



Mongolia Quarterly

World Bank

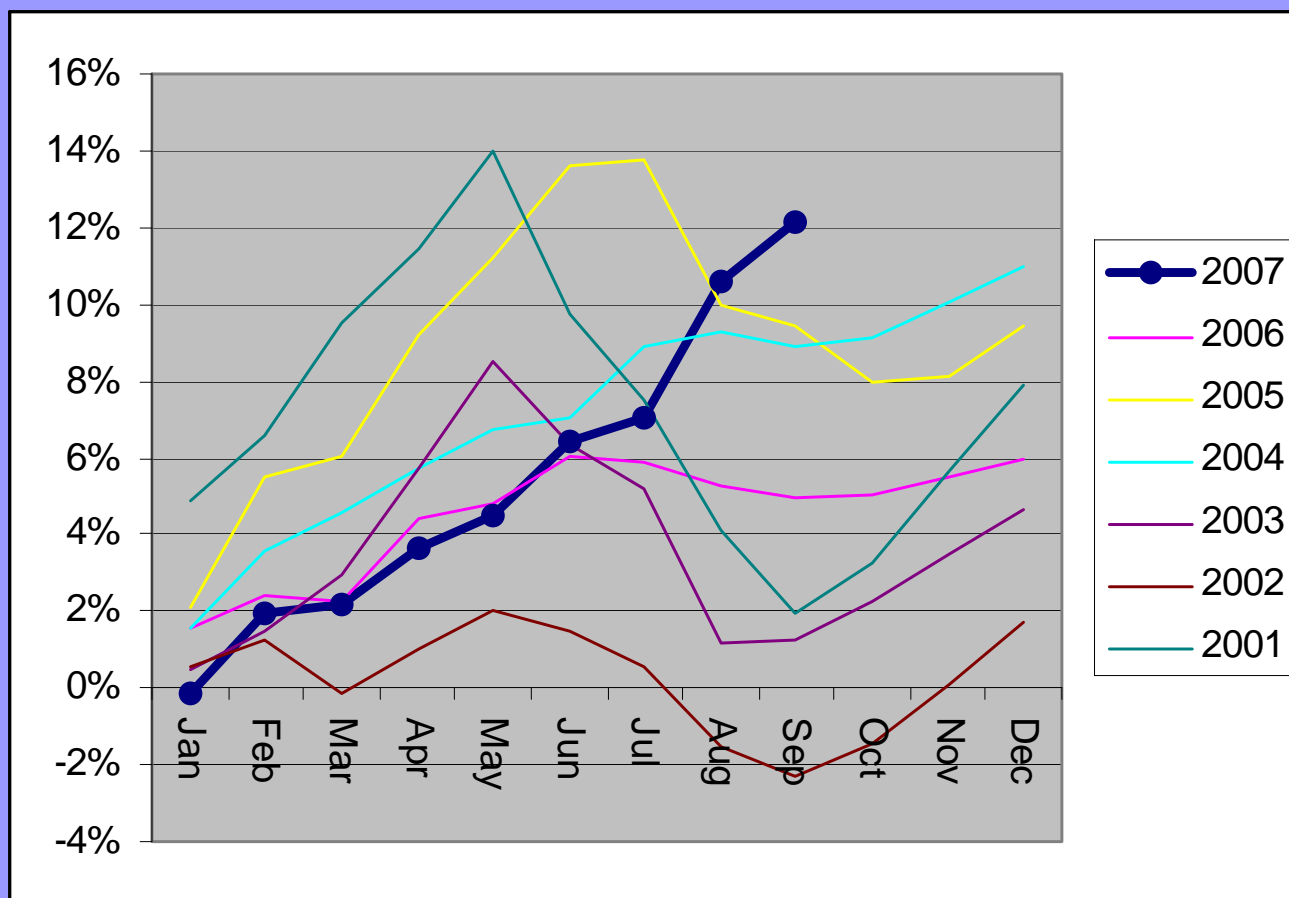
November 2007



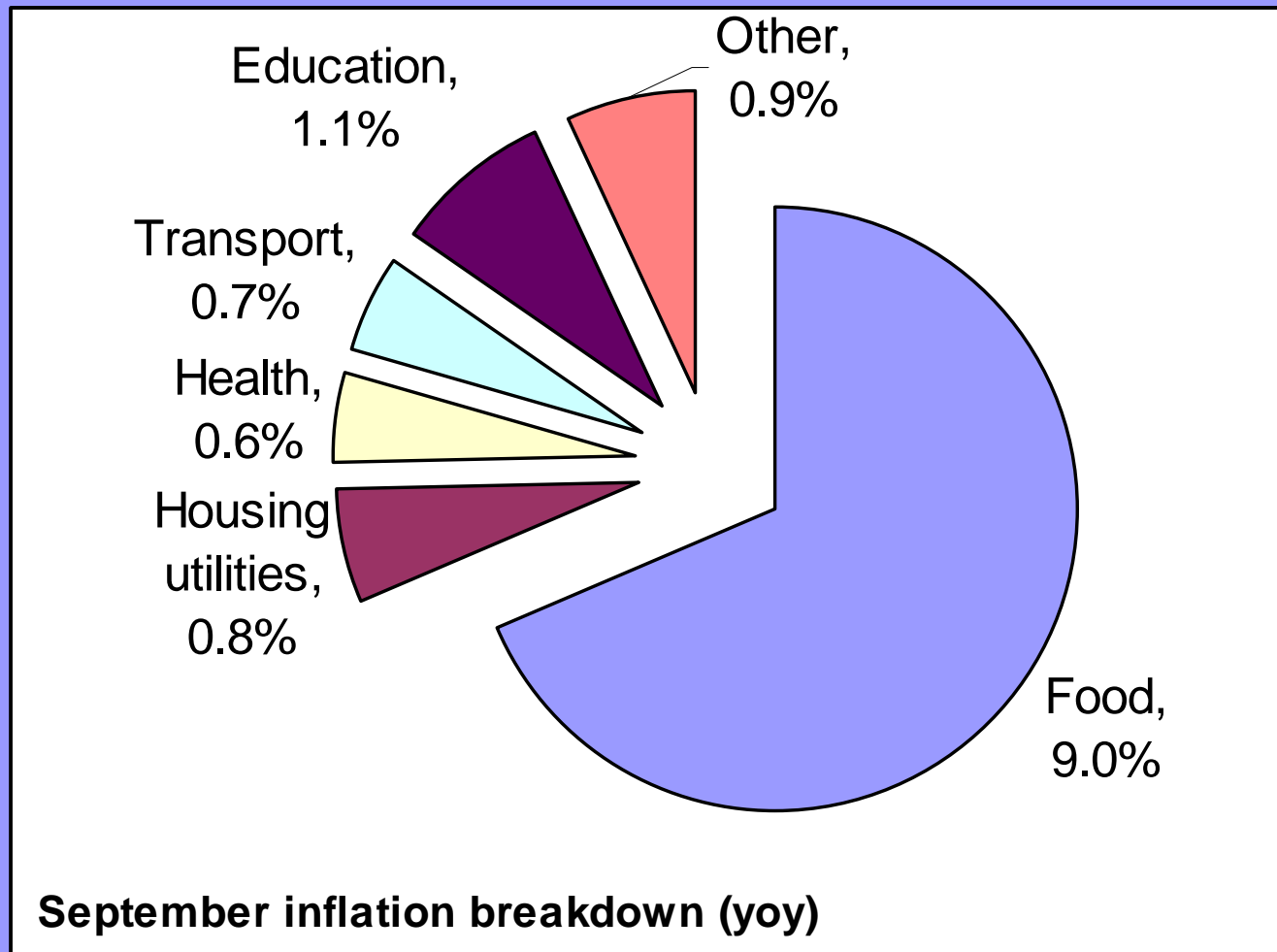
Recent Economic Developments

- Rapid economic growth with inflationary pressures
- High international prices of copper and gold
- Fiscal policy is expansionary
- Signs of overheating (as defined by aggregate demand exceeding supply capacity)

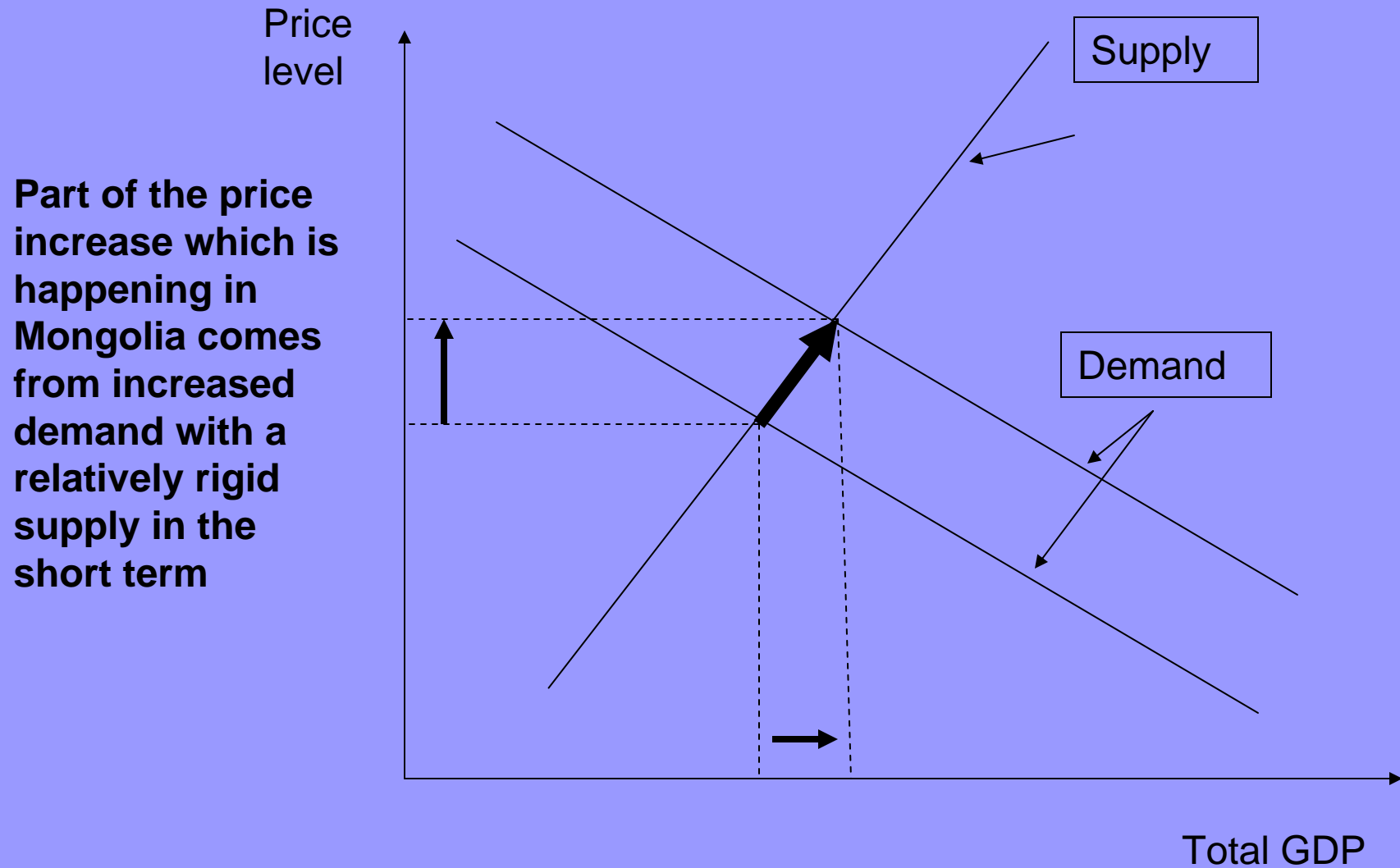
Inflation rate during the first 9 months of 2007 is the highest in a decade....



Food is driving inflation



Demand and Supply Analysis





Demand Analysis

- **Investment:** Lower interest rates, cut in corporate tax, sustained public investment, limited crowding out effect
- **Consumption:** Expanding government consumption (public wage bill and increased social transfers), cut in VAT, cut in personal income tax, higher employment hence sustained incomes.
- **Net foreign saving** flowing in (higher imports, higher FDI)

Supply Analysis

- Increasing **labor cost** (rising public wages and employment increase)
 - Higher **production costs** (anecdotal) including construction prices and recent exchange rate depreciation.
 - **Infrastructure bottlenecks** (transportation).
- ☞ Need for **producer/wholesale price index** to better monitor inflation and overheating over time

Focus: 2008 Budget

(as presented to Parliament)

- *Proposed 2008 budget almost in balance*
- *Development outside the General Budget*
- *Budget increasingly rigid (so vulnerable to a downturn)*
- *Significant resources devoted to social expenditures*
- *Capital spending sustained*
- *Increased resources for local governments*
- *Wage bill decompression*
- *Introduction of program budgeting*
- *Are Public Investment Projects selected based on open and sound economic/social criteria, considering tradeoffs and alternatives?*

Table 2: 2008 Budget proposal

Percentage of GDP	GB	DF	CB
Revenue	44.0	6.6	44.0
o.w. Windfall Tax	6.6	6.6	6.6
Expenditures	47.0	4.1	44.5
Current	36.0	2.3	31.7
o.w. Child money program		2.1	2.1
o.w. School lunch		0.2	0.2
o.w. Windfall tax transfer	6.6		
Capital and net lending	8.8	1.8	10.6
o.w. Investment (dom. financed)	6.9	1.8	8.7
Balance	-3.0	2.5	-0.6



Questions & Comments