MONGOLIA

Mongolia’s economic freedom score is 55.4, making its economy the 126th freest in the 2019 Index. Its overall score has decreased by 0.3 point, with lower scores for judicial effectiveness and government integrity exceeding improvements in government spending and investment freedom. Mongolia is ranked 29th among 43 countries in the Asia–Pacific region, and its overall score is below the regional and world averages.

After the collapse of the Soviet Union, landlocked Mongolia undertook market reforms and extensively privatized its formerly state-run economy. Foreign direct investments to exploit substantial mineral resources transformed the economy, but they also generated a political backlash. The current government has tried to restore investor confidence, which has been weakened by the persistence of large budget deficits and sizeable government debt. Weak rule of law and lingering corruption are additional drags on the economy.

**ECONOMIC FREEDOM SCORE**

| REGIONAL AVERAGE (ASIA-PACIFIC REGION) | 60.6 |
| WORLD AVERAGE | 60.8 |

| RELATIVE STRENGTHS: Tax Burden and Monetary Freedom |
| HISTORICAL INDEX SCORE CHANGE (SINCE 1995): +7.6 |
| CONCERNS: Fiscal Health and Judicial Effectiveness |

**FREEDOM TREND**

![Graph showing economic freedom trend from 2015 to 2019]

**QUICK FACTS**

- **POPULATION:** 3.1 million
- **GDP (PPP):** $39.7 billion
- **5.1% growth in 2017**
- **5-year compound annual growth 5.7%**
- **$12,979 per capita**
- **UNEMPLOYMENT:** 7.0%
- **INFLATION (CPI):** 4.6%
- **FDI INFLOW:** $1.5 billion
- **PUBLIC DEBT:** 83.2% of GDP

**BACKGROUND:** After adopting a new constitution in 1992, Mongolia was transformed from a closed single-party Communist state to a dynamic multiparty democracy. This transition has been accompanied by the gradual introduction of free-market reforms and relatively well-maintained political stability. Nevertheless, the Soviet-era Mongolian People’s Party (MPP) won a parliamentary majority in 2016, and the MPP’s Khaltmaagiin Battulga was elected president in 2017. Economic issues figured prominently in both elections. Agriculture and mining remain the most important sectors of the economy. Internationally, Mongolia has been granted observer status in the Shanghai Cooperation Organization and is being considered for membership in the Asia–Pacific Economic Cooperation (APEC) forum.
Property and contractual rights are recognized but poorly enforced. The government lacks the capacity to enforce intellectual property rights laws. The judiciary is independent but inefficient and subject to political interference. Pervasive corruption is rooted in a political culture that holds democracy in low esteem. Mongolia’s weak institutions do not enforce anticorruption measures effectively, and both petty and high-level corruption are common.

The individual income tax rate is a flat 10 percent. The top corporate tax rate is 25 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 20.7 percent of total domestic income. Over the past three years, government spending has amounted to 35.1 percent of the country’s output (GDP), and budget deficits have averaged 9.2 percent of GDP. Public debt is equivalent to 83.2 percent of GDP.

The evolving regulatory framework remains relatively opaque, injecting uncertainty into business decisions. The pace of business reform has been sluggish. Labor regulations are relatively flexible, and the nonsalary cost of employing a worker is moderate, but the labor market lacks dynamism. Deficit spending finances subsidies for government-backed mortgages, health care, and energy.

The combined value of exports and imports is equal to 116.6 percent of GDP. The average applied tariff rate is 4.6 percent. As of June 30, 2018, according to the WTO, Mongolia had three nontariff measures in force. In an effort to attract more dynamic investment, Mongolia is pursuing measures to liberalize markets and develop the financial sector. About 96 percent of adult Mongolians have access to an account with a formal banking institution.