Memorandum of Understanding in 2023 to collaborate on a REE supply chain.

Others:

- In addition, Mongolia has proven Zinc (4.7 million tons), Fluorspar (34.2 million tons), and Petroleum (332 million tons) mining opportunities.
- As of 2025, Mongolia has listed 16 Strategic Deposits. A deposit may be designated as a Strategic Deposit by the Government if it is deemed to have implications for national security and economic and social development, or is projected to contribute more than 5% of annual GDP.



Though Mongolia needs to lessen its reliance on coal and copper, its strategy concerning its mineral resources remains unclear – the Government instead seems to be implementing a policy aimed at acquiring stakes in various strategic deposits.

6. What are the takeaways from this?

Mongolia should use its current mining strength – copper and coal – to fund the urgent mining diversification required to achieve stable growth independent of the “boom-and-bust” cycle. Mongolia should also use the resulting revenues strategically to diversify and bolster the sectors in the economy outside of mining.

Takeaway 1: Prioritize diversifying the mining sector

Mongolia should pursue both **Vertical Diversification** and **Horizontal Diversification**.

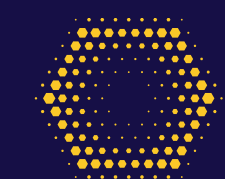
- Through Vertical Diversification Mongolia can capture lost profits through moving from raw commodity sales to value-added processing. Although the Government has expressed intentions to use Oyu Tolgoi and Erdenet as the basis for developing copper smelting and refining capacities, these plans have yet to materialize.
- Through Horizontal Diversification Mongolia should aim to reduce its heavy reliance on copper and coal, as well as its dependence on a single buyer (China). It should develop new mining resources such as Rare Earths to tap into new supply chains and stabilize its revenues during copper and coal price downturns.

Takeaway 2: Strategically manage mining revenue windfalls

Mining revenue windfalls must be managed with fiscal discipline to combat the "Dutch Disease" and strategically fund the growth of non-mining economic sectors.

- The windfall revenues must be managed wisely to prevent the economy from heating up. They must not be directed into nonstrategic, politically motivated cash allowances or subsidies. Mongolia should utilize SWF carefully to invest in long-term stability objectives and maintain **fiscal discipline**.
- To shield the economy from the systemic risks inherent to the mining sector, the windfall revenues must be used to support other non-mining sectors, building overall an independent and resilient economic base to support sustainable, long-term growth and withstand global commodity cycles.

[Click Here](#) to read our recommendation on Mongolia's fiscal policy



7. Policy considerations

There has not been much progress in attracting new investments and partners for the exploration and development of new resources. A confluence of political interference, burdensome government regulations and legal instability, and general hostility towards the private sector is fundamentally undermining investor trust, repelling capital required to diversify Mongolia's mining sector and attain stable growth.

Looking forward, there are few policy considerations to keep in mind:

Dismantle barriers to investment

Mongolia should reform its tax and legal frameworks to attract critical foreign investment much needed for diversification.

- This involves reducing the ETR to its optimal, competitive levels and, more importantly, eliminating the structural risks that increase the level of perceived business risk.

The sustained development of the mining sector is intrinsically tied to foreign investment, and without a favorable investment environment, **the sector may effectively stagnate.**

Aggressively pursue mining diversification

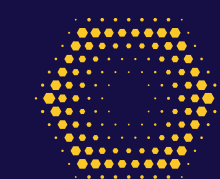
Policy must pivot from maximizing revenue from a vulnerable base of just copper and coal to generating windfall revenue from a diversified, resilient mining sector.

- The successful completion and operation of the Zuuvch Ovoo uranium project would serve as a model for future foreign investment agreements.
- Mongolia should address its state overreach and weak rule of law to restore investor confidence and increase the area under active exploration, which is critical for finding the next generation of mines.

Enforce fiscal discipline

The Government must reassess its procyclical behavior that drove the dramatic budget expansion and refrain from making **nonstrategic, politically motivated expenditures.**

- Mining diversification may require large upfront investments, adding more pressure on the budget. This heightens the importance of fiscal discipline and prioritization of public investments.
- Refrain from making over-optimistic price assumptions, especially for volatile commodities.



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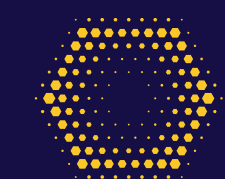
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