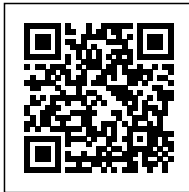


S&P AFFIRMS MONGOLIA'S 'B/B' RATINGS, OUTLOOK STABLE

Posted on July 27, 2023 by admin



Category: [News](#)



In a recent report, S&P Global Ratings has reaffirmed Mongolia's 'B' long- and short-term sovereign credit ratings, maintaining a stable outlook for the country's long-term rating. The decision was made after carefully assessing the risks posed by Mongolia's commodity export and growth prospects against the backdrop of an expected improvement in the nation's economy over the next 12 months. The stable outlook takes into consideration the potential enhancement of Mongolia's external, fiscal, and debt metrics.

S&P's projections indicate that Mongolia's real GDP is set to expand by 5.5% in 2023, thanks to the reopening of borders with China, which is expected to give a significant boost to exports. The Mongolian economy has already shown promising signs, growing by an impressive 7.8% year on year in the first quarter of 2023, largely driven by robust export figures. However, a decline in private consumption slightly tempered this expansion, although the impact was mitigated by increased government consumption.

Despite the recent progress in mining, Mongolia's long-term GDP growth could still experience volatility. The COVID-19 pandemic, followed by a sluggish recovery in 2021, took a toll on the country's economic performance, preventing Mongolia from outperforming its peer nations in terms of economic strength.

The nation's economy remains highly reliant on external trade, and this has been exemplified by challenges faced at the Chinese border, hindering Mongolia from fully capitalizing on favorable commodity prices in 2022. Additionally, the ongoing Russia-Ukraine conflict has further complicated matters and contributed to inflationary pressures.

While the headline inflation rate has been on a gradual decline after averaging 15.2% in 2022, it remains at

elevated levels. This, combined with high-interest rates, is expected to constrain consumption growth in the current year. However, there is optimism that the resumption of underground mining at the Oyu Tolgoi copper-gold mine could stimulate investments and support a recovery.

On a positive note, the Mongolian government has made significant strides in developing crucial infrastructure projects, notably the Tavan Tolgoi-Zuunbayan and Tavan Tolgoi-Gashuunsukhait railway lines. These projects have considerably increased the capacity for coal export volumes, effectively cutting transportation costs and alleviating trucking bottlenecks. The success of further export growth will depend on the timely completion of transshipping facilities to align the Mongolian broad-gauge rail with the Chinese standard gauge.

Looking ahead, Mongolia's economic prospects appear promising, with S&P forecasting an average real GDP growth of around 6% annually through 2026. This projected growth is expected to be driven by sustained investments in the Tavan Tolgoi and Oyu Tolgoi mining projects. Encouragingly, the Mongolian government successfully concluded negotiations with Rio Tinto on the Oyu Tolgoi project, addressing issues related to loan waivers, cost overruns, development delays, and power supply. This progress has allowed expansion work to commence at the underground site, with production coming online earlier this year.

In summary, S&P Global Ratings' decision to affirm Mongolia's 'B' credit ratings with a stable outlook reflects cautious optimism for the country's economic prospects. The expected improvements in the economy, driven by mining projects and increased exports, bode well for Mongolia's future growth trajectory. However, challenges in managing inflation and consumption remain, and the country's long-term economic stability will need to be closely monitored in light of external factors such as geopolitical tensions and fluctuations in commodity prices.