

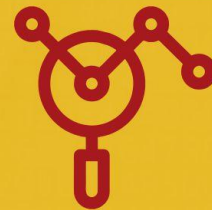


MONGOLIAN NATIONAL  
CHAMBER OF COMMERCE AND  
INDUSTRY



# SURVEY ON THE POST-PANDEMIC BUSINESS ENVIRONMENT

# REPORT



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## FOREWORD

One of the main functions of the National Chamber of Trade and Industry of Mongolia is policy advocacy and influence activities. It regularly pays attention to the changes in the business environment and its effects, conducts policy studies, and prepares recommendations based on the research results and delivers them to policy and decision makers.

At this time, when the political, economic and social crisis caused by the pandemic is fundamentally changing the traditional way of making decisions, it is important for countries, sectors and organizations to look for solutions to the problems faced by enterprises, as well as to see new opportunities for change. Over the past two years, transport logistics, border infrastructure and capacity have been the most pressing issues in the business environment and continue to be key factors hindering economic growth.

In order to clarify the situation of the post-pandemic business environment, the National Chamber of Trade and Industry of Mongolia conducted an online and questionnaire survey covering 1073 business owners in Ulaanbaatar and the countryside area from August 25 to September 4, 2022. The main economic indicators of Mongolia are also analyzed. As a result of the research, the post-pandemic business situation, the problems faced by the business and the support measures that need to be taken in the future have been pointed out.

In the global transport logistics and supply chain crisis caused by the pandemic and the geopolitical situation emerged by the Russia-Ukraine war, it is very important for the Government and the private sector to jointly discuss issues, and for the Government to support and cooperate with business to restore the economy, encourage business, and ensure normal operations.

It is believed that the report "Survey on the Post-Pandemic Business Environment" presented by the National Chamber of Commerce and Industry of Mongolia will help to evaluate and prioritize the problems facing the economy and business environment, and to determine and implement the necessary measures to restore the economy and business, maintain recovery and develop, and help to make rational decisions.

**NATIONAL CHAMBER OF COMMERCE AND INDUSTRY OF MONGOLIA**



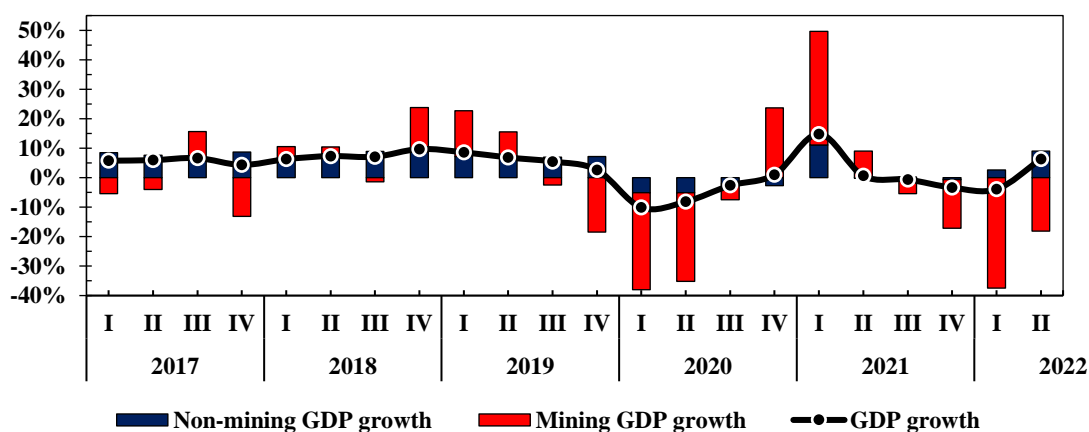
## I. ANALYSIS OF ECONOMIC PROSPECTS OF MONGOLIA

In 2020, the coronavirus outbreak in China had an unexpected impact on the global economy. In 2022, the pandemic began to subside, but the tension between Russia and Ukraine has an unexpected impact not only on foreign trade, but also on international financial transactions and foreign exchange trading. Let's briefly introduce how the consecutive external shocks from two neighboring countries affected the macroeconomic environment of Mongolia.

### I-1. Production sector

The growth of the GDP calculated at the parallel price of 2015 is MNT7.6 trillion as of the second quarter of 2022, which is 6.3 percent larger than that of the same period of the previous year. The half-yearly production amounted to MNT12.7 trillion and as a result, the economy gets bigger by 1.9 percent. The GDP of the non-mining sector increased by 9.1 percent in comparison with the same period last year, increasing the total growth by 8.1 percentage points, while the GDP of the mining sector decreased by 18.2 percent and had a reduction effect of 1.8 percentage points.

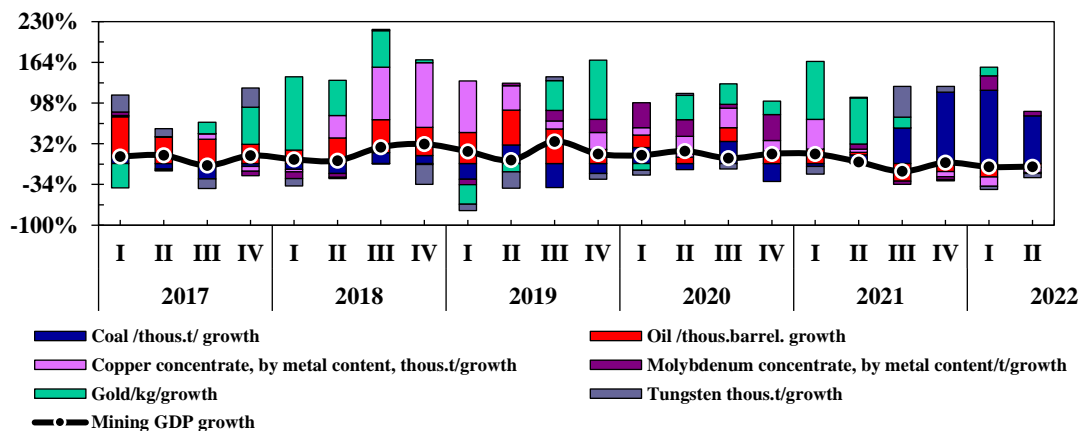
Figure I-1-1. GDP growth, mining and non-mining GDP growth



Source: National Statistics Office

In the first quarter of 2020, the mining industry came to a standstill due to restrictions on border traffic with China.

Figure I-1-2. GDP growth in the mining sector, production and price growth of major mineral products



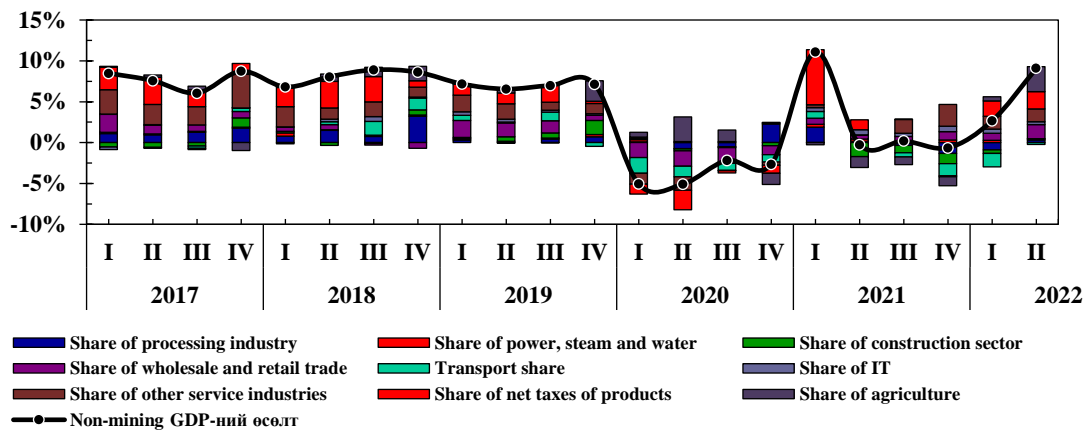
Source: National Statistics Office

Starting from the 2nd half of 2020, with the implementation of the "Green Pass" temporary procedure, the export of coal was encouraged, and the concessional financing for the intensification of the National Program "Gold-2" began to be provided.

In the first quarter of 2021, the mining industry began to recover due to the improvement of coal production and copper ore content, but the transportation of mining products was slow, and the copper concentrate extracted from the Oyu Tolgoi mine, as well as the content of copper and gold contained in it, started to decrease according to the plan by the beginning of 2022, which caused the mining industry to shrink during the last 3 quarters in a row.

In the second quarter of 2022, the growth of non-mining sector production was mainly influenced by the growth of agriculture, wholesale and retail trade, and service sector.

Figure I-1-3. GDP growth of non-mining sector and contribution of other sectors

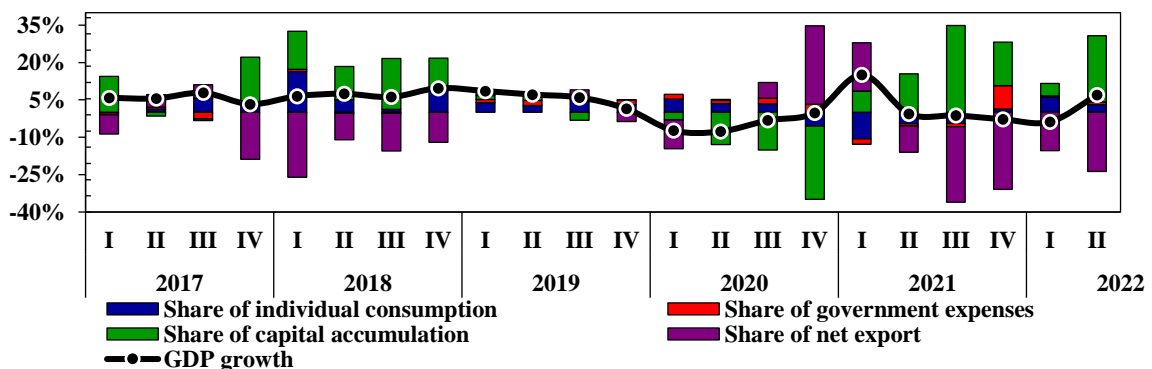


Source: National Statistics Office

In November 2020, as a precautionary measure against the pandemic, the heightened public preparedness was imposed, which slowed down the growth of the industry at the end of the year, but the first 3 quarters of 2020 saw normal harvest and cattle breeding. The agricultural sector contracted throughout 2021 due to adverse weather conditions. In the first half of 2022, livestock unproductivelosses decreased by 2.2 (90.9%) million compared to the same period last year, and the sector contributed 2.8 percentage points to the total growth of the non-mining sector.

The problem of cargo transportation at the border port has negatively affected not only the mining industry but also the construction industry, and the construction industry has continued to shrink in the last 2 years due to the interruption of the supply of construction materials.

Figure I-1- 4. GDP growth and demand components



Source: National Statistics Office

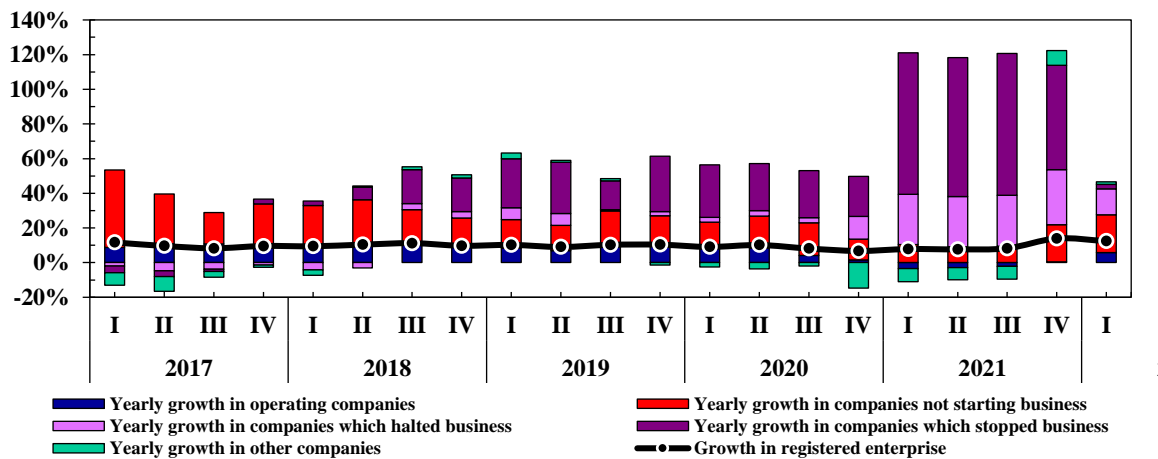
In the first quarter of 2021, the net product tax revenue increased by 46.4 percent compared to the same period in 2020 due to VAT refunds. The trade and service sector, which had been

in decline due to heightened public preparedness and the curfew, recovered from the last half of 2021, and this recovery had the effect of increasing VAT revenue on imported goods in 2022. As a result, compared to the same period of the previous year, net product tax revenue increased by 9.8 percent and 13.6 percent in the first and second quarters of 2022, respectively.

Economic growth calculated by the end use method in the second quarter of 2022 is 6.9 percent higher than the same period last year. Capital accumulation had a positive effect of 26.5 percent on this growth, while net export had a negative effect of 23.8 percent. In 2021, the gradual relaxation of the curfew and the implementation of subsidized loans and financing measures by the Government and the Central Bank to support the economy accelerated the growth of capital accumulation.

The Covid-19 pandemic has not dampened the growth of new business start-ups, but has slowed the pace of growth. As of the first quarter of 2022, 231.3 thousand enterprises are registered in the business register, which is a 12.4 percent increase from the same period last year. 41.9 percent of all registered enterprises or 97.0 thousand enterprises are operating at a normal pace.

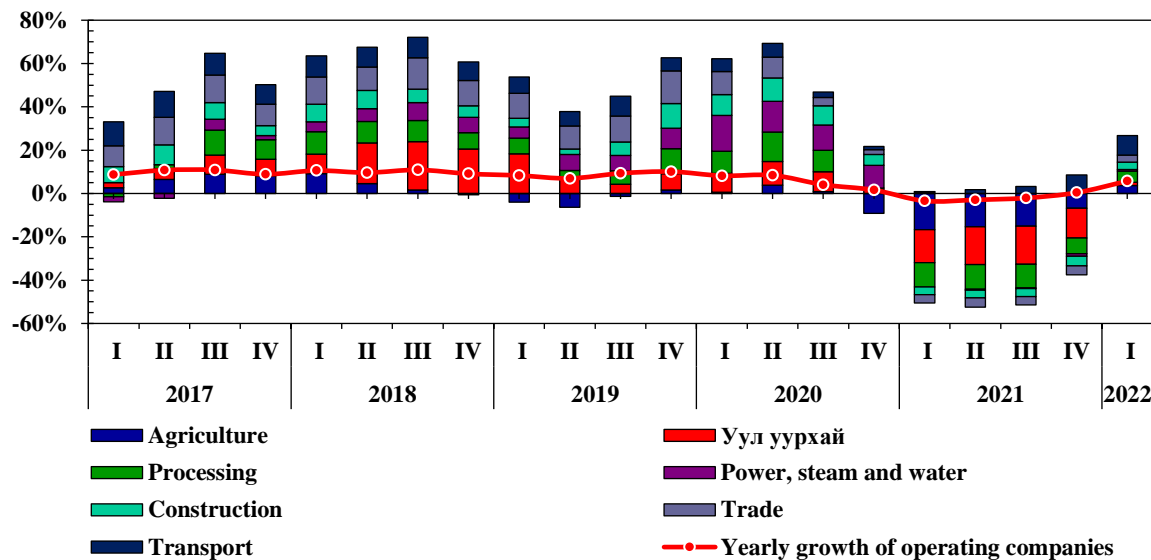
Figure I-1- 5. Number of registered companies and enterprises



Source: National Statistics Office

The number of operating enterprises was 95.6 thousand or 47.9 percent of the registered enterprises in the fourth quarter of 2020, but it decreased to 91.7 thousand in the first quarter of 2021 due to the imposition of a domestic curfew to prevent the the pandemic. During this period, the number of enterprises that temporarily or completely halted their operations by quarter increased by 29.8 percent and 75.9 percent respectively in the 4 quarters of 2021 compared to the same period of the previous year.

Figure I-1- 6. Operating companies and enterprises by sectors

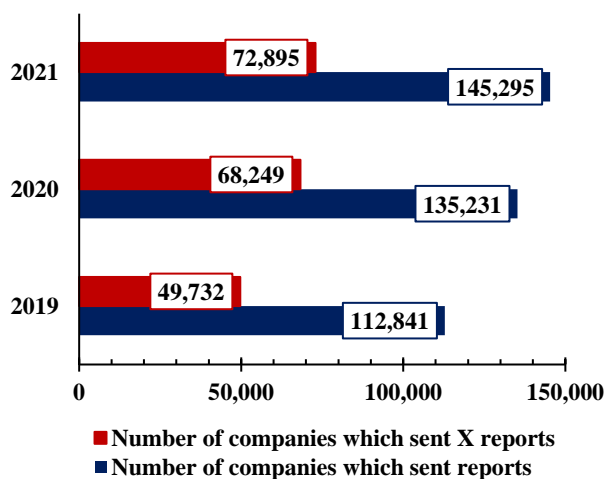


Source: National Statistics Office

Comparing the operating enterprises by economic sector, agriculture, mining and education sectors were the most affected by the stagnation of the business environment in 2021. Due to the rapid spread of the pandemic, measures such as e-delivery of educational services and restrictions on the number of students per classroom explained the decline in educational institutions.

Border ports, related transportation problems, and restrictions on import quantities set by the PRC caused disruptions in the operations of mining enterprises. Since the end of 2021, the demand for imported products, which make up about half of domestic consumption, has increased, measures have been taken to reduce the slowness of transport and logistics at the border, and the export of coal has started to recover and there is a trend towards normalization.

Figure I-1-7. Number of companies which sent reports



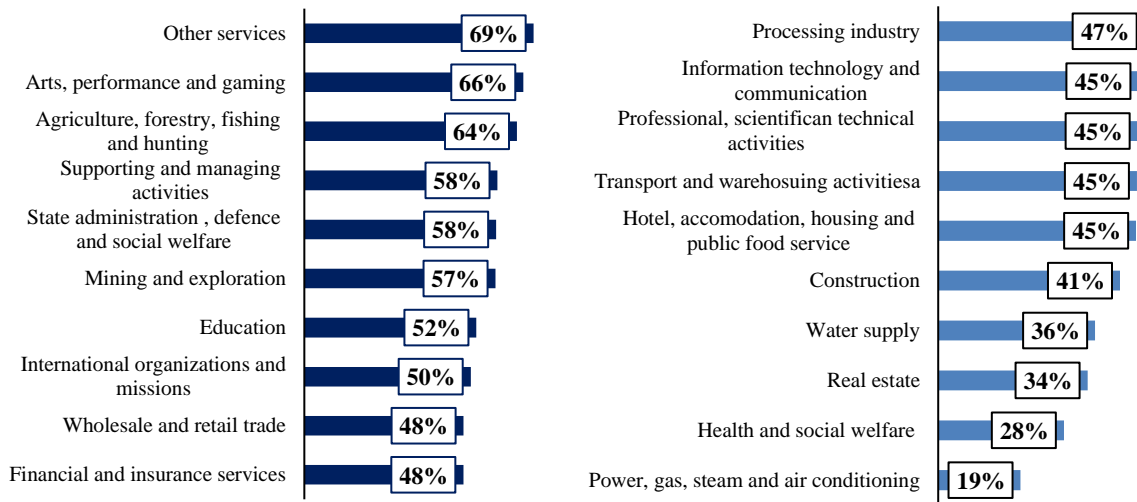
Source: General Department of Taxation

As of 2019, 112.8 thousand enterprises sent tax reports, 44.1% reported that they did not generate any income or expenses or did not perform any activities during the reporting period and sent X reports. However, as of 2021, the number of enterprises that sent reports reached 145.3 thousand, which is an increase of 28.8 percent compared to the 2019 statistics, but the number of enterprises that sent X reports reached 72.9 thousand which means an increase of 46.6 percent in 2 years.

As of 2020 and 2021, 50.0 percent of all enterprises that sent tax reports were not active or sent X reports.



Figure I-1-8. The share of enterprises that sent X reports to the number of enterprises that sent tax reports, as of 2021 (by sector)

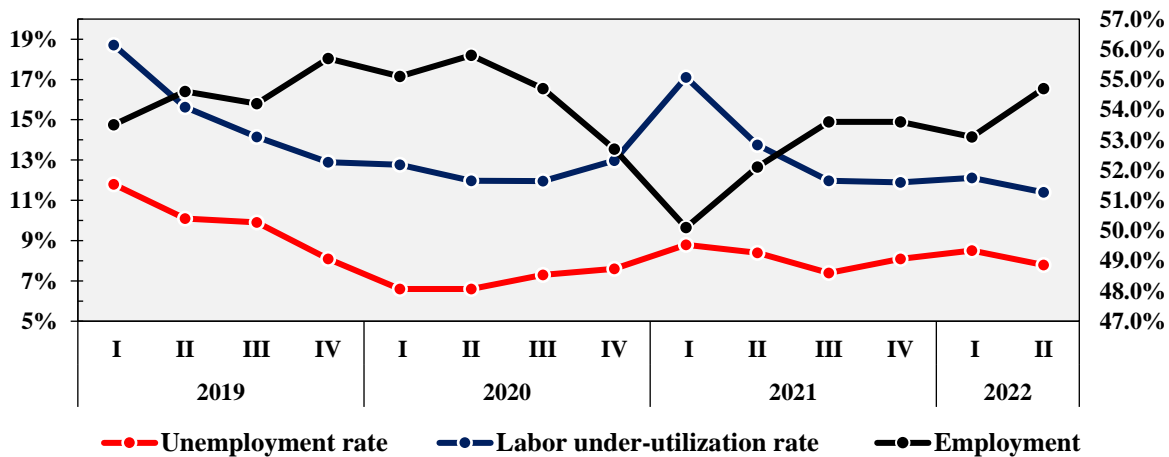


Source: General Department of Taxation

As of 2021, the share of enterprises that sent X reports to the total number of enterprises that sent tax reports exceeds 50 percent such as Other services (69%), Arts (66%), Agriculture (64%), Management and support services (58%), Government Management (58%), Mining (57%), and Education (52%), indicating that the business activities of these sectors are the most affected by the stagnation of the business sector caused by the pandemic.

According to the data of the last 3 years, in the first quarter of 2021, the employment rate decreased to the lowest level, 50.1 percent. The curfew imposed in November 2020 had the main effect on this, and in the first quarter of 2021, the transition to heightened public alert caused changes in the form of employment, online and shift work, and the stagnation of the tourism sector weakening of economic activity as well as affecting the pattern of the market.

Figure I-1- 9. Basic labor market statistics

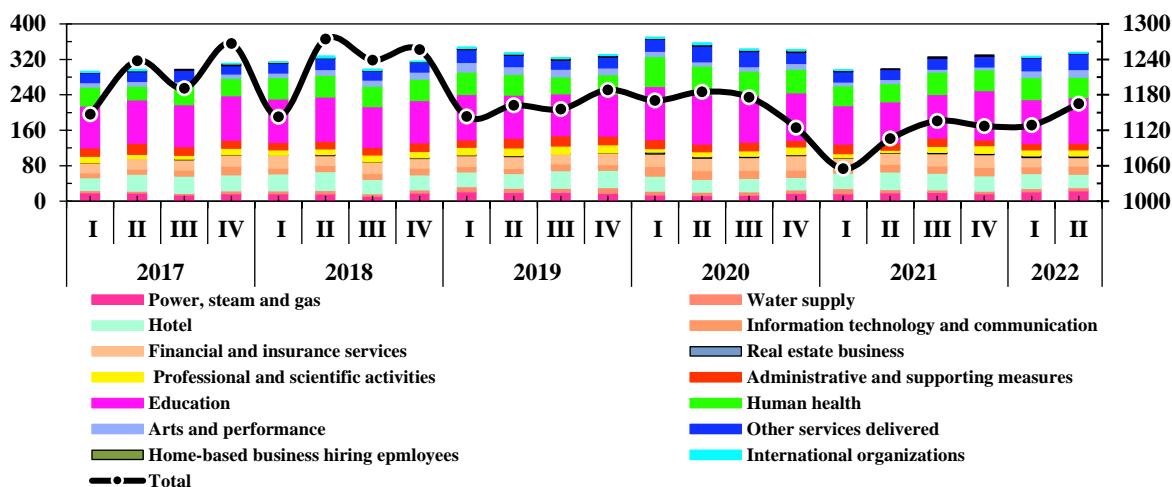


Source: National Statistics Office

Although the pandemic has subsided worldwide, foreign relations became active, domestic production is gradually recovering and the labor market tends to increase, but the employment rate in the second quarter of 2022 is 54.7 percent, the unemployment rate is 7.8 percent, and the combined level of under-utilization is 11.4 percent. In the first quarter of 2021, labor inactivity due to pandemic conditions is gradually decreasing.

The employment rate reached the lowest value in the last 5 years in the first quarter of 2021 in mining (-9.8%), processing (-11.0%), construction (-12.9%), trade (-14.6%), information communication (-54.0%) and transportation (-31.3%) and the number of employees in the service sector (-20.0%) decreased in comparison to the same period of the previous year.

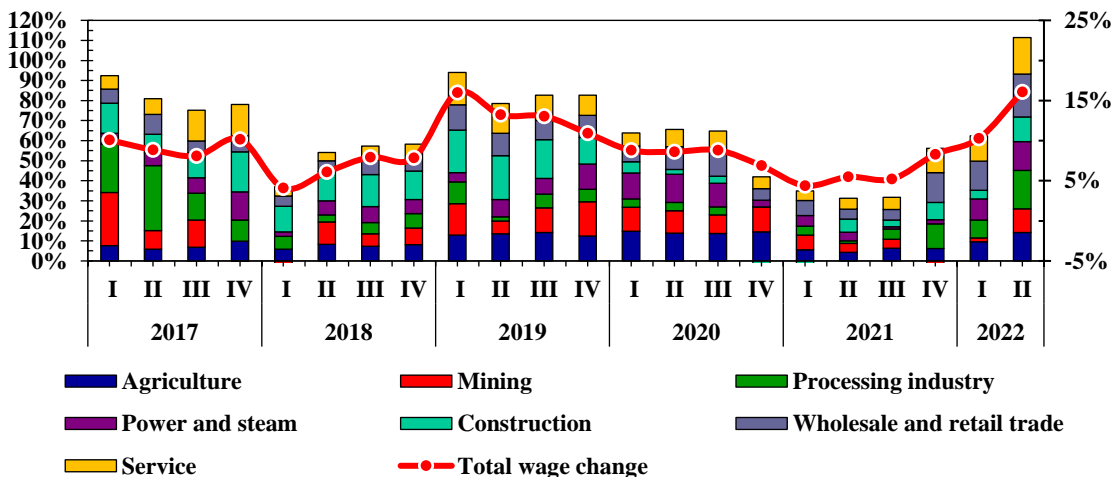
Figure I-1- 10. Employment by economic sectors



Source: National Statistics Office

Employment in economic sectors is changing directly depending on the growth of the sector. Total employment rose 5.4 percent in the second quarter of 2022 compared to the same period of the previous year, but fell 1.7 percent compared to the same period of 2020, not fully recovering from the pandemic-induced recession. In the second quarter of 2022, agriculture (-1.4%), construction (-2.4%), financial services (-20.8%) and trade sector (-7.4%) decreased compared to the same period of the previous year, and other sectors saw employment in the first quarter of 2021 gradually making up for the sharp decline.

Figure I-1- 11. Changes in average wages by industry



Source: National Statistics Office

In the second quarter of 2022, the average salary reached MNT 1.54 million MNT, an increase of 16.1 percent compared to the same period of the previous year. The average salary has been growing rapidly since the beginning of the year, but the growth is slowing down depending on the foreign sector. Construction (12.4%) and mining (11.9%) have the lowest average salary growth while trade (21.4%), processing industry (19.1%), and service sector (18.1 %) have the highest average salary growth.

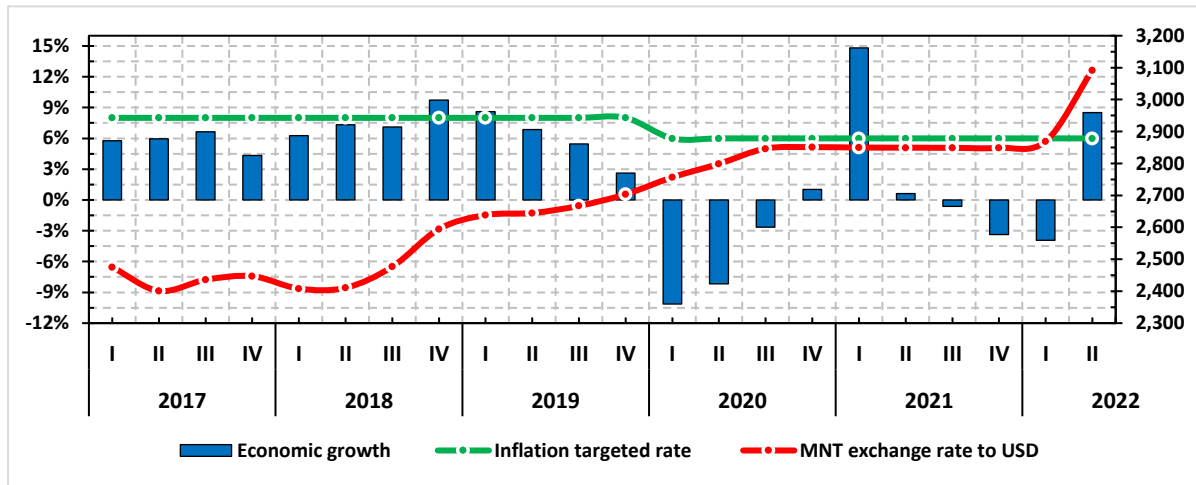
### Production Sector Highlights

- ✓ The production in the second quarter of 2022 reached MNT 7.6 trillion which means growth of 6.3 percent compared to the same period of the previous year, total production for the first half of the year reached MNT 12.7 trillion, and the economy was expanded by 1.9 percent compared to the previous period. Economic growth was mainly driven by the growth of agriculture, trade, and service sectors, while restrictions on border traffic with China and a decrease in the concentration of copper concentrate extracted from the Oyu Tolgoi open-pit mine caused the mining sector to shrink, and transportation issues were not fully resolved, so the decline in the construction industry continued for the 2nd year.
- ✓ In terms of end use, capital accumulation made the main contribution to economic growth. The growth of capital accumulation is accelerating as a result of gradual easing of curfew from 2021 and granting of subsidized loans and financing measures to support economic growth by policy implementing authorities.
- ✓ In 2020, 47.9 percent of registered enterprises or 95.6 thousand enterprises were operating normally, but as of the first quarter of 2022, 231.3 thousand enterprises are registered in the business register data and 41.9 percent or 97.0 thousand enterprises are operating.
- ✓ Compared to the enterprises that are operating normally by economic sector, agriculture, mining, and education sectors were the most affected by the stagnation of the business environment occurred in 2021.
- ✓ Due to the pandemic overall economic activity weakened and reached the lowest level in the last 5 years in the first quarter of 2021, but the labor market recovered starting from 2022. In the second quarter, the employment rate was 54.7 percent, the unemployment rate was 7.8 percent, and the combined level of labor under-utilization was 11.4 percent. Labor inactivity caused by the pandemic is gradually decreasing.
- ✓ In 2021, the pandemic had the strongest impact on employment in the mining, construction, processing, trade, service, and transportation sectors. The average salary level, which has been slowing down throughout 2021, has started to accelerate the activity and recovery of the economic sector. In the second quarter of 2022 the growth is slowing down depending on the foreign sector. Construction and mining have the lowest average salary growth(12.1%) while trade, processing industry, and service sector have the highest average salary growth(19.8 %).

## I-2. Monetary and financial sector

The Monetary Policy Committee of the Bank of Mongolia has set a medium-term goal of stabilizing inflation calculated by the consumer price index at around 6.0 percent starting from 2020.

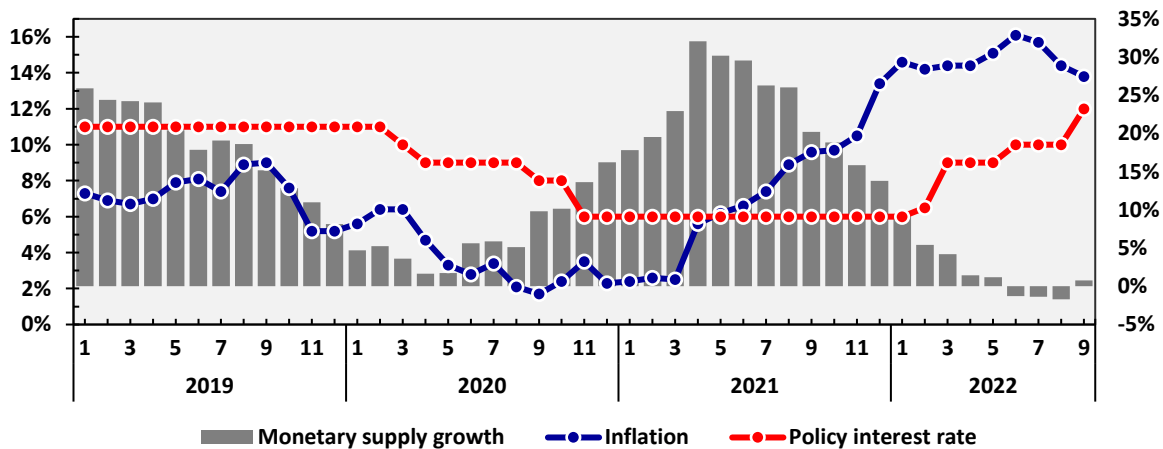
Figure I-2-1. Some key indicators of monetary policy



Source: Bank of Mongolia

In the second quarter of 2022, the GDP calculated at 2015 parallel prices increased by 6.3 percent compared to the same period of the previous year, and the exchange rate of MNT against the US dollar reached an average of MNT3092.1 during the quarter, and the MNT exchange rate decreased by 8.5 percent compared to the same period of the previous year.

Figure I-2- 2. Inflation, policy interest rate and money supply growth



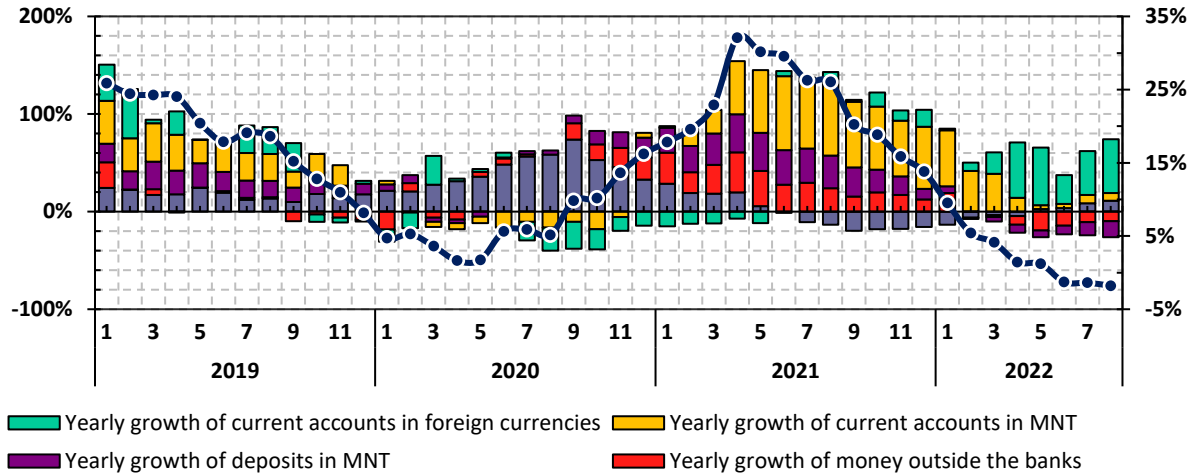
Source: Bank of Mongolia

Curfew imposed in 2020 to curb the spread of the Covid-19 pandemic again weakened the economic activity that had contracted due to the impact of the foreign market and the demand of market participants decreased, the consumption of medical goods and services, except for solid fuel, decreased significantly, and the inflation rate decreased.

The monetary policy interest rate, reduced to 6 %, by the Bank of Mongoliadue to the pandemic situation in order to reduce the negative consequences for the society and economy caused by the delay in international financial transactions because of the war between Russia and Ukraine, and the riskycircumstances that may worsen foreign trade within the framework of the "Zero-Covid" policy implemented by the PRChas been gradually increased starting from January 2022.

From the first quarter of 2021, in connection with the implementation of the "10 trillion comprehension plan for protection of health and restoration of the economy", lending and money supply increased. With the beginning of 2022, the rate of inflation increased rapidly and reached 14.4 percent as of August 2022. In order to keep inflation at the target level, the Bank of Mongolia is implementing a strict monetary policy, gradually increasing the policy interest rate up to 10%, and shrinking the money supply.

Figure I-2- 3. Money supply and liabilities

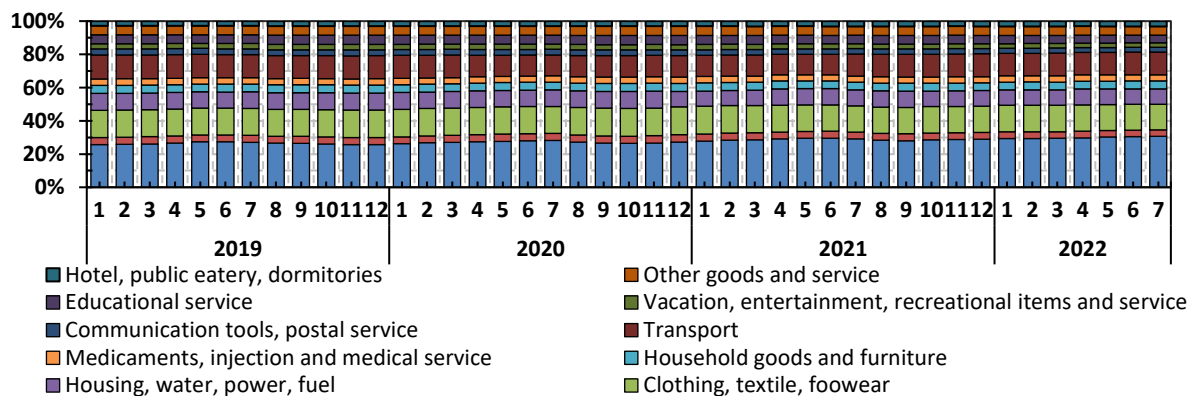


Source: Bank of Mongolia

As it is seen from the breakdown of money supply, in August 2022, money supply reached MNT26.9 trillion or a 1.8 percent decrease compared to the same period of the previous year, and the main reason for this change was a 9.8 percent decrease in non-bank cash and a 16.3 percent decrease in MNT deposits.

Due to the high rate of inflation and the strengthening of the US dollar, the relative yield of MNT is decreasing, and the amount of MNT transactions and deposits is decreasing. The exchange rate of the MNT against the US dollar, which was maintained at the level of 2,800 MNT for the past 2 years, began to weaken sharply from 2022, and during this period, foreign currency transactions increased by 55.2 percent and foreign currency deposits by 11.1 percent.

Figure I-2- 4. Breakdown of self-employed groups



Source: Bank of Mongolia

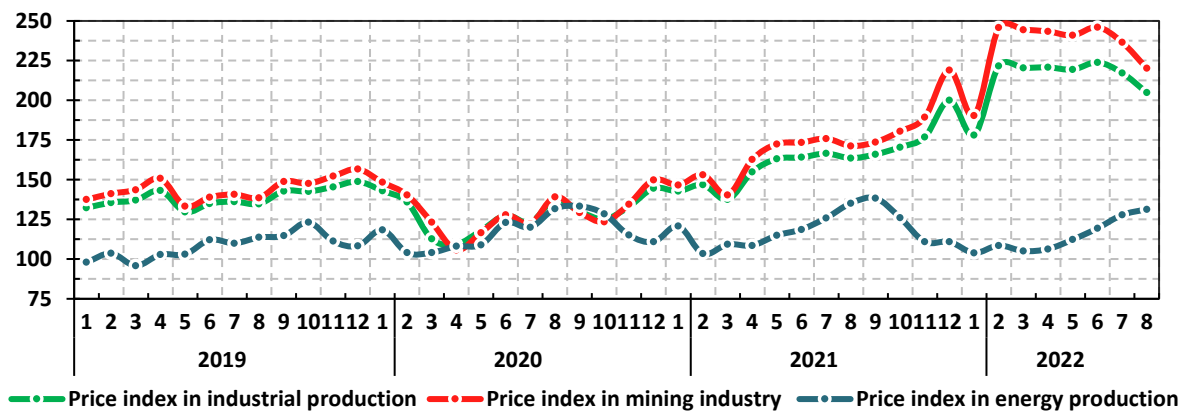
Inflation remained close to the target level and low in the first half of 2021, as the domestic containment regime was gradually eased, but the spread of the pandemic remained high, as household incomes declined and uncertainty dampened consumption. During this period, the increase in inflation is explained by the increase in the price of fuel in the country, following the increase in the price of oil on the world market.



Inflation calculated by the consumer price index is broken down by consumption group, and in comparison, in the last half of 2021, the spread of acute animal infectious diseases and the increase in prices triggered by the supply of meat, the increase in the price of imported food products due to the delay in the Zamyn Uud port, and the increase in the price of oil on the foreign market caused the increase in domestic prices and accelerated fuel price growth, and the inflation rate reached 13.4 percent at the end of the year.

From the beginning of 2022, the price of goods transported through the European continent has risen sharply due to the war between Russia and Ukraine, and the European Union and other countries of the world are implementing a policy of sanctions against Russia, which causes disruptions and delays in payments for goods and services, and continues to increase import prices and inflation.

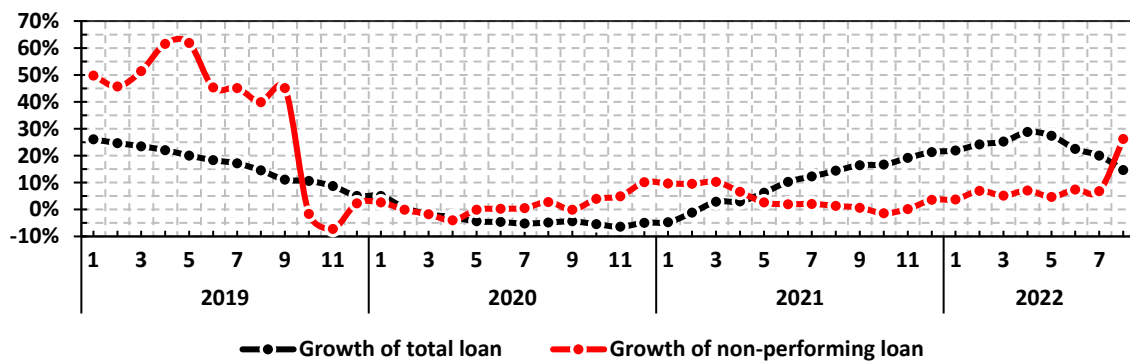
Figure I-2- 5. Producer price inflation (industry, mining, electricity)



Source: National Statistics Office

Inflation calculated by the producer price index was mainly influenced by the price increase in the mining sector triggered by the increase in transportation costs, the weakening of the MNT, and the increase in the price of inputs and materials used in domestic production caused by the increase in import prices.

Figure I-2- 6. Growth of total loans and non-performing loans



Source: National Statistics Office

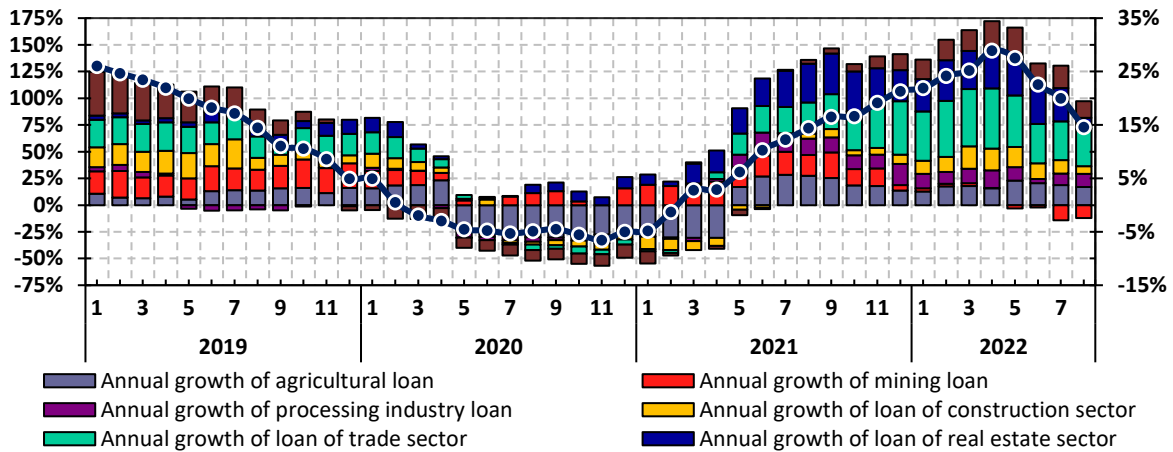
In 2020, due to the impact of the pandemic, lending was expected to stop, but from the first quarter of 2021, lending increased due to the implementation of the "10 trillion comprehensive plan for protection of health and restoration of the economy".

Due to the pandemic, there was a defect in the repayment of loans, and in the fourth quarter of 2020 and the first quarter of 2021, the balance of non-performing loans reached MNT 2.0 trillion, an increase of 10.0 percent compared to the same period of the previous year. Starting from the first half of 2021, the amount of non-performing loans decreased from the second

quarter of 2021 due to the implementation of the following regulations aimed at the pandemic situation. These measures are:

- ✓ Extension of loan repayment for up to 12 months in case of difficulties in consumer loan repayment,
- ✓ Banks will independently solve the problem of not temporarily reducing the category of loans in repayment failure,
- ✓ Mortgage repayment can be postponed for up to 12 months.

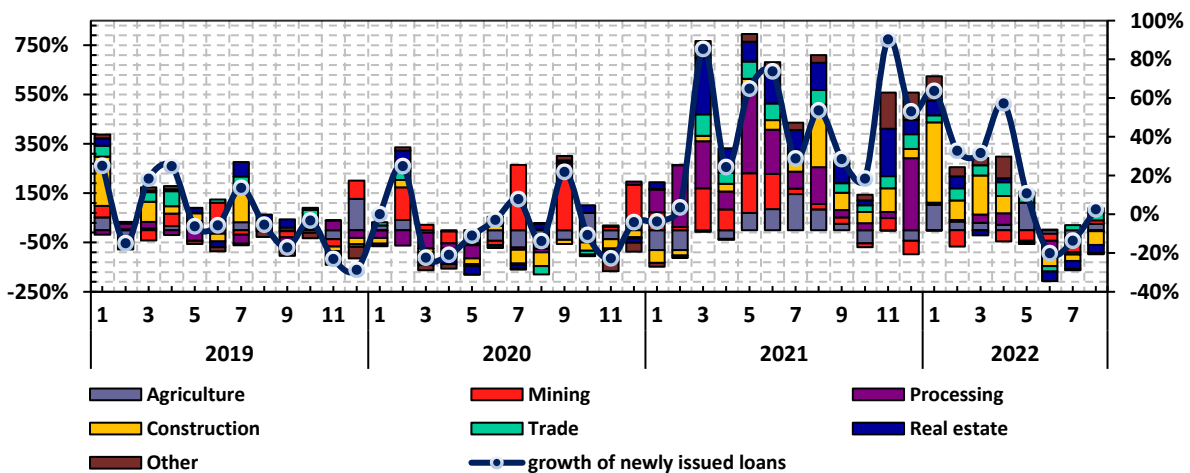
Figure I-2- 7. Growth of bank loans by economic sector



Source: Bank of Mongolia

From May 2022, the growth of loan remainders, which increased for 5 consecutive quarters until the first quarter of 2022, began to slow down. In August 2022, loans to the mining sector decreased by 12.3 percent compared to the same period of the previous year, loans to the trade sector increased by 35.0 percent, and the balance of loans granted by banks to other sectors increased by 7.0 to 16.9 percent.

Figure I-2- 8. Growth of newly issued bank loans by economic sector



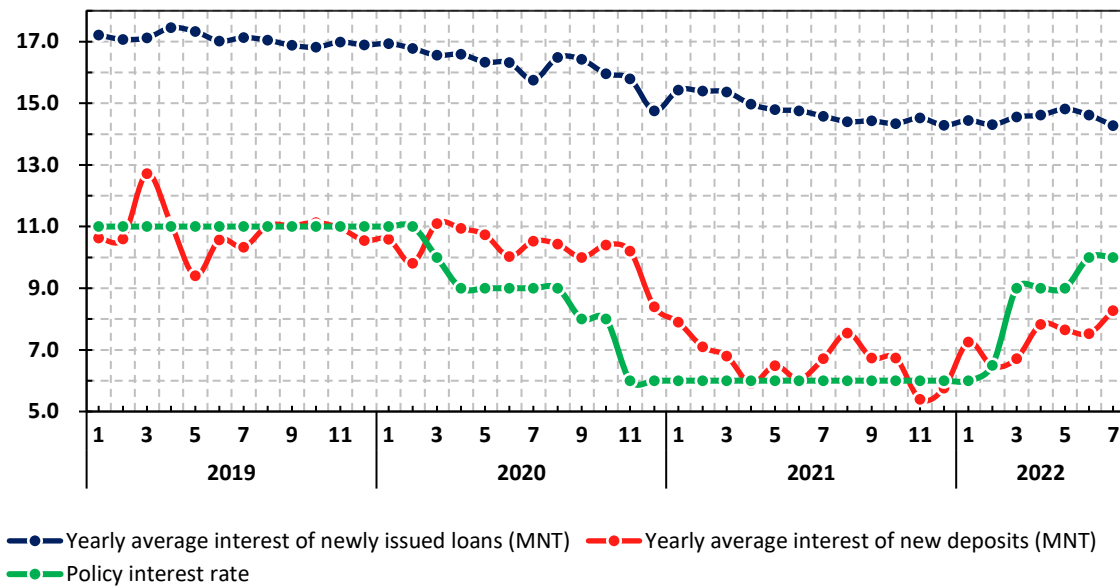
Source: Bank of Mongolia

According to the Bank of Mongolia's "Bank Credit Outlook" random survey, funding costs have risen and increased collateral risk, and worsening economic conditions have contributed to a decrease in lending in the second quarter of 2022. In August 2022, new loans of MNT 2.5 trillion were issued, which is an increase of 2.6 percent compared to the same period of the previous year.

In August 2022, loans granted to the agricultural sector increased by 25.6 percent and loans granted to the trade sector by 49.0 percent compared to the same period of the previous year,

but new loans granted to the construction sector decreased by 56.0 percent and real estate sector by 33.5 percent, respectively, thus the growth of newly granted loans slowed down.

Figure I-2- 9. Weighted average interest of newly granted loans and newly withdrawn deposits



Source: Bank of Mongolia

Due to the decision to raise the monetary policy interest rate to 10.0% in June 2022, the MNT deposit rate increased by 2.5% to 8.3% from December 2021. Due to the decrease in the amount of new loans granted by the bank, the weighted average interest rate of newly granted loans remains stable between 14.0-15.0 percent.

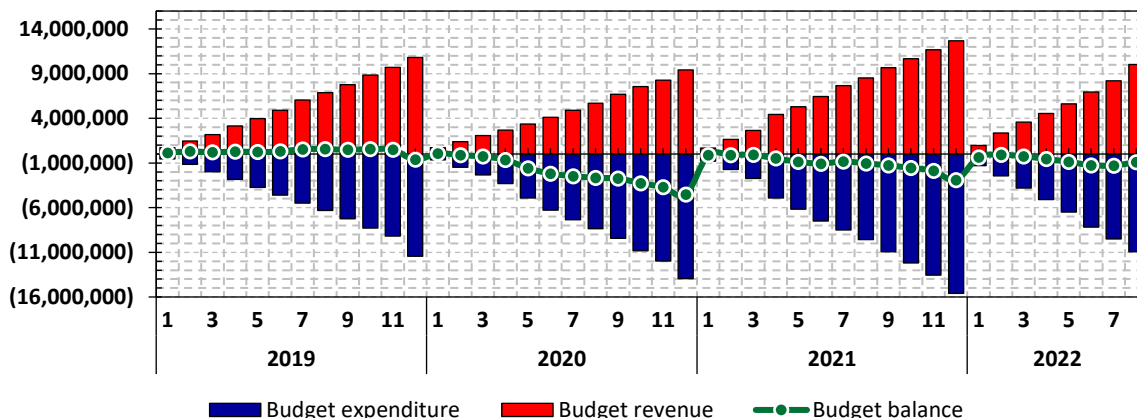
### *Monetary and financial sector highlights*

- ✓ In 2021, in connection with the implementation of the "10-trillion comprehensive plan for protection of health and restoration of the economy", lending and money supply increased.
- ✓ In 2021, the price of imported food products increased due to the shortage of meat supply and the delay of the ZamynUudport, and the increase in the price of oil on the foreign market accelerated the rise in the price of domestic fuel, and the inflation rate reached 13.4 percent at the end of the year.
- ✓ Inflation reached 14.4 percent in August 2022, and the Bank of Mongolia is implementing a strict monetary policy to maintain inflation at the target level, gradually increasing the policy interest rate to 10.0 percent, and shrinking the money supply.
- ✓ The decision to set the policy interest rate at 10.0 percent was influenced by the risk of international financial transactions being delayed due to the tense situation in Russia and Ukraine, and the risk of foreign trade becoming difficult within the framework of China's "Zero-Covid" policy.
- ✓ Due to the high rate of inflation and the strengthening of the US dollar, the relative yield of MNT is decreasing, and the amount of MNT transactions and deposits is decreasing.
- ✓ Starting from the second quarter of 2022, the growth of new loans granted by banks slowed down, and the total remainder of loans decreased. During this period, the amount of new loans granted to the agriculture and trade sectors increased, while the new loans granted to the mining, processing, real estate, and construction sectors decreased.
- ✓ As part of the decision to raise the monetary policy interest rate, the weighted average interest rate on newly withdrawn deposits by banks increased to 8.3 percent, while the weighted average interest rate on newly issued loans remained stable.

### I-3. Government sector

As of August 2022, budget revenue increased by 17.7 percent to MNT 10.0 trillion, budget expenditure increased by 14.3 percent to MNT 10.9 trillion, and the budget balance showed a deficit of MNT 899.7 billion.

Figure I-3- 1. Budget revenue, expenditure and balance



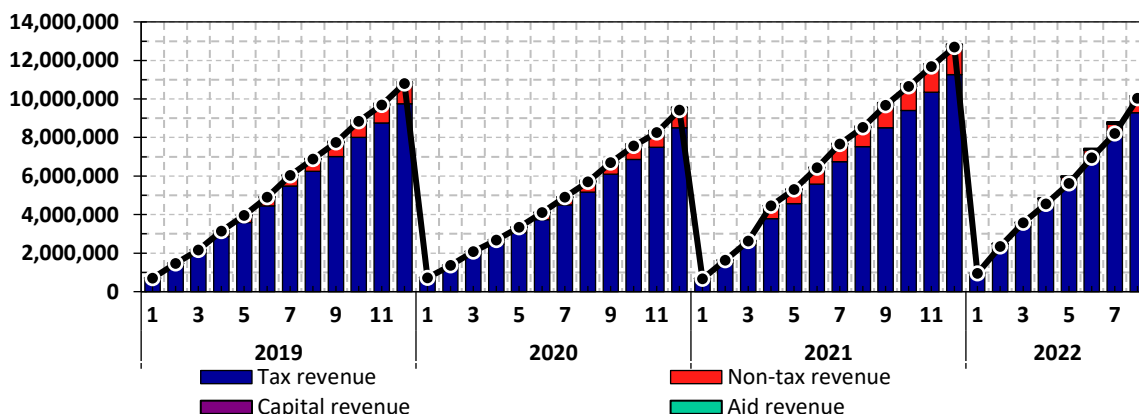
Source: National Statistics Office

In 2020 and 2021, the active implementation of budgetary measures to support citizens and enterprises during the pandemic had the effect of reducing budget revenues in 2020, increasing budget expenditure in 2021, and increasing budget pressure.

These activities include:

- ✓ Starting from April 2020, the amount of cash benefits provided under the "Children's Money Program" has been increased MNT to 100,000.
- ✓ Payment of income tax and social insurance contributions was exempted from April 2020 to June 2021,
- ✓ From July 2021 to the end of 2021, the rate of social insurance contributions was reduced by 2 percentage points,
- ✓ A one-time benefit of MNT 300,000 was provided to each citizen during the curfew imposed in May 2021,
- ✓ Households are exempted from electricity bills until the end of 2021,
- ✓ One-time cash incentives of MNT 50,000 were given to citizens who received 2 doses of the vaccine against the spread of the Covid-19 pandemic.

Figure I-3- 2. Budget income by composition



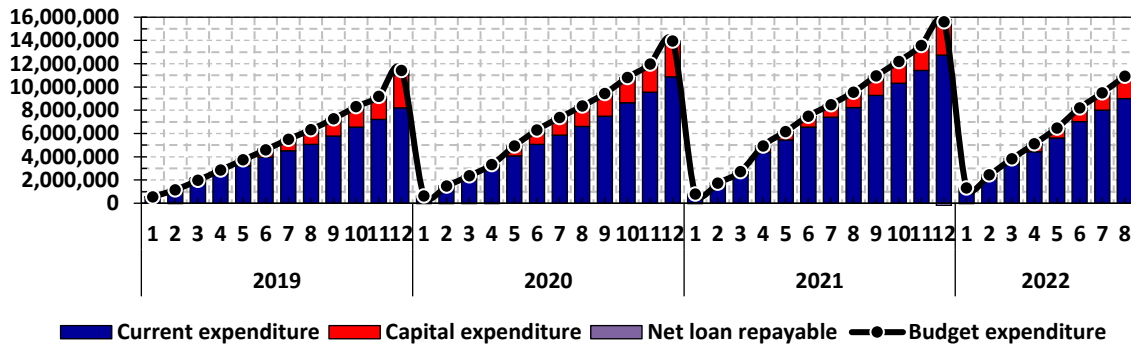
Source: National Statistics Office



In April 2021, MNT 1.0 trillion related to the tax dispute of "Oyu Tolgoi" company was added to non-tax income, which showed that the growth of non-tax income until the end of 2021 was higher than the reality.

Starting from 2022, the 2 percent reduction in social insurance contributions was discontinued, and the funds allocated to the Future Heritage Fund were included in the balanced budget revenue, resulting in an increase in the balanced budget revenue.

Figure I-3- 3. Budget expenditure breakdown

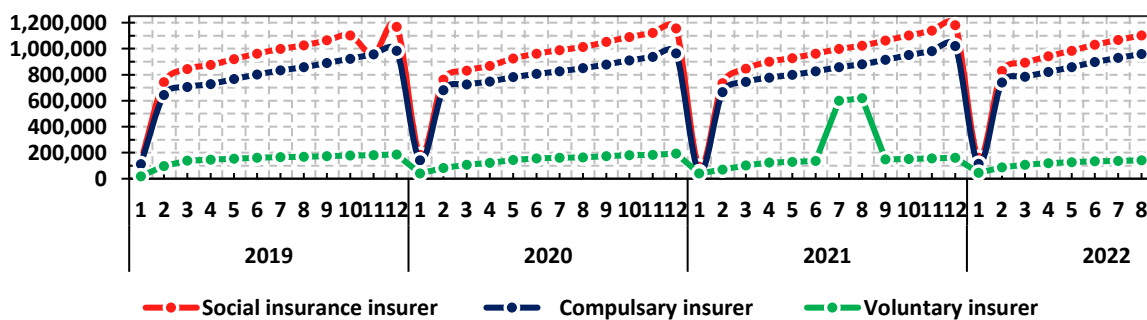


Source: National Statistics Office

As of August 2022, budget expenditures are MNT 10.9 trillion, of which MNT 9.0 trillion are current expenditures (82.3%), MNT 1.8 trillion are capital expenditures (16.9%), and MNT 87.9 billion are repayable net loans (0.8%). As a result of measures implemented to support household income and consumption during the Covid-19 pandemic, budget expenditures, including current expenditures, are increasing rapidly starting from 2020.

As of August 2022, the amount of current expenditures increased by 14.3 percent or MNT 1.4 trillion compared to the same period of the previous year.

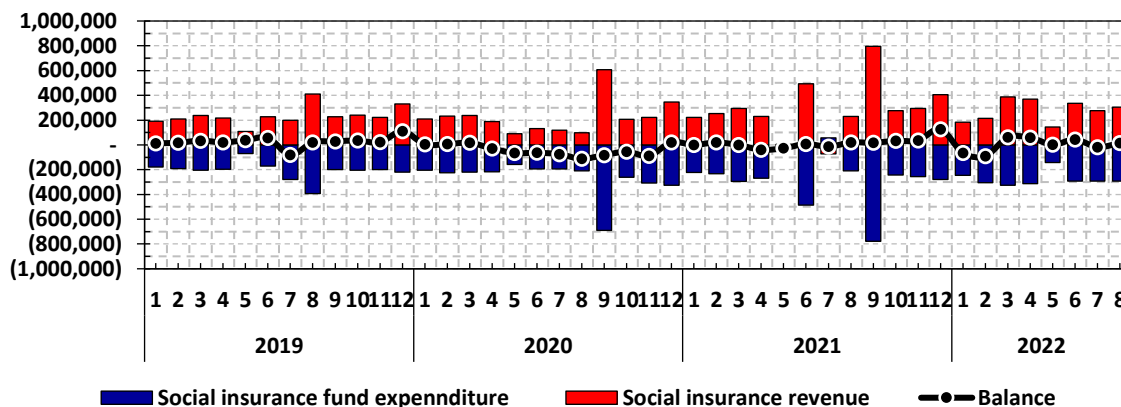
Figure I-3- 4. Social insurance policyholders



Source: National Statistics Office

As a result of the Government's reduction of social insurance premiums for voluntary insured persons for the period from April to October 2020 due to the pandemic, the number of voluntary insured persons did not decrease in that year, which had a positive effect. In order to support employers, from April 2020 to the end of June 2021, the number of voluntarily insured individuals was exempted from paying income tax and social insurance contributions from April 2020 to June 2021. In the second quarter of 2021, the number of voluntarily insured persons decreased by 13.1 percent compared to the same period of the previous year. The recovery of the labor market and the tendency of employment to return to pre-pandemic levels leads to increase the number of insured persons in social insurance, especially to curb the decrease in the number of voluntary insured persons. In August 2022, the number of insured persons under the social insurance increased by 7.6 percent to 1.1 million.

Figure I-3- 5. Income and expenses of the Social Insurance Fund

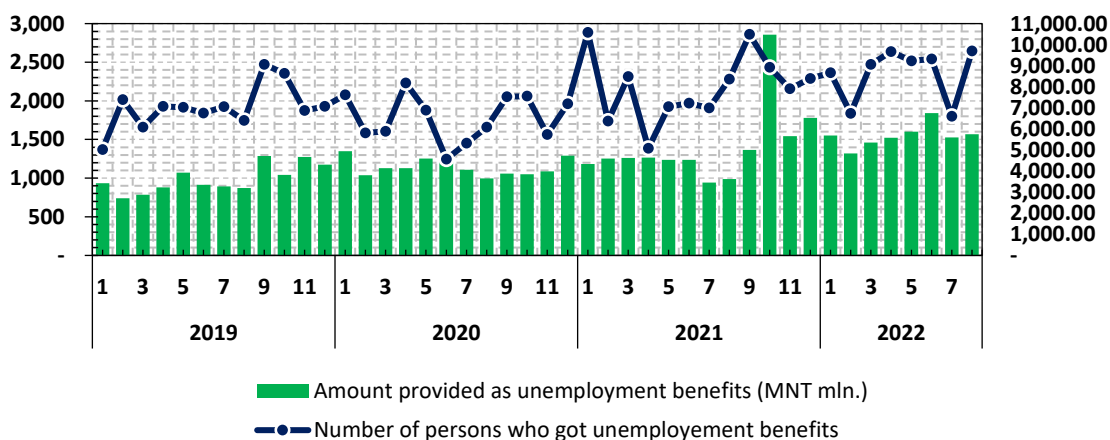


Source: National Statistics Office

In order to support employers in connection with the pandemic, the Government exempted them from paying income tax and social insurance contributions from April 2020 to the end of June 2021. The social insurance fund operated at a loss in the last 3 quarters of 2020 due to monthly support of 200, 000 MNT from the Insurance Fund.

In 2021, the gap between the income and expenses of the Social Insurance Fund decreased, but the social insurance contribution rate was reduced by 2 percentage points from July 2021 until the end of 2021, the unemployment benefit cost increased due to the weakening of the labor market and the increase in the number of unemployed persons and the pre-pandemic level could not be reached.

Figure I-3- 6. The number of people who received unemployment benefits and the amount of money provided



Source: National Statistics Office

In August 2022, unemployment benefits of MNT 5.8 billion were granted to 2,644 people, the number of people who received benefits increased by 16.0 percent compared to the same period of the previous year, and the amount of unemployment benefits increased by 58.7 percent. Starting from July 2021, with the implementation of the reform of the "Procedure for granting benefits from the Unemployment Fund", it was possible to apply for unemployment benefits online, and the scope of unemployment benefits is widening.

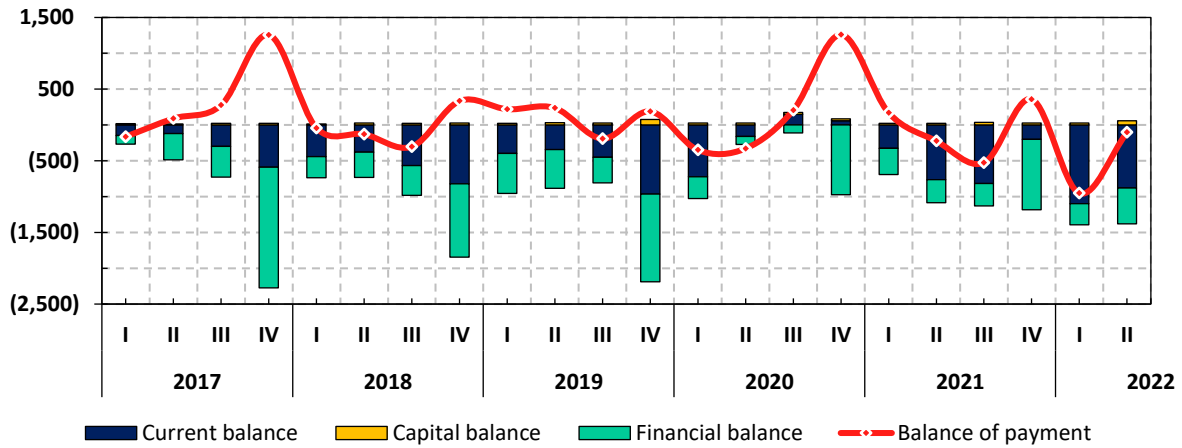
### Government sector highlights

- ✓ In August 2022, the state budget balance has a deficit of MNT 899.7 billion. The decision to raise the minimum pension amount and increase the pension by 15 percent from February 2022 had the main effect of increasing current expenditures.
- ✓ In April 2021, MNT 1.0 trillion related to the tax dispute of the company "Oyu Tolgoi" was added to non-tax income, which triggered the increase of non-tax income until the end of 2021.
- ✓ The active implementation of budgetary measures to support citizens and enterprises during the pandemic had the effect of reducing budget revenues in 2020 and increasing budget expenditures in 2021. These measures are:
  - Starting from April 2020, the amount of cash benefits provided under the "Children's Money Program" has been increased to MNT 100,000,
  - Payment of income tax and social insurance contributions was exempted from April 2020 to June 2021,
  - From July 2021 to the end of 2021, the rate of social insurance contributions was reduced by 2 percentage points,
  - A one-time allowance of MNT 300,000 was provided to each citizen during the curfew imposed in May 2021,
  - Households are exempted from electricity bills until the end of 2021,
  - A one-time cash bonus of 50,000 MNT was given to citizens who received 2 doses of the vaccine against the spread of the Covid-19 pandemic.
- ✓ As a result of the following measures taken by the Government to support employers, the availability of unemployment benefits improved and there was no significant change in the number of insured persons under the social insurance, but the Social Insurance fund faced a deficit.

### I-4. Foreign sector

In the second quarter of 2022, the current balance was USD879.8 million, the financial balance had a deficit of USD499.6 million, and the capital balance had a profit of USD58.4 million. According to the preliminary performance of the first half of the year, the balance of payments has a deficit of USD1.1 billion.

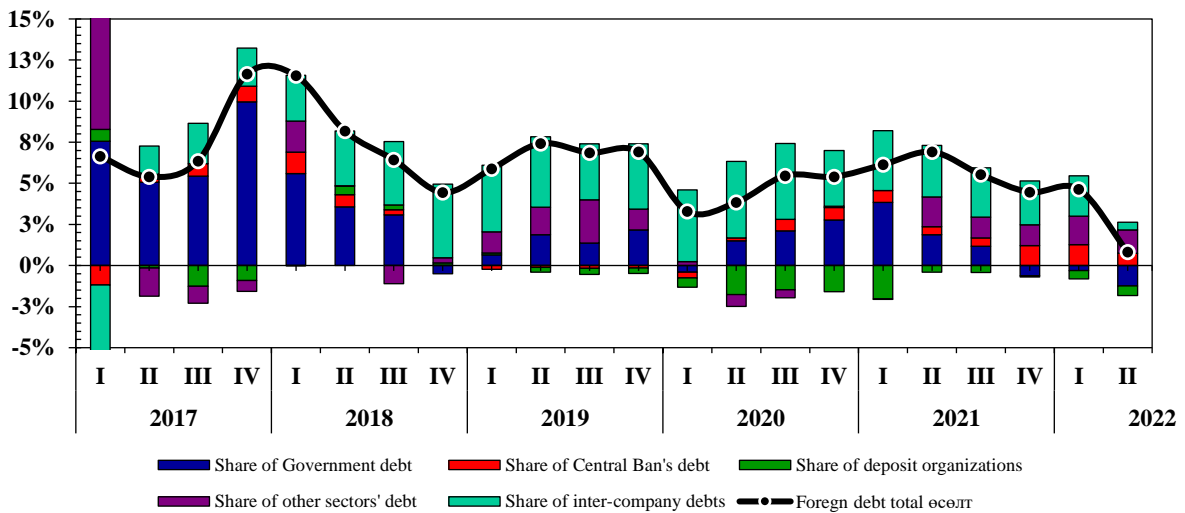
Figure I-4- 1. Balance of payments, current account, capital and financial balance



Source: Bank of Mongolia

The current account deficit shrank as economic activity weakened in the latter half of 2020 due to the impact of the Covid-19 pandemic, imports fell sharply due to border port issues, and exports remained at the previous year's level. During this period, occasions such as a decrease in the net inflow of FDI from Oyu Tolgoi and other foreign-invested companies, and an increase in the inflow of long-term foreign loans of the Government resulted in a financial balance deficit of USD981.4 million as of the fourth quarter of 2020.

Figure I-4- 2. Total foreign debt balance



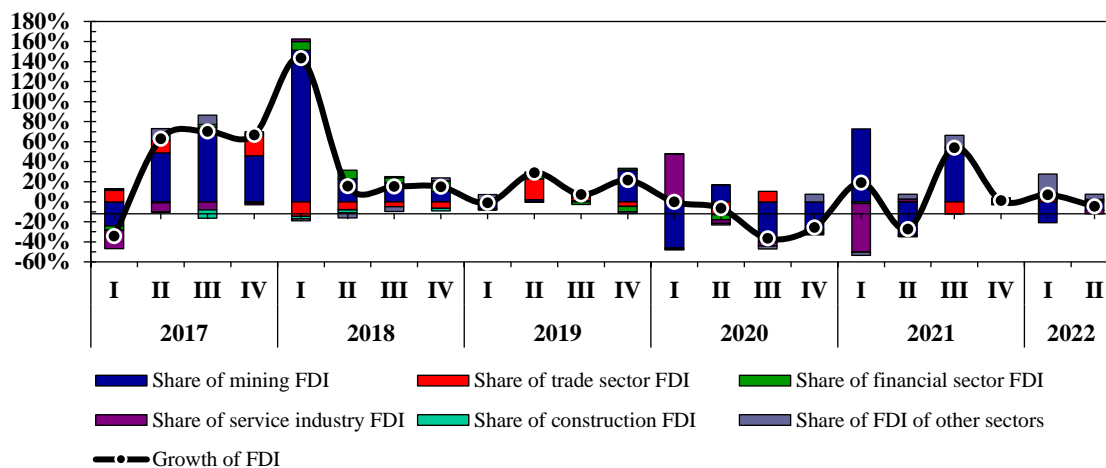
Source: Bank of Mongolia

Due to the impact of the Covid-19 pandemic, the budget deficit increased as a result of the measures implemented by the Government in 2020 and 2021, such as monetary assistance, allowances, income tax and social insurance contribution reductions, and due to the need to finance the deficit, the Government debt continuously increased from the second quarter of 2020 to the second quarter of 2021.

In 2023-2024, the Government is expected to make the principal payment of the bonds drawn from the Mongolian Stock Exchange and other foreign markets, which will significantly increase the budget deficit, but also reduce the official foreign exchange reserves.

The cost of refinancing from the foreign market continues to rise as the bonds previously issued are mainly used as social welfare rather than investment.

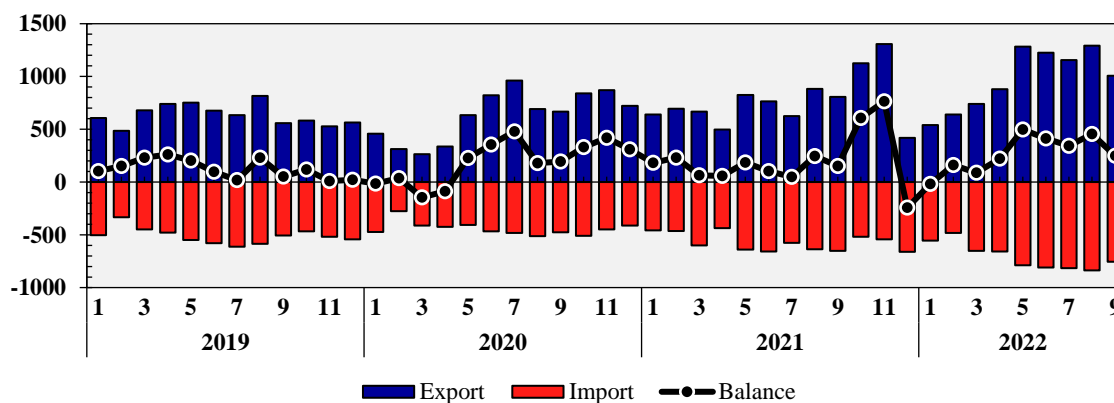
Figure I-4- 3. FDI inflow by sector



Source: Bank of Mongolia

The curfew imposed in the fourth quarter of 2020 and the first half of 2021 adversely affected the profitability of the tourism and service sector, and FDI in the sector decreased sharply in the first half of 2021. In addition, in the first quarter of 2021, the price of coal in the foreign market increased, coal transportation barriers decreased, the profitability of large companies in the mining sector increased, and FDI in the sector increased. At the end of this year, the level of FDI and the performance of the financial balance will be mainly affected by the funds expected to come in as part of the development of the oil refinery of Oyu Tolgoi Company.

Figure I-4- 4. Foreign trade balance, monthly



Source: Bank of Mongolia

In August 2022, Mongolia's exports reached USD7.6 billion which means an increase of USD2.2 (38.7%) billion compared to the same period of the previous year, and imports reached USD5.6 billion, which means an increase of USD1.1 (25.2%) billion compared to the same period of the previous year. Foreign trade balance in 2022 increased by 92.6 percent or USD1.0 billion compared to the same period of the previous year, but the physical volume of exports of mining products decreased.



The countries of the European Union have not imported coal from Russia and have sanctioned it, but there are also cases of full and partial curfews caused by the coronavirus pandemic, which creates an increase in prices triggered by the international demand for coal.

Figure I-4- 6. Breakdown of exports

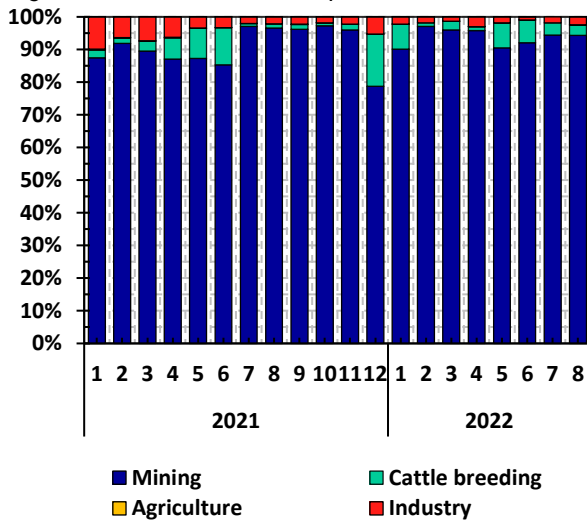
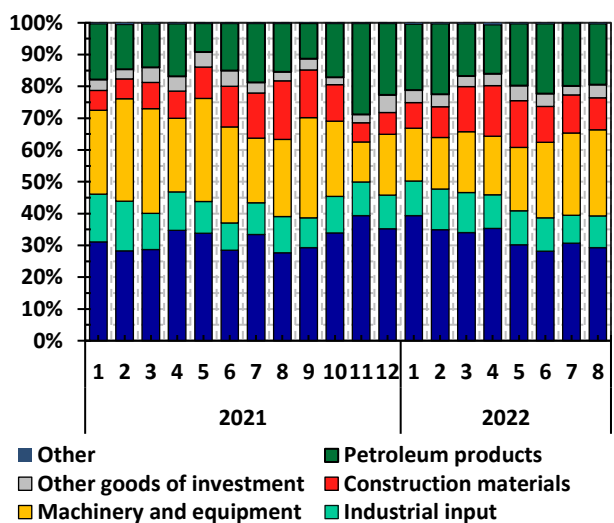


Figure I-4- 5. Breakdown of imports



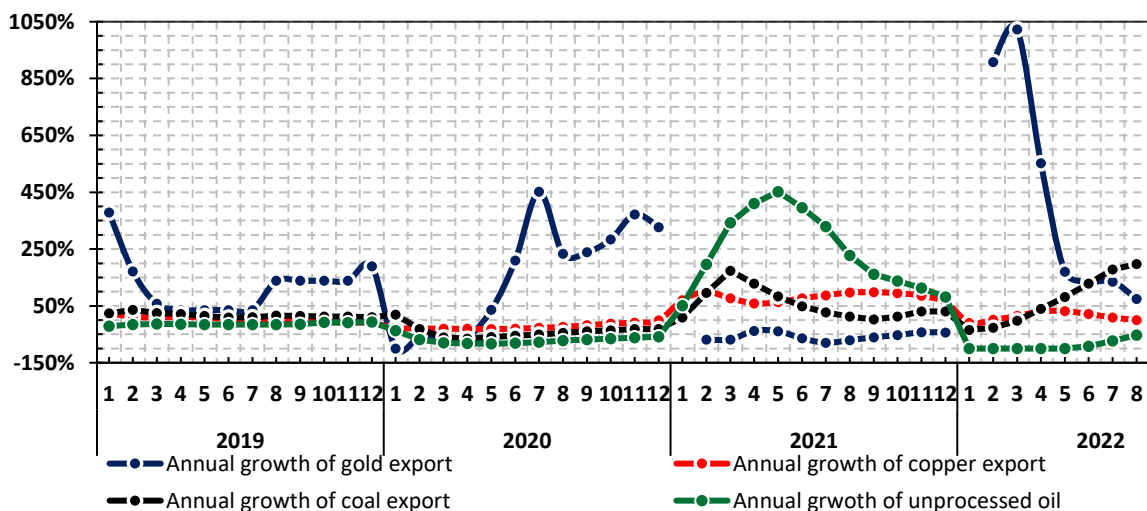
Source: Bank of Mongolia

In the first half of 2020, exports decreased by 28.2% and imports by 15.0%, respectively, due to the closure of border traffic with China, the largest foreign trade partner, in January 2020 as part of the prevention of the pandemic outbreak.

The Government lifted the temporary ban on coal trade with China on March 23, 2020, but the high level of health requirements for truck drivers are slowing coal exports.

Although the Governments of China and Mongolia have reached an agreement on the normal continuation of copper exports, the price of copper concentrate in the first half of 2020 decreased by USD 321.4 million from the middle of June 2019 and by USD1.0 billion from the end of 2019.

Figure I-4- 7. Annual growth of export of major mineral products

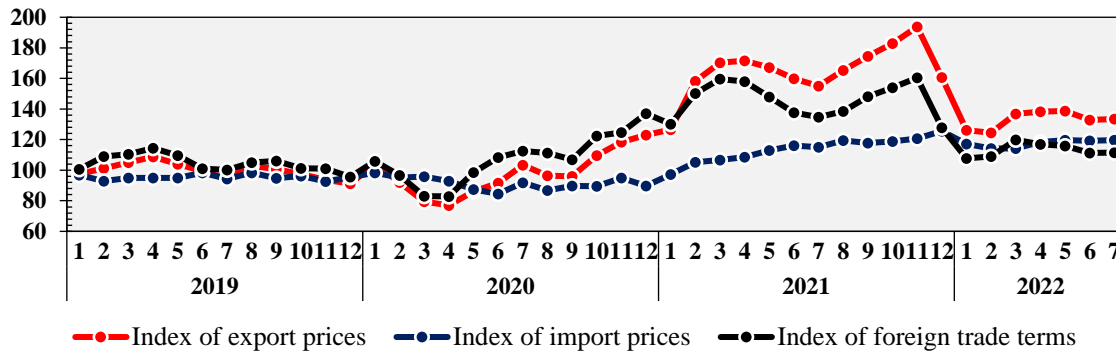


Source: Bank of Mongolia

Coal exports increased in the first half of 2021 due to a curfew imposed to prevent the pandemic, but not to reduce the export of mining products and the partial opening of border ports. China, which consumes 40-50% of the world's total copper consumption, slowed down

its economic growth due to the pandemic outbreak, but the rapid economic recovery in the last months of 2020 and the first months of 2021 led to an increase in demand for copper and a rise in prices.

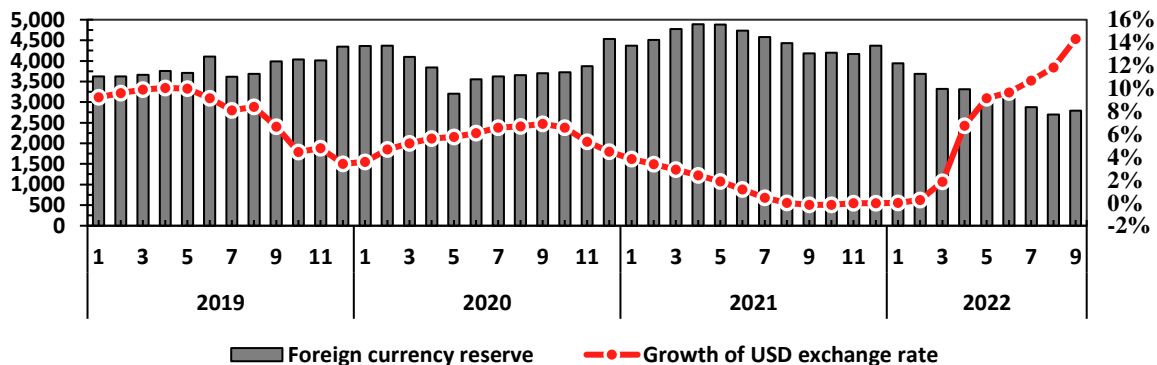
Figure I-4- 8. Index of foreign trade conditions



Source: Bank of Mongolia

In the fourth quarter of 2021, due to the disinfection of goods being carried out in Ereen and Zamyn-Uud to prevent the pandemic, the shortage of transportation and logistics, and the slowness of customs clearance, a bottleneck of imported goods was formed, and the time for imported goods to enter the border was prolonged, but also the price increased, and the import price index reached 119.7 in August 2022 and it increased by 2.1 percent from the beginning of the year.

Figure I-4- 9. Changes in the exchange rate of foreign currencies and USD



Source: Bank of Mongolia

The average exchange rate of MNT against the US dollar in August 2022 was MNT 3185.7 which is an increase of 11.8% compared to the same period of the previous year. As of August 2022, it reached USD2.69 billion remaining at the lowest level since 2017.

The decrease in foreign exchange reserves and the increase in foreign currency outflows are caused by the fact that Mongolia's export volume is not sufficiently recovering to the planned level, as well as the increasing domestic demand for imported goods.

Due to the tensions between Russia and Ukraine, large Russian banks were banned from the SWIFT network for international financial transactions, making it difficult to make foreign payments. In addition, due to the limited domestic supply of foreign currency, unsatisfied demand, and the continued uncertainty of the foreign market, in April 2022, commercial banks decided to stop Russian ruble transactions, limit transactions and trades in other currencies to MNT 1 million, and if the amount of foreign currency transactions exceeds MNT 1 million, the bank arrangements were made for a written request. From May 2022, the procedure was eased and the currency transaction limit became to be set at MNT 10-50 million.

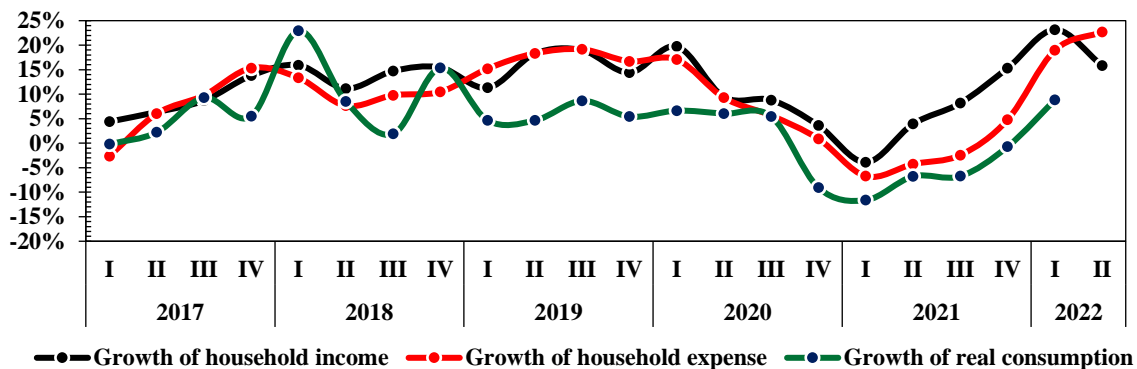
### Foreign Sector Highlights

- ✓ As of the first half of 2022, the balance of payments had a deficit of USD1.1 billion. In 2023-2024, it is expected to make the principal payment of the bonds drawn from the Mongolian Stock Exchange and other foreign markets, which is likely to increase the budget deficit and reduce the official foreign currency reserves.
- ✓ Due to the outbreak of the pandemic and the border issue, the current account deficit shrank because of the decrease in the volume of imports in 2021. Economic activity weakened, and the net inflow of FDI of foreign-invested companies led by Oyu Tolgoi decreased, resulting in a financial balance deficit.
- ✓ During the pandemic, benefit and allowance measures implemented to support citizens and enterprises triggered the state budget deficit, and the Government's foreign debt increased from the second quarter of 2020 to the end of the first half of 2021 due to the need to finance the deficit.
- ✓ Foreign trade balance has increased by USD1.0 billion in the total performance of August 2022, but the physical volume of mining products exports has decreased.
- ✓ The countries of the European Union do not import coal from Russia and have imposed a ban, but there are still cases of full and partial curfews caused by the coronavirus pandemic, which creates an increase in prices caused by the international demand for coal.
- ✓ In January 2020, border traffic with China, the largest foreign trade partner, was closed, and the temporary ban on coal trade with China was lifted from March of this year, but the high level of health requirements for truck drivers slowed down coal exports.
- ✓ In the fourth quarter of 2021, due to the disinfection of goods being carried out to prevent the pandemic in Ereen and Zamin-Uud, the shortage of transportation logistics, and the slowness of customs clearance, a bottleneck of imported goods was formed, and the time for imported goods to enter the border increased, as well as the price increased.
- ✓ Official foreign currency reserves reached USD2.69 billion as of August 2022, remaining at the lowest level since 2017. The supply of foreign currency in the domestic market is limited, and the performance of foreign trade does not recover to the planned level, which reduces foreign currency reserves and weakens the exchange rate of MNT against the US dollar.

### I-5. Household indicators

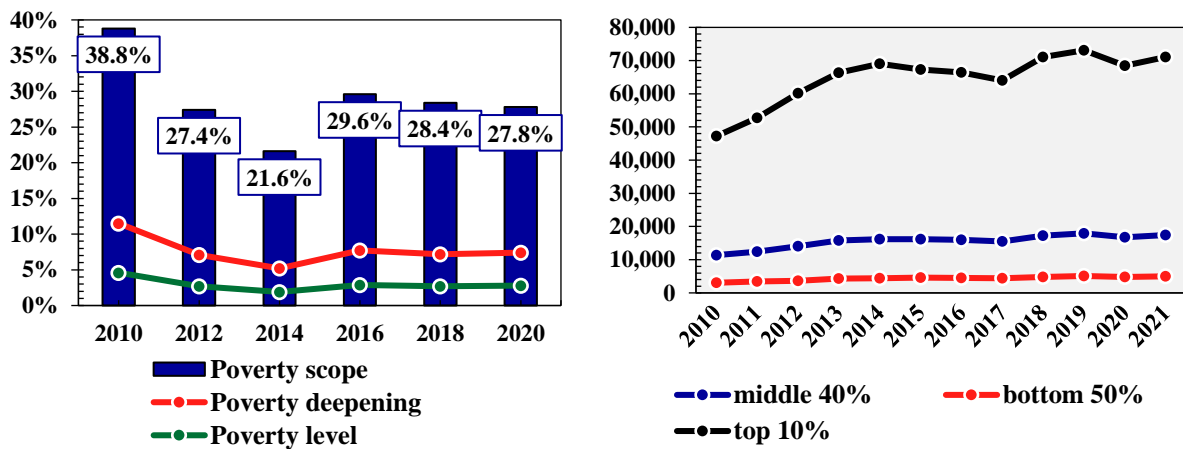
In the second quarter of 2022, household income is MNT1.79 million and household expenses is MNT1.81 million, which is an average of MNT23.7 thousand per month.

Figure I-5- 1. Growth of household income, expenditure and consumption



The curfew imposed in 2020 temporarily and completely halted business activities, reduced employment and household income, the Government and the Bank of Mongolia jointly suspended the payment of loans for citizens with mortgage housing loans until the end of 2022, and in the first quarter of 2021, the payment of consumer loans for citizens for up to 6 months. As a result of delays in the import of consumer products caused by border port and transportation issues, in the first quarter of 2021, household income, expenses, and consumption decreased by 3.9 percent, 6.7 percent, and 11.6 percent, respectively, compared to the same period of the previous year.

Figure I-5- 2. Basic indicators of poverty Figure I-5 3. Average income by population group (USD)



Source: World Inequality Lab

The poverty scope or “Poverty Rate” is 27.8 percent, which means that approximately 1 in 3 people are poor. The depth of poverty is 7.4 percent, or the consumption of the population considered poor is 7.4 percent below the minimum subsistence level.

As of 2021, the highest-income 10% of the population of Mongolia has an average income of USD71.1 thousand, while the lowest-income 50% has an average income of USD5.0 thousand. The highest-income 10% of the population earns, on average, 15 times more than the lowest-income 50%.

### Household indicator highlights

- ✓ Household income, spending, and consumption decreased in mid-2021 and increased starting from the first quarter of 2022 due to weak business activity, decreased employment, household income, and decreased import of consumer goods due to the pandemic outbreak.
- ✓ 27.8 percent of Mongolia's population is considered poor, and the consumption of the poor population is 7.4 percent below the minimum subsistence level.
- ✓ The highest-income 10% of the population earns, on average, 15 times more than the lowest-income 50%.



## I-6. Future economic outlook

The World Bank, the Asian Development Bank and the Bank of Mongolia project the main economic indicators of Mongolia in 2022 and 2023 as follows.

Table I-6- 1. Mongolia's economic growth projections

Indicator	2022 performance projection			2023 performance projection		
	Bank of Mongolia	World Bank	ADB	Bank of Mongolia	World Bank	AD B
GDP growth (%)	2.5	2.5	2.3	5.9	5.8	5.6
Growth of export (%)		4.0	1.3		18.0	14.5
Growth of import (%)		5.7	10.2		17.5	7.6
Inflation(%)	12.0	10.5	12.4		7.5	9.3
Budget revenue balance (percentage in GDP), (%)		-4.8	-9.5		-4.8	-3.1

According to the projections of **the Bank of Mongolia**, Mongolia's economy is expected to grow by 2.4 percent in 2022 and 5.9 percent in 2023. The production of the mining sector is expected to decrease as a whole due to negative effects such as the decrease in gold content in the copper concentrate mined in Oyu Tolgoi and the decrease in exports caused by border port restrictions.

The spread of the pandemic in China intensified in the second quarter of this year, and strict curfews were imposed in large cities as part of the "Zero-COVID" policy, which negatively affected China's consumption, production, and exports, which mainly contributed to the deterioration of the growth outlook. The Chinese authorities are expected to continue to ease the monetary policy outlook in the second half of the year, supporting domestic demand and growth to reach 4.6 percent.

On the other hand, although the spread of the pandemic in Russia is low, it is expected to shrink by 9.5 percent in 2022 due to the decrease in domestic demand and production caused by the sanctions imposed on Russia due to the situation in Russia-Ukraine.

**The World Bank** predicts that Mongolia will grow by 2.5 percent in 2022 and 5.8 percent in 2023. It is believed that the economic growth in 2022 will be mainly influenced by the agricultural sector due to favorable weather conditions, and in 2023, the construction and mining of Oyu Tolgoi underground mine will have mainly an affect on economic growth.

With border ports operating at full capacity, transportation and logistics issues fully resolved, and China lifting pandemic-related restrictions by the end of 2022, total exports are expected to increase. The slow recovery of the labor market and the high inflation rate will limit the growth of household consumption, but the increase in investment in the mining sector is expected to increase imports.

In 2023, the USD800 million bond of the Development Bank of Mongolia will be repaid, and the shortage of foreign currency reserves and the large external debt of the Government will negatively affect the ability to pay, the credit rating of Mongolia will decrease, the cost of raising funds from the foreign market will increase, and there is a risk of further increase of the integrated budget deficit.

**The Asian Development Bank** has estimated Mongolia's economic growth to be 2.3 percent in 2022 and 5.6 percent in 2023. The contribution of agriculture and service sectors to economic growth will continue to grow, but it is emphasized that economic growth prospects for 2023-2025 will be determined depending on the outcome of investment negotiations in the mining sector.

The tension between Russia and Ukraine in 2023 will slow down financial transactions between Mongolia and the European Union, negatively affect household consumption, and increase fuel prices. Due to high fuel prices, the cost of doing business will rise and the price of imported goods will be on the rise. The foreign debt repayments of state-owned organizations are expected to be made in 2023-2024, which is likely to increase budget pressure and reduce foreign currency reserves.

## II. SURVEY ON POST-PANDEMIC BUSINESS CONDITIONS

The National Chamber of Trade and Industry conducted this survey in order to determine how business owners are adapting to the newly created post-pandemic situation, what changes and challenges they are facing in their operations, and what kind of support is required in the future. The survey was conducted from August 25 to September 4, 2022, in the online and questionnaire form, and a total of 1073 business owners from Ulaanbaatar city and the countryside participated.

### General outcomes

#### **Business circumstances:**

- ✓ As of September 2022, 79% of the entrepreneurs surveyed are operating sustainably, while 21% are unable to operate normally and sustainably. 86% of businesses have recovered to some degree and are operating at an average of 47.5% of capacity. The number of enterprises that "failed to recover" is more in the sectors of transport, foreign and domestic trade, mining, tourism, and construction. The pandemic had the biggest impact on business sales (61%), business continuity (48%), and inventory and assets (47%);
- ✓ 96% of business owners feel the negative impact of price increases on a regular or sometimes frequent basis. 43% of business owners have experienced the pressure of rising prices for the past half year, 57% for more than half a year, and business profits have decreased by an average of 52%. Business activity is affected by the increase in the price of raw materials, goods and services (70%), the increase in operating expenses (65%), the increase in costs related to wages and labor force (54%), and the decrease in sales volume (50%).
- ✓ 71% of entrepreneurs applied to a bank and financial institution or individual for a loan, and only 27% were able to get the loan. Difficulties in getting a loan include high interest rates (75%), inability to meet collateral requirements (59%), and not long enough terms (50%). Also, 66% of entrepreneurs believed that credit availability is poor;
- ✓ In comparison with the pre-pandemic period, 49% of enterprises have reduced the number of employees, 43% have not made any changes, and 8% have increased the number of employees. 58% of enterprises have a shortage of required professional workers, and the lack of professional labor has a negative impact on business. Foreign trade, tourism, food processing industry, and transportation sectors are lacking professional manpower. 68% of enterprises have increased wage costs to some extent;
- ✓ 83% of enterprises experienced disruptions in the supply chain, related costs increased by an average of 43.7%, and the time of receiving inventory was delayed by an average of 17 days or more, and in some cases it was unclear when it would be received. Supply disruptions affect business operations by increasing prices of raw materials and goods and services (66%), difficulty in obtaining raw materials (45%), and inability to deliver goods and services to customers on time (30%);
- ✓ 58% of the companies that participated in the survey have difficulties in making foreign payments due to delays in payments and poor availability of foreign currency for payments;
- ✓ The situation in Russia and Ukraine has affected the operations of 48% of the enterprises, causing problems such as poor availability of inventory and raw materials, and delays in transportation and logistics.

#### **Actions taken by entrepreneurs:**

- ✓ Entrepreneurs are taking measures such as reducing the negative impact of price increases on their business, saving operating costs, analyzing working capital and cost structure, providing discounts and incentives to retain customers, and reducing jobs in order to keep operations running smoothly;
- ✓ Building a more flexible and responsive internal supply chain to provide critical supplies in the event of supply disruptions, switching with alternative suppliers;
- ✓ Implemented new policies and strategies and introduced a combination of in-office and remote work to retain the necessary staff. 85% of the companies that participated in the survey are training the necessary employees themselves.

#### **Support required from the Government:**

- ✓ Resolving cross border and port problems, addressing the transport and logistics problems, providing soft loans and financing needed for full restoration of business activities;
- ✓ In order to reduce the impact of price increases on business, temporary tax relief support (70%), long-term loans with low interest rates (69%), rapid entry of raw materials across border and customs;
- ✓ Providing financial and tax support to employers who retain their professional workforce to increase jobs and employ the required professional workforce, providing financial and tax support for training and qualification of their professional workforce, and approval of joint effective measures and strategic plans by the Government;
- ✓ Normalization of border port operations (73%), rapid border and customs procedures for export/import of raw materials, and making policy decisions supporting foreign direct investment will be important support to reduce the negative impact of supply disruptions and delays.

### **II-1. Business conditions**

As of September 2022, the results of the survey on whether business activities are stable and normal, and what are the difficulties in restoring and normalizing business activities, are summarized in this section.

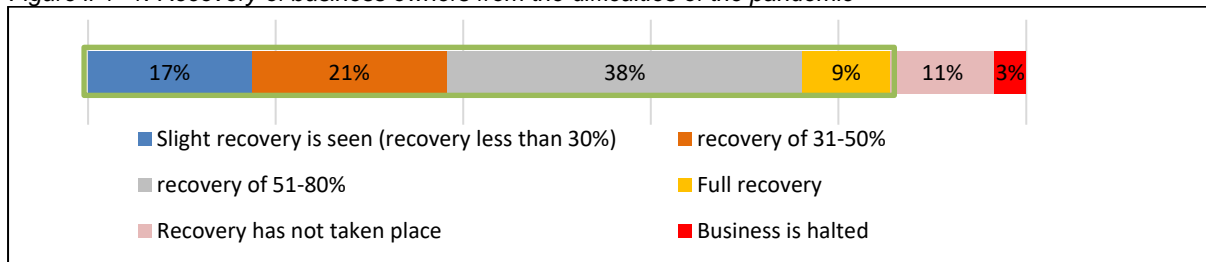
#### **Business operating conditions**

79% of the business owners who participated in the survey are operating in a stable manner, while 21% are unable to operate normally and stably. When clarifying the main difficulties faced by enterprises whose operations cannot be stable and normal, 55% stated that the price of inventory and raw materials has increased, 45% responded that costs related to operations have increased, 39% said that the purchasing power of citizens have decreased, and 34% said transport and logistics difficulties disrupt their activities.

Compared to the pre-pandemic period, 86% of the enterprises participating in the survey have recovered to some extent. The average recovery of business activity of enterprises is about 47.5%, and entrepreneurs are working at an average of 47.5% of their full capacity.

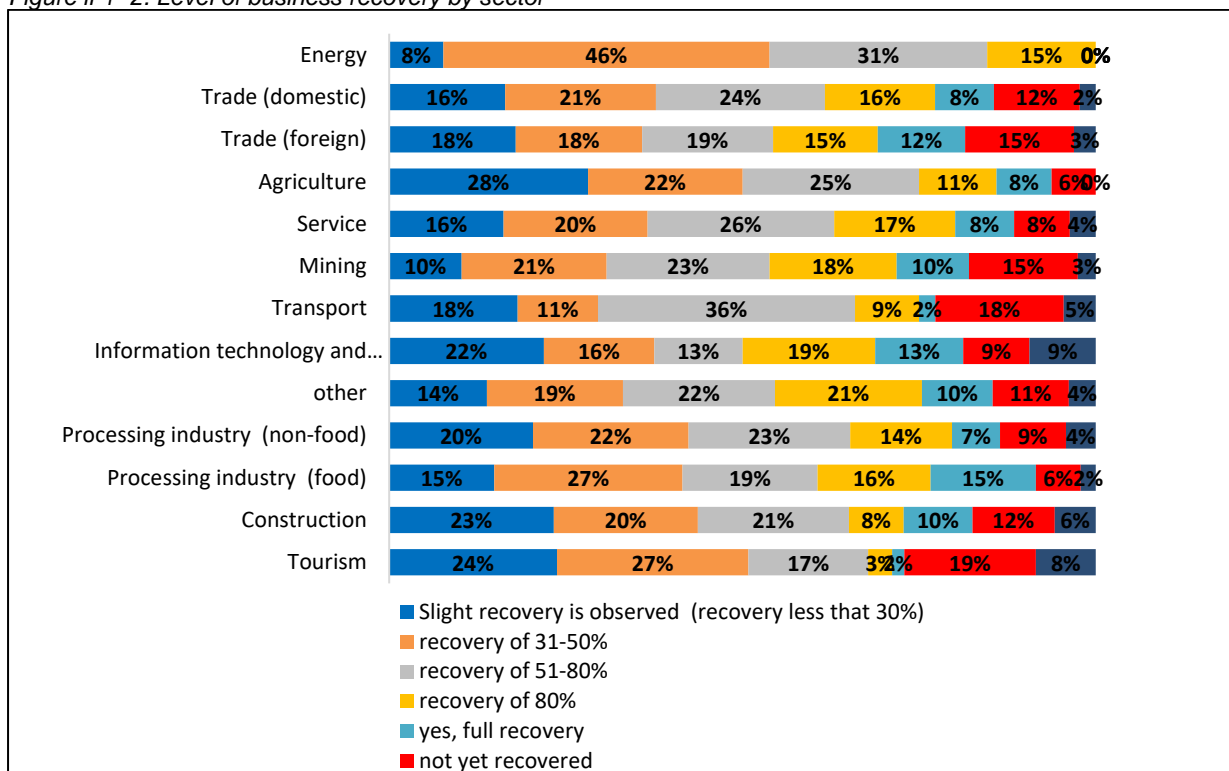
In particular, 17% of the enterprises said that only a slight recovery is observed, and about 30% said that their activities have recovered. But 59% said that business activities have been restored by 31-80%, while 9% said that business activities have been completely restored. In addition, 11% of businesses have not recovered from the difficulties, and 3% have stopped operating. (Figure II-1-1)

Figure II-1- 1. Recovery of business owners from the difficulties of the pandemic



Looking at the level of recovery of business activity by sectors, the number of enterprises that "failed to recover" is more in the sectors of transport, foreign and domestic trade, mining, tourism, and construction. However, all the business owners of the energy sector are resuming their activities to a certain extent. Also, the recovery of activity in food processing, agriculture and services is better than in other sectors. (Figure II-1-2)

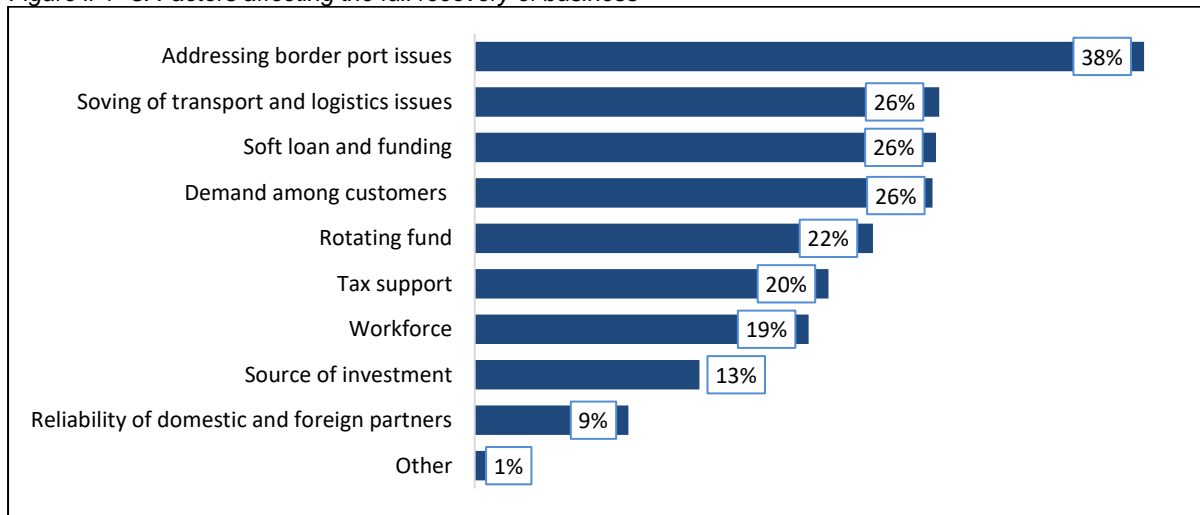
Figure II-1- 2. Level of business recovery by sector



When we clarified the main factors affecting the full recovery of business activities, 38% of business owners named the resolution of border port issues, 26% of transportation and logistics issues, and 26% of soft loans and financing, as well as the recovery of consumer demand. (Figure II-1-3)

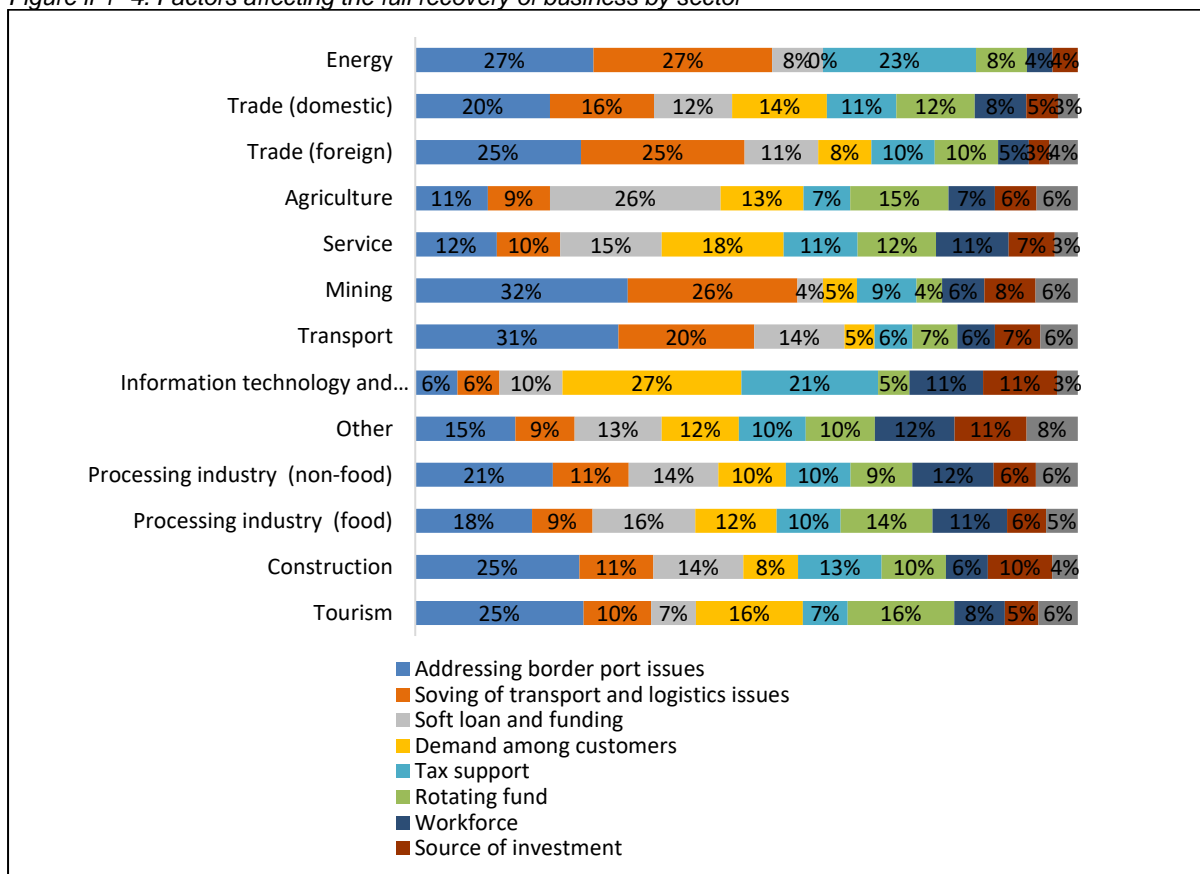


Figure II-1- 3. Factors affecting the full recovery of business



If we look at the factors affecting the recovery of normal business activities by sectors, border port problems need to be solved in the mining and transportation sectors, transport logistics problems need to be solved in the energy and foreign trade sectors, soft loan financing in the agricultural sector, and consumer demand in the information technology and communication sectors and all these factors have an important effect. (Figure II-1-4)

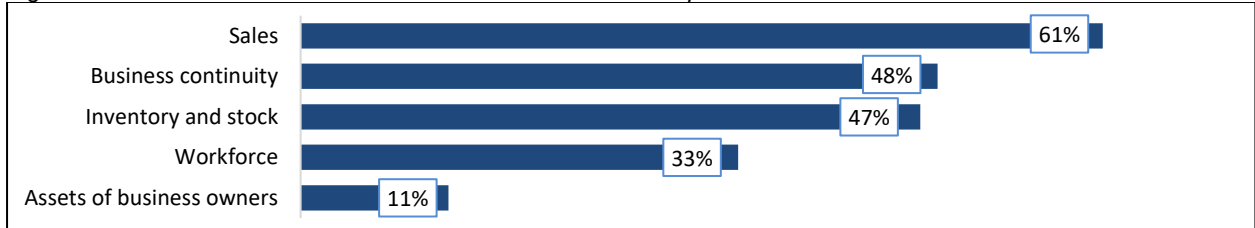
Figure II-1- 4. Factors affecting the full recovery of business by sector



**Impact on business**

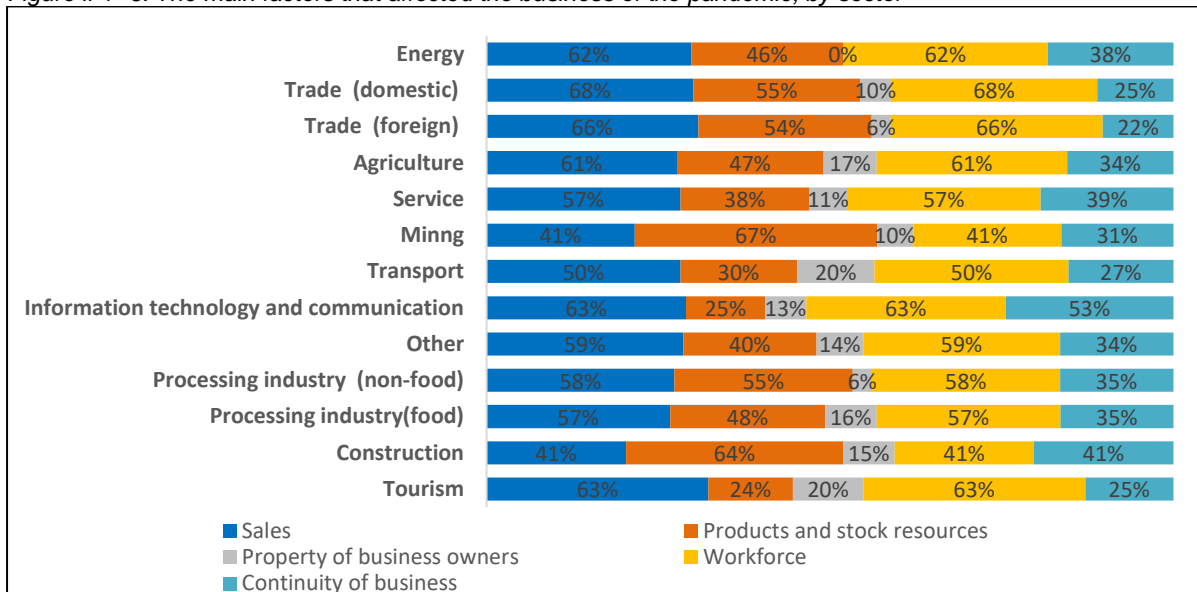
When asked which part of the business the pandemic has had the greatest impact on, 61% of business owners said it had the greatest impact on sales, 48% on business continuity, and 47% on products and reserves. (Figure II-1-5)

Figure II-1- 5. The main factors that affected the business of the pandemic



When we look at which part of the business is most affected by the pandemic, it was found out that sales were the main influencing factor in all sectors, goods and resources in the construction and mining sector, workforce in the information technology and communication sector, and business continuity in the transport and tourism sector. (Figure II-1-6)

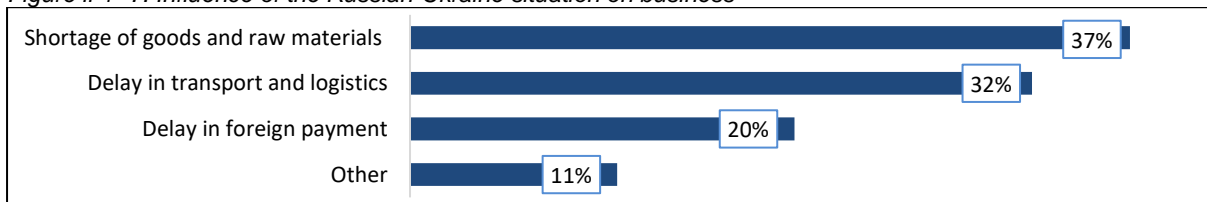
Figure II-1- 6. The main factors that affected the business of the pandemic, by sector



When we clarified how the situation in Russia affects the business owners in Mongolia, 48% of the businessmen who participated in the survey said that the situation in Russia and Ukraine affected their business activities, and the availability of inventory, raw materials, and delays in transportation and logistics were the main factors affecting their business. (Figure II-1-7)

If we break down by business sectors, it turned out that energy, foreign trade, and transportation sectors were mostly affected.

Figure II-1- 7. Influence of the Russian-Ukraine situation on business



### Conclusion of the part I

- ✓ As of September 2022, 79% of the entrepreneurs surveyed are operating sustainably, while 21% are unable to operate normally and sustainably. 86% of businesses have recovered to some degree and are operating at an average of 47.5% of capacity. The number of enterprises that "failed to recover" is more in the sectors of transport, foreign and domestic trade, mining, tourism, and construction. The pandemic had the biggest impact on business sales (61%), business continuity (48%), and inventory and assets (47%);
- ✓ 96% of business owners feel the negative impact of price increases on a regular or sometimes frequent basis. 43% of business owners have experienced the pressure of rising prices for the past half year, 57% for more than half a year, and business profits have decreased by an average of 52%. Business activity is affected by the increase in the price of raw materials, goods and services (70%), the increase in operating expenses (65%), the increase in costs related to wages and labor force (54%), and the decrease in sales volume (50%).
- ✓ 71% of entrepreneurs applied to a bank and financial institution or individual for a loan, and only 27% were able to get the loan. Difficulties in getting a loan include high interest rates (75%), inability to meet collateral requirements (59%), and not long enough terms (50%). Also, 66% of entrepreneurs believed that credit availability is poor;
- ✓ In comparison with the pre-pandemic period, 49% of enterprises have reduced the number of employees, 43% have not made any changes, and 8% have increased the number of employees. 58% of enterprises have a shortage of required professional workers, and the lack of professional labor has a negative impact on business. Foreign trade, tourism, food processing industry, and transportation sectors are lacking professional manpower. 68% of enterprises have increased wage costs to some extent;
- ✓ 83% of enterprises experienced disruptions in the supply chain, related costs increased by an average of 43.7%, and the time of receiving inventory was delayed by an average of 17 days or more, and occasionally it was unclear when it would be received. Supply disruptions affect business operations by increasing prices of raw materials and goods and services (66%), difficulty in obtaining raw materials (45%), and inability to deliver goods and services to customers on time (30%);
- ✓ 58% of the companies that participated in the survey have difficulties in making foreign payments due to delays in payments and poor availability of foreign currency for payments;
- ✓ The situation in Russia and Ukraine has affected the operations of 48% of the enterprises, causing problems such as poor availability of inventory and raw materials, and delays in transportation and logistics.

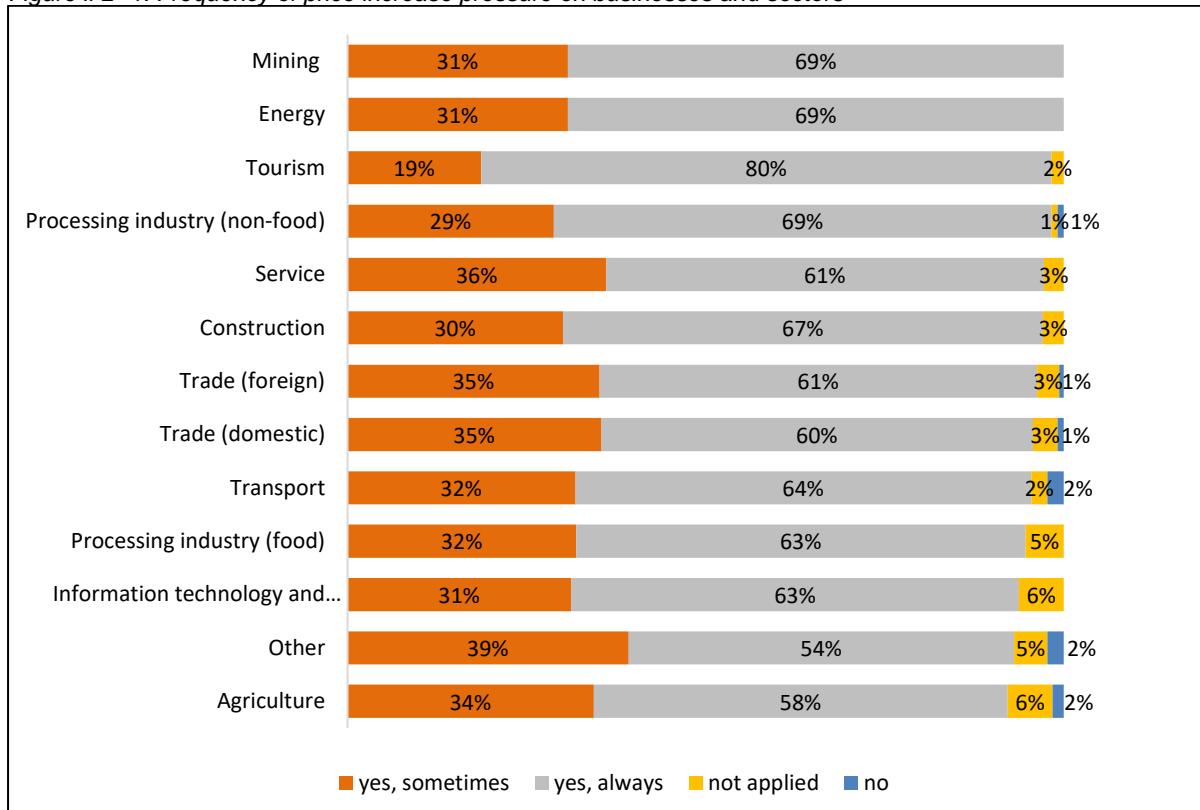
## II-2. The financial impact of price increases on business

This section summarizes the outcomes of the survey on how the price increase affects business owners, what measures are being taken by the business owners in the situation, and what support the business needs to reduce the impact of the price increase.

### Impact of price increase on business

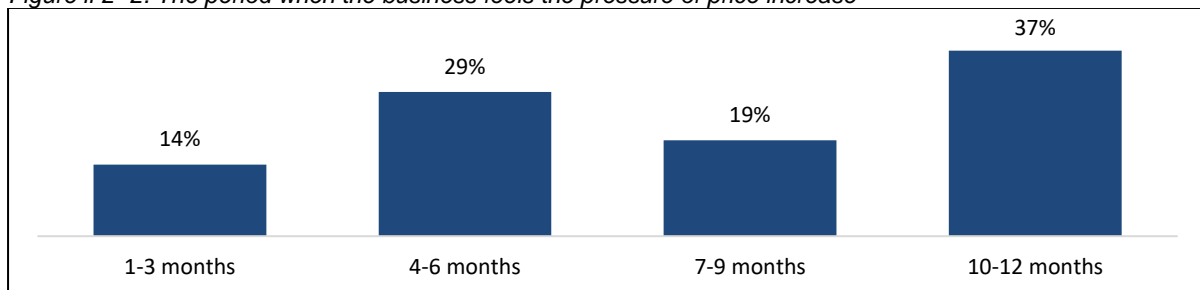
Regarding the pressure of price increase on the business, 96% of the entrepreneurs who participated in the survey said that the pressure of price increase is affecting their business, more specifically, 62% said that the pressure of price increase is felt always there, while 34% said that they feel the pressure of price increase occasionally.

Figure II-2- 1. Frequency of price increase pressure on businesses and sectors



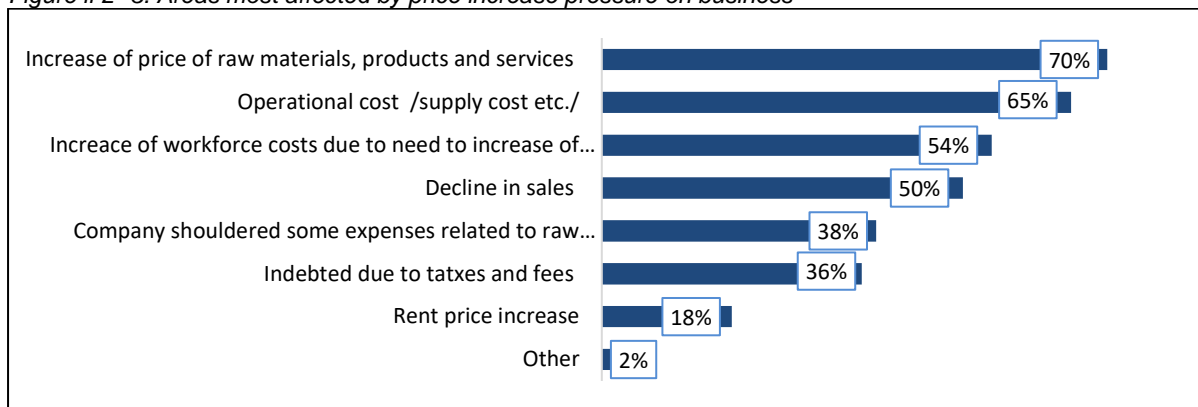
Price increases are putting pressure on businesses in all sectors, with mining, energy, non-food processing and tourism sectors the most affected. (Figure II-2-1)

Figure II-2- 2. The period when the business feels the pressure of price increase



Regarding how long the pressure of price increase has been felt in the business, 43% said that it has been felt in the last six months and 57% for more than 6 months in the previous year. (Figure II-2-2)

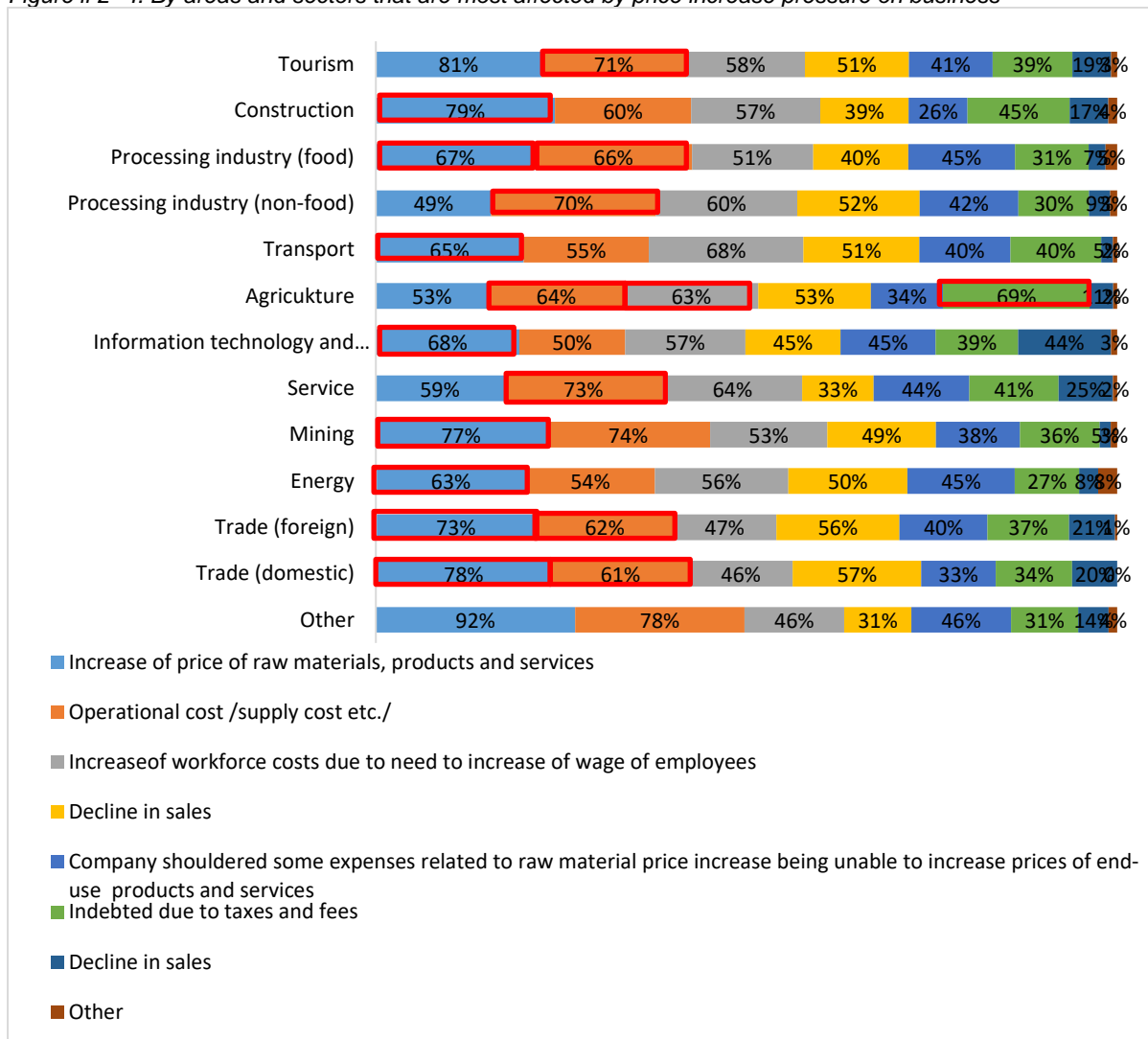
Figure II-2- 3. Areas most affected by price increase pressure on business



When it comes to which part of the business is affected by the increase in prices, it affects business causing 70% increase in the price of raw materials, goods and services, 65% increase in operating expenses, 54% increase in labor costs due to the need to raise wages, and 50% decrease in sales volume. (Figure II-2-3)

If we consider how price increase affects business operations by sectors, it was found out that affects caused increased inventory prices in the trade sector, increased operating costs in the service and processing industry, and increased tax liabilities in the agricultural sector. (Figure II-2-4)

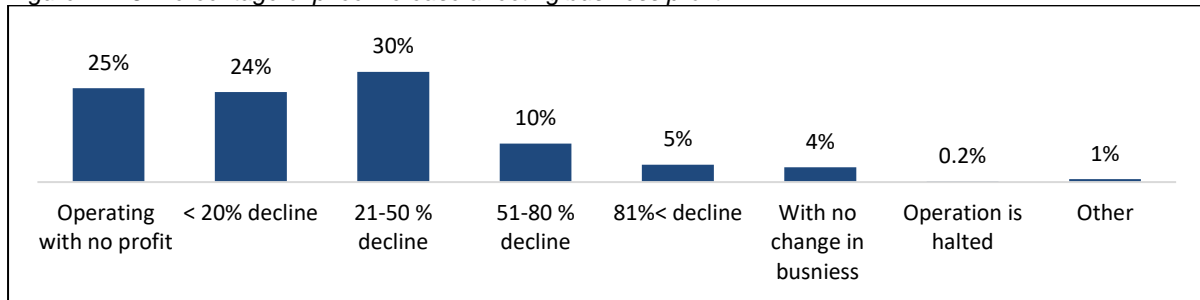
Figure II-2- 4. By areas and sectors that are most affected by price increase pressure on business





When we clarified how price increases affect business profitability, only 4% of business owners said that there was no change in profitability, while 96% said that it had a negative impact on profitability. Business profits fell by an average of 52% due to price increases. Specifically, 25% of them are operating with no profit, 54% have seen a decrease in profit level of up to 50%, and 15% have seen a decrease in profit of more than 50%. (Figure II-2-5)

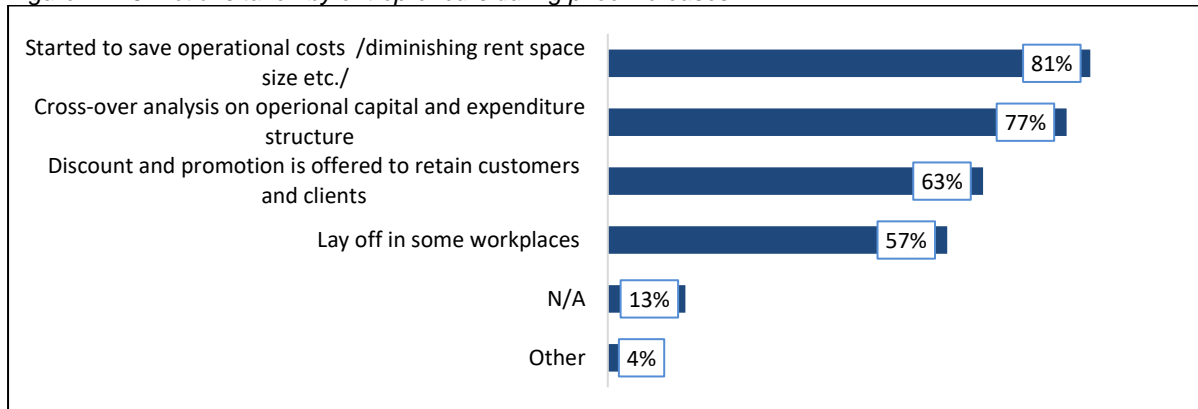
Figure II-2- 5. Percentage of price increase affecting business profit



**Measures taken by entrepreneurs and support required**

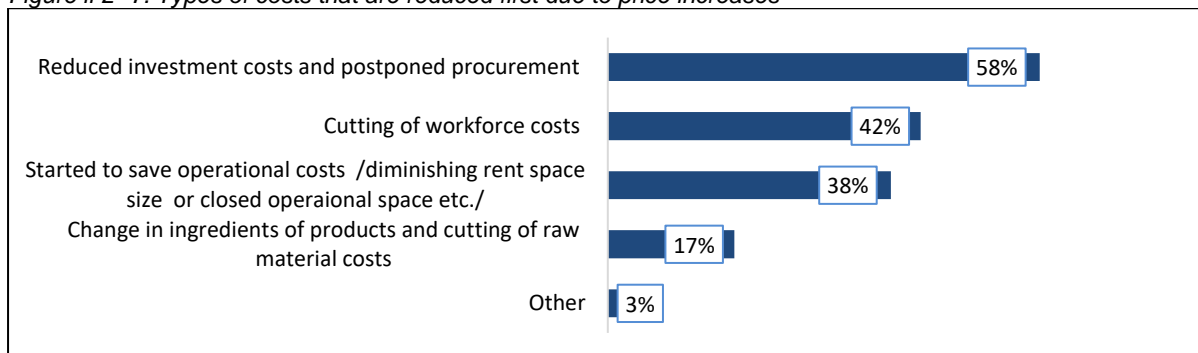
When we clarified what measures are being taken by business owners in order to maintain normal operations during price increases, 81% started saving operating costs, 77% analyzed working capital and cost structure, and 63% provided discounts and incentives to retain customers. On the other hand, 57% of the business owners who participated in the survey said that they have had layoffs. (Figure II-2-6)

Figure II-2- 6. Actions taken by entrepreneurs during price increases



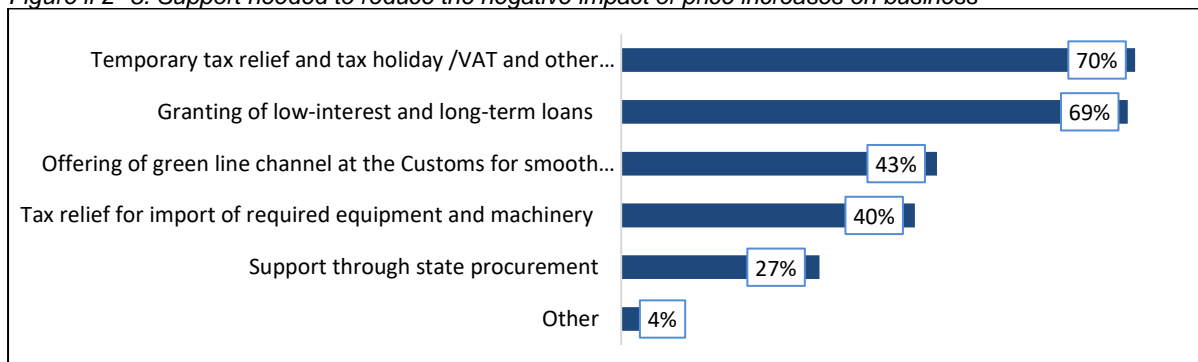
When it comes to what types of operating expenses business owners are cutting first, 58% are cutting capital expenditures and delaying purchases, 42% are cutting labor-related costs, and 38% are cutting rent and minimizing office and operational space. is (Figure II-2-7)

Figure II-2- 7. Types of costs that are reduced first due to price increases



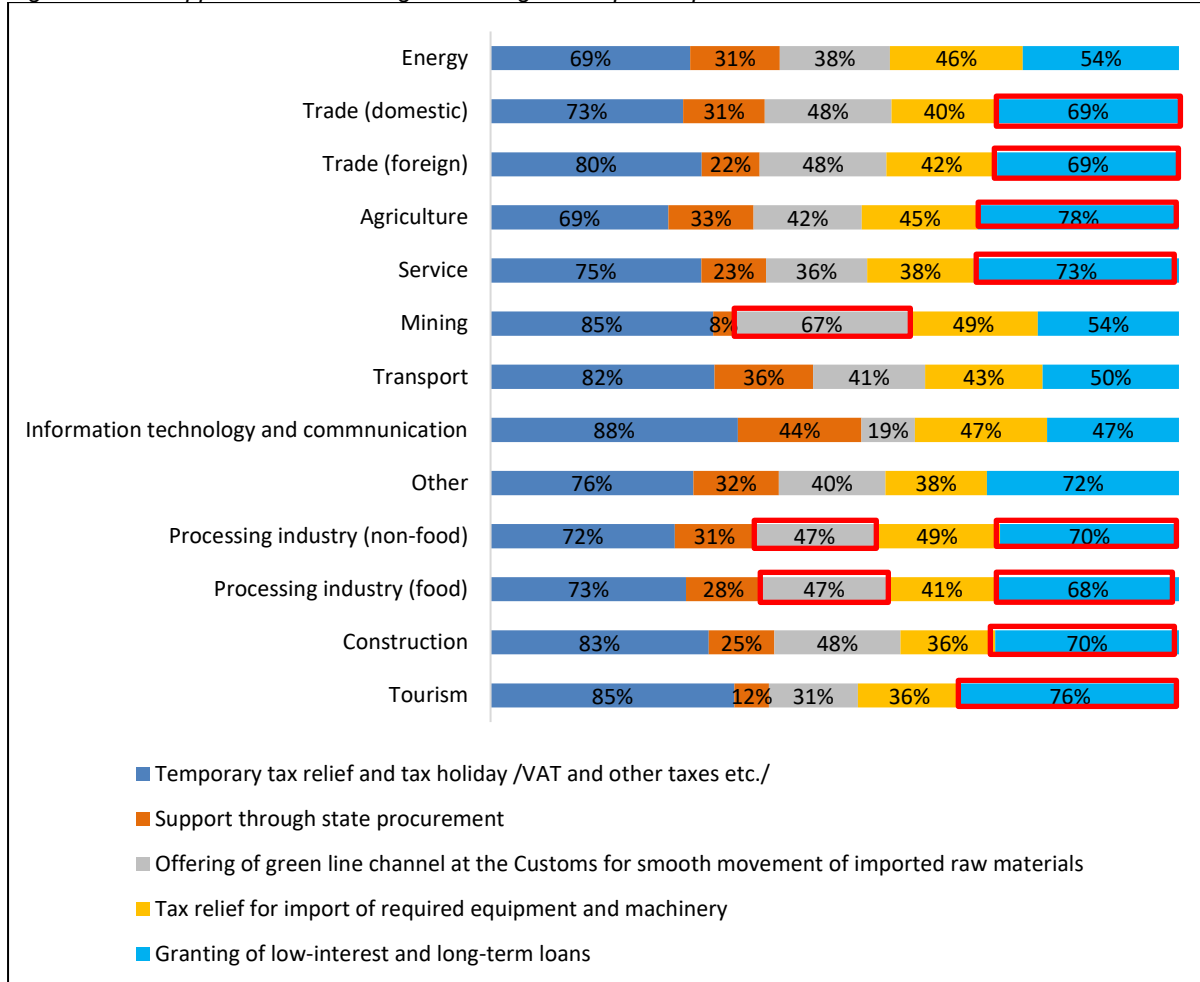
Regarding what kind of support is needed to reduce the impact of price increases on business, 70% of the entrepreneurs who participated in the survey pointed out temporary tax relief support, 69% pointed out the provision of long-term loans with low interest rates, speedy clearance for the import of raw materials through customs, and green channels. (Figure II-2-8)

Figure II-2- 8. Support needed to reduce the negative impact of price increases on business



If we look at the support measures to be taken in the direction of reducing the negative impact of the price increase in business by sector, it is said that all sectors need temporary tax relief and support. They also said that it is important for entrepreneurs in the agriculture, service, construction, trade, and tourism sectors to get low-interest, long-term loans, and for raw materials and inventories in the mining and processing industries to pass through customs-simplified green channels. (Figure II-2-9)

Figure II-2- 9. Support needed to mitigate the negative impact of price increases on business



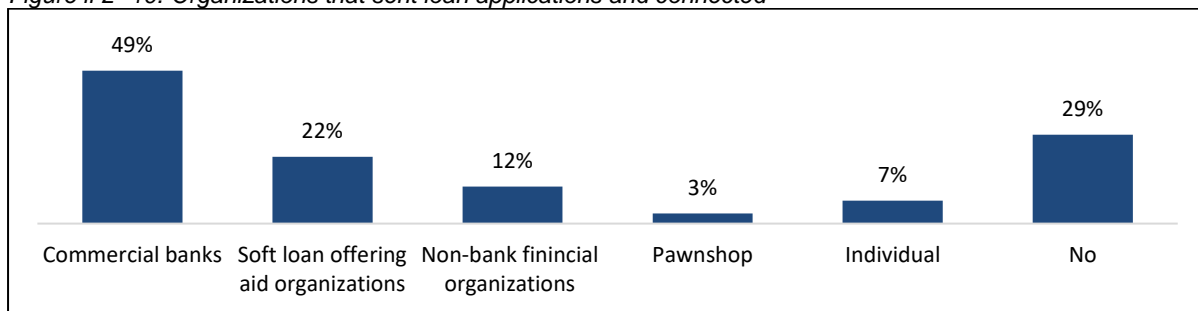
At the time of high price growth, 52% of the business owners who participated in the survey believe that they can continue their business activities in the future, and 48% of the business owners predict that the price increase will not decrease at the end of 2022, while 47% said that they do not know for sure.

**Finance and credit**

71% of business owners want to get a loan to improve their cash flow and have applied to a bank and financial institution to get a loan. According to the number of enterprises that want to get a loan, 49% applied to commercial banks, 22% applied for subsidized loan projects and programs, 12% applied to non-bank financial institutions, and 10% requested pawnshops and individuals to provide a loan. (Figure II-2-10)

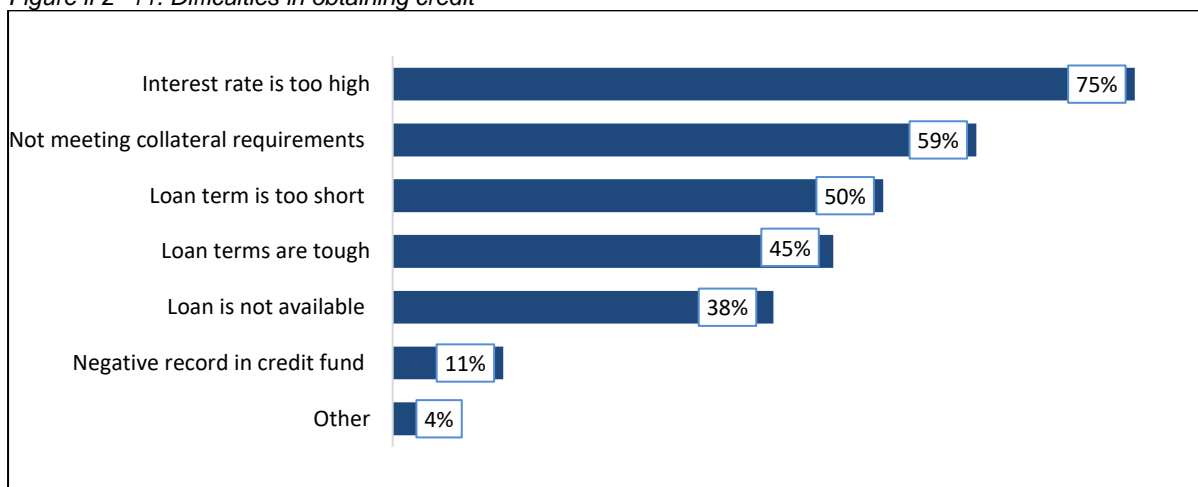
Only 27% of entrepreneurs who applied for a loan were successful in getting a loan, while 73% were unable to get a loan. Also, 66% of business owners said that the availability of loans is poor, while 16% said that loans are available if they meet the requirements.

Figure II-2- 10. Organizations that sent loan applications and connected



Regarding the problems and difficulties in getting a loan, 75% mentioned the high interest rate, 59% not meeting the collateral requirements, and 50% the term not being long enough. (Figure II-2-11)

Figure II-2- 11. Difficulties in obtaining credit



58% of the business owners who participated in the survey said that there are some disruptions in making foreign payments. Specifically, 30% said that foreign payments are delayed, while 28% said that the availability of foreign currency for payments is poor. (Figure II-2-12)

Figure II-2- 12. Whether there are difficulties related to making foreign payments



### Conclusion of the part II

- ✓ The pressure of rising prices is felt by 96% of businesses on a regular or sometimes frequent basis, most affecting the mining, energy, manufacturing and tourism sectors.
- ✓ Business operations were affected by the increase in the price of raw materials, goods and services (70%), the increase in operating expenses (65%), the increase in labor costs (54%), and the decrease in sales (50%).
- ✓ 43% of business owners have felt the pressure of price increase for the past six months and 57% for more than 6 months. As a result of the increase in prices, business profits decreased by an average of 52%, and 96% of the surveyed businesses experienced a decrease in profitability.
- ✓ Entrepreneurs began to reduce the negative impact of price increases on their business and save operating costs in order to run their operations smoothly (81%), analyzed working capital and cost structure (77%), and provided discounts and incentives to retain customers (63 %), had layoffs (57%).
- ✓ In the future, they need Governmentsupport such as temporary tax relief support (70%), low-interest long-term loans (69), and support for rapid clearance of raw materials through customs in order to reduce the impact of price increases on business.
- ✓ At a time of high price growth, 52% of business owners have positive expectations for continued business operations. Also, 48% of business owners predict that price growth will not decrease at the end of 2022, while 47% do not know for sure.
- ✓ 71% of business owners applied to a bank or financial institution to get a loan to improve their cash flow, and only 27% were able to get the loan. Regarding the difficulties in getting a loan, the following were mentioned: high interest rate (75%), inability to meet collateral requirements (59%), and insufficient term (50%).
- ✓ 66% of business owners say that the availability of loans is poor, while 16% say that loans are available if they meet the requirements.
- ✓ 58% of the enterprises that participated in the survey said that there are difficulties in making foreign payments due to disruptions in foreign payments (30%) and poor availability of foreign currency for payments (28%).



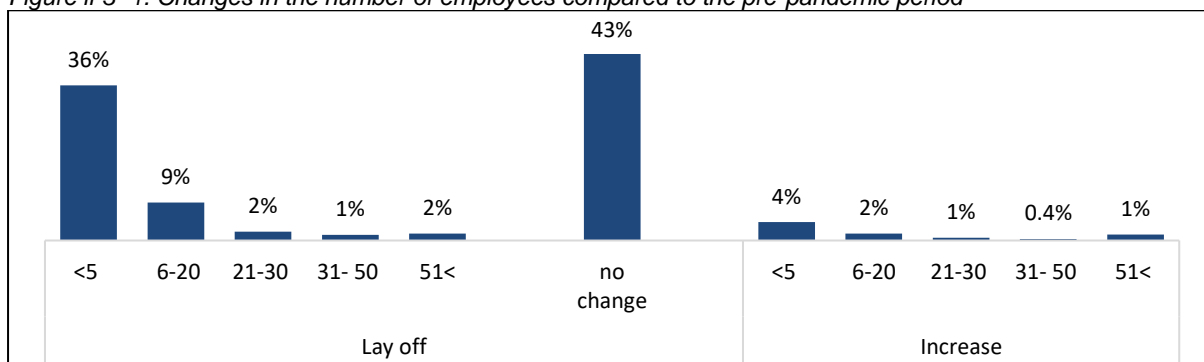
### II-3. Workforce influence and change in business

As the pandemic continues and businesses and the economy are recovering, this section explains whether businesses have made changes to the number of employees, the availability of the necessary professional workforce, and what measures are being taken by businesses to maintain their workforce and what support is needed in the future.

#### Impact on business

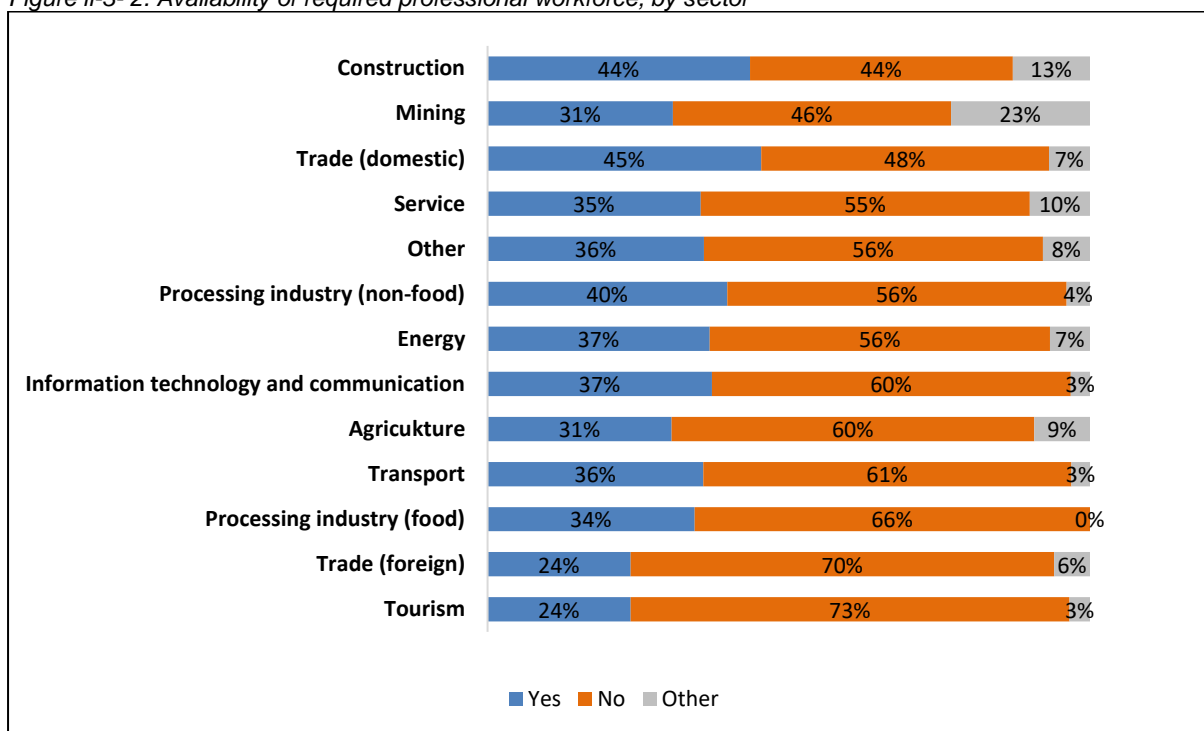
Regarding the changes in the number of employees compared to the pre-pandemic period, 49% of the entrepreneurs who participated in the survey reduced the number of employees, 43% did not make any changes, and 8% increased the number of employees. (Figure II-3-1)

Figure II-3- 1. Changes in the number of employees compared to the pre-pandemic period



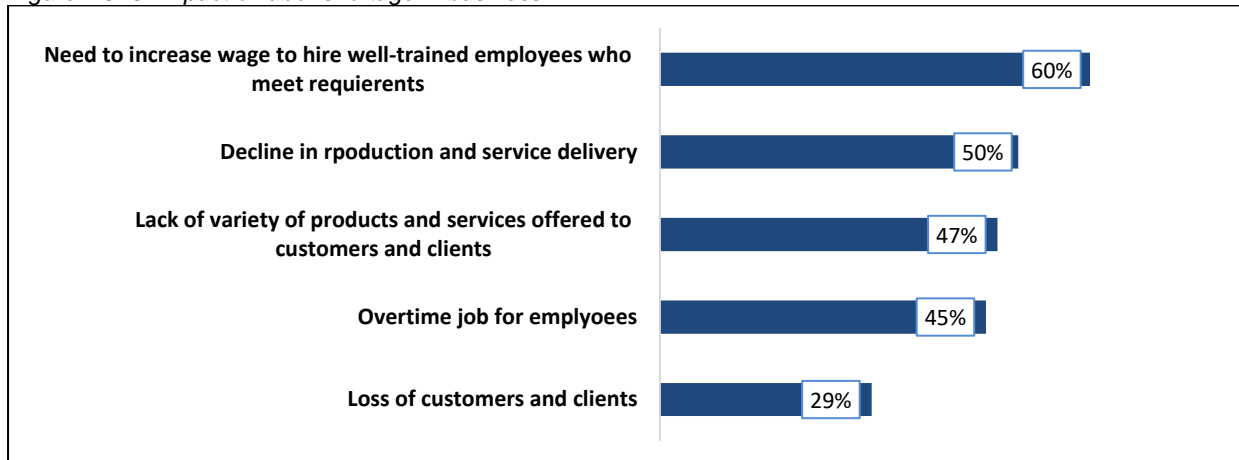
When asked whether there are professional employees required by business owners, 58% said that there are not sufficient, and 36% said that there is insufficient. In order to clarify which business sector lacks the most professional labor force, if we take a detailed look at the sector, foreign trade, tourism, food processing industry, and transportation sector lack more professional labor force. (Figure II-3-2)

Figure II-3- 2. Availability of required professional workforce, by sector



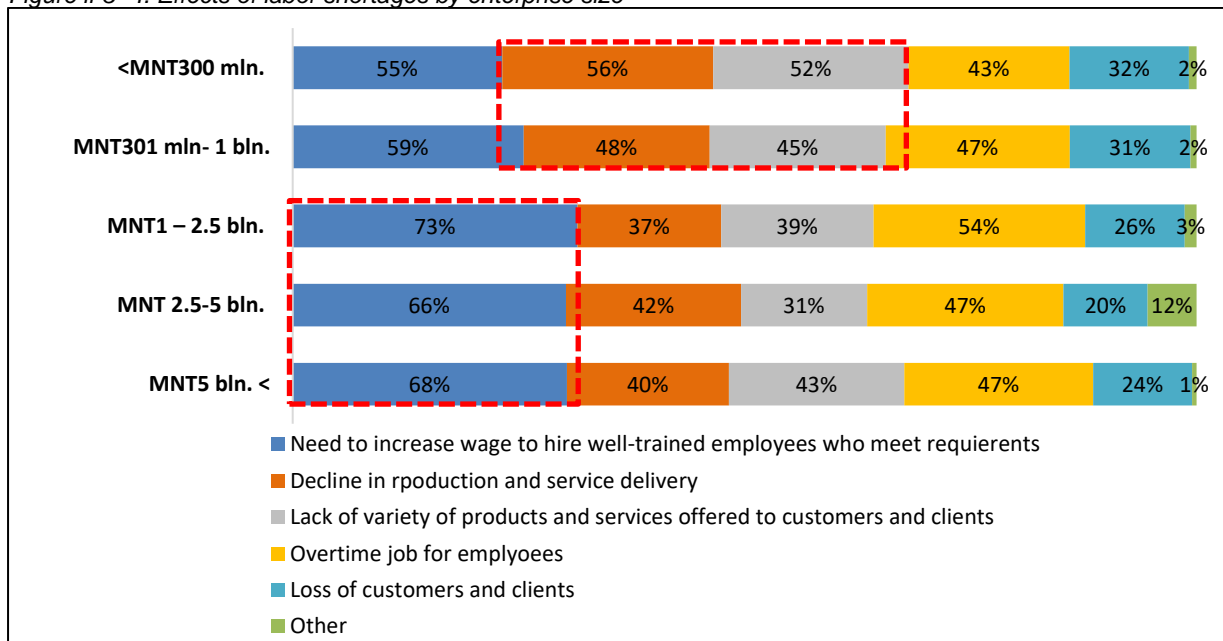
Also, 67% of entrepreneurs believed that the lack of professional workforce has a negative impact on business. When we look at how labor shortages affect business operations, it was revealed that 60% of business owners increase wages to retain qualified employees, 50% have to reduce production, and 47% fail have to maintain a sufficient variety of products and services. (Figure II-3-3)

Figure II-3- 3. Impact of labor shortage in business



If we look at the impact of the labor shortage in detail by the size of the enterprise, micro and small enterprises reduce the amount of production and operations due to the lack of necessary labor, while medium and large enterprises increase the wages of the necessary employees. (Figure II-3-4)

Figure II-3- 4. Effects of labor shortages by enterprise size

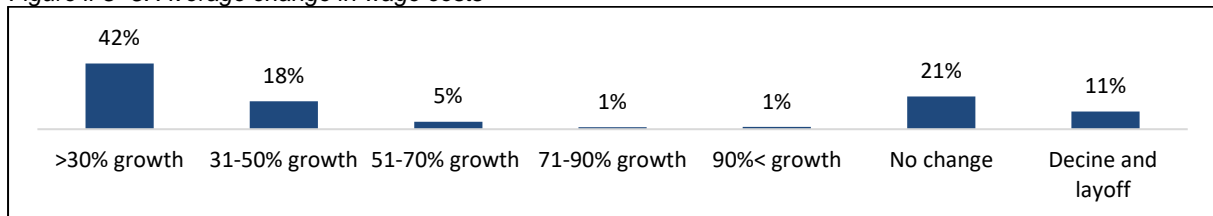


**Measures taken by entrepreneurs and support required**

58% of businesses are implementing new policies and strategies to retain the workforce they need, while 39% are adopting a hybrid of in-office and remote work. In addition, 85% of the enterprises participating in the survey are training the necessary employees themselves.

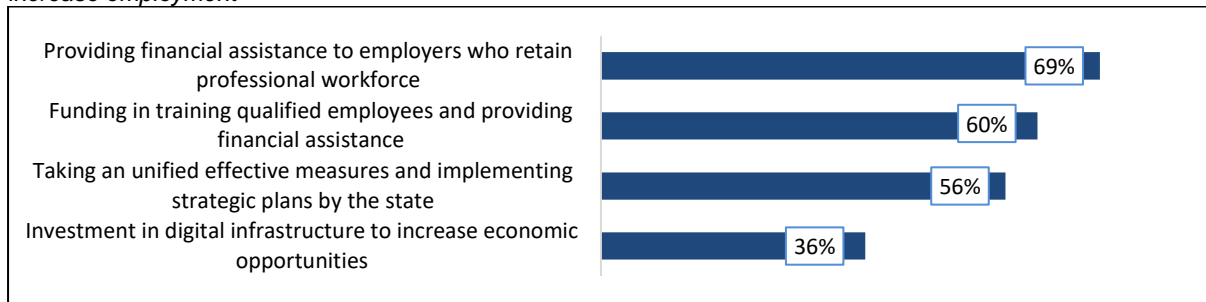
As the pandemic continues and businesses and the economy are recovering, 21% of entrepreneurs said that there was no change in wage costs, 11% said that they reduced their wage costs and cut jobs, while 68% said that their wage costs increased to some extent. (Figure II-3-5)

Figure II-3- 5. Average change in wage costs



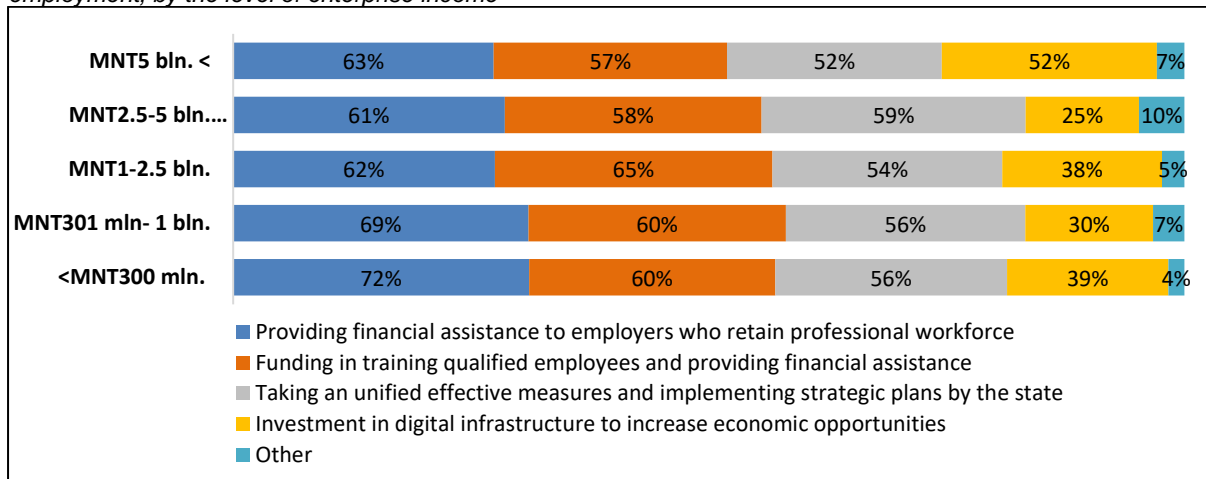
Regarding what kind of support from the Government is needed for businesses to increase jobs and find and employ the required professional workforce, 69% said they need financial support to employers who retain their professional workforce, 60% need financial support for training and qualification of their professional workforce, and 56% said the Government should take unified actions and adopt strategic plans to address the issue. (Figure II-3-6)

Figure II-3- 6. Support required to find and employ the professional workforce required by the business and to increase employment



Financial support is vital for micro and small enterprises to maintain their jobs, while medium-sized enterprises need financial and tax support for training and qualification of their employees. (Figure II-3-7)

Figure II-3- 7. Support required to find and employ the professional workforce required for business, to increase employment, by the level of enterprise income



### Conclusion of the Section III

- ✓ Compared to the pre-pandemic period, 49% of enterprises reduced the number of employees, 43% did not make any changes, and 8% increased the number of employees.
- ✓ 58% of enterprises currently do not have sufficient professional workers, 36% say they have sufficient workforce, and the lack of professional labor has a negative impact on business (67%). Foreign trade, tourism, food processing industry, and transportation sectors face shortage of professional manpower.
- ✓ Labor shortages affect business operations by increasing payroll costs to retain qualified employees (60%), reducing production volume (50%), and not maintaining a sufficient variety of products and services (47%).
- ✓ 21% of enterprises said that there was no change in wage costs, 11% said that they reduced their wage costs and cut jobs, while 68% said that their wage costs increased to some extent.
- ✓ Business owners are implementing new policies and strategies to retain the employees they need (58%), and are working on a combination of in-office and remote working (39%). Also, 85% of the companies that participated in the survey are training the necessary employees themselves.
- ✓ Regarding how the Government will support businesses to increase jobs and find and employ the required professional workforce, financial support for employers who retain their professional workforce (69), financial support for training and qualification of their professional workforce (60), and a unified effective approach from the Government and adoption of strategic plans (56%).

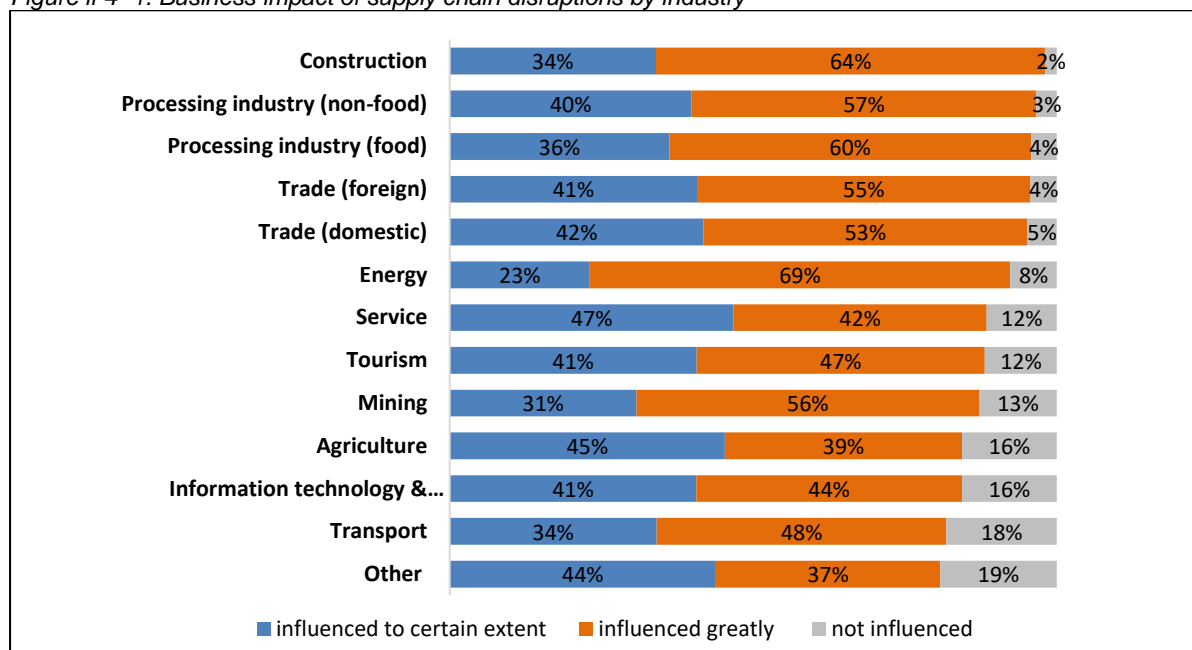
## II-4. Supply chain impact and change in business

This section explains how the pandemic and unfavorable foreign market conditions affect the goods supply chain of enterprises and entrepreneurs, what measures businesses take to ensure continuous supply, and how their operations are changing.

### Impact on business

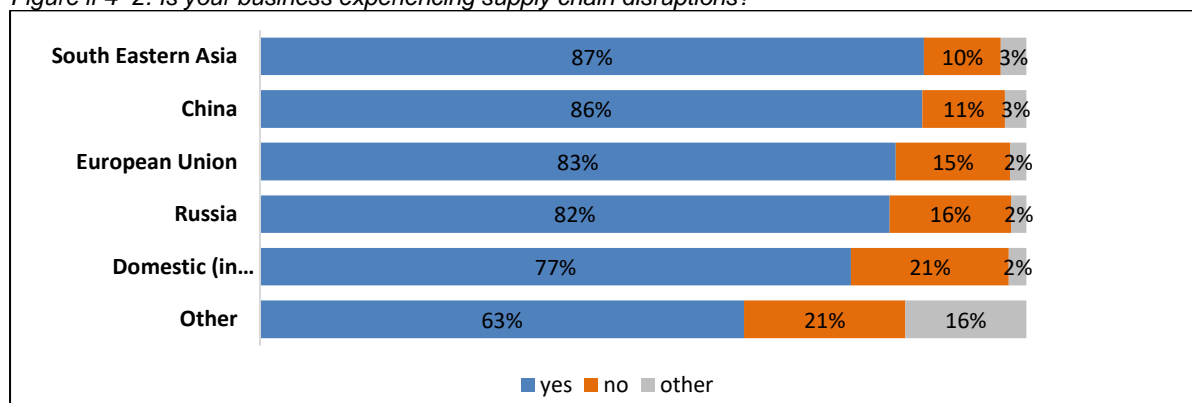
83% of the enterprises participating in the survey responded that the supply chain was disrupted, and when asked how it affects the business, 49% said that it substantially affected their business, 42% said that it affected to some extent and 9% said that it did not affect and it was not relevant to operations. When it comes to which business sectors are most affected by supply chain disruptions, the biggest impact is on businesses in construction (98%), manufacturing (97%), foreign trade (96%), and energy (92%). (Figure II-4-1)

Figure II-4- 1. Business impact of supply chain disruptions by industry



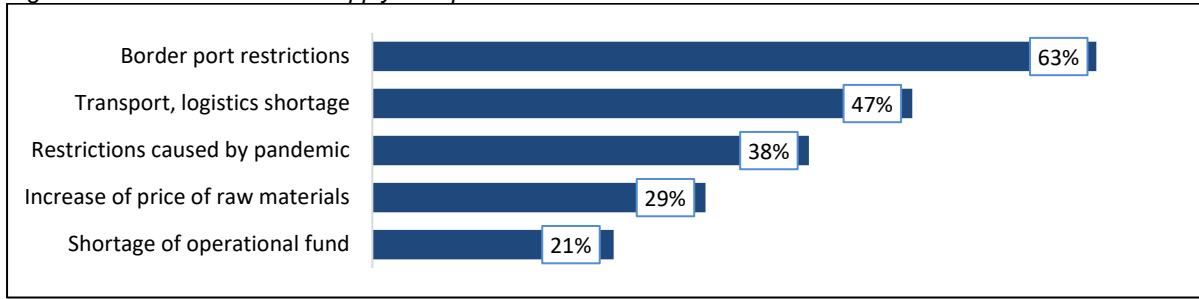
When we look at supply chain disruptions by supplier partner country, businesses sourcing from China and Southeast Asia experienced more disruptions. (Figure II-4-2)

Figure II-4- 2. Is your business experiencing supply chain disruptions?



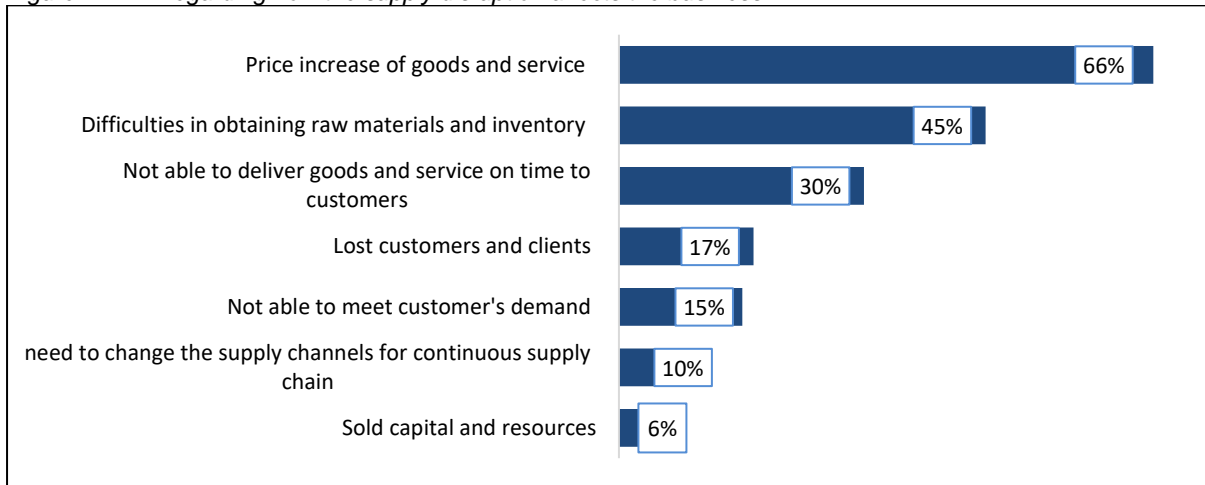
When the main reasons for supply disruptions were identified by businessmen, 63% of them cited border port restrictions, 47% of transport logistics disruptions, 38% of pandemic restrictions, and raw material price increases. (Figure II-4-3)

Figure II-4- 3. Main causes of supply disruptions



When clarifying how supply disruptions affect business operations, 66% cited increased prices of raw materials and goods and services, 45% found it difficult to obtain raw materials, and 30% said they could not deliver goods and services to customers on time. (Figure II-4-4)

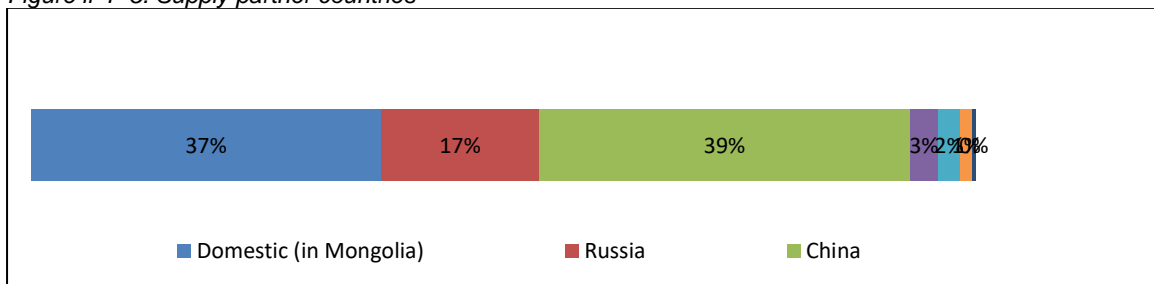
Figure II-4- 4. Regarding how the supply disruption affects the business



For entrepreneurs who have supply partners in our country or from countries like Russian, and China, it is difficult to get raw materials, while for entrepreneurs with partners in the European Union and Southeast Asia, the inability to deliver goods and services on time has a greater impact.

Regarding the country of the most important supplier among the businessmen participating in the survey, 37% are domestic, 39% are China, 17% are Russia, 3% are European Union, 2% are Southeast Asia, and 1% are other countries. (Figure II-4-5)

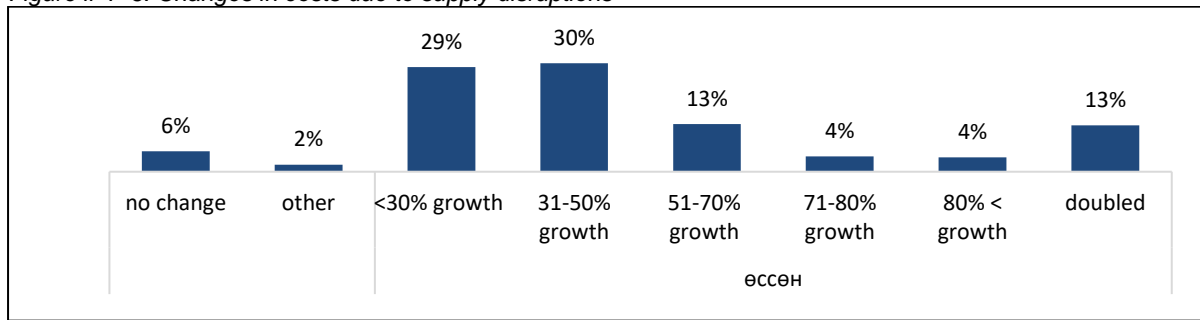
Figure II-4- 5. Supply partner countries



Regarding how the costs of the enterprises participating in the survey changed due to the supply interruption, 6% of the entrepreneurs said that there was no change, and 92% said that the costs increased. **The expenses** of the enterprises participating in the survey **increased by 43.7% on average.** (Figure II-4-6)



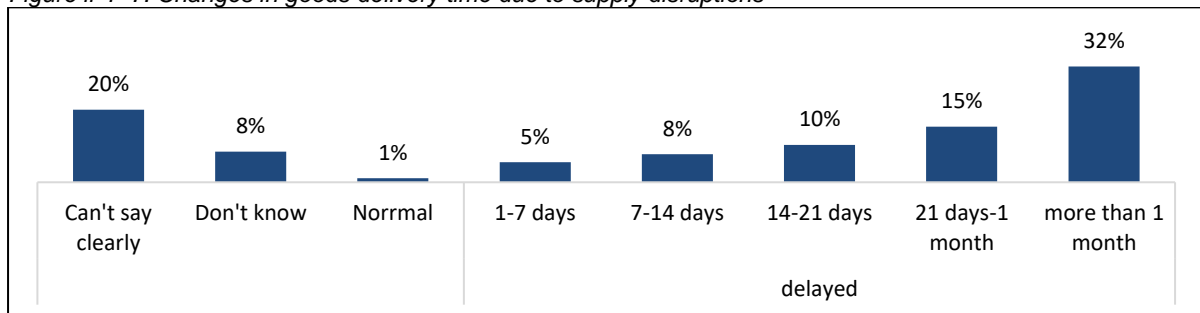
Figure II-4- 6. Changes in costs due to supply disruptions



Regarding the changes in the time of receiving goods and materials due to supply disruption, **71% of business owners said that there were delays, and 20% said that they do not know when they will receive the goods.**

Considering the average time that business owners receive their order, 39% are 17 days behind the normal time, while 32% are receiving their goods and raw materials later more than a month. (Figure II-4-7)

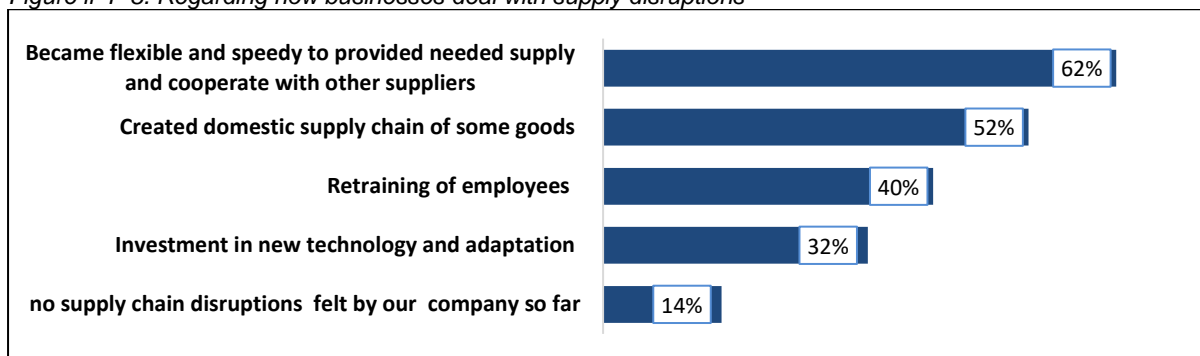
Figure II-4- 7. Changes in goods delivery time due to supply disruptions



**Measures taken by entrepreneurs and support required**

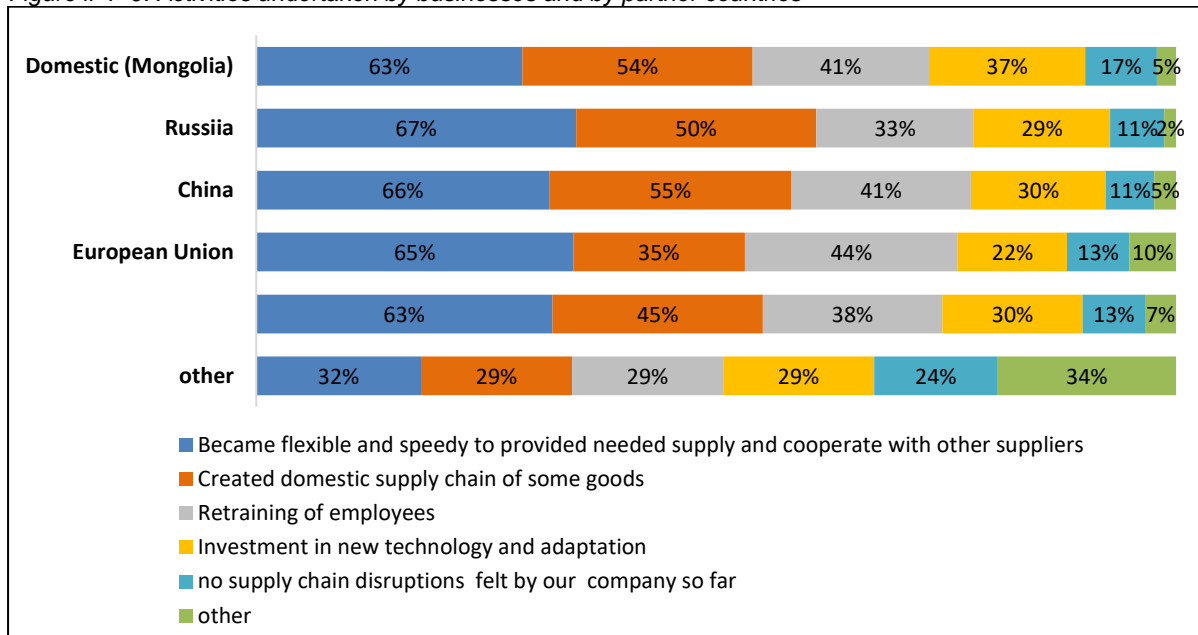
When it comes to what measures businesses are taking to ensure business continuity during supply disruptions, 62% are using more flexible, agile solutions and switching to alternative suppliers to deliver critical supplies, while 52% are using their internal supply chain. (Figure II-4-8)

Figure II-4- 8. Regarding how businesses deal with supply disruptions



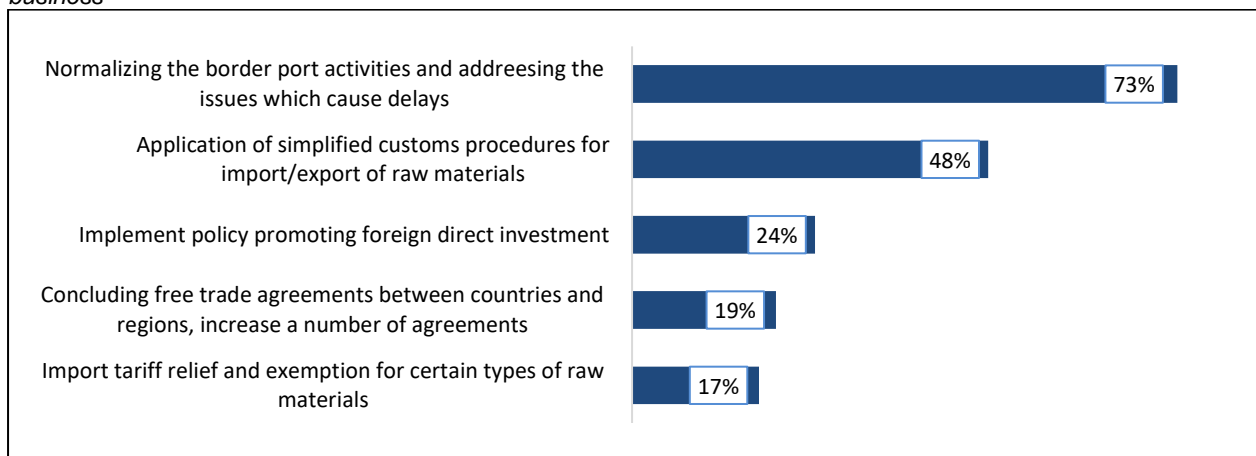
In terms of how businesses deal with reducing the negative impact of supply disruptions on their businesses, by partner country, all businesses focus more on quick supply solutions, partnering with other suppliers, or switching between suppliers. Businesses with domestic, Russian and Chinese partners are creating a domestic supply chain for some goods, while businesses with European Union partners are training their employees for other tasks. In addition, businesses with domestic, Chinese, and Southeast Asian partners are investing in newer technologies. (Figure II-4-9)

Figure II-4- 9. Activities undertaken by businesses and by partner countries



In order to clarify the necessary measures to be taken by the Government in order to reduce the negative impact of supply disruptions and delays in business activities, 73% of them are to normalize the operations of border ports, 48% are to introduce simplified procedures for the export/import of raw materials, foreign direct capital and making policy decisions that support investment are highlighted. (Figure II-4-10)

Figure II-4- 10. Support and measures that can be taken to reduce the negative impact of supply disruptions in business



### Conclusion of the Section IV

- ✓ 83% of enterprises experience supply chain disruptions. Businesses sourcing from China and Southeast Asia experienced more disruptions. Border restrictions (63%), transport and logistics disruptions (47%), pandemic containment measures, and rising commodity prices are the main contributing factors. It has the greatest impact on construction, manufacturing, foreign and domestic trade, and energy sector businesses.
- ✓ Supply disruptions affect business operations by increasing prices of raw materials and goods and services (66%), difficulty in obtaining raw materials (45%), and inability to deliver goods and services to customers on time (30%).
- ✓ The main suppliers of the entrepreneurs participating in the research are domestic (37%), and from China (39%), Russia (17%), European Union (3%), and other (3%) countries.
- ✓ Due to supply disruptions, the costs of enterprises increased by an average of 43.7%, and 91% of enterprises received their inventory 17 days or more later than usual, and in some cases, it was unclear when they would receive it.
- ✓ In the face of supply disruptions, businesses are becoming more flexible and responsive, switching to alternative suppliers (62%) and building internal supply chains (52%) to ensure business continuity.
- ✓ When clarifying the necessary measures to be taken by the Government to reduce the negative impact of supply disruptions and delays in business activities, 73% responded there is a need to normalize the operations of border ports, 48% wished to speedy clearance through borders and customs for the export/import of raw materials, foreign direct capital and highlighted making policy decisions that support investment.

### II-5. Data on survey respondents

The survey was conducted online among Ulaanbaatar city and local business owners from August 25 to September 4, 2022, and covered 1073 enterprises and business owners who are members and non-members of the National Chamber of Trade and Industry of Mongolia.

If you look at the enterprises that participated in the survey according to their location, 49.7% are in Ulaanbaatar and 50.3% are in local areas. By sector, 20% are engaged in services, 32% in domestic trade, 15% in foreign trade, 11% in non-food industry, and 9% in food industry. Considering the number of employees, 46.2% have up to 10 employees, 29.4% have 11-50 employees, 9.1% have 51-200 employees, 5.1% have more than 200 employees, and 10.2% are self-employed. 55.9% of the enterprises participating in the survey are entrepreneurs with an income of less than MNT300 million, 17.8% with an income of MNT301 million- MNT1 billion, and 26.3% with an income of more than MNT1 billion.

Figure II-5- 2. Enterprises and sectors that participated in the survey

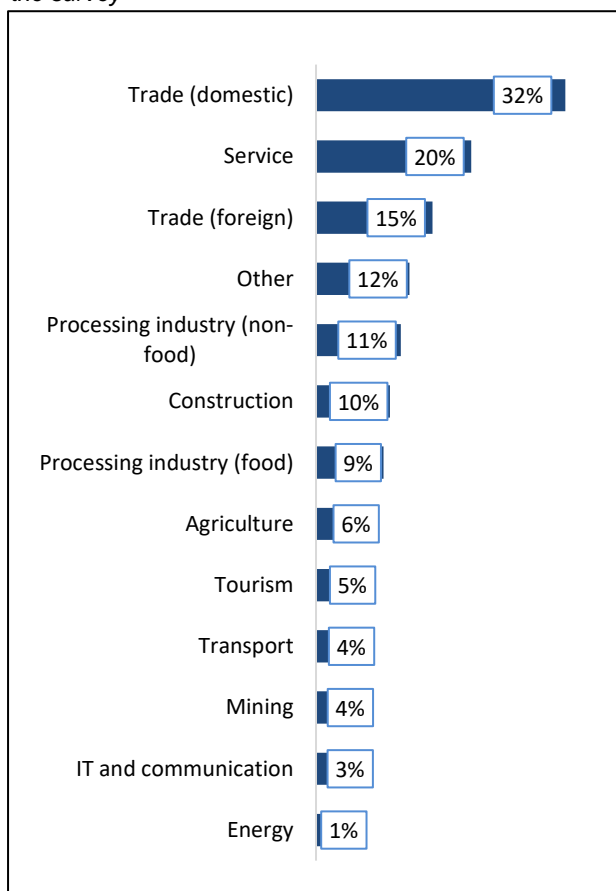


Figure II-5- 1. Annual sales revenue

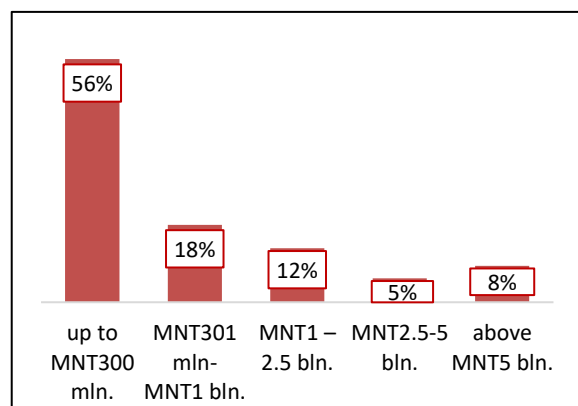
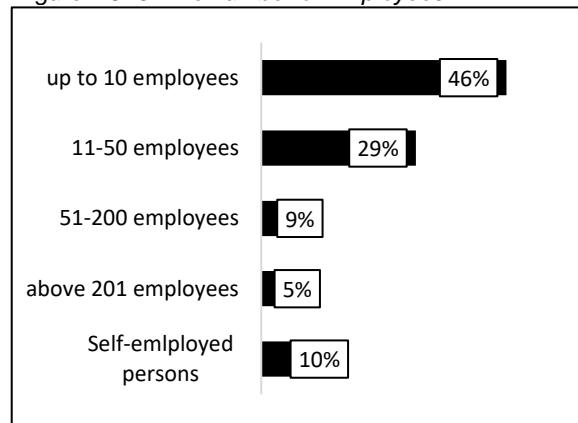


Figure II-5- 3. The number of Employees



## SUMMARY CONCLUSION

Mongolia's economic growth contracted by 4.4 percent in 2020 and increased by 1.4 percent in 2021. As of the second quarter of 2022, it expanded by 1.9 percent compared to the previous period, and this growth was mainly triggered by the growth of the agriculture, trade and service sectors, while the mining sector contracted and the construction sector continued its second year of decline. This September, the Asian Development Bank lowered Mongolia's economic growth forecast for 2022 from 2.2 percent to 1.7 percent, and IMF researchers estimated this year's growth at 1 percent.

According to the outcomes of the survey conducted by the National Chamber of Trade and Industry of Mongolia, as of September 2022, the activities of 86% of the businesses that participated in the survey have recovered to some extent, but on average, businesses are using about 47.5% of their capacity, which will have a negative impact on the economic recovery.

As of August 2022, the state budget deficit was MNT 899.7 billion, and this was due to the implementation of fiscal measures in the fields of taxes, social insurance contributions, and welfare during the pandemic. In the first half of 2022, the balance of payments showed a deficit of USD1.1 billion. However, the foreign trade balance increased by USD534.8 million in the first half of 2022, but the physical export of mining products decreased. Mongolia's export performance did not reach the targeted level and the domestic demand for imported goods increased, which led to a decrease in foreign currency reserves, which were equal to USD4.3 billion at the end of 2021, and decreased to USD2.7 billion as of August 2022.

Due to China's "Zero-COVID" policy, the export of coal and other products has been disrupted due to border port restrictions and delays in transport logistics, and the accumulation of imported goods has increased the time it takes for imported goods to cross the border, as well as increased prices. According to the survey, 83% of enterprises reported disruptions in the supply chain, associated costs increased by an average of 43.7%, goods delivery times were delayed by an average of 17 days or more, and in some cases it was unclear when they would be delivered.

The import price of food products has increased due to road delays and the increase in the price of oil on the foreign market has accelerated the increase in domestic fuel prices. The inflation rate is to be 13.4 percent at the end of 2021 and 14.4 percent in August 2022. The survey showed that 43% of business owners felt the pressure of price increase during the last six months, and 57% for more than six months, and business profits decreased by an average of 52%.

Due to the international financial sanctions imposed on Russia, late payments for imported goods, excess demand for foreign currency, restrictions on the amount of currency sold by commercial banks, the pressure of foreign debt and bond payments to be paid in 2023, etc., caused a shortage of foreign currency reserves and weakened the MNT exchange rate, affecting the price of imported goods. 58% of the companies that participated in the survey have difficulties in settling foreign payments due to delays in payments and poor availability of foreign currency for payments. Also, 48% of them faced problems such as the deterioration of the availability of raw materials and transport logistics due to the war between Russia and Ukraine.

In connection with the implementation of the "10 billion Comprehensive Plan on Protection of Health and Restoration of the Economy", lending increased, and the amount of loans increased from MNT 17.2 trillion at the end of 2020 to MNT 23.5 trillion in the first quarter of 2022 for 5 quarters in a row. However, in the second quarter of 2022, the growth of new loans granted by banks slowed down, and the total loan balance decreased. During this period, the amount of new loans granted to the agriculture and trade sectors increased, while the new

loans granted to the mining, processing, real estate, and construction sectors decreased. 71% of the entrepreneurs who took part in the survey applied to a bank or financial institution to get a loan, only 27% were able to get a loan, and 66% of the entrepreneurs responded that the availability of credit is poor.

According to the statistical data of the main economic indicators and the outcomes of the survey conducted among entrepreneurs, the post-pandemic economic and business conditions are mediocre, border port and transport logistics difficulties for entrepreneurs, shortage of professional workforce, lack of financial resources, and restrictions on foreign payments make them to face tough challenges for a long time. At such a time, the Bank of Mongolia has decided to increase the policy interest rate to 12 percent and reduce the money supply in order to keep inflation at the target level, which will further reduce the availability of business loans, limit the recovery of business activities and shrink the economy.



## SUGGESTIONS AND RECOMMENDATIONS

In the post-pandemic business environment, there are many issues related to border ports, transportation logistics, supply chains, foreign payments, foreign exchange reserves, and inflation, and the difficult economic and business conditions are expected to continue.

For the entrepreneurs who participated in the survey, it was considered that solving border port and transport logistics problems, increasing the availability of soft loans, and providing tax relief are the first priority to restore and run their activities normally. The respondents emphasized the need for the Government to provide policy support for the training of the professional workforce, their retention and the increase of jobs, and it is very important to attract foreign direct investment for the recovery of Mongolia's economy.

In order to revive the economy and business, the Government needs to implement the following measures to increase investment, solve the problems faced by entrepreneurs, and provide them with the support they need:

1. Prioritize border port and transport logistics issues and implement practical solutions,
2. Urgently approve the revision of the Investment Law and carry out joint comprehensive measures within the framework of the open policy of attracting foreign direct investment,
3. Urgently approve of the Law on Public-Private Partnerships and encourage private sector activities through public-private partnerships
4. Promote them by increasing the state procurement of national industrial products
5. Form export financing and export insurance system in the field of export promotion
6. Provide tax and social insurance premium discounts, exemptions, and deferrals, as well as creating a system for everyone to pay VAT evenly (5%)
7. Support the banking system to increase investment and increase business credit sources
8. Create conditions for normal foreign payments
9. Increase the possibility of financing enterprises from the domestic capital market at lower interest rates
10. Pay attention to the medium and long-term consequences of budget policy planning, taking significant steps to have a budget with the right structure and content that will have less negative macro-economic consequences, and to reduce the budget deficit.
11. Create and implement a policy aimed at reducing the flat welfare policy, which mainly affects the decrease in employment activity, and support employment
12. Support and encourage enterprises to take and implement all measures aimed at protecting the workplace, to improve the skills of professional workforce and to specialize.

Over the past two years, both Government and business have faced unprecedented challenges. In order to overcome today's difficult situation and future risks with as minimum interference as possible, the Government and the private sector need to discuss issues together and cooperate more closely and for this purpose, it is important to develop and maintain an effective permanent system of regular open and effective meetings and exchange of opinions.

On the one hand, the Government will create a more favorable and stable business environment and provide the necessary support, on the other hand, business and the private sector will ensure recovery through job creation, competitive advantage, innovation, and productivity growth, and it is fully possible to provide further economic growth and expand the economy.



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