Mongolia's economic freedom score is 63.9, making its economy the 66th freest in the 2022 Index. Mongolia is ranked 12th among 39 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

Mongolia’s economy gathered steam in 2017 and 2018, slowed in 2019, and turned negative in 2020. Growth resumed in 2021. Economic freedom has improved during the past half-decade. Boosted by substantial score increases for fiscal health and judicial effectiveness, Mongolia has recorded an impressive 9.1-point overall gain of economic freedom since 2017 and has retained its position in the lower half of the “Moderately Free” category for two consecutive years. The tax burden is light, but government integrity is woefully inadequate.

IMPACT OF COVID-19: As of December 1, 2021, 2,008 deaths had been attributed to the pandemic in Mongolia, and the government’s response to the crisis ranked 118th among the countries included in this Index in terms of its stringency. The economy contracted by 5.3 percent in 2020.

BACKGROUND: After adopting a new constitution in 1992, Mongolia was transformed from a closed single-party Communist state into 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) has held a parliamentary majority since 2016. The MPP reclaimed the presidency from the Democratic Party in the June 2021 elections, electing President Ukhnaa Khurelsukh. Agriculture and mining remain the most important sectors of the economy. Internationally, Mongolia enjoys observer status in the Shanghai Cooperation Organization and is being considered for membership in the Asia-Pacific Economic Cooperation forum. The majority of ethnic Mongolians today live in China.
The law recognizes property and contractual rights, but enforcement is uneven, and title registration is problematic. Although the judiciary is independent, the courts are vulnerable to corruption and political interference by third parties. Endemic corruption is widely perceived as having worsened in recent years, particularly with respect to state involvement in the mining sector. Anticorruption laws are vaguely written and infrequently enforced.

The individual income tax rate is a flat 10 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and excise taxes. The overall tax burden equals 18.7 percent of total domestic income. Government spending has amounted to 32.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.0 percent of GDP. Public debt is equivalent to 76.6 percent of GDP.

There is a lack of consultation with the business community when rules are made, and the government is four years behind in implementing its transparency agreement to address the issue. About 54 percent of unemployed workers are youths. There is a high level of temporary contract labor because many businesses do not operate year-round. The government funds subsidies for agriculture, mining, electricity, and other sectors.

Mongolia has one preferential trade agreement in force. The trade-weighted average tariff rate is 5.3 percent, and seven formal nontariff measures are in effect. However, other barriers to trade, exacerbated by institutional shortcomings, undermine trade flows. Foreign investment is generally welcome, and the regulatory framework is still developing. The financial system has undergone modernization. The banking sector is relatively stable.