



**SOVEREIGN DEBT,
THE SUSTAINABLE DEVELOPMENT
GOALS AND TRADE UNIONS IN
MONGOLIA**



Summary briefing – December 2023¹

Despite some progress on SDGs and the opportunity to use its vast resource wealth for investment in a Just Transition, Mongolia's unsustainable debt burden threatens a repeat of the 2015-16 crisis that had a severe impact on employment and social spending.

¹ This briefing is based on a longer background paper commissioned by ITUC and completed by Dr. Altansetseg Batchuluun, National Research and Consulting Center (NRCC), Mongolia.

CONTENTS

<hr/> PUBLIC DEBT IN MONGOLIA	4
<hr/> ACHIEVEMENTS AND CHALLENGES FACING THE SDGs IN MONGOLIA	5
<hr/> THE POTENTIAL IMPACT OF EXTERNAL DEBT ON WORKERS	7
<hr/> THE ROLE OF TRADE UNIONS AND KEY PRIORITIES IN DEBATES AROUND PUBLIC DEBT	8

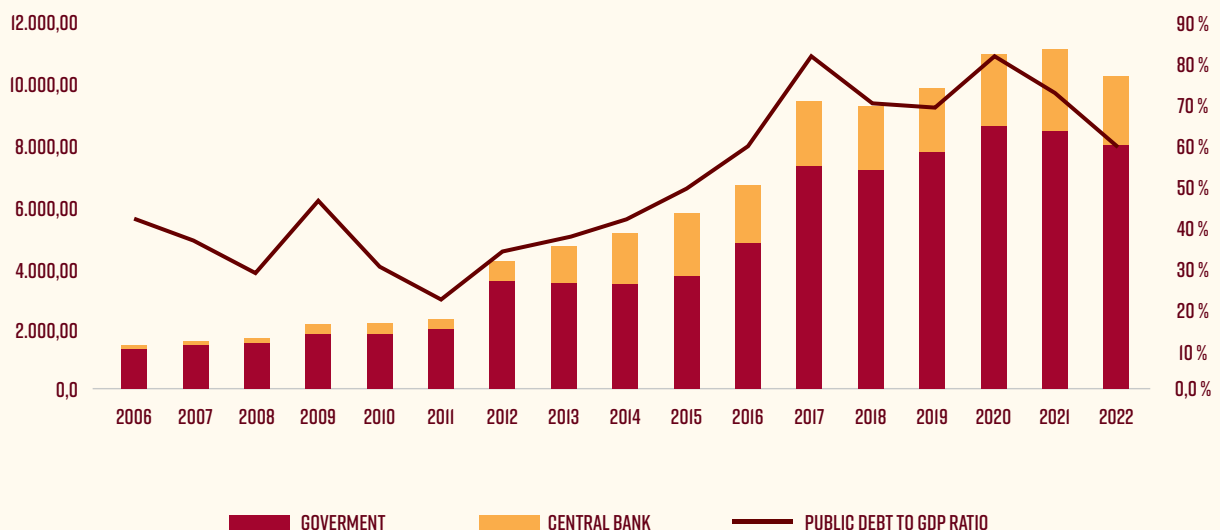
PUBLIC DEBT IN MONGOLIA

Large public external debts have accumulated in the last decade, making Mongolia one of Asia-Pacific's most highly indebted countries despite its huge resource wealth.² There are widespread domestic and international concerns over the external debt situation and the possibility of default. In 2022, Mongolia's total outstanding public external debt was US\$ 10.19bn, and the debt-to-GDP ratio was 59.5 per cent.

Government of Mongolia (GoM) reached US\$ 8bn, and the external debt of the Bank of Mongolia (BOM) reached US\$ 2.2bn. From 2010 to 2020, the public external debt increased dramatically by 404.4 per cent to US\$ 10.9bn or more than fivefold the level in 2010. Moreover, public external debt has grown much faster than GDP. The public external debt-to-GDP ratio has sharply increased from 30 per cent in 2010 to 81.4 per cent in 2017 and 81.7 per cent in 2020.

Figure 1. presents Mongolia's public external debt and debt-to-GDP ratio. In 2022, the external debt of the

FIGURE 1. PUBLIC EXTERNAL DEBT (MILLION US\$) AND DEBT-TO-GDP RATIO (PER CENT)



Source: Statistical Information of Mongolbank³

² EIU, 2022.

³ <https://stat.mongolbank.mn>. External debt figures are in millions of US dollars. The share of the public (GOM and BOM) external debt to GDP was computed from the public external debt and GDP from the [Statistical Information System of NSO](#).

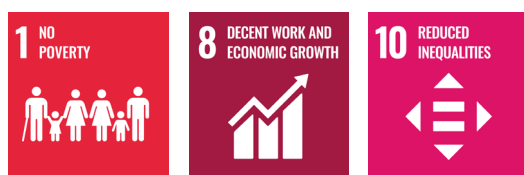
Most of the public external debt is long term, and, at 53 per cent, multilateral loans constitute the largest share of the GoM's external debt in the fourth quarter of 2022.⁴ Among bilateral creditors, Japan and China are the largest, with shares of 18.4 per cent and 17.9 per cent, respectively.

During the last decade, public external debt has sharply increased. Failure to take advantage of good times and the vulnerability of public spending in bad times have proved themselves to be the weaknesses in Mongolia's fiscal policies. Highly expansionary policies, constant changes to rules, and inadequate transparency are the causes of the country's unsustainably large public debt. In 2012-2023, the GoM issued 10 bonds on the international financial market.⁵ Only the first two Chinggis bonds, worth US\$

1.5bn, were issued to finance investments in development. However, the rest of the bonds were issued to finance budget deficits and to refinance the current debt.⁶

The large public external debt increased debt servicing costs and thus the debt burden on the budget. The share of debt service in the budget revenues increased from 2.6 per cent in 2012 and reached its peak of 16.9 per cent in 2016. In 2017, Mongolia narrowly escaped the debt crisis through a second IMF-supported program within eight years. In 2022, the public external debt to GDP ratio was at 59.5 per cent. Public debt is far from sustainable, given that Mongolia was previously on the brink of default in 2009 with a ratio of 46.2 per cent and in 2016 with a ratio of 59.8 per cent.

ACHIEVEMENTS AND CHALLENGES FACING THE SDGs IN MONGOLIA



Mongolia has had a volatile but, on average, high growth rate of 6.5 per cent in the last two decades. GDP per capita was 8.5 million tugriks (US\$ 4,323) in 2022, more than double that recorded two decades ago. As a result of high growth rates driven by mining sector development, Mongolia has made some progress towards the UN Sustainable Development Goals (SDG) for **economic growth, poverty reduction, and income**

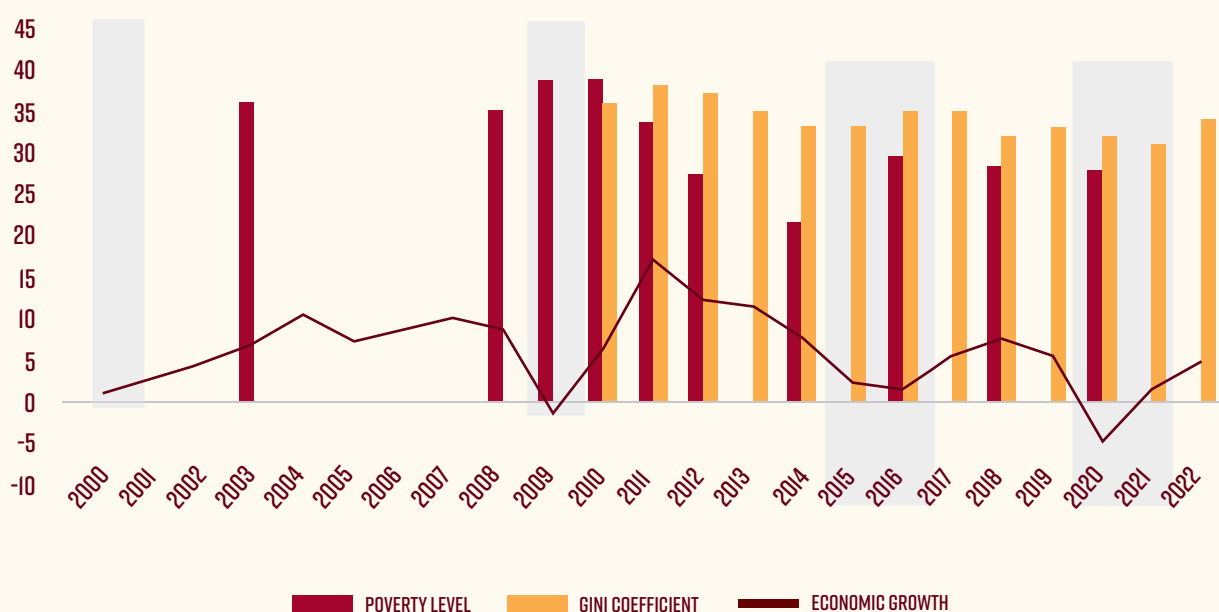
equality (Figure 2.). The poverty level fell from 38.8 in 2010 to 27.8 in 2020 while income inequality, as measured by the Gini coefficient, fell from 0.36 to 0.32 over the same period. Moreover, social protection has vastly improved in the last two decades. In 2022, more than 75 per cent of workers were covered by compulsory social insurance, as compared to the first half of the 2000s, when less than one-third of employees were covered.

⁴ Government Debt Statistical Bulletin 2022 Q4, Ministry of Finance.

⁵ <https://montsame.mn/mn/read/311761>

⁶ <https://ikon.mn/n/2sf2>

FIGURE 2. GDP GROWTH AND POVERTY



Note: These figures are from the Statistical Information System of NSO: www.1212.mn. Gini coefficients for the fourth quarter of a year are reported.

However, volatility of growth is one of the main obstacles to sustainable progress towards the SDGs. The mining sector is poor in diversification and makes the economy vulnerable to external shocks. Grey areas in Figure 2. indicate that there were four downturns in 20 years. Highly volatile growth limited progress on creating sustainable jobs and reducing inequality, hindering progress towards **SDG 1, 8, and 10**. The labour force participation rate (LFPR), that is, the percentage of the labour-age population that is economically active, has been falling in recent years, especially the female LFPR. Since 2012, the female LFPR has fallen by 6.9 percentage points, increasing the gender gap in labour participation. In 2022, the labour force participation rate (LFPR) was at 58.6 per cent, recovering from the historically lowest level of 56.9 per cent in 2021.

Mongolia has a high educational attainment. Currently, quality education is the first and only SDG that it has achieved in 2021.⁷ In the World

Bank's Human Capital Index 2020, Mongolia ranked 59th globally, higher than its income level ranking.⁸ However, the labour market continues to have large, informal employment and high, youth unemployment and inactivity.

Large informal employment has been one of the most enduring issues in Mongolia. The informal employment rate was stagnant at around 23.6 per cent during the last decade, and when agriculture is included, the shares almost double. According to the informal employment study,⁹ informal employment has become a prominent and stable option for workers. A majority of 64.8 per cent of workers had been in their jobs for at least eight years, and the average number of years in informal employment was 11.8 years. The youth unemployment rate is more than twice the national unemployment rate. In 2021, the share of youth not in employment, education, or training (NEET) was 18 per cent among 15-24-year-olds.¹⁰

⁷ Sachs et al., 2023.

⁸ Gatti et al., 2020.

⁹ RILSP & ILO, 2021.

¹⁰ NSO, 2021.

THE POTENTIAL IMPACT OF EXTERNAL DEBT ON WORKERS

Sovereign debt may feel far removed from the concerns of workers. However, the recent sovereign debt crises in Europe, Latin America, and Asia had drastic impacts on their labour markets, particularly impacting workers and the poor. For example, the financial crisis in Argentina dramatically affected the real income of workers and households.¹¹

Developing countries, with lower saving rates, obtain external debt to finance investments in development and to sustain economic growth. However, large external debt in developing countries increases the risk of default and preventing a systemic debt crisis comes at the cost of high debt servicing. Recent literature indicates that high levels of public external debt can hinder the economies of developing countries in reaching their potential growth.¹²

Growing public debt hampers long-run growth through several channels, such as debt overhang, higher policy volatility, lower productivity, more binding financial constraints in the private sector, and reduced available resources to fund public investment in infrastructure. Lower economic growth implies fewer new jobs and lower productivity growth, which results in slower wage growth for workers.

Rising government debt translates into higher servicing costs and increases the debt burden on the budget. Due to rapid debt accumulation, the share of debt service in the budget revenues has increased from 2.6 per cent in 2012 to 16.9 per cent in 2016. On the other hand, as the Mongolian

economy is highly dependent on the global commodity market, the budget expenditure expands when commodity prices are high and shrinks when commodity prices are low. Thus, the large external debt amplifies a boom-bust cycle driven by commodity market conditions. Moreover, the government is forced into austerity as revenues drop and access to foreign financial markets becomes limited and more costly.

As a result, during economic downturns, the labour market conditions change drastically. The average unemployment rate is higher by two percentage points, and the average employment rate is lower by three percentage points than the average of the normal growth years. The poverty level increases by 3.5-8.8 points with shrinking labour demand.

An economic recession hit Mongolia due to large public external debt and global commodity price shocks in 2016. Workers were most affected as the unemployment rate reached the historically highest level of 10 per cent in 2016 and remained high at 9 per cent in 2017. With shrinking employment opportunities, the poverty level sharply increased to 29.3 per cent from 21.6 per cent in 2014.

The large public external debt increases the debt servicing costs and drives away resources that could be spent on the programs to achieve the SDGs. Spending on social protection, education, and health may stagnate or be cut, due to resource limitations caused by high debt servicing costs. In Mongolia's case, the government's external debt more than doubled from 2010 to 2020 while the education expenditure share in the budget expenditure fell from 16.9 per cent to 11.8 per cent over the same period. The government spent less than planned on SDG-related sectors in 2018-2020.¹³

¹¹ McKenzie, 2003.

¹² Ali and Mustafa, 2012; Presbitero, 2012; Dogan and Bilgili, 2014; Kharusi and Ada, 2018; Guei, 2019.

¹³ Davaakhuu, 2023.

THE ROLE OF TRADE UNIONS AND KEY PRIORITIES IN DEBATES AROUND PUBLIC DEBT

Trade unions can play a crucial role in preventing sovereign debt crises and bringing public debt to a sustainable level while promoting job-creating investment and improvements in workers' rights. The Confederation of Mongolian Trade Unions (CMTU) was established in 1927 as the Central Council of Mongolian Trade Unions.¹⁴ In 2016, CMTU had approximately 230,000 members and 36 member unions, of which 22 were territorial unions and 14 were professional unions.¹⁵

There are several key issues related to government transparency, accountability, stability and corruption on which trade unions should seek to engage and influence public external debt and public finance. Current government external debt statistics are not fully transparent. Although there is progress in reporting, the reported government external debt data do not include government debt guarantees. Moreover, state-owned enterprises' (SOE) debt obligations remain unreported. The debt of mining SOE has increased rapidly in recent years. A share of the liabilities of the 10 most important mining SOE was estimated at 15 per cent of GDP in 2021, while reported debt was 4 per cent.¹⁶ Inadequate transparency of SOE will pose substantial risks to public debt, the efficiency of public spending and corruption.

While the country's law on fiscal stability was intended to ensure economic prudence, frequent amendments have

altered fiscal requirements or postponed their implementation. The constant changes to the law explain why Mongolia faces fiscal instability and has become one of the two countries most likely to experience default in 2022-2026. Moreover, corruption is a huge issue in Mongolia. According to Transparency International, Mongolia reached a historic low in 2022 and ranked 116 among 180 countries. Public engagement in fiscal policy and external debt issues requires the budget data to be transparent, as well as key parameters, such as forecasted inflation, GDP growth rate, major minerals and major mineral prices.

The laws on budget and debt management provide channels for trade union participation and engagement on these issues. Trade unions can be proactive in campaigning for and demanding improved transparency and accountability and actively participate in budget planning, preparation and reporting. Moreover, trade unions can use the Tripartite National Committee for Labor and Social Partnership, as CMTU has equal representation along with the government and Mongolian Employers Federation (MONEF).

Trade unions can do the following to bring public debt to a sustainable level while promoting job-creating investment and improvements in workers' rights:

- To meaningfully engage in sovereign debt issues, as well as broader debates around the direction of the Mongolian economy and a pro-worker policy agenda, trade unions must improve their research capacity and information and databases.

¹⁴ <https://cmtu.mn/#/p/52459>

¹⁵ Accelerating the 2030 Sustainable Development Goals through decent work: SDG monitoring and country profile for Mongolia, 2019, International Labour Organization

¹⁶ Ayushsuren & Bauer, 2022

- Trade unions can focus on public debt and government budget transparency. Increased transparency will reduce unnecessary and inefficient spending and corruption. Trade unions can demand social and economic impact assessments of policies and programs to show the impacts on workers, improve the efficiency of public spending and direct resources towards pro-worker policies, such as achieving SDG ambitions and a Just Transition.
 - Trade unions can increase the base and support for their policy positions by informing the public on debt, public spending, economic growth, and improvement in living standards. Trade unions can cooperate closely with the independent fiscal council on public debt and spending issues. Moreover, trade unions can partner with NGOs and international organisations on activities related to public debt issues to form knowledge-sharing networks and campaign coalitions on policy issues such as austerity measures and transparency.
 - Trade unions can create a forum for debate with government and international agencies on external debt issues, particularly on, public external debt sustainability, transparency, rules, and external debt implications for the SDGs. Trade unions can use the Tripartite National Committee for Labor and Social Partnership to improve transparency, resist bailouts and the arbitrary socialisation of losses, and demand social and economic impact assessments of large government programs and projects.
-

ITUC
International Trade Union Confederation

info@ituc-csi.org

www.ituc-csi.org

Phone: +32 (0)2 224 0211

Boulevard du Jardin Botanique, 20
1000 Brussels, Belgium

Publisher responsible in law:
Luc Triangle, General Secretary

