RESOLUTION OF THE STATE GREAT HURAL OF MONGOLIA

May 30th, 2025 | Resolution No.49 | State Building, Ulaanbaatar city

APPROVAL OF THE GOVERNMENT DEBT MANAGEMENT STRATEGY OF 2026–2028

Pursuant to Section 5.1 of Article 5 of the Law on the State Great Hural of Mongolia and Section 7.1.1 of Article 7 of the Law on Debt Management, the State Great Hural of Mongolia RESOLVES:

1. To approve the Government Debt Management Strategy of 2026–2028 as attached.

2. To instruct the Government of Mongolia (L. Oyun-Erdene) to ensure the implementation of the Government Debt Management Strategy of 2026-2028.

SPEAKER OF THE PARLIAMENT D.AMARBAYASGALAN

Attachment to Resolution No.49 of
2025 of the State Great Hural of Mongolia

GOVERNMENT DEBT MANAGEMENT STRATEGY OF 2026–2028

1. GENERAL PROVISIONS

1.1. The Government's debt management policy and strategy are aimed at maintaining macroeconomic stability and financing the Government's funding needs at the lowest cost with manageable risk. Pursuant to Section 14.2 of Article 14 of the Law on Debt Management, the Central Administrative Body in Charge of Finance and Budget shall develop the Medium-Term Government Debt Management Strategy (hereinafter referred to as the "Strategy Document") and have it approved once every three years together with the medium-term Fiscal Framework.

2. CURRENT STATUS OF THE COUNTRY'S TOTAL EXTERNAL DEBT[1] AND GOVERNMENT DEBT[2]

2.1. Mongolia's economy grew at an average annual rate of 4.7 percent between 2021 and 2024, has reduced the impact of gross external debt on the economy. Following the COVID-19 pandemic (hereinafter referred to as the "pandemic"), the economy began to recover, and both the price and volume of Mongolia's key export commodities increased. As a result, although the total external debt rose by 9.8 percent from the 2021 level reaching USD 37.1 billion by the end of 2024, its ratio to Gross Domestic Product (hereinafter referred to as "GDP") decreased from 224 percent to 157 percent.

Table 1. Gross External Debt Statistics of Mongolia, 2019–2024 (million USD)

Sector Classification	2019	2020	2021	2022	2023	2024*
Government	7,806.2	8,653.8	8,454.2	8,012.5	8,105.1	7,887.6
Central Bank	1,984.7	2,221.0	2,610.0	2,179.0	1,784.8	1,086.3
Deposit-Taking Corporations (excluding the Central Bank)	2,138.0	1,650.9	1,626.5	1,532.6	1,733.2	2,657.0
Other Sectors	8,407.2	8,430.2	8,842.5	8,436.0	7,865.8	8,235.1
Direct Investment: Intercompany Lending	10,366.2	11,405.9	12,272.2	13,184.8	15,080.6	17,254.3
Gross External Debt	**30,702.3**	**32,361.8**	**33,805.5**	**33,344.8**	**34,569.5**	**37,117.3**
Share of GDP (%)	**216%**	**243%**	**224%**	**219%**	**170%**	**157%**

**Preliminary performance*
Source: Bank of Mongolia

[1] In Article 4.1.4 of the Law on Debt Management, "gross external debt" is defined as "payment obligations of the Government, municipalities, the Bank of Mongolia and any entity registered in Mongolia to pay any person who is not registered in Mongolia and is not a permanent resident".

[2] Article 4.1.8 of the Law on Fiscal Stability states that "Government debt means a) payment obligations of Mongolian government, aimags and capital city to others created by debt instrument; and b) amount of Government debt guarantee issued in accordance with the law and contract."

2.2. Opportunities for domestic enterprises and institutions to raise fundings by accessing the international financial markets have increased. Due to positive economic outlook and improved credit ratings, the volume of bonds issued by Mongolia's private sector and public institutions in international markets has grown. For instance, in 2024, Golomt Bank issued bonds worth USD 400.0 million with an interest rate of 11.0 percent. The Trade and Development Bank also issued a total of USD 350.0 million in bonds at interest rates ranging from 8.5 to 9.5 percent, of which USD 50.0 million were thematic bonds—either green or social bonds. Additionally, in 2024, the Mongolian Mortgage Corporation issued bonds totaling USD 202.7 million at an interest rate of 11.5 percent, and the Ulaanbaatar City Mayor's Office (hereinafter referred to as the "Capital City Governor's Office") issued USD 500.0 million in bonds at an interest rate of 7.75 percent.

2.3. The Government debt ratio remains within the legal threshold[3] and has continued to decline each year. The ratio of the nominal outstanding government debt to GDP stood at 64.9 percent in 2019, rising to 75.5 percent in 2020 due to the impact of the pandemic. Since then, the ratio has steadily decreased, reaching 41.8 percent, or MNT 33.4 trillion, by the end of 2024.

Table 2. Government Debt, 2019–2024 (billion MNT)

DEBT STRUCTURE AND INSTRUMENTS	2019	2020	2021	2022	2023	2024*
1. Domestic Government Debt	**1,399.6**	**1,136.6**	**657.3**	**1,035.5**	**234.1**	**400.5**
1.1.Securities	1,399.6	1,136.6	657.3	1,035.5	234.1	400.5
2. External Government Debt	**20,728.1**	**24,851.4**	**24,693.3**	**29,641.6**	**30,274.6**	**30,247.8**
2.1.Securities	7,927.2	8,354.0	8,175.6	9,359.8	9,371.7	8,655.0
2.2.Loans	12,800.9	16,497.4	16,517.7	20,281.8	20,902.9	21,592.7
3.Other Liabilities	**2,072.1**	**1,910.6**	**1,567.6**	**1,287.7**	**264.8**	**2,736.4**
3.1. Government Debt Guarantees[4]	1,076.3	1,060.4	876.5	811.8	29.5	178.0
3.2. Local Government Debt	-	-	17.2	12.3	4.5	2,558.4
3.3. Concessions (Build-Transfer)**	995.7	850.2	673.9	463.5	230.9	-
TOTAL GOVERNMENT DEBT (1+2+3)	**24,199.7**	**27,898.6**	**26,918.1**	**31,964.8**	**30,773.5**	**33,384.6**
Government Debt (in NPV*)**	**20,525.6**	**23,024.3**	**21,837.3**	**27,690.6**	**26,582.9**	
*Legal Debt Ceiling (by Fiscal Stability Law)**** *	*75.0% (NPV)*	*70.0% (NPV)*	*70.0% (NPV)*	*70.0% (NPV)*	*65.0% (NPV)*	*60.0% (Nominal)*
Government Debt to GDP (Nominal)	64.9%	75.5%	62.6%	60.5%	43.7%	41.8%
Government Debt to GDP (in NPV)	55.1%	62.3%	50.8%	52.4%	37.7%	

** Preliminary performance*
*** Due to the enactment of the Law on Public-Private Partnership, Section 40.7 of the Law on Debt Management has been repealed.*
**** Net Present Value*
***** On August 30, 2024, the State Great Hural amended the Fiscal Stability Law to change the expression of the special requirement for government debt from Net Present Value (NPV) to nominal value.*

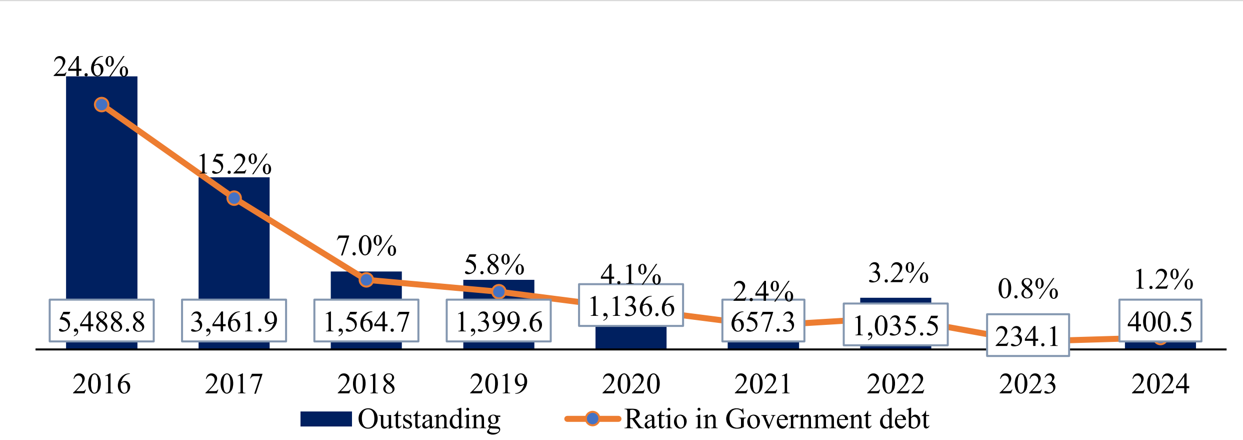
[3] Article 6.1.4 of the Law on Fiscal Stability states that "The balance expressed in the nominal value of Government debt shall not exceed 60 percent of GDP calculated in the annual price of the particular year."

[4] Pursuant to Article 4.1.7 of the Law on Debt Management, a "government debt guarantee" is defined as an the Government's obligation to pay the debt on behalf of the guarantee holder in case he/she fails to fulfill the payment obligations specified in the contract.

Source: Ministry of Finance

2.4. The outstanding balance of government domestic securities accounts for 1.2 percent of the total government debt. Between 2012 and 2017, the Government issued a total of MNT 15.9 trillion in government domestic securities (hereinafter referred to as "GDS"). By the end of 2016, the interest rate on 3-month GDS had risen to 17 percent, and the share of total interest expenses in the state budget reached 12.8 percent, significantly increasing the payment burden on the budget. As a result, in October 2017, the Government suspended the issuance of GDS for an indefinite period and implemented early buyback measures to reduce the stock of high-interest securities from the domestic market. Accordingly, the outstanding balance of GDS has steadily declined since 2017, reaching MNT 400.5 billion by the end of 2024.

Figure 1. Domestic Government Securities, 2017–2024 (billion MNT)



Source: Ministry of Finance

2.5. The Government has continued to liability management operations[5] during window periods of the international market. Since 2017, major external bond repayments have been managed under a series of liability management operations. Between 2017 and 2023, the Government executed six liability management operations, settling a total of USD 3.0 billion in repayments. From 2021 to 2024, USD 2.9 billion in external bond obligations were due, which were fully settled under the Century-1, Century-2, and Century-3 bond issuances. The Century-1 bond was issued at the lowest interest rate among Mongolia's past bonds; the Century-2 bond was successfully issued amid the global financial turbulence following the pandemic; and the Century-3 bond was issued with the lowest risk premium.

Table 3. External Government Securities as of December 31, 2024

№	External Security	Coupon	Tenure	Maturity Date	Outstanding (million USD)	Outstanding (billion MNT)
1	Nomad	5.125%	5.5 years	2026.04.07	572.7	1,958.7
2	Century-1 2027	3.500%	6 years	2027.07.07	420.1	1,436.8
3	Century-1 2031	4.450%	10 years	2031.07.07	510.7	1,746.7
4	Century-2	8.650%	5 years	2028.01.19	675.1	2,309.2
5	Century-3	7.875%	5.5 years	2029.06.05	351.9	1,203.6
	Total				**2,530.5**	**8,655.0**

[5] Article 20.1 of the Law on Debt Management defines debt management measures as follows: 1/ to perform currency and interest rate swaps; 2/ to enter into currency forward transactions; 3/ to refinance, transfer and/or sell debt; and 4/ to repurchase debt ahead of time.

Source: Ministry of Finance

Furthermore, on February 25, 2025, the Government successfully issued the Century-4 bond in the international market with an interest rate of 6.625 percent and repurchased a total of USD 500.0 million worth of bonds maturing in 2026 and 2028. The interest rate of this bond was only 2.3 percentage points above the yield of U.S. Treasury securities, marking the lowest risk premium among Mongolia's bond issuances to date. This reflects the strong investor confidence in Mongolia and highlights the Government's ability to execute transactions during favorable market conditions.

2.6. It is necessary to improve the disbursement of projects financed through external loan sources. Since becoming a member of the World Bank and the Asian Development Bank (hereinafter referred to as "ADB") in 1991, the Government of Mongolia has disbursement concessional loans from multilateral and bilateral creditors. As of the end of 2024, the preliminary outstanding balance of external loans stands at USD 6,313.2 million, equivalent to MNT 21,592.7 billion. A total of USD 964.7 million, or MNT 3,255.9 billion, in loan proceeds has been disbursed for 102 ongoing projects financed by concessional funding from international financial institutions and partner countries. In accordance with obligations under international agreements, the Government of Mongolia paid a total of MNT 3,206.6 billion in external debt service during 2023–2024, of which MNT 2,192.7 billion was for principal repayments and MNT 1,013.9 billion for interest payments.

As of the end of 2024, the undisbursed balance of government external loan amounts to MNT 12.6 trillion. However, annual disbursements during 2019–2025 have ranged between MNT 1.1 to 2.2 trillion. This indicates the need to accelerate project implementation and improve disbursement amounts for ongoing projects.

2.7. Provinces and the capital city have obtained the right to issue securities[6] and have begun utilizing new financial instruments. Following the adoption of the Law on the Legal Status of the Capital City of Mongolia on July 7, 2021[7], provinces and the capital city were permitted to issue securities in the domestic market. Furthermore, with the amendment to the Law on Debt Management on January 17, 2024[8], the capital city was granted the right to issue securities in the international market.

Accordingly, in 2024, the Capital City Governor's Office issued domestic government securities totaling MNT 798.0 billion to finance the "Construction of the Booroljuut Thermal Power Plant Project," the "Battery Storage Power Plant Project," and the "Ulaanbaatar City Road and Infrastructure Renovation Project." In addition, a USD 500.0 million external bond was issued to finance the "Selbe Subcenter Housing Development Project." As a result, the preliminary outstanding balance of local government debt, expressed in nominal terms, reached MNT 2,558.4 billion by the end of 2024. Of this amount, MNT 2.2 trillion will mature between 2025 and 2027, underscoring the need for effective debt and risk management by the capital city.

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[6] Article 4.1.24 of the Law on Debt Management defines a "securities of provinces and the capital city" means bonds that are traded in the domestic market with or without a public offer in accordance with the conditions and procedures established by the law in order to implement certain projects and activities, and/or to refinance previously issued securities.

[7] Article 13.1 of the Law on the Legal Status of the Capital City of Mongolia states: "The capital city may issue securities according to the conditions and procedures specified in the law."

[8] Article 28^{1}.1. Provinces and the capital city may issue securities in the internal market in national currency for the purpose of refinancing certain projects and/or activities and previously issued securities."

Table 4. Local Government Debt as of December 31, 2024

№	Issuer	Purpose	Issue Date	Maturity Date	Outstanding (nominal) /billion MNT/
1	Capital City Governor's Office	Road repair and maintenance	2024.06.25	2025.06.25	106.2
2		Road repair and maintenance	2024.06.25	2026.06.25	106.8
3		Construction of Booroljuut TPP	2024.06.25	2027.06.25	321.9
4		Construction of Battery Storage Plant	2024.12.26	2029.12.26	298.4
5		Selbe Subcenter Housing Development Project	2024.11.29	2027.08.29	1,725.1
TOTAL					**2,558.4**

Source: Ministry of Finance

3. STATUS OF GOVERNMENT DEBT GUARANTEES

3.1. To reduce the borrowing costs of public and private sector entities and enhance investor engagement, the Government has issued debt guarantees on 11 occasions. With the adoption of the Law on Debt Management on February 18, 2015, the requirements for guarantee applicants and the related projects and activities were strictly regulated[9], and a legal framework was established for conducting risk assessments on guarantee requests and monitoring project implementation. Prior to the enactment of this law, the Government had issued guarantees totaling MNT 2.7 trillion for various borrowings, including the Development Bank of Mongolia's (hereinafter referred to as "DBM") medium-term Eurobond and Samurai bond, a loan from Credit Suisse Bank, a loan from the China Development Bank of the People's Republic of China (hereinafter referred to as the "PRC"), and aircraft financing for MIAT JSC.

Since the enactment of the Law on Debt Management, the Government has issued debt guarantees for the following: a loan obtained by the Development Bank of Mongolia (DBM) from VTB Bank of the Russian Federation (hereinafter referred to as "Russia"); international bonds issued by the Trade and Development Bank; a loan received by Erdenes Mongol LLC from the Asian Development Bank (ADB); loans used by fuel-importing enterprises from commercial banks; a loan obtained by DBM from the China Development Bank; and international bonds issued by the Capital City Governor's Office.

Table 5. Government Debt Guarantees Issued

№	Guaranteed Beneficiary	Guarantee Date	Amount (million units)	Currency	Interest Rate	Tenure	Remarks
1	DBM	2012.03.21	580.0	USD	5.75%	5 years	Repaid
2	MIAT	2013.12.24	77.5	USD	2.52%	10 years	Repaid
	MIAT	2013.12.24	24.0	USD	5.3%+LIBOR	7 years	Repaid
	MIAT	2013.12.24	20.0	USD	9.38%+LIBOR	5 years	Repaid
3	DBM	2014.01.06	30,000.0	JPY	1.52%	10 years	Repaid
4	DBM	2014.09.03	162.0	USD	6.00%	8 years	Repaid
5	DBM	2014.09.05	300.0	USD	4.25%+LIBOR	5 years	Repaid
6	DBM	2015.05.19	500.0	USD	9.375%	5 years	Repaid

[9] Article 33 of the Law on Debt Management defines the requirements and conditions for the issuance of government debt guarantees.

7	DBM	2016.04.19	65.4	USD	5.75%+LIBOR	3 years	Repaid
8	Erdenes Mongol LLC	2016.04.01	35.0	Usd	0.5%+LIBOR	15 years	Repaid
9	8 Fuel Importing Companies	2022.04.20	236,444.1	MNT	12%	3 years	Repaid
10	DBM	2024.05.01	420.0	CNY	5.1%	10 years	To mature in 2031
11	Capital City Governor's Office (CCGO)	2024.11.29	500.0	USD	7.75%	2.75 years	To mature in 2027
		Total	**2,543.9 USD million**				

Source: Ministry of Finance

3.2. DBM's Medium-Term Eurobond – In order to expand the financing sources of the Development Bank of Mongolia (DBM), a USD 580.0 million government-guaranteed bond with an annual interest rate of 5.75 percent and a maturity of 5 years was issued through a public offering on the international market on March 21, 2012. This bond was later refinanced in March 2017 under a debt management operation through the issuance of the "Khuraldai" bond.

3.3. Boeing Aircraft Purchase Loan – In 2013, the Government issued a debt guarantee for a loan equivalent to USD 121.4 million involving the Export-Import Bank of the United States (US EXIM), ING Capital LLC, and MIAT JSC, for the purchase of a Boeing 767-300 ER aircraft. The loan was structured into the following three sub-loans:

- A loan of USD 77.4 million from the Export-Import Bank of the United States, with a fixed annual interest rate of 2.52 percent and a maturity of 10 years.
- A loan of USD 23.9 million from ING Capital LLC, with a floating interest rate based on the 3-month LIBOR[10] plus a margin of 5.3%, with a maturity of 7 years.
- A loan of USD 20.0 million from ING Capital LLC, with a floating interest rate based on the 3-month LIBOR plus a margin of 9.38%, and a maturity of 5 years all loans were **guaranteed** by the Government of Mongolia.

The final repayment for these loan facilities was originally scheduled for 2023; however, the guaranteed beneficiary, MIAT JSC, fully repaid the loans ahead of schedule on June 16, 2022.

3.4. Samurai Bond – In 2013, the Development Bank of Mongolia (DBM) issued a 10-year "Samurai" bond equivalent to JPY 30.0 billion in the Japanese market, backed by a guarantee from the Japan Bank for International Cooperation (JBIC[11]). The bond carried a fixed annual interest rate of 1.52 percent. DBM fully repaid the bond on December 5, 2023, using its own financial resources.

3.5. Loan from the China Development Bank – In 2014, the Government of Mongolia issued a debt guarantee for a loan equivalent to USD 162.0 million between the Development Bank of Mongolia (DBM) and the China Development Bank. The loan carried a fixed annual interest rate of 6 percent, had a tenure of 8 years, and included a 3-year grace period on principal payments. Although the loan was scheduled to be fully repaid by

[10] London interbank offer rate
[11] Japan Bank for International Cooperation

2023, DBM settled the entire outstanding balance ahead of schedule on September 2, 2022.

3.6. Credit Suisse Bank Loan – In 2014, the Government issued a debt guarantee for a loan of USD 300.0 million obtained by the Development Bank of Mongolia (DBM) from Credit Suisse Bank. The loan had a 7-year maturity with a 2-year grace period on principal repayment. It carried a floating interest rate based on the 6-month LIBOR plus a margin of 4.375%. The loan was fully repaid on March 15, 2021.

3.7. Trade and Development Bank's International Bond Issuance – Under its Global Medium-Term Note Program, the Trade and Development Bank issued a USD 500.0 million bond with a 5-year maturity in the international market. In accordance with Article 35.3[12] of the Law on Debt Management, the Government issued a debt guarantee for this bond by pledging government securities with a nominal value of MNT 1.0 trillion. The Trade and Development Bank fully repaid the bond on May 15, 2020.

3.8. Trade Finance Credit Line for Petroleum Imports from Russia – In accordance with Government Resolution No. 93 of 2015, the Development Bank of Mongolia (DBM) entered into a USD 300.0 million loan agreement with VTB Bank of the Russian Federation on April 19, 2016. The purpose of the loan was to stabilize the foreign currency outflow needed for petroleum imports from Russia. The loan had a 36-month term and was backed by a government debt guarantee. Under the agreement, the interest rate for the initial partial disbursement was set at a floating interest rate based on the 3-month LIBOR plus a margin of 5.75% percent, DBM drew down USD 65.4 million from the credit line, which was fully repaid on December 1, 2016.

3.9. ADB Technical Assistance Loan – On April 1, 2016, the Government issued a debt guarantee for a USD 35.0 million loan agreement between the Asian Development Bank (ADB) and Erdenes Mongol LLC. The loan carried a floating interest rate based on the 6-month LIBOR plus a margin of 0.6% and had a 15-year maturity. Erdenes Mongol LLC fully repaid the loan ahead of schedule on October 4, 2024.

3.10. Government Debt Guarantee for Fuel Import Prepayment Loans – In accordance with Article 6.1.3[13] of the Law on Preventing Price Increases and Shortages of Key Goods and Products and Mitigating Negative Impacts, Government Resolution No. 160 of April 20, 2022, approved the issuance of a government debt guarantee. The guarantee was provided for loans obtained by fuel-importing enterprises from commercial banks to finance the purchase of AI-92 gasoline from Russia's "Rosneft" PJSC, under contracts signed in line with Government Resolution No. 311 of 2021, which required companies to build up strategic fuel reserves. A total of MNT 236.4 billion in government debt guarantees was issued for the loans of eight importing companies. All loans were fully repaid by September 30, 2022, and the contractual obligations were thereby concluded.

3.11. The loan utilized by the Development Bank of Mongolia (DBM) from the China Development Bank is scheduled to mature in 2031. In accordance with

[12] Article 35.3 of the Law on Debt Management states: "A government debt guarantee may be issued for the full amount of a foreign loan if the guaranteed beneficiary pledges government securities it holds in an amount equal to the loan. The guaranteed agreement shall specify that the beneficiary is responsible for any exchange rate risk arising from fluctuations in the national currency."

[13] Article 6.1.3 of the Law on Preventing Price Increases, Shortages of Key Goods and Products and Mitigating Negative Impacts, states: "In order to implement the measures provided in this law within the limits set by the Law on Fiscal Stability, the Government may issue government securities and guarantees."

Resolution No. 90 of the State Great Hural dated November 10, 2023, and Government Resolution No. 133 dated March 27, 2024, a government debt guarantee was issued to DBM on May 6, 2024, for the financing of the "Choibalsan Thermal Power Plant 50 MW Expansion Project," funded by a CNY 420 million loan from the China Development Bank. The expanded thermal power plant was commissioned on June 6, 2024. The loan is scheduled for full repayment on October 28, 2031.

3.12. In 2024, the Government issued a debt guarantee for an international bond issued by the Capital City Governor's Office, it is scheduled to mature in 2027. In accordance with Resolution No. 17 of the State Great Hural dated January 17, 2024, and Government Resolution No. 265 dated June 6, 2024, the Government provided a guarantee for financing the "Selbe Sub-Center Housing Development Project" through the issuance of a foreign bond by the Capital City. The bond has a value of USD 500 million, a term of 2.75 years, an annual interest rate of 7.75 percent, and is scheduled for repayment on August 29, 2027.

4. POTENTIAL FINANCING SOURCES

4.1. Concessional external loans from multilateral and bilateral development partners have remained a key instrument for meeting the Government's financing needs. Since joining international organizations such as the World Bank and the ADB in 1991, Mongolia has accessed highly concessional financing from these institutions to support the implementation of various projects and programs.

4.2. As Mongolia has been classified by the World Bank as an upper middle-income country, the cost of external borrowing is increasing. According to the World Bank's income classification, Mongolia was categorized as a lower middle-income country in 2011, but in 2024, it transitioned into the upper middle-income group. As a result, the lending terms offered by international institutions and development partners are changing—moving away from highly concessional sources to a blend of concessional and ordinary terms.

For example, loans previously offered by institutions such as the World Bank and ADB at fixed interest rates around 2 percent and maturities of up to 30 years have now shifted to floating-rate terms—typically indexed to SOFR[14] plus a margin of 0.6 to 1.3 percent, with maturities of up to 25 years. Similarly, official development assistance from OECD member countries (such as Japan, South Korea, and Austria) is also transitioning from highly concessional to less concessional terms.

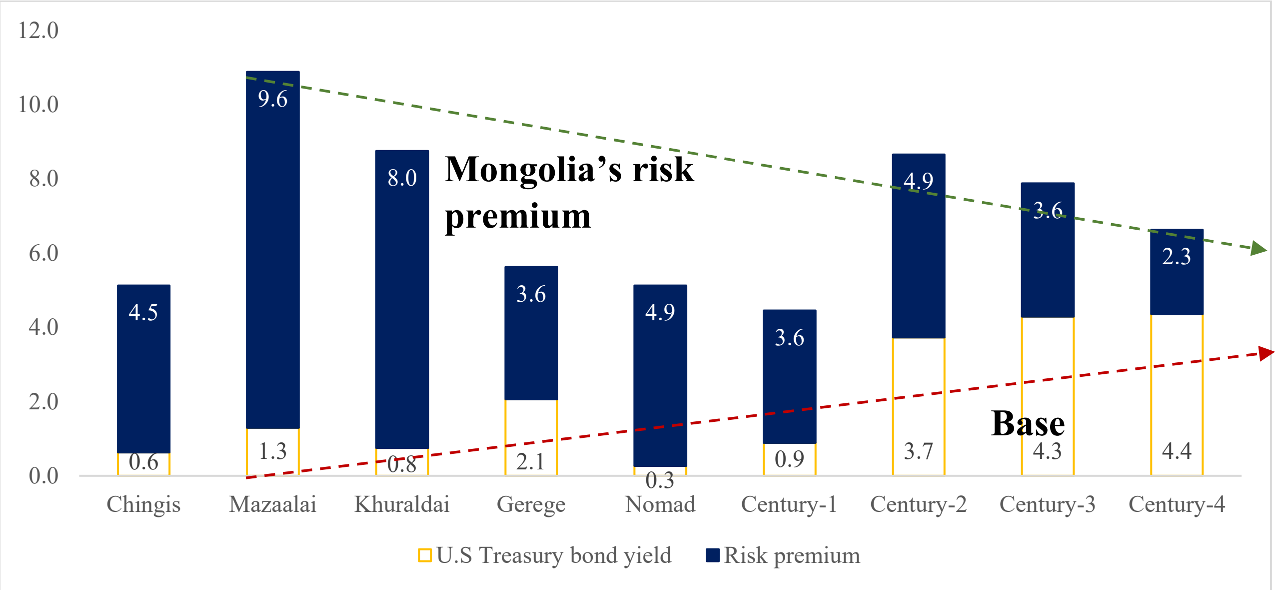
4.3. Government securities issued on the international market continue to see strong investor demand. The most recent issuance by the Government of Mongolia was the USD 500.0 million "Century-4" bond on February 25, 2025, which had an orderbook of of USD 3.8 billion—7.6 times the announced offering size. In terms of investor composition, 41 percent were from Asia, 39 percent from Europe and the Middle East, and 20 percent from the United States.

4.4. The risk premium[15] on the Government's external bonds remain at a low level. Through consistent issuance of bonds in the international market, the Government has gradually reduced its risk premium over the years. For example, the risk premium on the 2016 Mazaalai bond stood at 9.6 percent. However, due to improvements in

[14] Secured Overnight Financing Rate
[15] The yield spread between U.S. Government bonds and Mongolian Government bonds

Mongolia's credit rating, steady economic growth, regular communication with international investors, and the use of bond issuances primarily for liability management operations, the risk premium for the most recent Century-4 bond issued in 2025 has dropped to 2.3 percent.

Graph 2. Government External Bond Risk Premium, in Percent

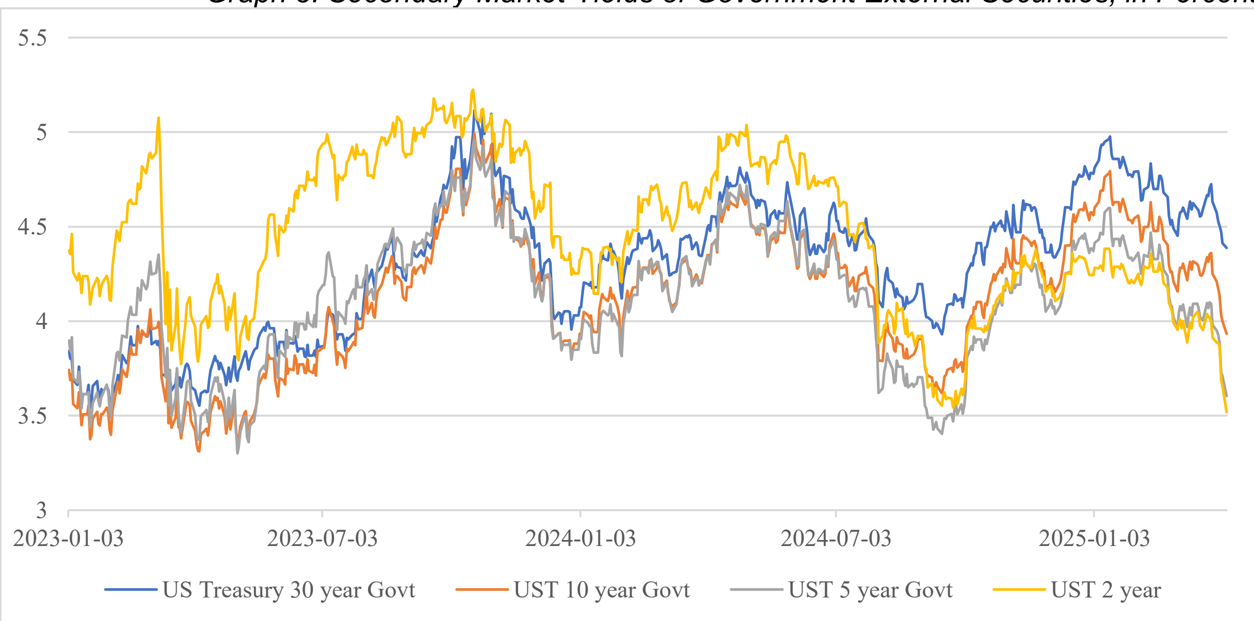


Source: Bloomberg terminal

4.5. The base interest rate for U.S. dollar-denominated bonds in the international market has been on the rise since 2022 and is likely to remain elevated in the medium term. As shown in the chart below, the yield on 5-year U.S. Treasury bonds stood at 4.4 percent as of February 2025.

As of April 2025, the U.S. Treasury bond yield curve is as follows. The chart indicates that yields on U.S. government securities have consistently fluctuated between 3.5 and 5 percent since 2023.

Graph 3. Secondary Market Yields of Government External Securities, in Percent



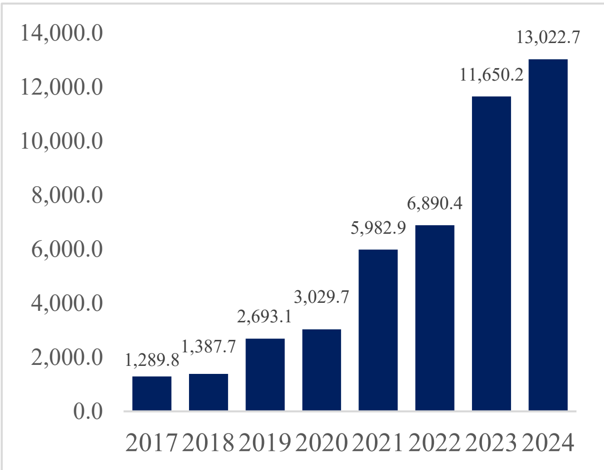
Source: Bloomberg

According to major news outlets such as Reuters and ABC News, the uncertainty stemming from the newly appointed president's[16] tariff policy is likely to slow the decline in inflation and has created conditions that may delay the anticipated interest rate cuts in 2025.

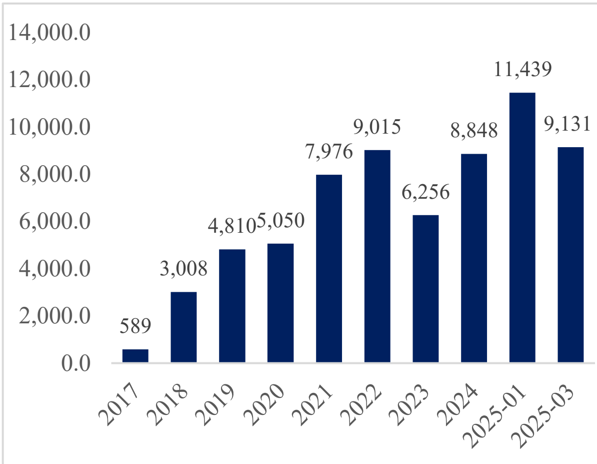
4.6. Although the need to issue Government Domestic Securities (GDS) to meet the Government's financing requirements is currently limited, there is strong demand for GDS in the domestic market. For instance, during 2022–2024, the actual fiscal deficits were lower than originally projected. Furthermore, in accordance with the Law on the 2025 State Budget of Mongolia, the consolidated budget's structural balance was approved to be deficit-free.

As for Mongolia's capital market, the total market capitalization increased from MNT 1.3 trillion in 2017 to MNT 13.0 trillion in 2024, indicating a rapid rise in citizen and enterprise participation in the capital market. In 2024, the Mongolian Stock Exchange facilitated trades amounting to MNT 1.6 trillion in corporate bonds and equities.

Graph 4. Capital Market Capitalization, 2017–2024 (billion MNT)



Graph 5. Volume of Central Bank Securities, 2017–2025 (billion MNT)



Furthermore, due to the suspension of GDS trading, the volume of central bank securities has significantly increased. For instance, the total volume of securities stood at MNT 589.0 billion in 2017, rising to MNT 5,050.0 billion in 2020, MNT 6,256.0 billion in 2023, and reaching MNT 9,131.0 billion as of March 2025.

4.7. Supporting the development of the government domestic securities (GDS) market is of high importance. GDS not only enables the government to meet its financing needs quickly and reduces risks in the public debt portfolio, but it also serves as a benchmark instrument for establishing the yield curve — making it one of the most critical products in the capital market.

4.8. The government plans to resume regular auctions of government domestic securities (GDS). Accordingly, to reduce external market risks in Mongolia's debt portfolio and to support the development of the domestic capital market, the 2025

[16] The President of the United States assumed office on January 20, 2025.

State Budget Law includes a provision for the issuance of GDS[17]. As a result, the auctions of these securities officially resumed starting from April 2025.

V. IMPACT ON COST AND RISK INDICATORS OF GOVERNMENT DEBT PORTFOLIO

5.1. Based on calculations using the Medium-Term Debt Management Strategy (MTDS[18]) model jointly developed by the World Bank and the International Monetary Fund, the cost and risk indicators of the government's debt portfolio as of the end of 2024 are as follows:

Table 6. Cost and Risk Indicators of the Government Debt Portfolio, 2024

Risk Indicator		Government Debt /Excluding Guarantees/	Government Debt /Including Guarantees/
Debt Portfolio	Interest expense as % of GDP	1.6	1.6
	Weighted average interest rate (%)	4.3	4.6
Refinancing Risk	ATM[19] (years) – Average time to maturity	7.5	7.2
Interest Rate Risk	ATR[20] (years) – Average time to refixing	6.5	6.3
Exchange Rate Risk	Foreign currency debt (% of total debt)	96.1	96.3

Source: Ministry of Finance

5.2. Although the average interest rate on government debt has increased due to international market conditions, the reduction in outstanding domestic securities has eased the interest burden on the budget. The ratio of government interest payments to GDP decreased from 4.3% in 2017 to 1.6% in 2024, a drop of 2.7 percentage points. Of this, external debt interest accounts for 1.6% of GDP, while domestic debt interest accounts for just 0.1%.

Furthermore, the weighted average interest rate, which stood at 4.8% in 2017, steadily declined to 2.9% by 2022 due to the reduction in outstanding government domestic securities (GDS). However, since 2022, as the SOFR benchmark rate increased by 5 percentage points, the weighted average interest rate rose by 1.3 percentage points, reaching 4.2% by the end of 2024.

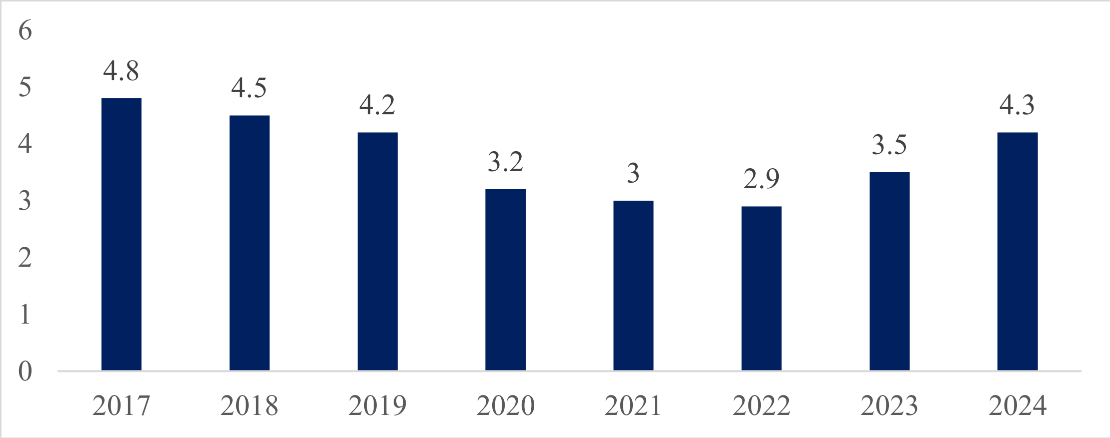
[17] Article 11.1 of the Law on the 2025 State Budget of Mongolia states that "The maximum amount of domestic borrowing for the purposes specified in Articles 12.1.2 and 12.1.3 of the Law on Debt Management shall be up to 300,000.0 million MNT."

[18] Medium Term Debt Strategy

[19] Average time to Maturity

[20] Average time to Re-fixing

Graph 6. Weighted Average Interest Rate, 2017–2024, in Percent

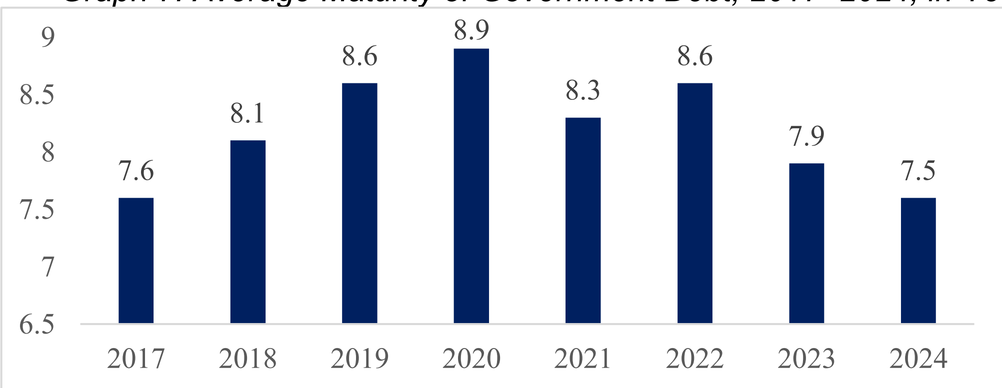


Source: Ministry of Finance

5.3. The government faces low pressure from large imminent debt repayments. As of the end of 2024, the average time to maturity (ATM) of the government's debt portfolio stands at 7.5 years, which is one year shorter compared to the actual figure at the end of 2021. This is due to a 0.7-year reduction in the average maturity of external bonds and the shortening of new external loan maturities from the previous 30–40 years to 15–25 years.

In terms of the government's refinancing risk, there are no external bond repayments due until 2026. The next scheduled payment is for the Nomad bond, amounting to USD 174.3 million, due in April 2026. The reduction in scheduled external bond repayment pressure is the result of consistent liability management operations. Most recently, on February 25, 2025, the government issued the "Century-4" bond worth USD 500.0 million on the international market at a 6.625% interest rate and a 5-year maturity, which was used to refinance the upcoming payments of USD 391.7 million for the Nomad bond and USD 108.3 million for the Century-2 bond.

Graph 7. Average Maturity of Government Debt, 2017–2024, in Years

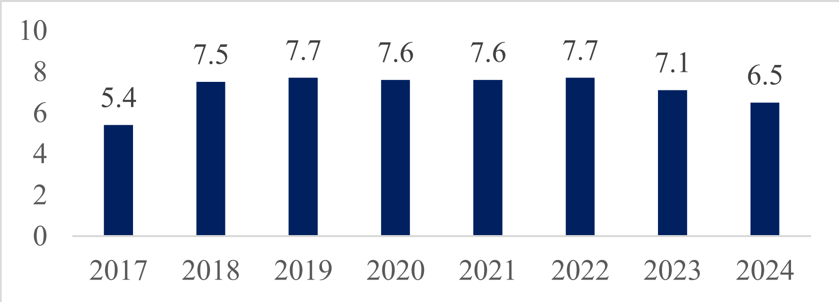


Source: Ministry of Finance

5.4. The global decline in benchmark floating interest rates has slowed, while external borrowing terms are increasingly shifting toward floating rates. The average time to refixing (ATR) of the government debt portfolio is 6.5 years. ATR represents the average time until the interest rate on the debt portfolio is fully reset. For variable interest rate debt, interest is typically reset within six months, whereas for fixed interest rate debt, the refinancing rate is determined only upon full repayment and the need for new financing.

In the United States, inflation peaked in March 2022, reaching its highest level in 40 years. As a result, the Federal Reserve raised its policy interest rate, which reached its peak in 2023. Although the rate was lowered by 1 percentage point starting in 2024, changes in inflation expectations due to the new president's tariff policies in 2025 have led to a projected delay in further rate cuts.

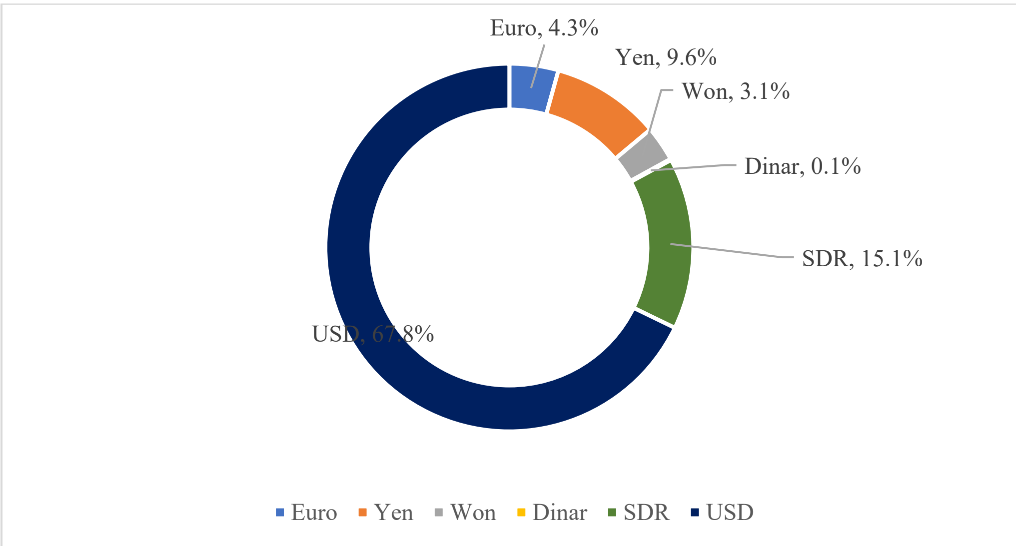
Graph 8. Average Time to Refixing (ATR) of Government Debt Interest Rates, 2017–2024, in Years



Source: Bank of Mongolia

5.5. As of the end of 2024, 96.1 percent of the government's debt portfolio is denominated in foreign currencies. In terms of currency composition, 67.8 percent of the external debt is in U.S. dollars, 15.1 percent in Special Drawing Rights (SDR), 9.6 percent in Japanese yen, 4.3 percent in euros, and the remaining 3.2 percent in other currencies**.**

Graph 9. Government Debt Denominated in Foreign Currency, by Currency Composition as of 2024.12.31



Source: Ministry of Finance

5.6. The optimal strategy for the Government debt portfolio, based on the MTDS model, is as follows: The cost and risk analysis of government debt has been conducted using the Medium-Term Debt Management Strategy (MTDS) model developed by the World Bank. The analysis was carried out within the framework of the following four strategies.

This strategy outlines the options for meeting the government's financing needs—specifically, how to fund the fiscal deficit and principal repayments. Each strategy presents a scenario showing how the total financing requirements could be met through a mix of external and domestic sources.

Strategy 1 (S1):
Government external bonds will be refinanced through domestic bonds, while the use of external loans will be reduced.

Strategy 2 (S2):
Partial liability management operations on government securities maturing in 2026–2028; maintain the use of external project loans at 3–4 percent of GDP;

Strategy 3 (S3):
Substantial liability management operations on government securities maturing in 2026–2028; maintain the use of external project loans at 3–4 percent of GDP;

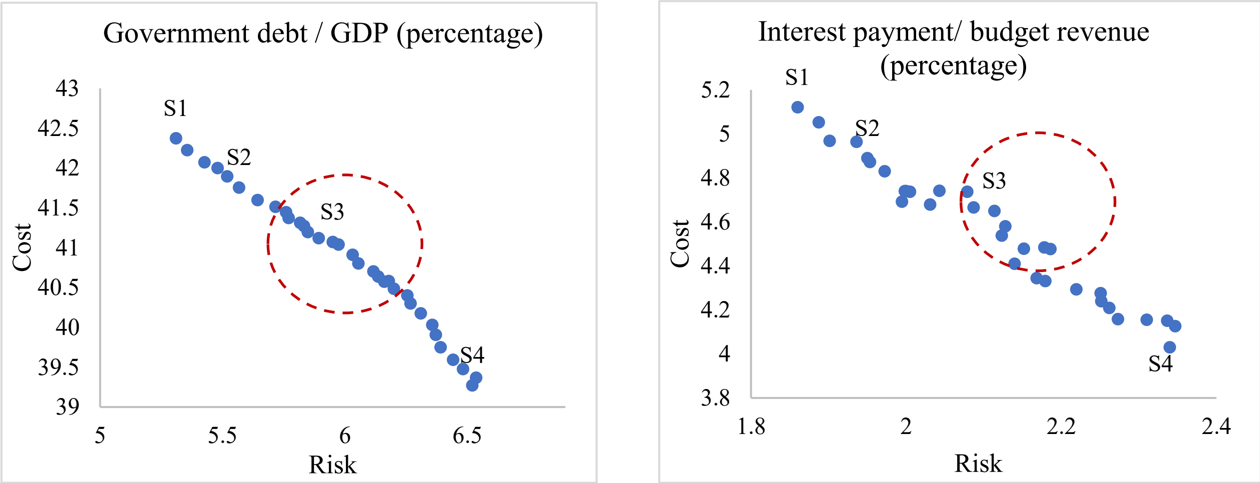
Strategy 4 (S4):
Full liability management operations on government securities maturing in 2026–2028; maintain the use of external project loans at 3–4 percent of GDP, and cover principal repayments under external program loans without issuing domestic bonds;

When the consolidated budget's structural balance is projected to be in equilibrium (no deficit), the implementation of the above strategies is expected to result in the following projected outcomes for the government's debt cost and risk indicators.

Table 7. Projected Indicators of Government Debt Cost and Risk

Risk Indicators		2024	2028			
		Baseline	S1	S2	S3	S4
Refinancing Risk	Short-term debt (% of total debt)	3.8	21.0	15.9	13.9	9.2
	Short-term debt (% of GDP)	2.0	6.1	4.6	4.0	2.6
	Average time to maturity (external debt, years)	7.4	7.8	7.7	7.6	7.8
	Average time to maturity (domestic debt, years)	2.8	1.4	1.4	1.4	2.5
	Average time to maturity (total debt portfolio, years)	7.5	6.7	7.1	7.1	7.8
Interest Rate Risk	Average time to refixing (years)	6.5	5.3	5.6	5.6	5.8
	Debt refixing within 1 year (% of total debt)	19.9	35.6	31.6	29.6	28.7
	Fixed-rate loans and bonds (% of total debt)	82.9	83.6	82.5	82.5	78.7
Exchange Rate Risk	Foreign currency-denominated debt (% of total debt)	96.1	79.1	88.0	91.3	99.7

Graph 10. Strategic Scenario Projections



5.7. While the interest cost of the government debt portfolio has steadily declined in recent years, the portfolio's risk level has increased. For example, the government's interest expenditure as a share of total budget expenditure has dropped from 12.8 percent to 3.8 percent. On the other hand, domestic government securities account for only 1.2 percent of total debt as of the end of 2024, while variable -rate external loans comprise 25 percent of total external debt.

5.8. In the medium term, it is essential to repay external bond obligations without exerting pressure on foreign exchange reserves or the balance of payments, to stabilize the issuance of domestic government securities, and to keep potential debt repayments within a prudent range. Under the Government Debt Management Strategy for 2023–2025, a portion of external bond repayments due in 2026 and 2028 has already been refinanced. However, a total of USD 1.7 billion is scheduled for repayment in 2026–2027, including Ulaanbaatar city's external securities and external bonds issued by enterprises. Therefore, to meet these obligations without straining the balance of payments or FX reserves, the Government must implement refinancing measures—such as issuing bonds on international markets—and create opportunities for enterprises to access those markets.

Furthermore, in terms of medium-term financing sources, it is anticipated that major projects and programs will be implemented using external loan funding. Meanwhile, issuing securities in the domestic market not only improves the cost and risk indicators of the government's debt portfolio, but also plays a crucial role in setting benchmark interest rates for securities issued by domestic enterprises and in stimulating investor participation.

About local government debt and government loan guarantees, it is necessary to impose limits to mitigate contingent liability risks and prevent these obligations from placing undue pressure on the state budget.

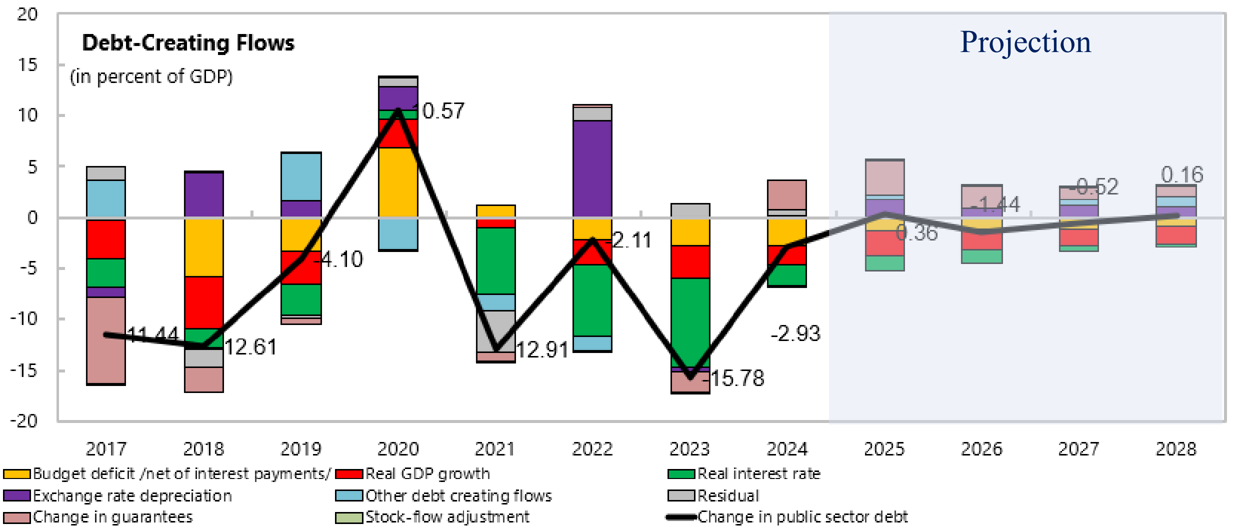
VI. MEDIUM-TERM PROJECTIONS OF GOVERNMENT DEBT INDICATORS

6.1. Due to strong nominal GDP growth and a low budget deficit, the ratio of government debt to GDP declined between 2021 and 2024. The impact of economic and fiscal indicators on the debt-to-GDP ratio is illustrated based on the Debt Sustainability Analysis (DSA) in Graph 11.

The change in the government debt-to-GDP ratio from 2017 to 2024 shows an increase in 2020 and a decline in other years. During the COVID-19 pandemic, economic stimulus programs led to a higher fiscal deficit and a contraction in real GDP in 2020, which caused the debt ratio to rise. In contrast, in other years, the decline in government-guaranteed debt stock, improved fiscal balance, growth in real GDP, and lower real interest rates contributed to a decrease in the debt-to-GDP ratio.

Moreover, from 2021 to 2024, the government debt-to-GDP ratio declined due to a significant increase in the GDP deflator, which boosted nominal GDP growth, and lower-than-expected fiscal deficits by year-end. However, the weakening of the exchange rate in 2022 offset some of this decline in the debt ratio, due to the increasing share of external debt in the government's overall debt portfolio.

Graph 11. Impact of Economic and Fiscal Indicators on the Government Debt-to-GDP Ratio, 2017–2028



Going forward, the main factor expected to contribute to an increase in the government debt-to-GDP ratio between 2025 and 2028 is the anticipated growth in government guarantees and local government debt. In contrast, the key factors projected to contribute to a reduction in this ratio are real GDP growth and the primary fiscal balance (net of interest payments).

6.2. It is projected that the Government debt-to-GDP ratio will remain stable at around 42 percent during the period of 2026–2028. According to the Medium-Term Fiscal Framework for 2026 and the budget projections for 2027–2028 of the Consolidate Budget of Mongolia, real GDP growth is expected to be 6.0 percent in 2026, and 6.5 percent in both 2027 and 2028 respectfully. The consolidated budget's structural balance is forecasted to be 0.0 percent of GDP throughout 2026–2028, and the Government debt-to-GDP ratio is projected at 50 percent in 2026 and 45 percent in both 2027 and 2028. Within this projection framework, the Government debt-to-GDP ratio is estimated at 40.7 percent in 2026, 40.2 percent in 2027, and 40.4 percent in 2028, which is consistent with the thresholds set in the Medium-Term Fiscal Framework.

Table 8. Government debt indicator projections, 2026–2028

	2025	2026	2027	2028
Debt ceiling set by the Fiscal Stability Law	60.0%	60.0%	60.0%	60.0%
Medium-Term Fiscal Framework				
Total government debt / GDP	55.0%	50.0%	45.0%	45.0%
Structural balance of the consolidated budget / GDP	0.0%	0.0%	0.0%	0.0%
Real GDP growth	7.5%	6.0%	6.5%	6.5%
Government debt / GDP	**42.1%**	**40.7%**	**40.2%**	**40.4%**

Box. Debt Sustainability Analysis

Debt sustainability refers to the government's ability to maintain the impact of its debt on the economy at a prudent level over the long term without defaulting on its obligations or facing financial distress. To assess sustainability, the most appropriate approach is to evaluate whether the current and projected levels of debt can be managed in light of the fiscal balance, economic growth outlook, and fiscal policy stance.

The International Monetary Fund (hereinafter "IMF") conducts debt sustainability analysis for government debt using two main modeling approaches. These include:

1. Debt Sustainability Framework for Low-Income Countries (LIC DSF)[21]

2. Sovereign Risk and Debt Sustainability Framework (SRDSF)[22]

Mongolia graduated from the "low-income country" classification in 2011 and has since 2023 applied the SRDSF model to assess the sustainability of government debt.

Short term

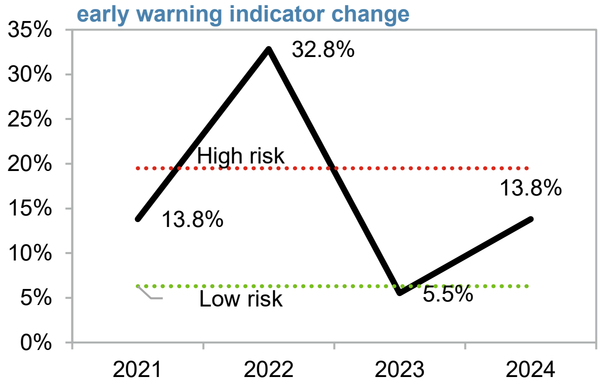
Before determining the government's debt risk in the short term, it is important to clarify the concept of stress. In this context, stress refers to the impact of shocks on a country, such as losing access to international financial markets, experiencing a default, or facing a downgrade in credit ratings.

The IMF has applied a Logit model to assess government debt risk and debt sustainability based on data from over 200 countries over a period of approximately 30 years. The model identifies the key factors that most significantly influence the likelihood of a country experiencing stress and calculates the corresponding coefficients.

[21] Debt Sustainability Framework for Low-Income Countries

[22] Sovereign Risk, Debt Sustainability Framework

Graph 12. Results of the Short-Term Model



Based on the calculations, a high-risk level corresponds to a stress probability exceeding 19.5 percent, while a low-risk level is defined as a probability below 6.3 percent. When Mongolia's data is applied to the model, the probability of stress occurring in 2024 is estimated at 13.8 percent, which is assessed as normal risk.

Table No.9. Drivers of Change in the Short-Term Model

Date	**2021**	**2022**	**2023**	**2024**
Stress projection	*2021-2022*	*2022-2023*	*2022-2023*	*2023-2024*
Logit stress probability	0.138	0.328	0.055	0.138
Change in probability	-0.408	0.190	-0.273	0.083
Of which:				
Institutional quality	0.025	0.000	0.000	0.000
Stress history	-0.011	-0.008	-0.005	-0.003
Cyclical factors	0.044	-0.007	-0.042	0.027
Debt burden	-0.244	0.076	-0.150	0.044
External conditions	-0.243	0.130	-0.066	0.013

The main reason for the increased probability of stress in 2024 is the high level of government external debt as a share of GDP, combined with a deterioration in external conditions[23].

Medium term

The medium-term risk to government debt is assessed based on the Debt Fan Chart, which reflects the distribution of debt projections, and the level of gross financing needs.

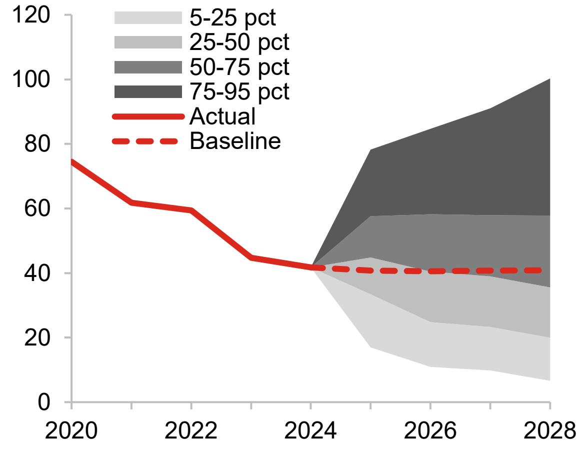
The Debt Fan Chart is generated using 10,000 simulations based on data from the past 20 years. It reflects the extent of volatility in the key factors that have historically influenced debt dynamics, the share of simulations in which debt increases indicating potential instability, and the institutional strength of the country. According to the analysis, the model indicates a moderate level of risk, with the primary contributing factor being the width of the Fan Chart. This suggests that based on the past 20 years of government debt data, the level of volatility in debt over the next five years remains within a normal range.

[23] The international situation was incorporated into the model using the VIX index.

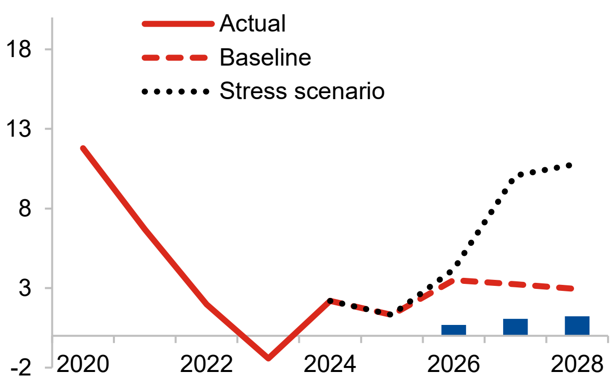
Table 10. Results of the Medium-Term Model

Model	Indicator	Value	Risk Level	Risk Alert
Debt Fan Chart	Fan Chart width	108.4	1.6	…
	Probability of debt instability	2.6	0.0	…
	Debt level × Institutional index	21.0	0.5	…
	Debt Fan Chart index	**…**	**2.1**	**Normal**
Financing Needs	Average financing need	2.8	1.0	…
	Bank receivables from the government (% of total assets)	3.9	1.3	…
	Change in bank receivables from government under stress	2.6	0.9	…
	Financing needs index	**…**	**3.1**	**Low**

Graph 13. Debt Fan Chart

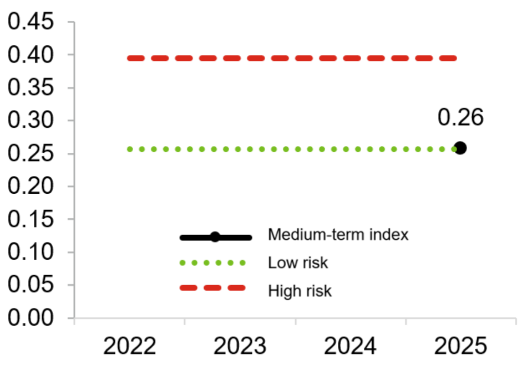


Graph 14. Financing Needs



In assessing the government's financing needs risk, the analysis considers the average level of financing needs over the next five years the amount of receivables from the government held by commercial banks, and the projected increase in these receivables under stress scenarios are taken into account. The results indicate a low level of risk. This is attributed to the repayment of major debt obligations by 2026, which has helped reduce the average level of financing needs.

Graph 15. Medium-Term Risk



As shown in the table below, when the two risk indicators are indexed and assessed together, the government's debt risk over the medium term is determined to be at a moderate/normal level.

Table 11. Medium-Term Risk Index

	Low-Risk Benchmark	High-Risk Benchmark	Weight in the total	Indexed Value
Debt Fan Chart	1.1	2.1	0.5	0.5
Financing Needs	7.6	17.9	0.5	0.1
Medium-Term Index	0.3	0.4	…	0.3, Moderate

Conclusion

As a result, the government's debt risk is assessed to be at a moderate level in both the short and medium term. However, in 2022, the IMF's public sector debt analysis classified Mongolia as high risk. This was primarily due to the expected repayments of Development Bank of Mongolia bonds, the Mongolbank's swap obligations, and the government's scheduled repayments of the Khuraldai and Gerege bonds.

Table 12. Government Debt Risk Level

Period	**Indicator**
Short Term	**Moderate**
Medium Term	**Moderate**
Fan Chart	**Moderate**
Financing Needs	**Low**

These repayments were fully completed as scheduled in 2023, and the Government debt-to-GDP ratio decreased from 60.5 percent in 2022 to 41.8 percent in 2024, a decline of 18.7 percent points. This reduction in risk level is attributed to several positive economic indicators during this period, including economic growth of 5 to 7 percent and an increase in official foreign currency reserves from USD 3.4 billion to USD 5.5 billion.

7.MEDIUM-TERM OBJECTIVES AND MEASURES FOR GOVERNMENT DEBT MANAGEMENT

Objective 1. Prioritize the implementation of high-impact projects and programs that generate real economic returns and are identified as top priorities in the national development policy and planning documents.

Measure 1: Direct new external project loan financing toward large-scale infrastructure projects that support economic growth and are reflected in the national development policy and planning documents.

Measure 2: Utilize government debt guarantees, and guarantee instruments offered by international banks, financial institutions, and foreign countries to secure financing for priority large-scale projectsв

Objective 2. Implement debt management measures to ensure optimal government debt management and maintain medium- and long-term debt sustainability.

Measure 1: Utilize contingent financing instruments, policy-based loans, and budget support loans offered by international banks and financial institutions, which can be used in response to unforeseen events such as natural disasters or financial crises, as well as to implement necessary policy measures.

Measure 2: Implement debt management measures such as early repayment, currency swaps, forward contracts, and interest rate swaps as needed.

Objective 3. Limit the outstanding balances of local government securities and government debt guarantees to effectively manage contingent liability risks.

Measure 1: Adhere to the policy of issuing government debt guarantees only for projects reflected in the national development policy and planning documents, while capping outstanding balances and conducting annual risk assessments to maintain risk at a prudent level.

Measure 2: Set the outstanding balance of provincial and capital city securities at a prudent level. If provinces or the capital city intend to issue securities to finance projects or programs, they must not have received financial support from the state budget in the past two years and must demonstrate the ability to repay the securities using their own revenues.

Measure 3: Do not issue new promissory notes (vexels) that are subject to repayment from the state budget.

Objective 4. Regularize the issuance and trading of government domestic and external securities to establish a market-based benchmark interest rate, thereby increasing opportunities for enterprises to attract investment from the financial market and expanding the investor base.

Measure 1: Develop the domestic government securities market and organize regular securities trading.

Measure 2: Consistently implement refinancing measures for external government securities, repay where possible using treasury cash reserves, and refrain from issuing such securities for financing projects, programs, or budget deficits.

Eight. TARGET STRUCTURE OF THE GOVERNMENT DEBT PORTFOLIO

Objective	Indicator	Unit of measurement	Baseline 2024	Projection 2025	Level	Target Level		
						2026	2027	2028
OBJECTIVE 1.	Ratio of foreign loan agreements concluded to finance large-scale infrastructure projects reflected in the development policy and planning documents, to the total amount of foreign project loans contracted in the given year	percent	42.5	56.9	minimum	70.0	70.0	70.0
OBJECTIVE 2.	Number of financial instruments contracted, and debt management measures implemented under this objective*	units	2	0	minimum	2	2	2
OBJECTIVE 3.	Outstanding balance of government debt guarantees / GDP	percent	2.4	6.1	maximum	10.0	10.0	10.0
	Outstanding nominal balance of securities issued by the respective province or capital city / the respective annual budget revenue of the respective province or capital city	percent	75.7 (Capital City Governor's Office)	75.2 (Capital City Governor's Office)	maximum	70.0	60.0	50.0
OBJECTIVE 4.	Frequency of organized auctions	units	-	Twice per month	minimum	Twice per month		
	Number of external government securities issued for refinancing purposes	units	0	1	maximum	2	2	2

*Note: Debt management measures other than refinancing.