NPLs in Mongolia and the Policy Implications

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2016: The Mongolia Economy and Banking Sector

- Growth declined from 17.5% in 2011 to 1.0%.

- Fiscal deficit rose from 5.0% in 2015 to 15.4% of GDP, public debt to GDP rose from 31.0% in 2010 to 83.1%, the Mongolia tögrög depreciated 25.3% against USD.

- NPL ratio increasing from 3.8% in June 2013 to 8.5% in December 2016. About 42.0% of NPLs were in mining and construction although they accounted for only 19.2% of loans.

Efforts to Restore Macroeconomic Stability and Reignite Growth

- The Government's Economic Recovery Program.

- The IMF Extended Fund Facility with around $5.5 billion, including support from ADB, the World Bank, Japan, Korea, and China.

- ADB's Assistance and Policy-Based Loan and Technical Assistance: Banking Sector Rehabilitation and Financial Stability Strengthening Program.

Achievements

- Significant progress under the IMF program. Growth revived to over 6% in 2018, the fiscal balance has turned from a large deficit to a small surplus, and government debt has fallen sharply.

- Strengthening the banking system is a crucial part of the IMF program. The IMF program required bank recapitalization.

- The ADB program entailed important reforms to stabilize banks, address governance and risk management issues, and enhance the competitiveness of the banking industry.

Banking Sector Reforms an Unfinished Business

- The banking sector remains under-capitalized
- The NPL ratio was 10.4% in December 2018 and over 10% in 2019, higher than the 2016 baseline (8.5%) and the target for December 2018 (8.0%).
- Many factors contributed to slow progress on resolving NPLs.

Continued Reforms Needed

- **A step in the right direction.** Recent efforts were a step in the right direction toward stabilizing the financial system and making it more resilient to future shocks.

- **Long term engagement needed**. The nature and magnitude of the problems call for further coordinated and long term approaches.

- **Close development partner coordination.** Development partners should continue to closely coordinate with each other to build consensus and provide high quality and coherent policy advice.

Working Together for A Stronger Banking Sector