



2024

STUDY ON THE COMPETITIVENESS OF THE BANKING SECTOR OF MONGOLIA







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2024



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1. EXECUTIVE SUMMARY



Mongolia's economy has long been highly dependent on the mining sector's activity cycles, the subsequent expansion of the banking sector, and the performance of the agricultural sector. These three sectors have borne the brunt of the economic burden over the years. Among them, the banking sector plays a crucial intermediary role by regulating the circulation of money in the economy, which also makes it susceptible to various challenges.

In recent years, technological advancements have driven rapid digital transformation in the financial sector—especially in banking—prompting institutions to adopt technological innovations across all operations. Nevertheless, Mongolia remains among the countries with relatively high interest rates. For example, over the past decade, Mongolia has consistently ranked among the top 15 countries globally in terms of average lending rates, deposit rates, and inflation levels.

In 2020, the Parliament of Mongolia adopted a strategy to reduce lending rates, which included legal and regulatory reforms and macroeconomic stabilization measures. However, due to the impact of the COVID-19 pandemic and other circumstances, the country was not able to sufficiently reduce interest rates. Moving forward, there is a growing need to reassess how to lower interest rates, enhance the competitiveness of the banking sector, and determine what is required for Mongolia to become a major regional financial hub.

To address these questions, it is important for Mongolia to benchmark its economy and banking sector against countries with similar mining-driven economies, regional peers, and those with comparable income levels, in order to derive well-informed and effective conclusions.

In the first section of the study, the ranking of countries selected in the sample based on the Banking Competitiveness Index is presented. From this section, one can view the list of countries based on the composite index and its sub-indices. Additionally, this chapter outlines the methodology used to calculate the Banking Competitiveness Index and the selection criteria for the component indicators.

In selecting the sample for the study, countries with mining-based economies (as identified by the National Council on Mining and Metals), regional peers, and countries with similar income levels (as categorized by the World Bank) were primarily considered. In total, 37 countries were included in the study.

According to the Banking Competitiveness Index, Mongolia ranked 28th out of 37 countries in 2019, but in the 2024 study, it advanced to 9th place, an improvement of 18 positions. Among the 5 regional countries, Mongolia ranked 1st, among the 21 mining-dependent countries it ranked 6th, and among the 14 upper-middle-income countries, it ranked 3rd. Compared to previous studies, the competitiveness of Mongolia's banking sector has significantly improved.

However, when recalculating the Banking Competitiveness Index excluding macro-environmental factors (such as inflation and external debt indicators), the results became even more noteworthy. Specifically, Mongolia ranked 3rd out of 37 countries, 1st among the 5 regional countries, 2nd among the 22 mining-dependent countries, and 1st among the 14 upper-middle-income countries.

¹ In the previous competitiveness study, data from a total of 39 countries were used, whereas this time, data from 2 countries experiencing heightened geopolitical tensions were excluded.

In other words, macroeconomic instability has a strong impact on the competitiveness of Mongolia's banking sector. This is not unique to Mongolia — in many developing countries, high macroeconomic instability and an unfavorable political environment are also observed.

In terms of the sub-indices of the Banking Competitiveness Index, Mongolia ranks relatively high in indicators that reflect banking sector accessibility and financial deepening. Moreover, the country ranks within the top 20 for indicators related to the political environment, human development, and information technology. More recently, it has also begun to rank higher in banking sector efficiency, risk management, and macroeconomic stability indices.

In this report, each sub-index is accompanied by country-specific indicator analysis for Mongolia. For example, under the Information Technology Index, readers can find a study identifying customer trends in digital banking services.

For the index, additional data on internet usage and electronic banking services were incorporated from the Bank of Mongolia's mobile banking reports and telecommunications sector data provided by the National Statistics Office.

In addition, the report includes theoretical explanations and definitions for why each of the 18 indicators was selected to represent bank competitiveness. The report also features several special studies. For instance, four countries with similar income levels — Kyrgyzstan, Kazakhstan, Uzbekistan, and Indonesia — were selected for a comparative study of their banking sector environments, as these countries' banking sectors dominate their financial markets.

Among some interesting findings: in recent years, these countries have paid considerable attention to the digitalization of their banking sectors, with correspondingly strong investments. For example, Kazakhstan and Kyrgyzstan have actively pursued legal and regulatory reforms to support digital banks and fintechs, aiming to improve financial inclusion and bring financial services to every customer. These countries have also focused heavily on reducing non-performing loans, resulting in a noticeable decline in the share of NPLs in total loans.

The next notable study provides an overview of Mongolia's overall competitiveness. This analysis utilizes the World Competitiveness Ranking published by the IMD World Competitiveness Center. In this study, which includes 67 countries, Mongolia ranked 61st, moving up one position from the previous year.

Although the economy is experiencing relatively stable growth, the low level of foreign investment and lack of diversification in foreign trade pose significant risks to economic stability and have negatively impacted the index score.

The lack of effective government policies, particularly those aimed at improving the business environment, has also negatively affected the index.

The inefficiency of the labor market and the lack of improvement in labor productivity have negatively influenced the business efficiency index.

Inadequate efforts in areas such as promoting healthy living for the population, ensuring consistent and reliable education, and fostering infrastructure to support technological innovation have negatively impacted both the infrastructure index and the overall competitiveness index.

This aligns with the trends observed in our own calculated index — macroeconomic instability was the main factor pulling down Mongolia's Banking Competitiveness Index.

The final highlighted study is a review of Mongolia's banking sector. It aims to present the efficiency and development trends of the sector over the past 5 years. This study provides detailed insights into how the banking sector performed in 2024 compared to 2019, and identifies the factors that influenced its expansion and operations.

² This study was most recently published in 2024

2. 2024 BANKING COMPETITIVENESS INDEX RANKING

Banking competitiveness depends not only on internal sectoral factors such as efficiency, risk, financial intermediation, and accessibility, but also on external factors such as macroeconomic stability, political environment, human development, and technological advancement. These factors collectively shape the space for the banking sector to grow and enhance its competitiveness.

BANKING COMPETITIVENESS INDEX				Component Index 1: BANKING EFFICIENCY INDEX				Component Index 2: BANKING RISK INDEX			
Region	2024	Country	Compared to 2019	Region	2024	Country	Compared to 2019	Region	2024	Country	Compared to 2019
	1	Chile	14		1	Kyrgyzstan	22		1	Armenia	10
	2	Saudi Arabia	0		2	Madagascar	-1		2	Saudi Arabia	1
	3	Australia	5		3	Sudan	1		3	Chile	26
	4	Canada	8		4	Ghana	1		4	Dominican Rep.	0
	5	Brazil	-4		5	Kazakhstan	33		5	Zimbabwe	2
	6	UAE	-2		6	Botswana	7		6	Indonesia	2
	7	Qatar	-2		7	Mongolia	28		7	Kyrgyzstan	5
	8	Dominican Rep	-1		8	Mexico	-6		8	Pakistan	29
	9	Mongolia	19		9	Zimbabwe	-3		9	Canada	21
	10	Mexico	-7		10	Namibia	-1		10	Turkey	17
	11	Kazakhstan	12		11	Dominican Rep.	-1		11	UAE.	3
	12	Indonesia	-1		12	Brazil	-1		12	Brazil	-10
	13	Armenia	7		13	Peru	4		13	Bolivia	15
	14	Hungary	-1		14	Cameroon	-7		14	Philippines	-9
	15	Peru	-9		15	Senegal	-12		15	Australia	16
	16	Namibia	1		16	Indonesia	-2		16	Ghana	-7
	17	Turkey	-3		17	Tajikistan	-1		17	Uzbekistan	-5
	18	Zimbabwe	0		18	Hungary	0		18	Hungary	2
	19	Tajikistan	0		19	Saudi Arabia	1		19	Kazakhstan	-5
	20	Botswana	-10		20	Columbia	-1		20	Mongolia	5
	21	Uzbekistan	0		21	Philippines	10		21	India	12
	22	Columbia	-13		22	South Africa	-14		22	Mexico	-4
	23	Kyrgyzstan	10		23	DR Congo	-1		23	Tajikistan	-2
	24	Philippines	6		24	Bolivia	-3		24	DR Congo	-2
	25	Bolivia	0		25	Qatar	1		25	Namibia	-2
	26	China	-5		26	UAE.	2		26	Qatar	-2
	27	India	3		27	Chile	5		27	Sudan	-11
	28	Vietnam	-3		28	India	9		28	Columbia	-11
	29	South Africa	-14		29	Vietnam	-4		29	Peru	-29
	30	Ghana	-4		30	Australia	3		30	Botswana	-25
	31	Morocco	0		31	Uzbekistan	-16		31	Cameroon	0
	32	Madagascar	-9		32	Canada	-5		32	Madagascar	-17
	33	DR Congo	0		33	Turkey	-21		33	China	2
	34	Cameroon	2		34	Pakistan	-6		34	South Africa	-2
	35	Sudan	-1		35	Armenia	0		35	Vietnam	-16
	36	Senegal	-1		36	China	-13		36	Morocco	1
	37	Pakistan	0		37	Morocco	-8		37	Senegal	-3

Europe and Australia

East Asia and the Pacific

North and South America

Central and South Asia

Middle East and North Africa

Sub-Saharan Africa

Component Index 3. FINANCIAL DEPTH INDEX

Component Index 4. ACCESSIBILITY INDEX

Component Index 5. MACROECONOMIC RISK INDEX

Region	2024	Country	Compared to 2019
	1	Canada	0
	2	China	0
	3	Chile	0
	4	Australia	0
	5	South Africa	0
	6	Vietnam	0
	7	Morocco	0
	8	Brazil	0
	9	Bolivia	1
	10	Armenia	1
	11	India	1
	12	Philippines	10
	13	Turkey	1
	14	Peru	9
	15	Qatar	0
	16	UAE.	0
	17	Namibia	0
	18	Saudi Arabia	0
	19	Uzbekistan	0
	20	Mongolia	0
	21	Senegal	-1
	22	Columbia	-9
	23	Mexico	-2
	24	Kazakhstan	11
	25	Botswana	0
	26	Zimbabwe	0
	27	Hungary	0
	28	Indonesia	0
	29	Dominican Rep.	0
	30	Tajikistan	0
	31	Pakistan	0
	32	Kyrgyzstan	0
	33	Sudan	0
	34	Cameroon	0
	35	Ghana	1
	36	Madagascar	1
	37	DR Congo	0

Region	2024	Country	Compared to 2019
	1	Canada	0
	2	Mongolia	0
	3	Uzbekistan	1
	4	Armenia	1
	5	Australia	-3
	6	Brazil	0
	7	Kazakhstan	0
	8	Turkey	3
	9	Mexico	1
	10	Bolivia	4
	11	Morocco	4
	12	China	7
	13	Columbia	9
	14	Peru	6
	15	Chile	-7
	16	South Africa	7
	17	Pakistan	14
	18	India	6
	19	Kyrgyzstan	8
	20	Philippines	8
	21	Botswana	8
	22	Ghana	14
	23	Vietnam	9
	24	Senegal	9
	25	Sudan	9
	26	Cameroon	9
	27	Madagascar	10
	28	Tajikistan	-12
	29	Hungary	-22
	30	Dominican Rep.	-13
	31	DR Congo	-1
	32	Namibia	-21
	33	Indonesia	-21
	34	Qatar	-14
	35	UAE.	-10
	36	Zimbabwe	-10
	37	Saudi Arabia	-22

Region	2024	Country	Compared to 2019
	1	Chile	28
	2	Peru	12
	3	Botswana	2
	4	Qatar	2
	5	Saudi Arabia	2
	6	Columbia	3
	7	DR Congo	4
	8	Zimbabwe	4
	9	Mexico	1
	10	Cameroon	10
	11	Vietnam	16
	12	Australia	9
	13	Dominican Rep.	3
	14	Indonesia	3
	15	Uzbekistan	17
	16	Turkey	17
	17	Tajikistan	2
	18	Armenia	16
	19	Canada	16
	20	Namibia	2
	21	Mongolia	15
	22	India	-20
	23	Madagascar	-20
	24	Kyrgyzstan	4
	25	Sudan	-1
	26	UAE.	-1
	27	Hungary	-1
	28	Philippines	-24
	29	South Africa	-6
	30	Brazil	-29
	31	Senegal	-2
	32	Morocco	-2
	33	Kazakhstan	3
	34	Bolivia	-22
	35	China	-21
	36	Pakistan	-29
	37	Ghana	-20

Europe and Australia
East Asia and the Pacific

North and South America
Central and South Asia

Middle East and North Africa
Sub-Saharan Africa

Component Index 6. POPULATION DEVELOPMENT INDEX

Component Index 7. POLITICAL ENVIRONMENT INDEX

Component Index 8. INFORMATION TECHNOLOGY INDEX

Region	2024	Country	Compared to 2019	Region	2024	Country	Compared to 2019	Region	2024	Country	Compared to 2019
	1	China	11		1	Chile	0		1	UAE.	0
	2	Chile	-1		2	Canada	0		2	Canada	0
	3	Mexico	-1		3	Australia	0		3	Australia	10
	4	Kazakhstan	-1		4	UAE.	0		4	Chile	-1
	5	Canada	-1		5	Kazakhstan	1		5	Kazakhstan	-1
	6	Australia	0		6	Vietnam	9		6	Qatar	0
	7	Qatar	0		7	Hungary	0		7	Morocco	-1
	8	Armenia	3		8	Qatar	0		8	Mongolia	21
	9	UAE	0		9	China	-4		9	Uzbekistan	10
	10	Mongolia	8		10	Morocco	7		10	Saudi Arabia	0
	11	Brazil	-1		11	Botswana	-1		11	Brazil	1
	12	Columbia	1		12	Namibia	-1		12	Armenia	-11
	13	Peru	1		13	Armenia	-1		13	Kyrgyzstan	13
	14	Saudi Arabia	1		14	Saudi Arabia	-1		14	Mexico	0
	15	Hungary	1		15	Ghana	-6		15	Turkey	-9
	16	Uzbekistan	9		16	Columbia	5		16	Vietnam	0
	17	Vietnam	12		17	Senegal	1		17	Botswana	12
	18	Dominican Rep.	0		18	Uzbekistan	4		18	Hungary	0
	19	Turkey	-15		19	Indonesia	1		19	Dominican Rep.	0
	20	Botswana	-13		20	Dominican Rep.	3		20	Indonesia	0
	21	Indonesia	-1		21	Mongolia	3		21	Namibia	0
	22	Namibia	-1		22	Turkey	-6		22	Zimbabwe	0
	23	Tajikistan	-1		23	Tajikistan	2		23	Bolivia	1
	24	Zimbabwe	-1		24	India	2		24	China	1
	25	DR Congo	-1		25	South Africa	-11		25	Columbia	-12
	26	Bolivia	0		26	Peru	-7		26	Philippines	11
	27	Morocco	0		27	Mexico	0		27	South Africa	-12
	28	India	3		28	Zimbabwe	0		28	Peru	0
	29	Philippines	-1		29	Brazil	3		29	Tajikistan	0
	30	South Africa	-11		30	Kyrgyzstan	4		30	DR Congo	0
	31	Kyrgyzstan	-1		31	Bolivia	2		31	Pakistan	0
	32	Pakistan	0		32	DR Congo	-2		32	Senegal	0
	33	Senegal	0		33	Philippines	-2		33	India	0
	34	Sudan	0		34	Madagascar	-5		34	Sudan	0
	35	Cameroon	0		35	Pakistan	0		35	Cameroon	0
	36	Ghana	0		36	Sudan	0		36	Ghana	-10
	37	Madagascar	0		37	Cameroon	0		37	Madagascar	0

Europe and Australia
East Asia and the Pacific

North and South America
Central and South Asia

Middle East and North Africa
Sub-Saharan Africa

3. INTRODUCTION TO THE BANKING COMPETITIVENESS INDEX



At the international level, although there are many studies on bank competitiveness and market concentration, there are very few reports, bulletins, or publications that specifically calculate a Banking Competitiveness Index. In contrast, the Global Competitiveness Index published by the World Economic Forum includes a subcategory that evaluates the competitiveness of a country's financial system. Thus, the competitiveness of a country's financial system can be understood through the performance of its banking, insurance, and capital markets.

In 2020, the Mongolian Bankers Association introduced the Banking Competitiveness Index with the aim of measuring the competitiveness of the banking sector. This current study recalculates the index after four years, with an improved methodology based on the previous version. The report enables a comparison between 2020 and the present, highlighting how changes in the economy, demographics, political conditions, and technology have impacted the competitiveness of the banking sector.

For banks, the study offers an opportunity to assess their standing at the international level. For customers and the public, it allows for comparison of the level of services and accessibility of the banking sector. For investors, it provides information for evaluating the profitability of investing in the banking sector, as well as insights into its growth, development, and financial impact.

For policymakers and governing authorities, the study is unique in that it provides the opportunity to examine how macroeconomic and political environments influence the development of the banking sector.

The Banking Competitiveness Index is calculated based on internal and external factors. Internal factors include banking efficiency, accessibility for the public, and the sector's support of the national economy. External factors include macroeconomic conditions, political environment, human development, and technological advancement.





In recent years, as the information technology sector has developed, people's lifestyles have been rapidly transforming. Therefore, it is critically important to include indicators of human development and technological progress to show how each country is utilizing technological advancements in its financial markets, particularly in the banking sector.

The country sample for the study was selected based on three criteria. First, as Mongolia is a resource-rich country with a mining-dependent economy, 21 countries with similar characteristics were selected. Second, since Mongolia is classified as an upper-middle-income country, other countries within the same income group were chosen to assess Mongolia's banking sector development relative to its peers. Third, countries from the same geographic region were selected to evaluate the level of banking sector development and to identify where competitive space exists and how competitiveness could be further enhanced.

³According to the World Bank classification, due to the continuous economic growth of our country since 2022, it re-entered the upper-middle-income category in 2024.

The Banking Competitiveness Index consists of 8 pillar indices and 18 indicators. These include banking sector indicators such as efficiency, risk, depth, and accessibility. In terms of socio-economic indicators, the sub-indices cover macroeconomic risk, human development indicators, indicators of government stability, as well as information technology-related indicators.

BANKING ENVIRONMENT

	Column 1 BANKING EFFICIENCY
	Column 2 BANKING RISK LEVEL
	Column 3 BANKING SECTOR DEPTH
	Column 4 BANKING INTERMEDIATION

HUMAN DEVELOPMENT

	Column 5 HUMAN DEVELOPMENT INDICATORS
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As mentioned in the previous section, the sample was selected from East Asia and Pacific countries in order to reflect regional characteristics. In total, 37 countries were included in the study. In selecting the number of indicators and their data sources, numerical data were analyzed using databases from the World Bank, International Monetary Fund, central banks of respective countries, and international financial institutions.

For the index calculation, we applied the composite variable methodology developed by the Organisation for Economic Co-operation and Development (OECD). This approach ensured that the stages and criteria of the index are internationally aligned and significantly contributed to developing a reliable index. It also served as a theoretical guide to estimate data gaps in international indicators as accurately as possible. Moreover, it allows for future index development to follow a standardized hierarchical structure, which is an added advantage.

The indicators used in the index reflect short-term bank competitiveness, as banking sector efficiency, risk, and depth can change within a single year.

MARKET ENVIRONMENT

	Column 6 MACRO-ECONOMIC ENVIRONMENT
	Column 7 POLITICAL ENVIRONMENT

DIGITAL ENVIRONMENT

	Column 8 INFORMATION TECHNOLOGY
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Furthermore, due to the impact of technological advancement, the traditional products and services of the financial sector—particularly the banking sector—are continuously evolving, and as a result, the efficiency of the banking sector is also transforming accordingly. In addition, technology companies and non-bank financial institutions that offer technology-based financial products and services are rapidly entering the financial market, providing fast, low-cost offerings, which is also influencing the competitiveness of the banking sector.

In calculating the index, the legal and regulatory environment of the banking sector, tax frameworks, and other related laws were not included. This is because the tax laws and legal specifics of each country vary significantly, which was considered a risk that could negatively affect the accuracy of the calculation.

4. REGIONAL ANALYSIS

The selected 37 countries were compared by region. In the 2020 competitiveness study, the gap in the Banking Competitiveness Index among countries in the East Asia and Pacific region was relatively narrow, whereas in 2024, the gap has narrowed in Central Asia and the Middle East. In the case of the Middle East, the competitiveness indicators have declined compared to the previous study, contributing to the narrowing of the index gap.

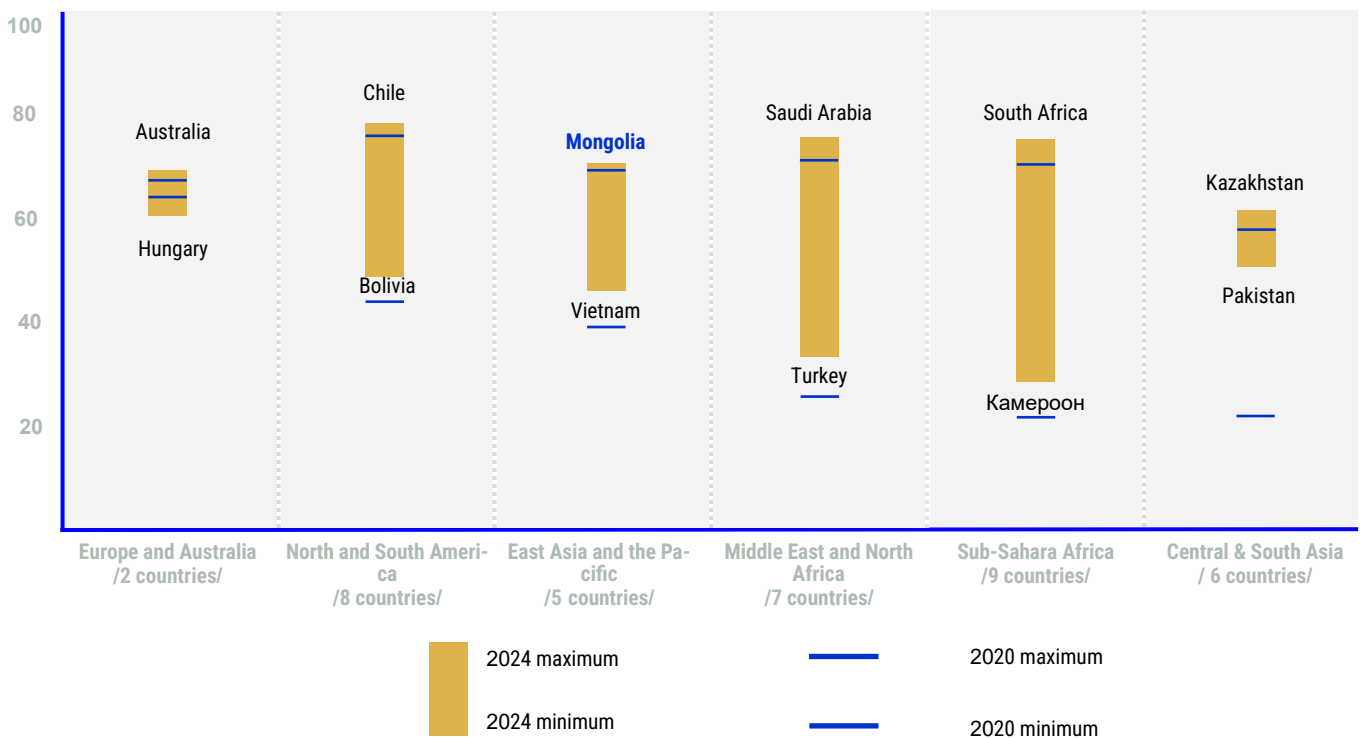
For countries in Central and South Asia, the gap in the index has remained relatively stable. In Sub-Saharan Africa, the index gap remains wide, while in the Americas, the index gap has widened.

In other words, a high index gap indicates significant differences in banking conditions, macroeconomic environments, and political contexts among countries within those regions.

In recent years, as technology-based financial products and services have rapidly expanded, banking sector profitability and accessibility have visibly improved across various regions. However, on the other hand, due to intensifying geopolitical tensions, uncertainty and political instability continue in certain regions, which in turn negatively affects the competitiveness of those countries.

The average and median values of the regional Banking Competitiveness Index have increased. Looking at the regional averages in 2020, countries in North and South America, Europe, and Australia had the highest Banking Competitiveness Index scores. By 2024, the average scores of countries in North and South America, as well as the Middle East, have increased and become the highest among regions. Meanwhile, countries in Central and South Asia continue to have the lowest regional average index scores.

Banking Competitiveness Index



5. INCOME-BASED ANALYSIS OF COUNTRIES



In previous years, the gap in the Banking Competitiveness Index widened as income levels declined. However, in recent years, due to the influence of technology, banking accessibility indicators have improved in low-income countries, resulting in a narrowing of the index gap for these countries. Additionally, it has been observed that improvements in human development and technology indicators in low-income countries are positively affecting their index scores.

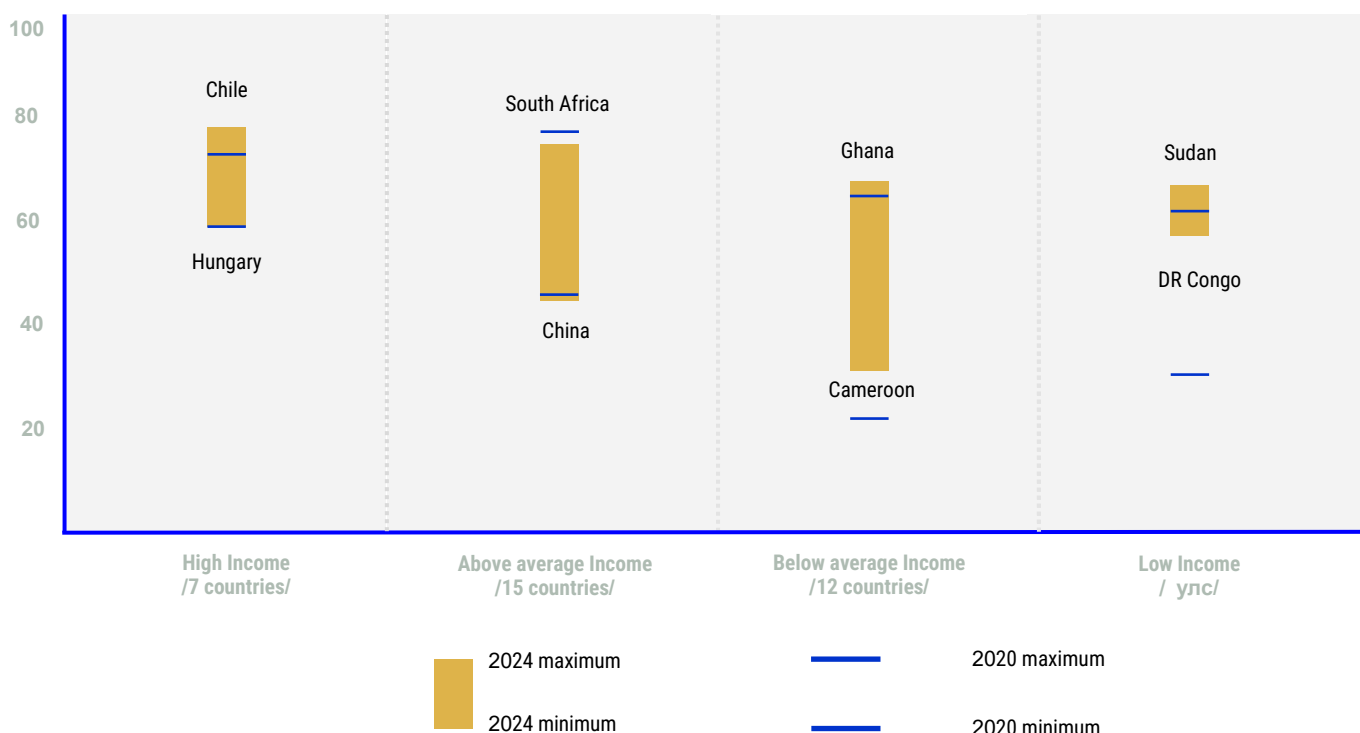
For lower-middle-income and upper-middle-income countries, the index gap remains relatively high. This suggests that the macroeconomic environment and banking stability in these income groups are comparatively unstable. As income levels increase, the index gap narrows, and overall index scores also rise. This is linked to the fact that upper-middle-income countries are beginning to experience greater macroeconomic and political stability, as well as improvements in banking sector accessibility and

financial deepening, leading to increased competitiveness year by year.

Furthermore, when the influence of macroeconomic conditions is excluded from the Banking Competitiveness Index, the index gap among low-income and lower-middle-income countries tends to widen, while the index gap among high-income countries remains stable. This highlights the unstable macroeconomic conditions and political uncertainty present in lower-middle-income countries.

In the case of Mongolia, the country previously ranked at the bottom among upper-middle-income countries, but in the 2025 competitiveness study, it has moved up to 4th place.

Banking Competitiveness Index



6. WHERE DOES MONGOLIA'S BANKING SECTOR COMPETITIVENESS STAND?

According to the Banking Competitiveness Index, Mongolia ranked 28th out of 37 countries in 2020, but improved significantly to 9th place in 2024. When comparing Mongolia's performance with countries in the same region, those with mining-dependent economies, and countries with similar income levels, it is evident that the country's competitiveness has relatively improved.

The next important question is whether Mongolia's macroeconomic instability has been holding back its banking sector competitiveness. During the early phase of the pandemic, Mongolia experienced an economic downturn. However, starting in 2021, policy measures aimed at boosting economic activity and preserving jobs began to show results. From 2022 onward, economic sectors started to gradually recover, and for three consecutive years the economy recorded growth. At the same time, supply-driven inflation began to ease, creating conditions for a

decline in inflation. Alongside this gradual economic recovery, external debt management measures were also implemented, which proved effective.

When recalculated by excluding macroeconomic variables such as inflation and external debt, Mongolia ranked 15th in 2020—an improvement of 13 positions—and in 2024, moved up a further 9 places to rank 6th. This demonstrates that macroeconomic stability has a positive impact on the competitiveness of Mongolia's banking sector. It also highlights the need to place significant emphasis on maintaining macroeconomic stability in order to sustain and further improve banking sector competitiveness.

Banking Competitiveness Index /Mongolia's Ranking/



HOW TO READ THE BANKING COMPETITIVENESS INDEX?

1

The summary section provides explanatory information such as the rationale for selecting each index indicator and Mongolia's respective ranking within each.

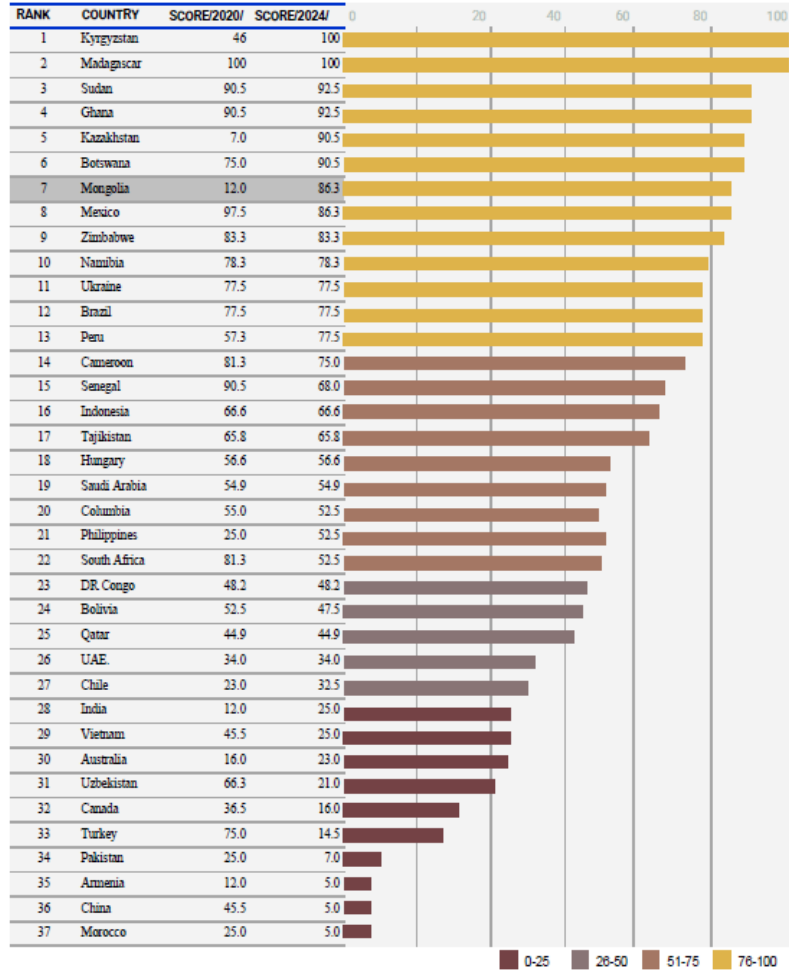
1

MONGOLIA
7/37

According to the Bank Efficiency Index, Mongolia ranked 35th out of 37 countries in 2020 but rose to 7th place in 2024. The relatively high return on assets

Component Index 1. BANK EFFICIENCY INDEX

and return on equity in Mongolia's banking sector compared to other countries has had a positive impact on its banking efficiency.



2

The Banking Competitiveness Index and its aggregated sub-indices are listed, and it is possible to compare the scores obtained in 2020 and 2024 side by side.

2

	MONGOLIA'S RANKING	TOP-PERFORMING COUNTRIES
Interest Rate Spread	19	Senegal
Return on Assets	9	Kyrgyzstan
Return on Equity	5	Madagascar

3

The index shows Mongolia's ranking for each individual indicator used in the calculation. It also highlights the countries that received the highest scores for each respective indicator.

3

Banking Competitiveness Index 2024

23

7. COMPONENTS OF THE BANKING COMPETITIVENESS INDEX.

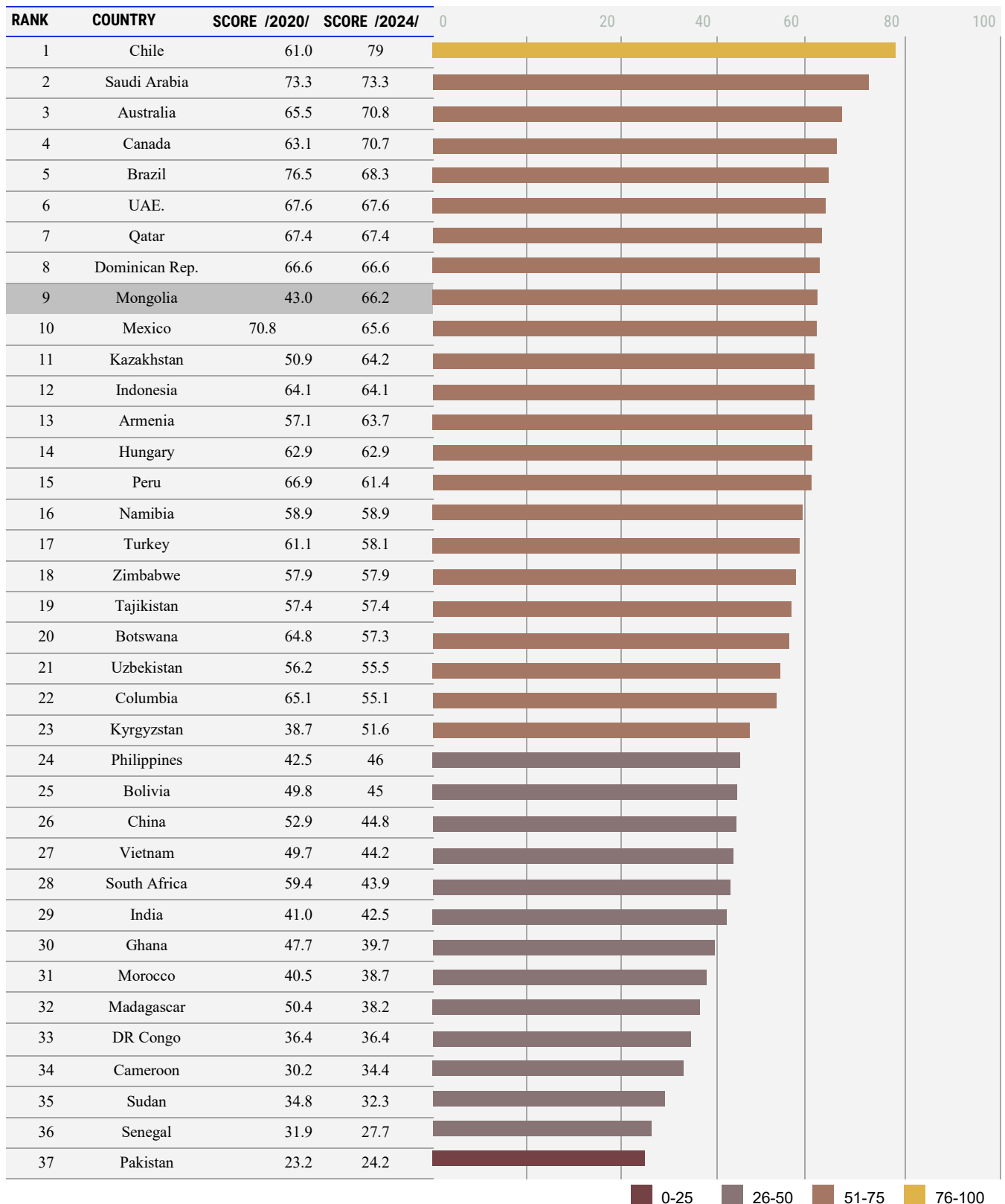


According to the overall Banking Competitiveness Index , Mongolia ranked 9th in 2024.

Resource-dependent developed countries such as Chile, Saudi Arabia, Canada, Australia, and Qatar occupy the top positions in the ranking.

Additionally, developing countries in South America such as Brazil and the Dominican Republic, where the services sector is more prominently developed, also occupy top positions in the index.

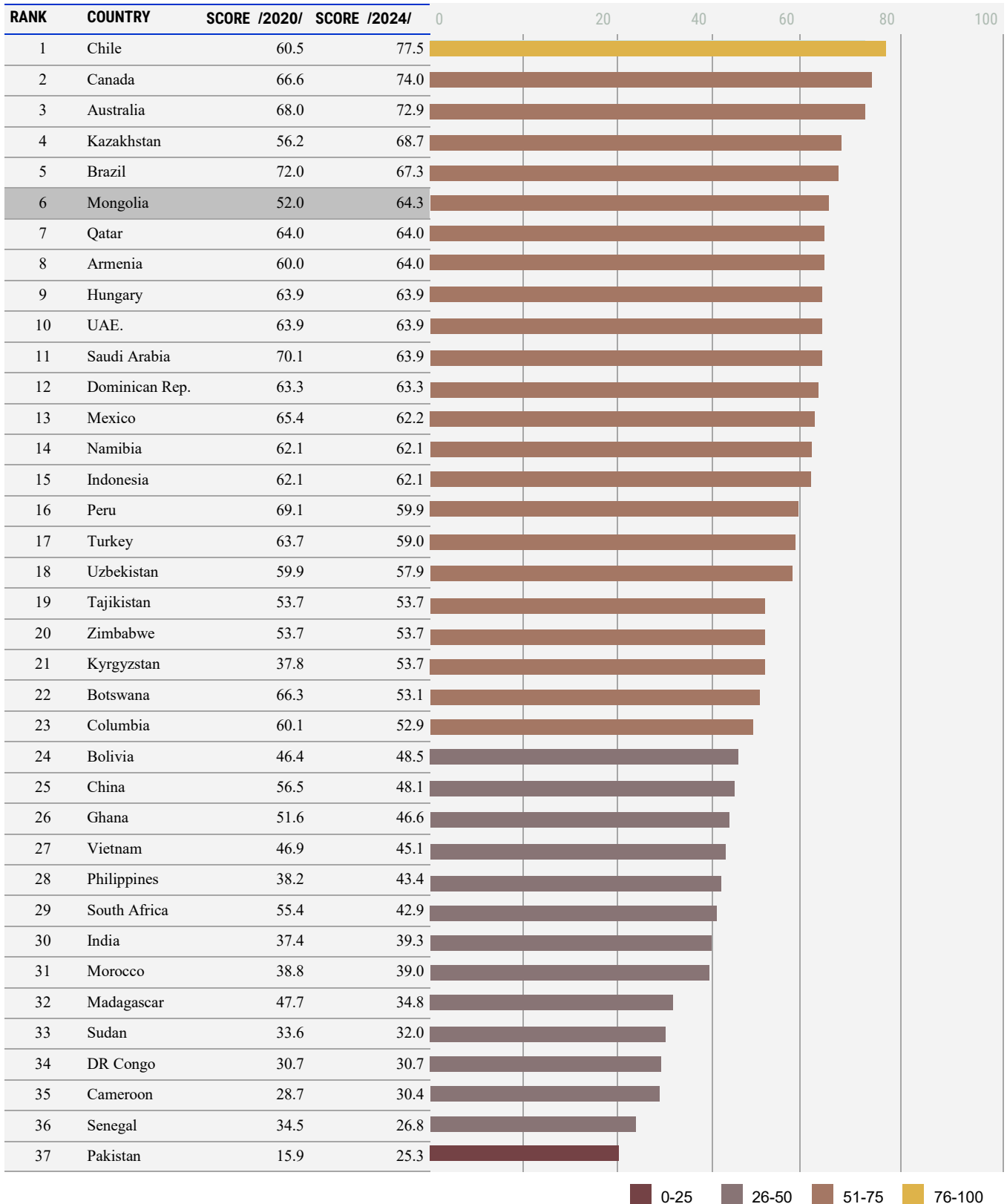
BANKING COMPETITIVENESS INDEX



INDEX CALCULATED EXCLUDING MACROECONOMIC FACTORS

For developing and mining-dependent countries, macroeconomic stability has a significant impact on the banking sector. Therefore, the macro risk indicator was separated from the index and analyzed independently.

As a result, when assessed using the index that excludes macroeconomic factors, Mongolia ranked 28th out of 37 countries in 2020 but improved to 6th place in 2024. This indicates that if Mongolia continues to focus on maintaining macroeconomic stability, the competitiveness of its banking sector has the potential to further improve.



In the regional context, Mongolia ranked 4th out of the 5 selected countries in 2020, but by 2024, it had risen to 1st place. Over the past four years, significant legal and regulatory reforms have been implemented in the banking sector, and Mongolia's banking accessibility indicators have remained considerably higher than those of other countries, positively influencing the results.

Additionally, in 2024, bank profitability improved, and the volume of non-performing loans declined to the lowest level in the past 15 years, further contributing positively to the index score. Inflation has gradually decreased since the end of 2022 and stabilized in 2024, while the economy has recorded

growth for three consecutive years, all of which have had a favorable impact.

Based on the median value of the overall index, countries in Europe and Australia, as well as North and South America, have the highest scores. Meanwhile, Sub-Saharan Africa and countries in Central and South Asia have the lowest medians, highlighting that differences in banking competitiveness are heavily influenced by factors such as national stability and geopolitical conditions.

East Asia and Pacific				South Asia and Central Asia				Sub-Saharan Africa			
RANK	COUNTRY	SCORE 2020	SCORE 2025	RANK	COUNTRY	SCORE 2020	SCORE 2025	RANK	COUNTRY	SCORE 2020	SCORE 2025
9	Mongolia	43.0	66.3	11	Kazakhstan	50.9	64.2	16	Namibia	58.9	58.9
12	Indonesia	64.1	64.1	19	Tajikistan	57.4	57.4	18	Zimbabwe	57.9	57.9
24	Philippines	42.5	46.0	21	Uzbekistan	56.2	55.5	20	Botswana	64.8	57.3
27	China	52.9	44.8	23	Киргиз Country	38.7	51.6	29	South Africa	59.4	43.9
28	Vietnam	49.7	44.2	30	India	41	42.5	31	Ghana	47.7	39.7
				38	Pakistan	23.2	24.2	33	Madagascar	50.4	38.2
								34	DR Congo	36.4	36.4
								35	Cameroon	30.2	34.4
								37	Senegal	31.9	27.7
MEDIAN SCORE			46.0	MEDIAN SCORE			46.0	MEDIAN SCORE			44.0

EUROPE AND AUSTRALIA				NORTH AND SOUTH AMERICA				MIDDLE EAST AND NORTH AFRICA			
RANK	COUNTRY	SCORE 2020	SCORE 2025	RANK	COUNTRY	SCORE 2020	SCORE 2025	RANK	COUNTRY	SCORE 2020	SCORE 2025
3	Australia	65.5	70.8	1	Chile	61.0	79.0	2	Saudi Arabia	73.3	73.3
14	Hungary	62.9	62.9	4	Canada	63.1	70.7	6	UAE.	67.6	67.6
				5	Brazil	76.5	68.3	7	Qatar	67.4	67.4
				8	Dominican Rep.	66.6	66.6	13	Armenia	57.1	63.7
				10	Mexico	70.8	65.6	17	Turkey	61.1	58.1
				15	Peru	66.9	61.4	32	Morocco	40.5	38.7
				22	Columbia	65.1	55.1	36	Sudan	34.8	32.3
				25	Bolivia	49.8	45.0				
MEDIAN SCORE			66.8	MEDIAN SCORE			66.1	MEDIAN SCORE			63.6

0-25 26-50 51-75 76-100

COMPARED TO OTHER COUNTRIES IN THE REGION, EXTERNAL DEBT PRESSURE REMAINS HIGH.

Economic and human development indicators were examined in comparison with East Asia and Pacific countries. While Mongolia performs well in terms of the Human Development Index compared to countries in the region, it has a relatively small economy, high inflation, and significant external debt pressure. Although unemployment is high, it remains at a relatively normal level compared to other countries. In addition, the economy is more import-oriented than export-based when compared to those countries, and the current account deficit as a share of GDP is relatively high.

Mongolia’s consistent economic growth over the past three years has contributed to an increase in per capita income, and in 2024, the country was

reclassified by the World Bank as an upper-middle-income country. For countries in the region, growth in GDP per capita has continued since 2010, though during the early stages of the pandemic, all countries except the Philippines and Vietnam experienced declines in this indicator.

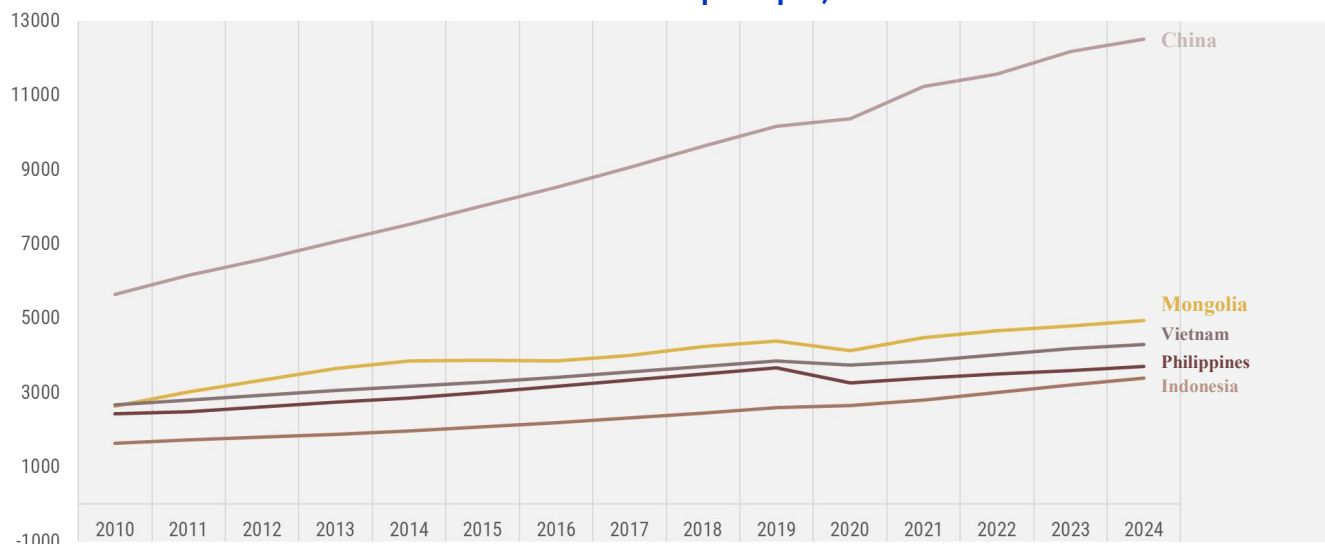
From 2021 onward, following the pandemic, economic recovery and revitalization led to increases in GDP per capita among countries in the region.

Key Development Indicators of Countries /As of 2024/

INDICATOR	PHILIPPINES	VIETNAM	MONGOLIA	INDONESIA	CHINA
Population, millions.	115.8	101.6	3.5	277.7	1,430.8
Life expectancy	72	75	71	73	78
Human Development Index Rank	116	115	92	114	79
Human Development Index	0.70	0.70	0.74	0.71	0.76
Unemployment	3.1	2.2	5.3	5.5	5
GDP, \$ Billion	461.6	457.7	23.6	1,396.3	18,748.0
GDP per capita, \$	4079.0	4,535.8	6,653	4,958.4	13,312
Inflation	2.1	3.1	8	3.5	1.8
Current Account Balance/GDP	-3.8	6.6	-6.9	-0.6	2.2
Government Debt/GDP	60.2	37.4	44.4	40	70

Source: World Bank, International Monetary Fund.

GDP per Capita, at 2015 Constant Prices



Source: World Bank

Let us examine the index of the sampled countries by income level. In 2020, Mongolia ranked 15th out of 15 upper-middle-income countries in the sample, but in 2024, it rose to 3rd place. When excluding macroeconomic factors, it ranked 2nd. The relatively stable macroeconomic environment and political conditions in recent years have had a positive impact on the index score. Additionally, Mongolia's financial accessibility indicators are relatively high compared to countries with similar income levels.

High-income countries have the highest scores, while low-income countries have the lowest median scores. The disparity in index scores reflects differences arising from income levels.

The International Council on Mining and Metals (ICMM) identifies countries that are heavily dependent on mining revenues by calculating the share of mining in GDP, the proportion of mining in exports, and the growth in mining output. Therefore, comparing index values with countries of similar income levels that are also highly dependent on mining products is of particular importance.

LOWER-MIDDLE-INCOME COUNTRIES				UPPER-MIDDLE-INCOME COUNTRIES			
RANK	COUNTRY	SCORE 2020	SCORE 2025	RANK	COUNTRY	SCORE 2020	SCORE 2025
18	Zimbabwe	57.9	57.9	5	Brazil	76.5	68.3
21	Uzbekistan	56.2	55.5	8	Dominican Rep.	76.5	66.6
23	Kyrgyzstan	38.7	51.6	9	Mongolia	43.0	66.3
24	Philippines	42.5	46.0	10	Mexico	70.8	65.6
25	Bolivia	49.8	45.0	11	Kazakhstan	50.9	64.2
28	Vietnam	49.7	44.2	12	Indonesia	64.1	64.1
30	India	41.0	42.5	13	Armenia	57.1	63.7
31	Ghana	47.7	39.7	15	Peru	66.9	61.4
32	Morocco	40.5	38.7	16	Namibia	58.9	58.9
35	Cameroon	30.2	34.4	17	Turkey	61.1	58.1
37	Senegal	31.9	27.7	20	Botswana	64.8	57.3
38	Pakistan	23.2	24.2	22	Columbia	65.1	55.1
				27	China	52.9	44.8
				29	South Africa	59.4	43.9
MEDIAN SCORE			43.2	MEDIAN SCORE			62.5

HIGH INCOME COUNTRIES				LOW INCOME COUNTRIES			
RANK	COUNTRY	SCORE 2020	SCORE 2025	RANK	COUNTRY	SCORE 2020	SCORE 2025
1	Chile	61.8	79.0	33	Madagascar	50.4	38.2
2	Saudi Arabia	73.3	73.3	34	DR Congo	36.4	36.4
3	Australia	65.5	70.8	36	Sudan	34.8	32.3
4	Canada	63.1	70.7				
6	UAE.	67.6	67.6				
7	Qatar	67.4	67.4				
14	Hungary	62.9	62.9				
MEDIAN SCORE			70.7	MEDIAN SCORE			36.4

0-25 26-50 51-75 76-100

MOVING AWAY FROM MINING DEPENDENCY IS ONE OF THE GREATEST CHALLENGES AND FAR FROM EASY.

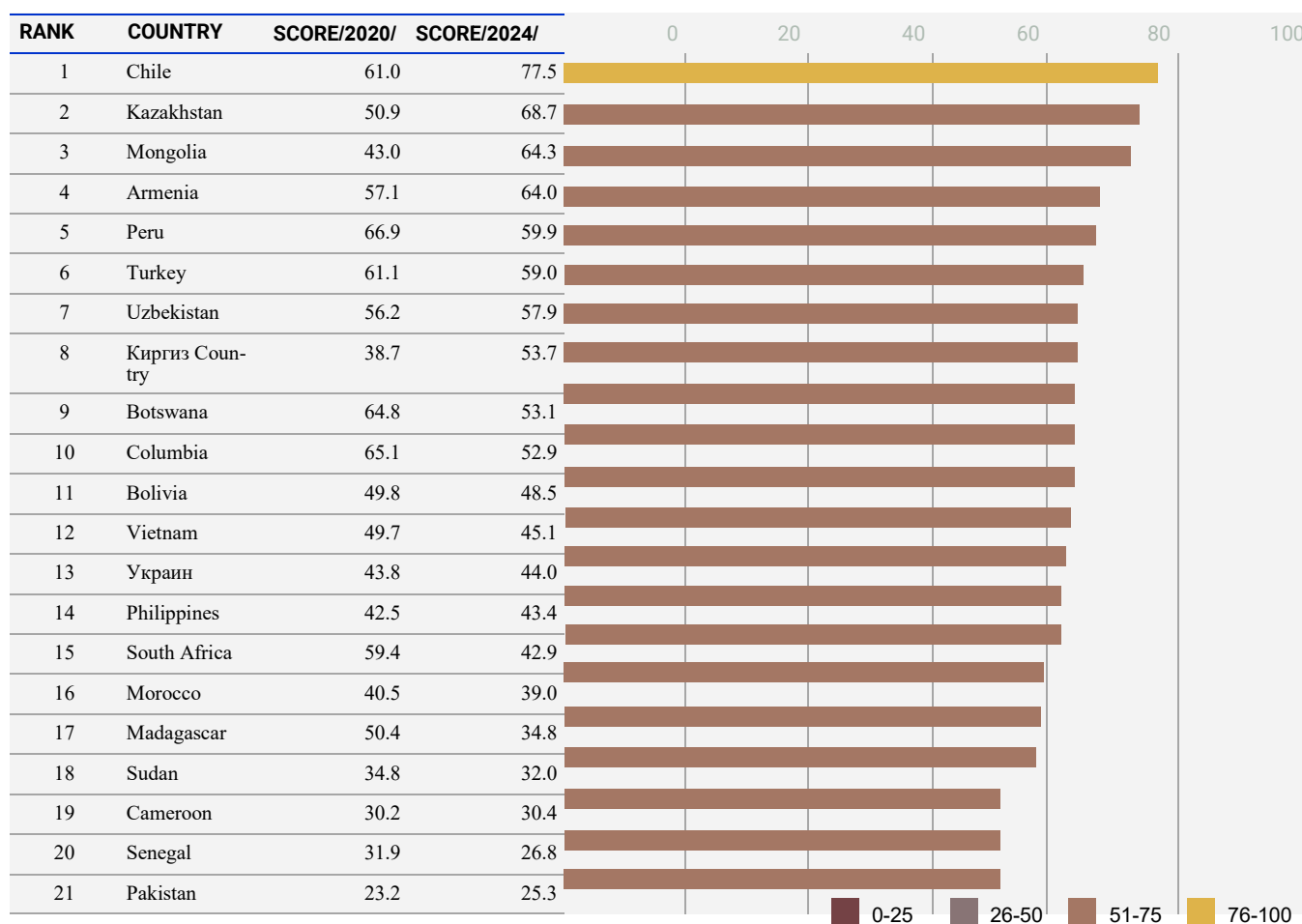
A total of 21 mining-dependent countries were included in the index calculation, with Mongolia ranking 13th in 2020 and rising to 3rd place in 2024.

Key economic and human development indicators of upper-middle-income, mining-dependent countries—as classified by the World Bank—were examined.

/As shown in the table below/

Among these countries, Mongolia is characterized by high inflation, a large current account deficit, significant external debt pressure, and a geographically disadvantaged location. Although economic growth is high, it is highly volatile and unstable. Since the 1960s, resource-dependent countries have implemented various policies and programs aimed at reducing the influence of mining on their economies, but to this day, they have not achieved significant success.

CLASSIFICATION OF MINING-DEPENDENT COUNTRIES



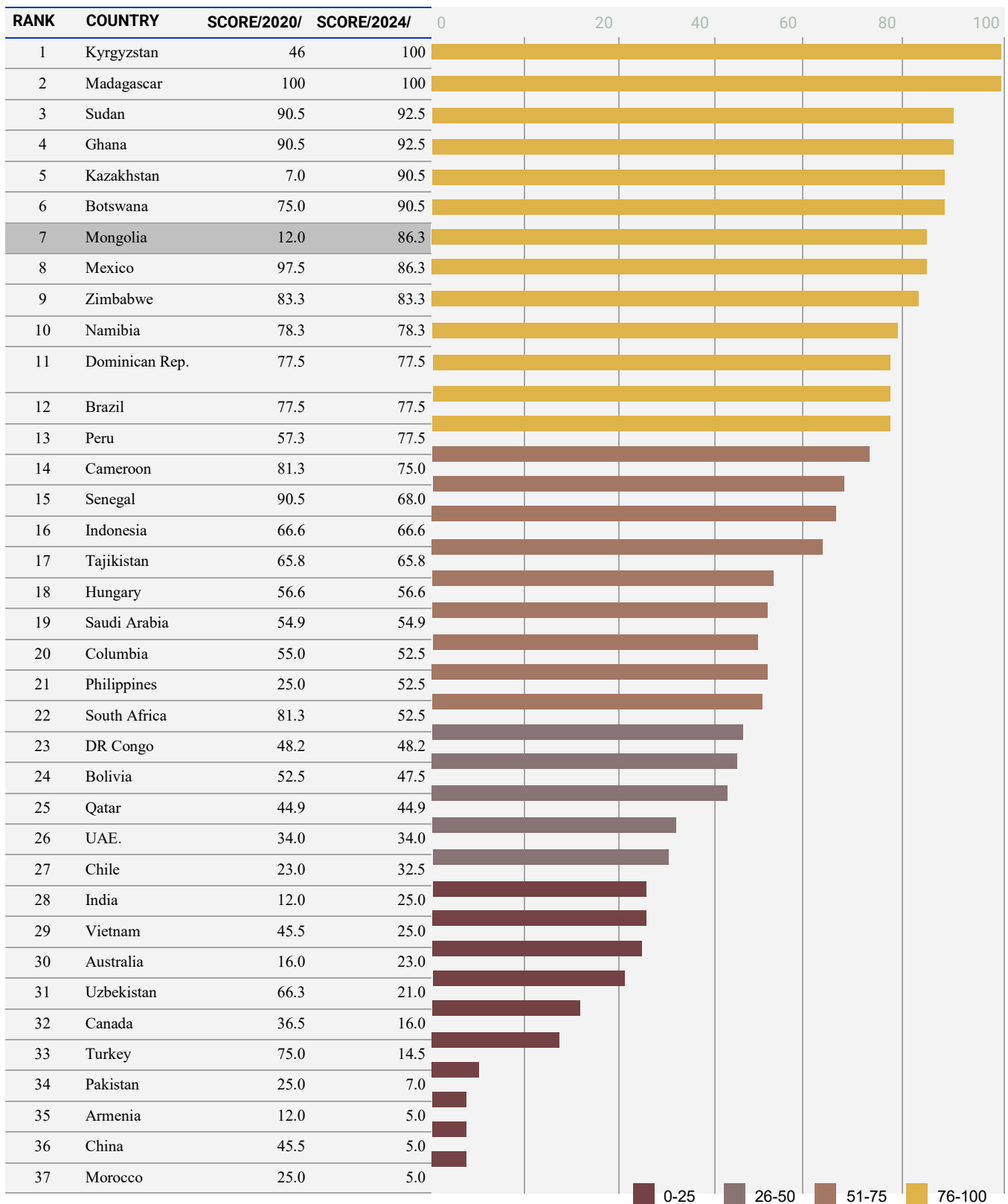
KEY DEVELOPMENT INDICATORS OF COUNTRIES /AS OF 2024/

INDICATOR	KAZAKHSTAN	BOTSWANA	MONGOLIA	PERU	COLUMBIA
Population, million.	19.9	2.5	3.5	34.5	52.2
Life expectancy	73	59	71	77	77
Human Development Index, Ranking	56	100	92	84	88
Human Development Index	0.81	0.735	0.737	0.76	0.75
Unemployment	4.6	27.6	5.3	6.4	8.2
GDP, \$ Billion	261.4	19.4	23.6	267.6	363.5
GDP per capita, \$	11,453	7,341	6,653	6,455	6,850
Inflation	8.6	2.8	8	2.0	5.2
Current account/GDP	-3.3	0.9	-6.9	0.6	-2.7
Government debt/GDP	24.4	23.3	44.4	32.7	61.8

Source: World Bank, International Monetary Fund

According to the Bank Efficiency Index, Mongolia ranked 35th out of 37 countries in 2020 but rose to 7th place in 2024. The relatively high return on assets

and return on equity in Mongolia’s banking sector compared to other countries has had a positive impact on its banking efficiency.



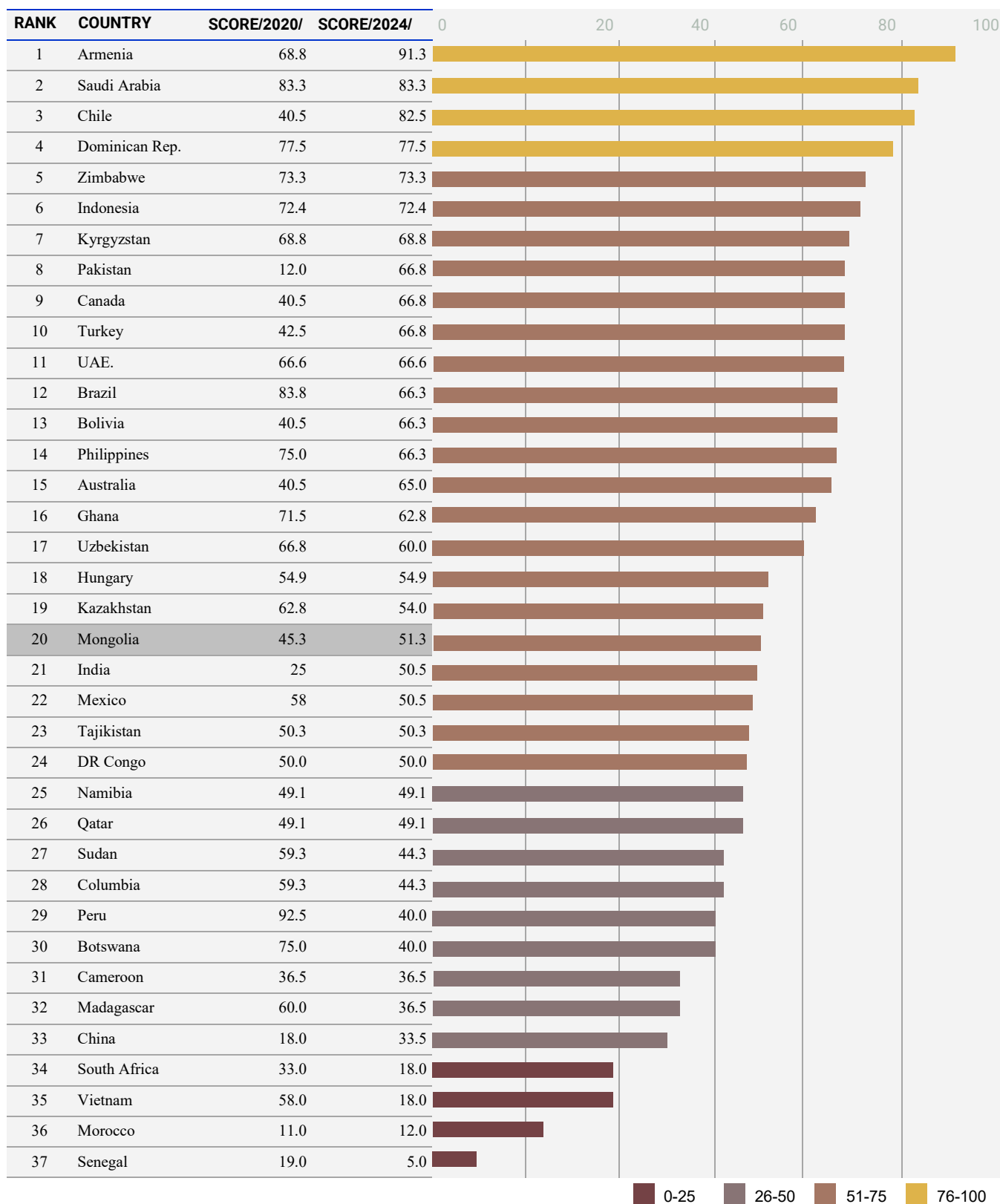
	MONGOLIA'S RANKING	TOP-PERFORMING COUNTRIES
Interest Rate Spread	19	Senegal
Return on Assets	9	Kyrgyzstan
Return on Equity	5	Madagascar

Component Index 2. BANK RISK INDEX

MONGOLIA
20/37

According to the Bank Risk Index, Mongolia ranked 26th out of 37 countries in 2020 and improved to 20th place in 2024. In recent years, increased lending

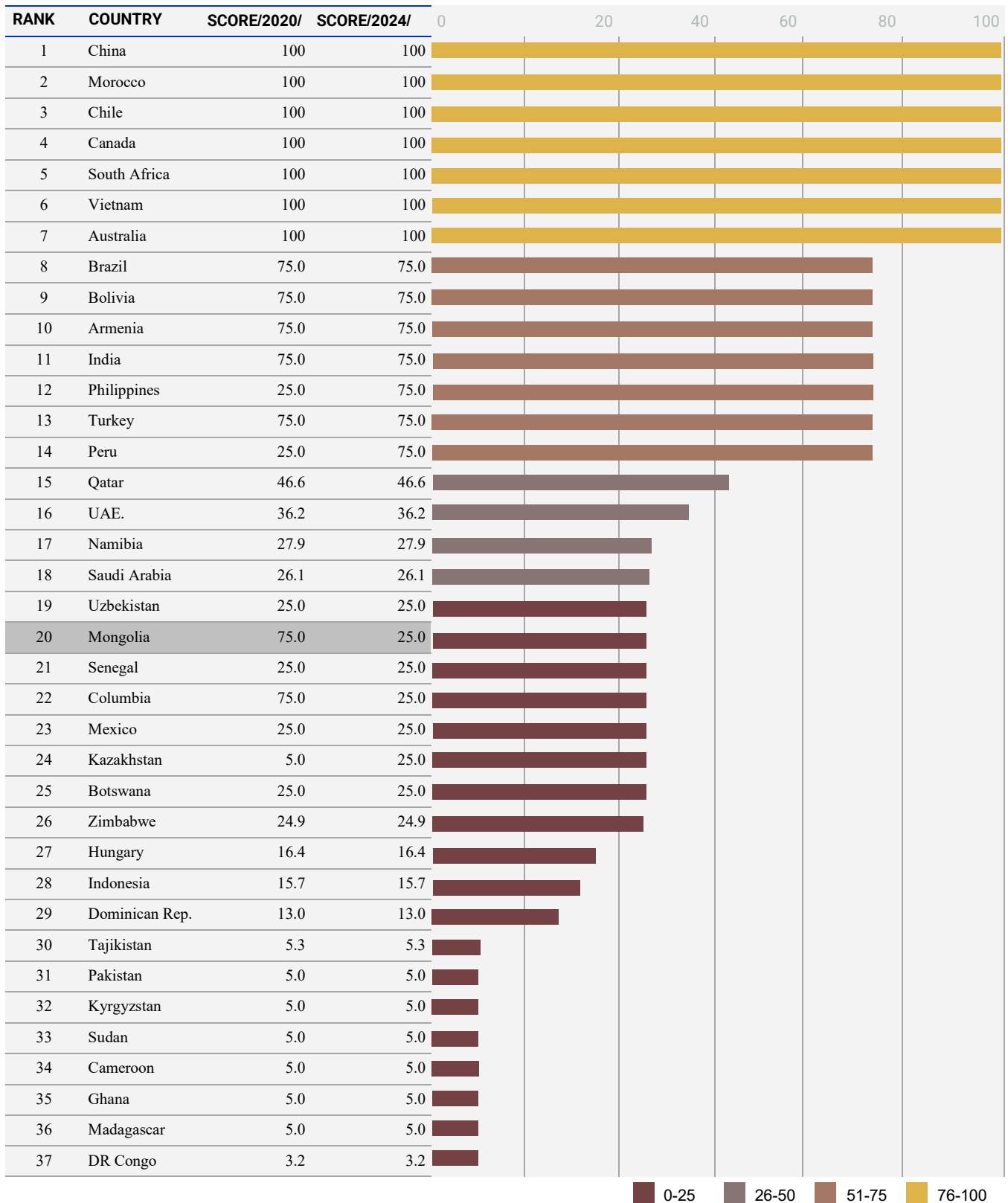
activity has contributed to a decline in the volume of non-performing loans, which has positively affected the index score.



	MONGOLIA'S RANKING	TOP PERFORMING COUNTRIES
Liquidity	22	Pakistan
Capital Adequacy	2	Kyrgyzstan
Non-performing Loans	17	Canada

According to the Bank Efficiency Index, Mongolia ranked 12th out of 37 countries in 2020 but declined to 20th place in 2024. In recent years, the banking

sector has increasingly focused on lending to individuals, while the volume of loans issued to the private sector has decreased, which has affected the index score.



MONGOLIA'S RANKING

TOP PERFORMING COUNTRIES

Private Sector Credit as a Percentage of GDP

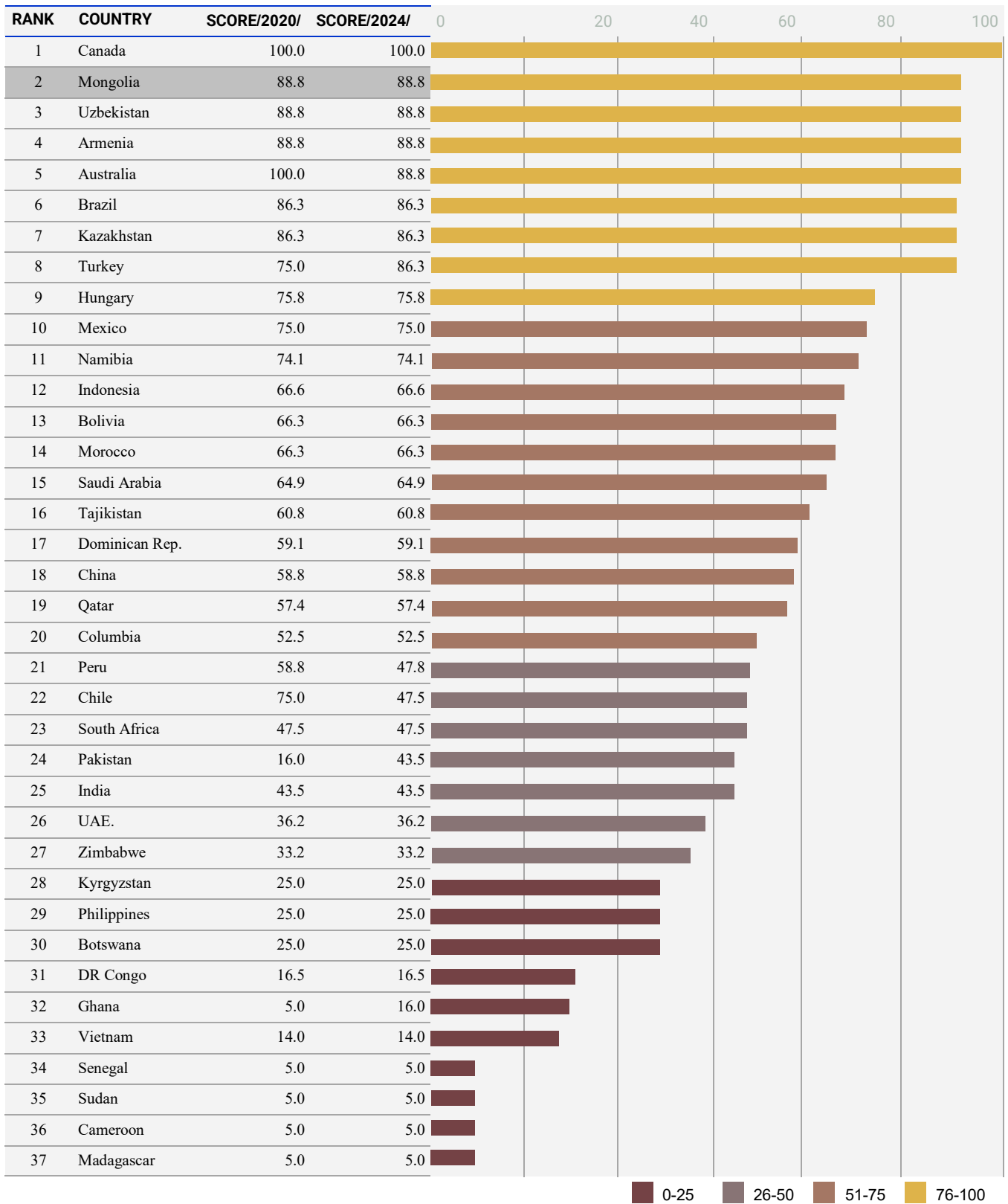
16

Canada

Component Index 4. BANK ACCESSIBILITY INDEX

According to the Bank Accessibility Index, Mongolia ranked 2nd out of 37 countries in 2020 and maintained the same position in 2024. The country

continues to rank high globally in terms of the number of individuals with bank accounts, as well as the number of ATMs and bank branches per capita.



	MONGOLIA'S RANKING	TOP PERFORMING COUNTRIES
Number of Bank Branches per 100,000 People	2	Bolivia
Number of ATMs per 100,000 people	13	Canada

BANKING SECTOR ACCESSIBILITY INDICATORS ARE RELATIVELY STRONG.

In Mongolia, 98% of the adult population has a bank account, and 97% of all transactions are conducted digitally. This places the country among those in the region experiencing rapid digitalization of the financial market and positions its financial accessibility indicators on par with those of highly developed nations. Compared to 2020, the number of internet banking users has doubled, while the number of mobile banking users has increased sevenfold. As a result, customers are increasingly interested in accessing technology-based products and services through mobile phones and smart devices.

Banking Products and Services

It is important to encourage and instill a savings habit among bank account holders in Mongolia, as the tendency to save is relatively low compared to other countries. There is a need to introduce loan services that utilize advanced information technology tailored to customer needs, as well as to enhance existing services.

Although the volume of loans issued to individuals has grown by an average of 20% over the past three years, the number of new borrowers has increased at a relatively modest pace. Compared to other upper-middle-income, mining-dependent countries,

Mongolia provides relatively limited loan access to small and medium-sized enterprises.

Therefore, it is necessary to implement measures aimed at reducing reliance on mining and deepening financial accessibility, with greater focus on developing banking products and services. Attention should also be given to expanding banking services for individuals without internet access and increasing the number of regular internet banking users, in order to enhance accessibility and outreach in the banking sector.

Lastly, improving the financial literacy of consumers is essential to ensure they can make informed decisions and more effectively utilize banking products and services.

THE NEED AND DEMAND TO ENHANCE BANKING ACCESSIBILITY AND OUTREACH IS HIGH.



15%

do not regularly use banking services



29%

do not use digital banking



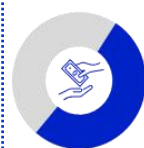
17%

are unable to use the internet



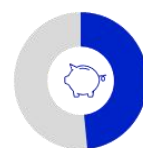
9 out of 10

turn to friends, relatives, or family members in case of urgent financial needs.



53%

53% have a loan; 34% have it from a financial institution.



72%

have no savings

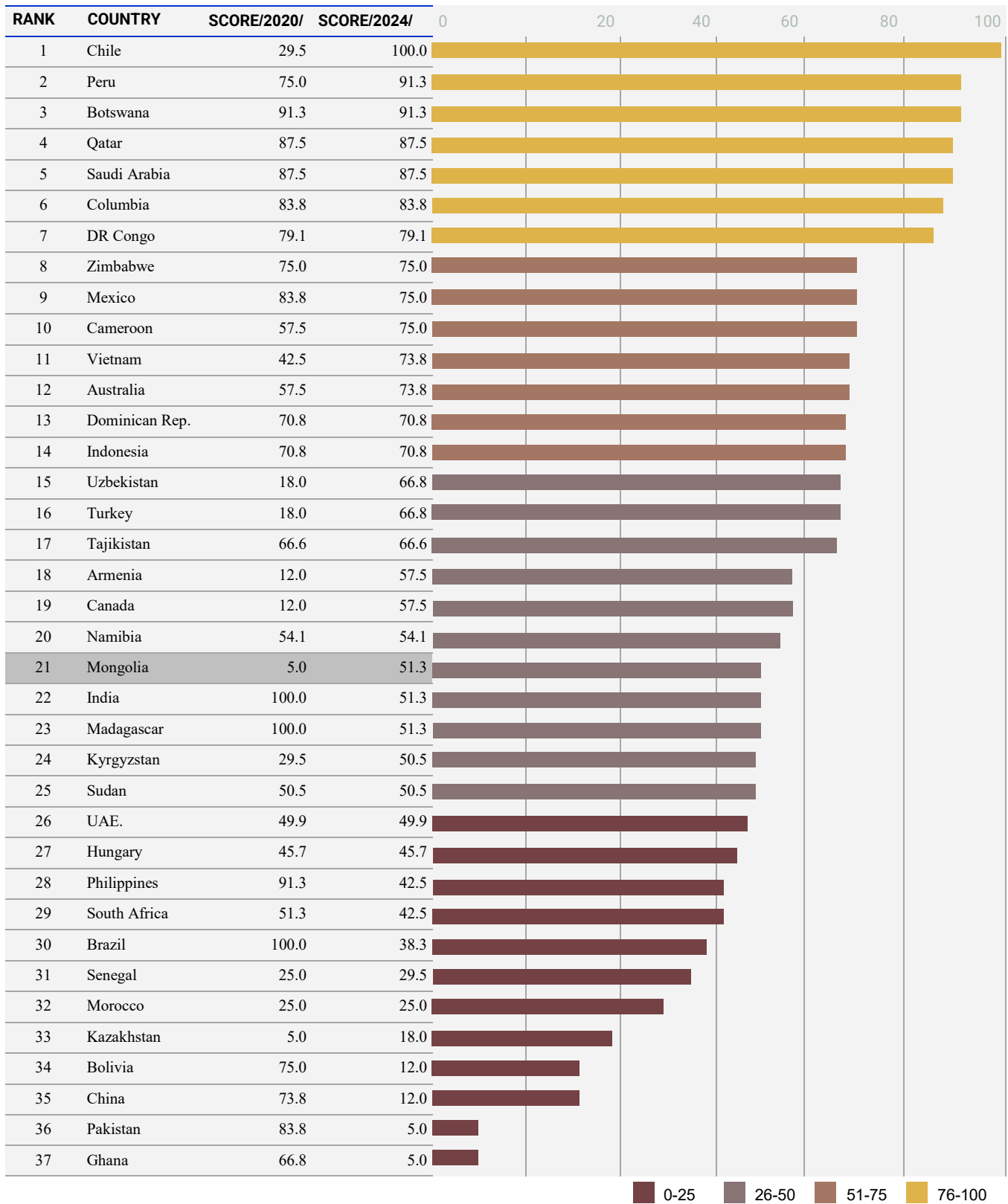
Source: Global Findex Database—2021

⁴ National Statistics Office

⁵ Household Socio-Economic Survey 2024 Year-End Report

According to the Macro Risk Index, Mongolia ranked 35th out of 37 countries in 2020 and improved to 21st place in 2024. Since the end of 2022, the gradual

decline in inflation, which remained in single digits in 2024, contributed to the improvement in the macro risk index.



	MONGOLIA'S RANKING	TOP PERFORMING COUNTRIES
Inflation rate	20	China
External debt as a percent of GDP	17	Botswana

IN THE COMING YEARS, EXTERNAL DEBT PRESSURE IS EXPECTED TO BE RELATIVELY LOW.

Mongolia's total external debt accounted for 63% of GDP in 2019, but this figure declined to 41% in 2024. During this period, the government implemented effective debt management measures such as postponing bond repayments and issuing new bonds. Additionally, regular debt servicing played an important role in easing short-term debt pressure.

Moreover, over the past two years, steady growth in export earnings and the absence of new external borrowing have contributed significantly to the reduction in external debt levels. As a result, external debt pressure is expected to remain relatively low in the coming years.

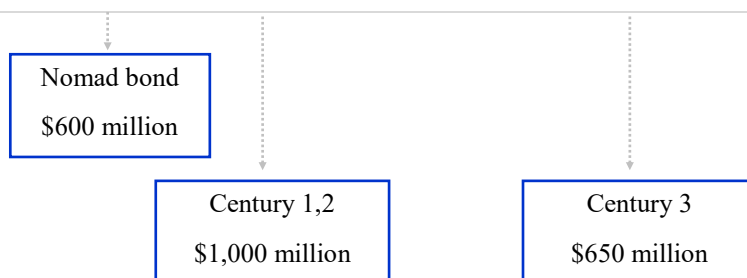
In 2024, Mongolia's total external debt reached USD 37.1

billion, increasing by USD 2.5 billion (7.4%) compared to the previous year and by USD 1.5 billion (4.1%) compared to the previous quarter. This increase was primarily driven by growth in foreign direct investment and inter-company loans. Currency exchange rate fluctuations also contributed to the increase in external debt.

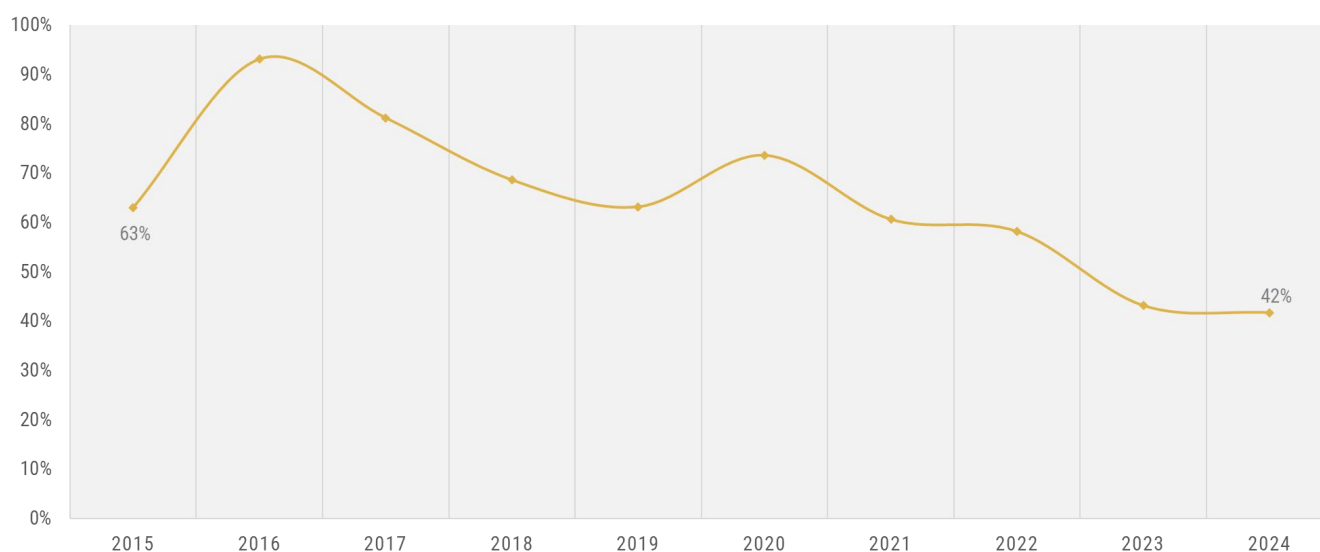
However, there is a high risk of renewed debt pressure if budget revenues fall short, particularly due to potential declines in both the price and volume of coal exports—Mongolia's main export commodity. In the event of a revenue shortfall, financing the fiscal deficit through additional borrowing would elevate debt vulnerability once again.

Debt Repayment /Bln. MNT/

Repayment	2020	2021	2022	2023	2024	Total
Principal	2,506	1,327	1,419	5,119	2,280	12,652
Interest	881	958	757	1,080	1,125	4,801



Government External Debt as a Percentage of GDP

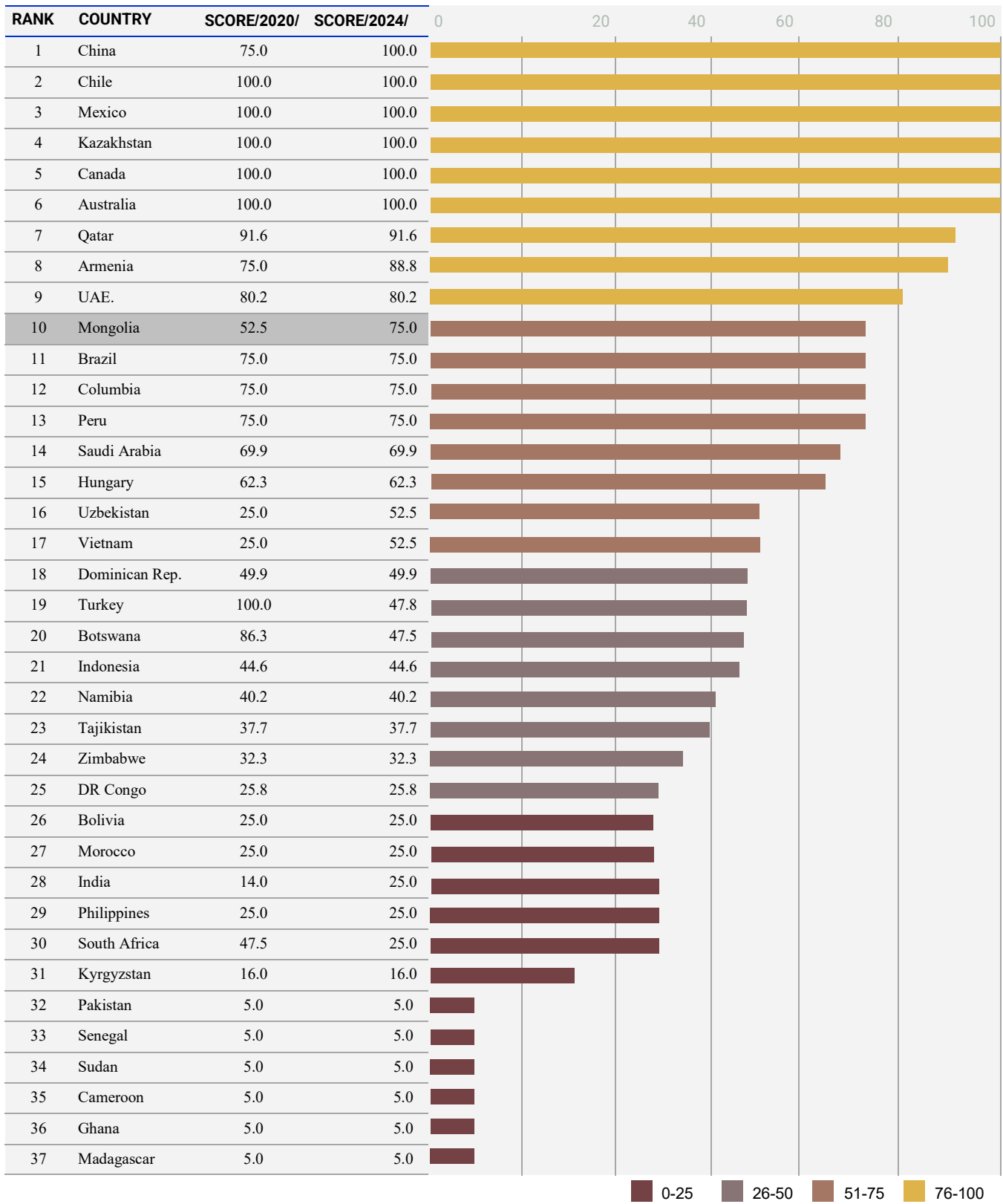


Source: National Statistics Office

Component Index 6. HUMAN DEVELOPMENT INDEX

According to the Human Development Index, Mongolia ranked 18th out of 37 countries in 2020 and improved to 10th place in 2024. A country’s Human

Development Index includes indicators such as life expectancy, education level, and standard of living.



	MONGOLIA'S RANKING	TOP PERFORMING COUNTRIES
GDP per capita	11	Qatar
Human Development Index	11	Australia

MONGOLIA'S HUMAN DEVELOPMENT INDEX IS ABOVE THE GLOBAL AVERAGE.

Globally, there has been a shift from viewing development solely through the lens of economic growth to placing greater emphasis on human development. It is now widely recognized that the true wealth, driving force, and future of a nation lie in its people. Human development, in essence, refers to people-centered development—both a process and an outcome. This means advancing people's capabilities, ensuring that development serves people, and achieving progress through their active participation.

The primary goal of development is to create an environment where people can live healthy, long lives and engage productively in work and society. In the case of Mongolia, the Human Development Index is above the global average. Between 2015 and 2020, average life expectancy in Mongolia increased by 0.82 years, average years of schooling rose by 0.02 years, expected years of schooling increased by 0.2 years, and gross national income per capita grew by 10.6%.

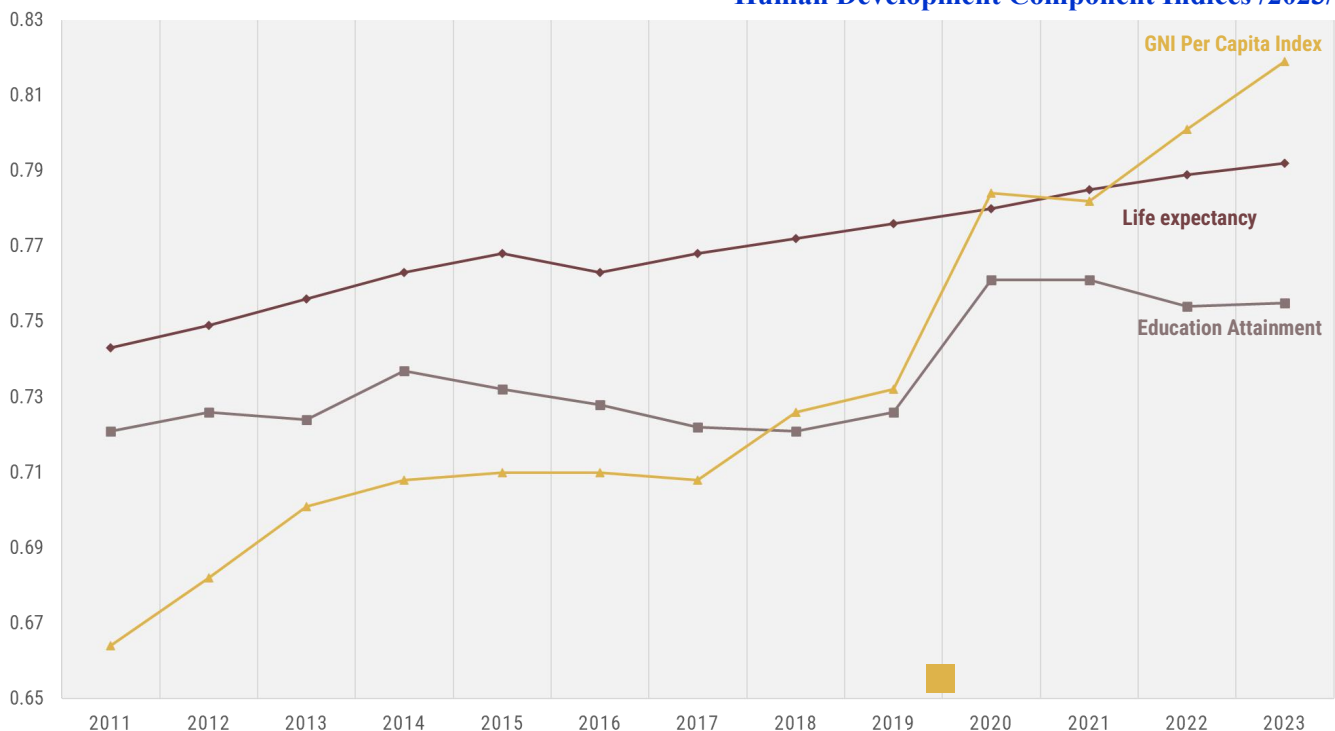
Although average life expectancy—one of the key indicators of the Human Development Index—has steadily increased, the gap between male and female life expectancy remains unchanged. While women, who make up 50.7% of the population, have an average life expectancy of 76.2 years, men have a life expectancy of 66.7 years, which is 9.5 years lower.

This highlights the need to pay greater attention to men's health issues.

Although notable progress has been made in Mongolia's education sector, population density has concentrated most higher education institutions, schools, and kindergartens in Ulaanbaatar, resulting in the capital having a significantly higher education index than other provinces. Women's educational attainment is higher than that of men; however, women's participation in the labor force is 15.0 percentage points lower than that of men. This reflects gender disparities in employment opportunities, wages, and income.

Furthermore, women remain underrepresented in decision-making positions, indicating the need to enhance female participation in political and leadership roles.

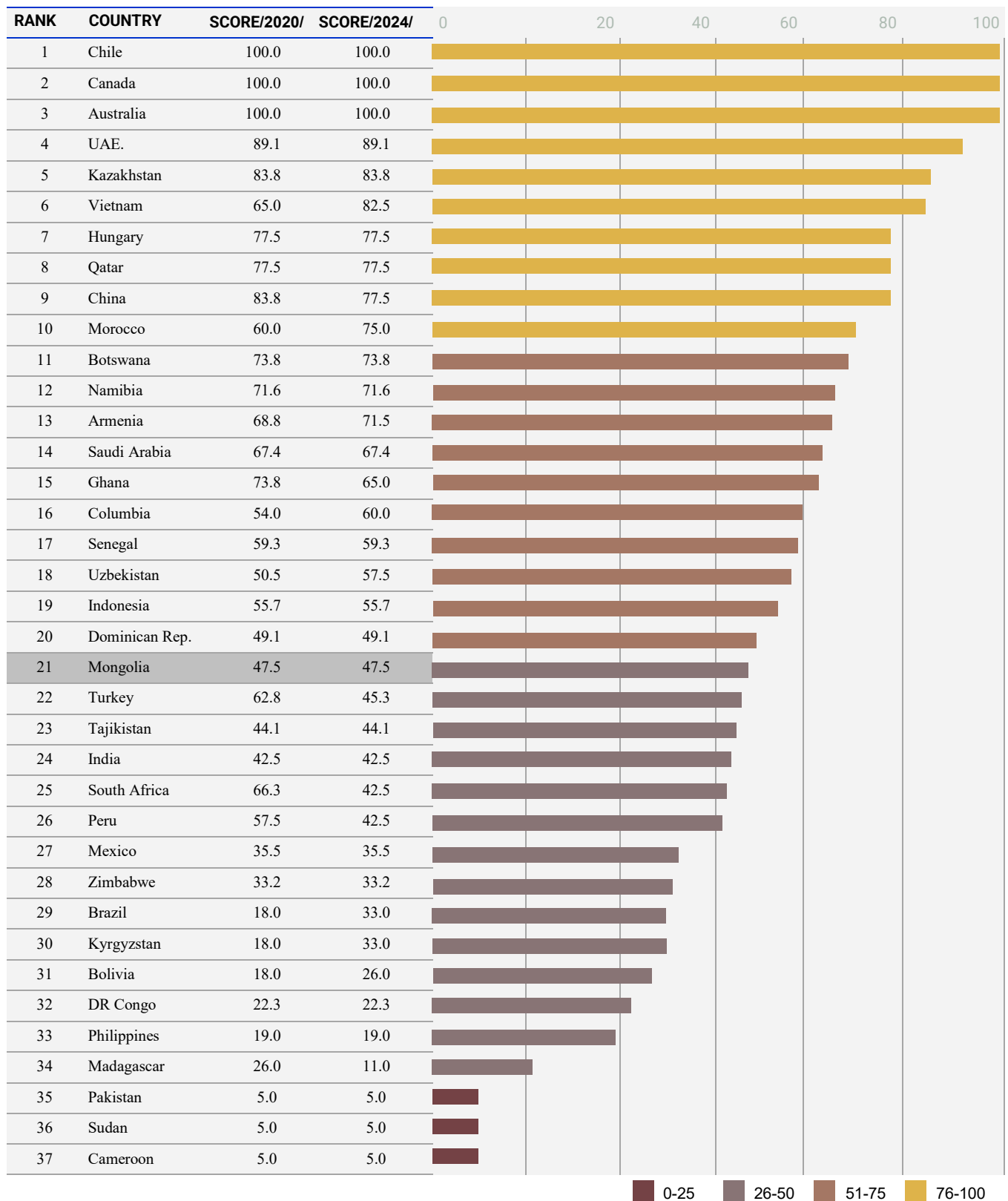
Human Development Component Indices /2023/



Source: National Statistics Office

According to the Political Stability Index, Mongolia ranked 24th out of 37 countries in 2020 and improved to 21st place in 2024. Over the past eight years, the

political environment has remained relatively stable. However, a favorable business environment has yet to be established, and corruption remains high.



MONGOLIA'S RANKING

TOP PERFORMING COUNTRIES

Ease of doing business Index	15	UAE
Corruption Index	16	Australia
Political Stability Index	10	Australia

ALTHOUGH THE POLITICAL ENVIRONMENT IS STABLE, CORRUPTION AND BUSINESS CLIMATE INDICATORS REMAIN UNCHANGED.

In 2024, Mongolia ranked 114th out of 180 countries in the Corruption Perceptions Index, an improvement of 7 places compared to the previous year. However, since 2022, Mongolia's corruption score has declined sharply, placing it among the 10 countries with the fastest-growing corruption. In 2023, Mongolia entered the "grey zone" in both the Democracy Index and the Corruption Index, a status that remains unchanged this year. This suggests not only weakening democratic institutions but also inadequate rule of law.

Out of the 8 sources used to assess the index, 3 showed slight improvement, while 5 declined. Three of the sources classified Mongolia as high-risk. There has been no significant progress in key areas such as the economy, mining, and access to finance. Business environment ratings have also remained stagnant, largely due to underdeveloped infrastructure and high lending rates.

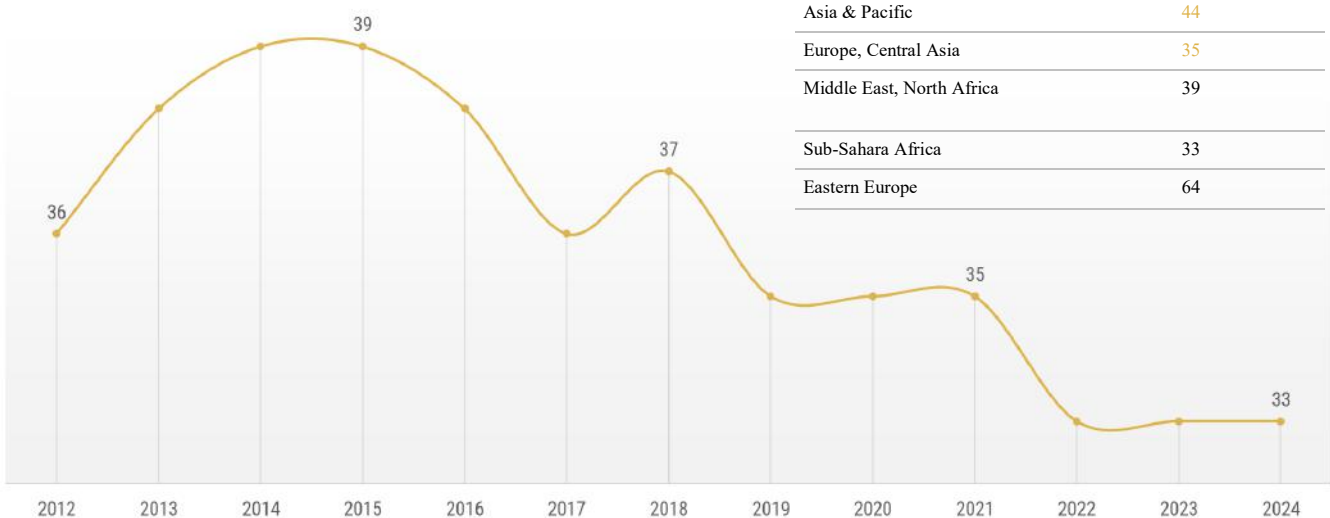
The report highlights a sharp decline in Mongolia's democracy indicators, with no notable progress in human rights education or law enforcement sensitivity to human rights. According to the World Bank's "Doing Business 2020" report, Mongolia ranked 81st out of 190 countries in ease of doing business—a relatively strong position among developing countries, though substantial improvement is still needed.

Mongolia performs well in indicators like company registration, access to banking, and business location selection. However, the country lags behind in areas such as energy reliability, foreign trade, and starting a business. Most critically, challenges in resolving insolvency and debt collection make Mongolia one of the weakest performers in this regard, severely hindering the business environment.

Therefore, legal reforms related to insolvency and debt repayment are not only essential for improving bank competitiveness but also represent a key lever for attracting foreign investment.

Corruption Perceptions Index

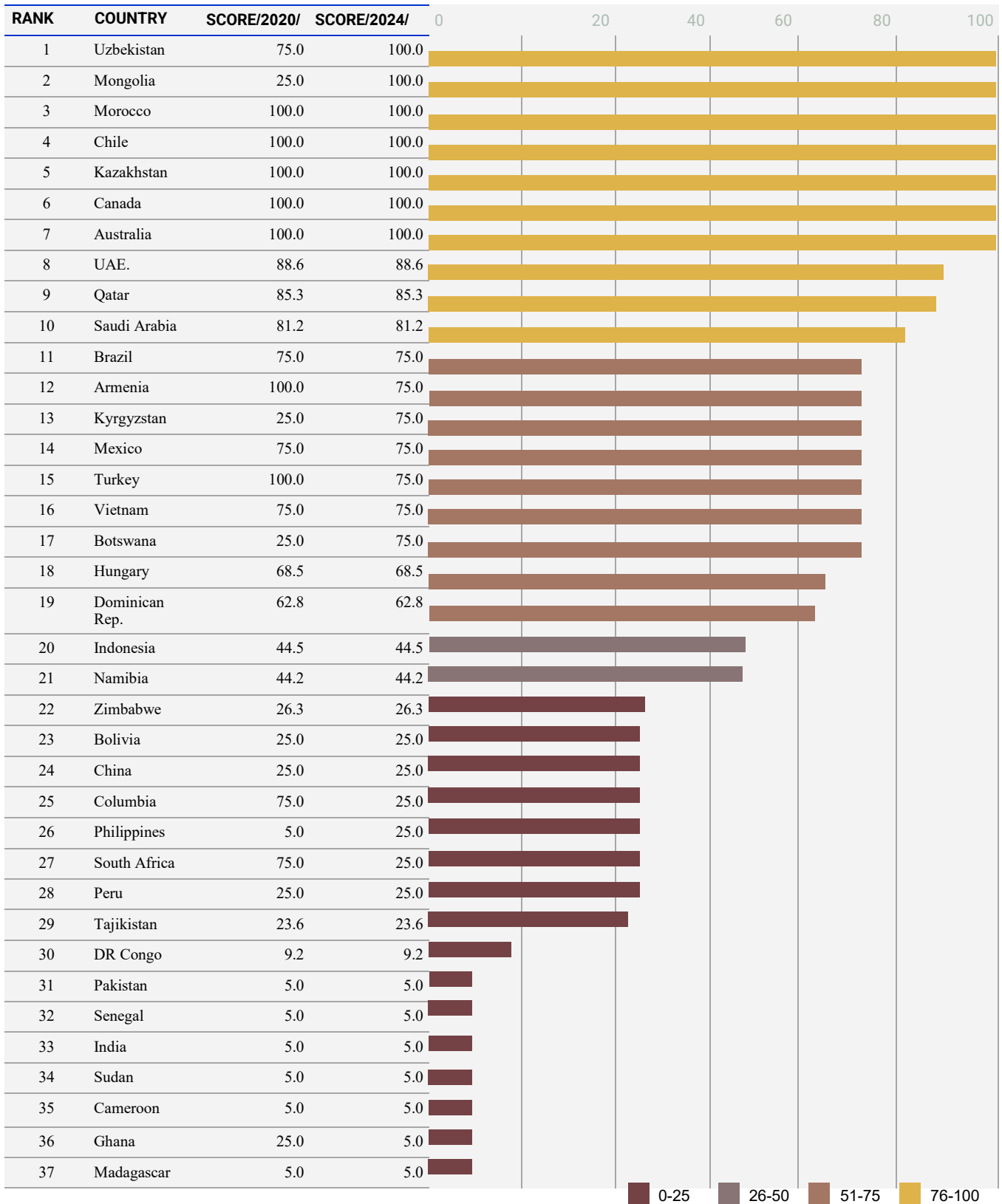
Region	Average Index Scores
Americas	42
Asia & Pacific	44
Europe, Central Asia	35
Middle East, North Africa	39
Sub-Saharan Africa	33
Eastern Europe	64



Source: Transparency international

According to the Bank Risk Index, Mongolia ranked 23rd out of 37 countries in 2020 and improved significantly to 3rd place in 2024. This indicator was measured based on the number of mobile phone and

internet users among the population. The widespread use of mobile phones and the internet enables the public to access digital banking services regardless of time and location.



	MONGOLIA'S RANKING	TOP PERFORMING COUNTRIES
Mobile Phone Ownership (% of Population)	2	UAE
Internet Users (% of Population)	3	Australia

THE NUMBER OF INTERNET BANKING USERS CONTINUES TO GROW...

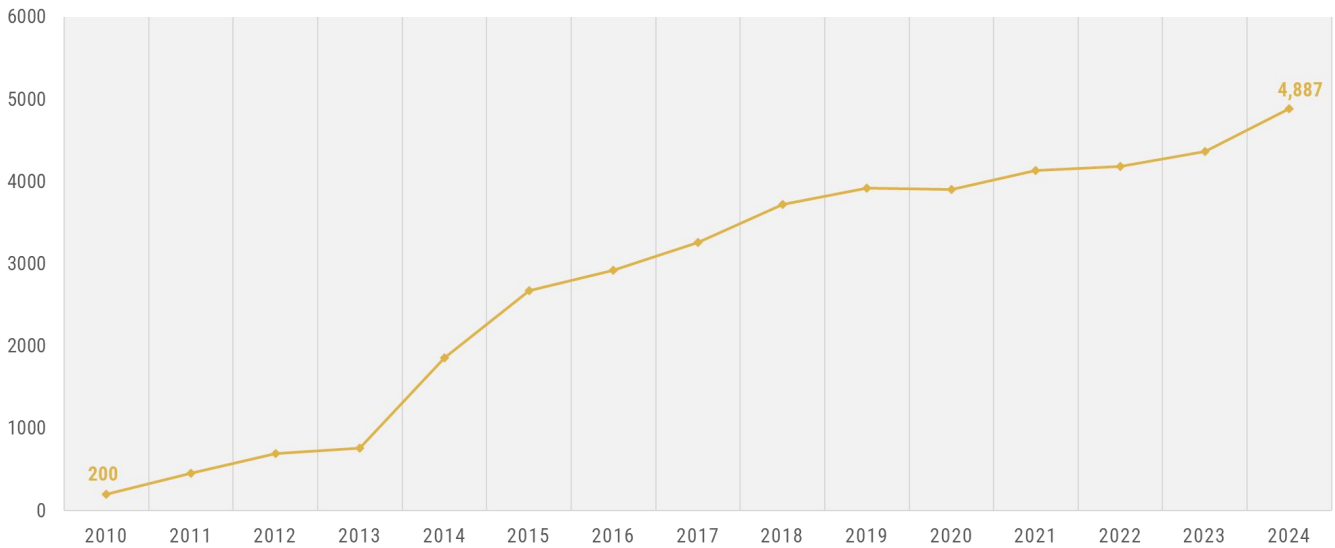
As information technology continues to develop each year, the number of internet users in Mongolia has steadily increased. Specifically, in 2024, the number of internet users reached 4.8 million, a 25% increase compared to 2020. In fact, the number of internet users now exceeds the total population count, indicating that individuals often use multiple internet-enabled devices.

As internet usage continues to grow and lifestyles evolve, more and more people are opting for remote, fast, and low-cost banking services. For instance, the number of internet banking users increased by 89% from 2020, reaching 5 million in 2024, with 50% of those users actively using the service. The number of

users accessing banking services via mobile channels increased by 74% compared to 2020, reaching 2.4 million.

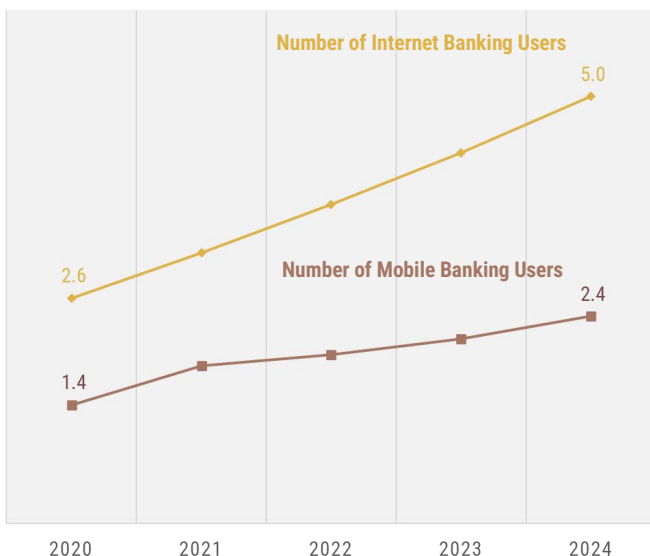
The number of active internet banking users has doubled since 2020, while the number of mobile banking users declined by 37%. On average over the past four years, around 100,000 new users registered for internet banking services annually, while 35,327 users signed up for mobile banking each year.

Number of Internet users

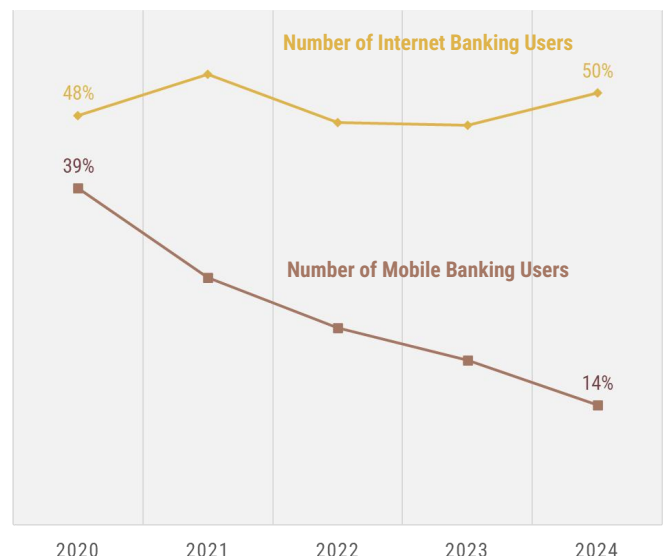


Source: National Statistics Office

Number of internet banking users



Percentage of Active Electronic Banking Users



Source: Bank of Mongolia

8. METHODOLOGY FOR CALCULATING THE BANK COMPETITIVENESS INDEX

METHODOLOGY FOR CALCULATING THE AGGREGATE INDEX :

The Banking Competitiveness Index was calculated using a multidimensional data aggregation methodology, involving the following steps: (i) normalization of variables; (ii) aggregation of normalized variables into sub-indices; and (iii) aggregation of sub-indices into a final index. Since the index incorporates a diverse set of indicators with varying dimensions and structures, each indicator was scaled on a 0–100 scale. Each indicator was transformed using the following formula:

$$\text{Score} = \underbrace{\left(\frac{\text{Actual value} - \text{Min } v_{i,c}}{\text{Max value} - \text{Min } v_{i,c}} \right)}_{\alpha} \times 100$$

The actual value represents the raw score for indicator “i” of country “c”; the minimum value represents the acceptable lower bound for that indicator, while the maximum value represents the theoretical upper bound, which may be based on policy targets, potential maximum values, or high-end percentile benchmarks (e.g., performance above the 90th–95th percentile). If the actual value is below the minimum threshold, the indicator score was assigned as 0; if it exceeds the maximum value, the score was capped at 100. For inverse indicators (e.g., external debt to GDP ratio, non-performing loan ratio), the final score was computed as 100 minus the normalized value, allowing for integration with other metrics.

MISSING DATA CALCULATION:

For handling missing numerical data, linear regression analysis based on time-series data was applied. For example, when calculating ATM accessibility indicators, the number of ATMs was estimated using independent variables such as population growth and GDP per capita.

For indicators where time-series regression could not logically explain variations, the “peer mean” method was used, averaging indicators from countries with similar regional and economic profiles. For instance, the ratio of private sector credit to GDP was estimated based on averages of countries with the same regional classification (IMF) and income group (World Bank).

In cases where end-of-year data for 2024 was not yet available or was not published by international or national statistical organizations, the five-year average of previous data was used.

The Banking Competitiveness Index was developed following a step-by-step procedure based on the theoretical and practical guidance outlined in the OECD Handbook on Constructing Composite Indicators.

THEORETICAL FRAMEWORK

- Integrating the Concept of Bank Competitiveness Factors
- Sub-Categories that Influence and Represent Competitiveness

2. DATA SELECTION

Indicators were selected based on their suitability for analysis, measurability, availability across countries, and their relevance in reflecting factors that influence bank competitiveness, as well as the degree of interdependence among them. In cases where data for a variable was limited, a proxy variable was used.

3. ESTIMATING MISSING DATA

- Estimating missing numerical data
- Evaluating the reliability of estimations and their impact on the composite indicator
- Identifying the presence of outliers in the dataset

4. MULTIVARIATE ANALYSIS

- To examine the structure of numerical data across the two main dimensions—by indicator and by country—appropriate multivariate methods such as principal component analysis or cluster analysis were applied.
- Identify statistically similar countries and interpret the results
- Theoretically detect statistically comparable datasets within the framework of the analysis.

5. NORMALIZATION OF INDICATORS

- Select a normalization method that aligns with the theoretical framework and the characteristics of the data
- Identify any outliers in the dataset and adjust the calculation to avoid reflecting unintended trends
- Apply range adjustments where necessary
- Transform highly skewed indicators when required

6. WEIGHTING AND AGGREGATION

- Select weighting and aggregation methods that align with the theoretical framework and the nature of the data
- Determine whether there is correlation among indicators and assess whether adjustments are necessary
- Identify the potential for substitutability among indicators

7. ANALYSIS OF UNCERTAINTY

Identify all sources of uncertainty associated with the index, including uncertainty in scoring, ranking, and classification based on those uncertainties

8. VALIDATION OF INDEX

- Compare country-level indicators to determine which variables most strongly influence the index results
- Identify correlations and causality
- Detect any overly dominant indicators, make necessary adjustments, or provide justification for their significance in the index

9. EXAMINE CORRELATION WITH RELATED INDICES

- Compare the constructed index with other relevant indicators to assess consistency and alignment.
- Present the results through a data-driven narrative.

CHAPTER 1:

Bank Efficiency Index

1.1. Interest rate spread

$(\text{Lending Rate}) - (\text{Deposit Rate}) = (\text{Interest Rate Spread})$

The spread between the weighted average lending rate and the weighted average cost of funds in the banking system is an indicator that reflects banks' profitability.

1.2. Return on Assets

$(\text{Net Income}) / (\text{Total Assets}) = (\text{Return on Assets})$

Return on Assets (ROA) is the ratio of net profit to total assets. It is a profitability indicator that shows what percentage of return is being generated from each unit of asset. ROA is a key indicator that reflects how efficiently a bank is managing its total assets and is widely used across the banking system.

1.3. Return on Equity

$(\text{Net Income}) / (\text{Total Equity}) = (\text{Return on Equity})$

Return on Equity (ROE) is the ratio of net profit after tax to total equity. It represents the annual percentage change in returns received by shareholders.

CHAPTER 2:

Banking Risk Index

2.1. The ratio of liquid assets to total assets.

$$\text{(Liquid Asset Reserves)} / \text{(Total Assets)}$$

The quick ratio is an effective indicator for assessing a bank's risk, as it measures the institution's ability to meet short-term obligations and cash flow requirements.

2.2. Equity-to-Total Assets Ratio

$$\text{(Total Equity)} / \text{(Total Assets)} = \text{(Equity-to-Total Assets Ratio)}$$

This indicator assesses whether a bank has sufficient equity to finance its assets during times of stress and is well-suited for cross-country comparisons.

2.3. Equity as a Percentage of Total Assets

$$\text{(Total Non-Performing Loans)} / \text{(Total Loans)} * 100\% = \text{Non-Performing Loan Ratio}$$

Non-Performing Loan (NPL) Ratio: This indicator is one of the few internationally used metrics for comparing asset quality in the banking sector.

CHAPTER 3:

Bank Depth Index

3.1. Ratio of Business Loans to GDP

$$\text{(Domestic Business Loans)} / \text{(Gross Domestic Product)} = \text{Ratio of Business Loans to GDP}$$

Private Sector Credit as a Percentage of GDP: This indicator reflects the level of financial deepening within the banking sector. In other words, it shows the extent to which private entities are receiving investment from the financial market. By comparing the total volume of credit extended to private institutions with a country's gross domestic product, cross-country comparisons can be made.

CHAPTER 4:

Bank Inclusion Index

4.1. Number of Bank Branches per 100,000 People

$$\text{((Total Number of Bank Branches)} / \text{(Total Population)} * 100,000 = \text{Number of Bank Branches per 100,000 People}$$

Number of Bank Branches per 100,000 People: This is a key indicator that reflects how accessible banking products and services are to the general population.

4.2. Bank ATMs per 100,000 people

$$\text{(Total number of ATMs)} / \text{(Total population)} *$$

$$100,000 = \text{Number of ATMs per 100,000 people}$$

Number of ATMs per 100,000 People: This indicator reflects the accessibility of banking products and services and is therefore an important measure of banking sector competitiveness.

CHAPTER 5:

Macro-economic risk index

5.1. Inflation, Consumer Prices (Annual)

$$\text{((Previous Year's Consumer Price Index)} / \text{(Current Year's Consumer Price Index)} * 100 - 100 = \text{Inflation Rate}$$

Inflation Rate: This index uses the five-year average inflation rate as a key metric. Inflation is an important indicator for assessing both the level of economic activity and the associated risks within a country.

5.2. External Debt-to-GDP Ratio

$$\text{(Total External Debt)} / \text{(GDP)} = \text{External Debt-to-GDP Ratio}$$

External Debt as a Percentage of GDP: A country's external risk has a direct impact on the growth and development of its banking system in many ways. The external debt-to-GDP ratio is one of the key indicators that reflects macroeconomic risk and external vulnerability.

CHAPTER 6:

Human Development Index

6.1. GDP per Capita, Purchasing Power Parity (PPP)

Convert Gross Domestic Product (GDP) into U.S. dollars using Purchasing Power Parity (PPP) adjustments.

GDP per capita is calculated by dividing a country's total GDP by its population. This index serves as a useful measure in the banking sector for assessing a country's level of economic development, purchasing power of its citizens, and their capacity to generate savings.

6.2. Human Development Index (HDI)

The Human Development Index (HDI) is calculated based on a country's geographical characteristics, average life expectancy, and gross national income.

This indicator serves as a foundation for assessing a country's development and the future direction of its economic growth, making it both directly and indirectly relevant to the development of the banking sector.

CHAPTER 7:

Political Stability Index

7.1. Ease of Doing Business Index

The Ease of Doing Business Index is calculated based on the number of days required to start a business under a country's legal and regulatory framework.

The Ease of Doing Business Index assesses how favorable a country's business environment is by examining its legal framework, infrastructure, financial sector development, and overall security conditions. This index not only provides insights into the safety of the business environment but also helps predict the efficiency of starting a business, resolving disputes, and conducting other economic activities. Therefore, it is an essential indicator for any entrepreneur considering doing business in that country.

7.2. Corruption Perceptions Index

It is determined based on 13 different surveys and assessments related to various forms of corruption.

Авлигын индекс нь тус орны төрийн байгууллагуудын авлигад автсан байдлыг тухайн орны бизнес эрхлэгчид болон судалгааны байгууллагуудтай хамтран 13 төрлийн индикатор дээр үндэслэн тогтоодог.

The Corruption Perceptions Index allows businesses to assess how challenging it may be to operate in a given country by helping them anticipate potential corruption and bureaucratic obstacles when interacting with government institutions. This enables business owners to factor such risks into their strategic planning.

7.3. Political Stability Index

The Political Stability Index is calculated by comparing the number of incidents such as unrest, uprisings, and coups occurring annually in a given country with those in other countries.

The Political Stability Index identifies risks such as the likelihood of a government being overthrown through unlawful means, coups, violence, or military force. This index is critical for the banking and financial sector, as such instability can pose significant risks and directly impact the legal

environment and monetary policy. Therefore, incorporating this index into the overall assessment is essential.

CHAPTER 8:

Information Technology Index

8.1. Number of internet users as a percentage of the total population

$(\text{Total number of internet users}) / (\text{Total population}) = (\text{Internet users as a percentage of the total population})$

Internet usage among the population enables access to digital banking services regardless of location. Therefore, this indicator is essential for assessing the accessibility of online banking services.

8.2. Mobile phone subscriptions per 100 people

$(\text{Total number of mobile phone subscribers}) / (\text{Total population}) \times 100 = \text{Mobile phone subscriptions per 100 people}$

Mobile phone usage among the population enables the use of mobile banking services regardless of location. Therefore, this indicator is an important metric for estimating access to remote banking services.

9. DEVELOPMENT AND CHARACTERISTICS OF THE BANKING SECTOR IN PEER COUNTRIES



KYRGYZSTAN

- Due to the impact of measures aimed at promoting digital transformation and increasing financial inclusion in the banking sector, Kyrgyzstan's banking sector has experienced stable growth in recent years.

CHARACTERISTICS OF THE BANKING AND FINANCIAL SECTOR :

In Kyrgyzstan's financial sector, the banking industry is dominant, and interest rates are among the highest compared to countries with similar income levels.

In 2024, the total assets of the country's banking sector grew by 32.8%, while net profit increased by 28.5% compared to 2023. The share of total bank assets to GDP rose from 20% in 2000 to 54% in 2024. Looking at the loan portfolio, there has been significant growth in consumer and mortgage loans. As of 2024, 21 commercial banks are operating through 304 branches.

As of 2024, 21 commercial banks are operating with a total of 304 branches. The average lending rate stands at 19%, which is attributed to high credit risk costs and a high level of dollarization in funding sources.

	2016	2020	2024
Bank Assets/GDP	19.9	30.1	53.5
Loans/GDP	21.9	25.0	22.4
Savings/	19.9	26.9	38.9
Policy rate	10	10	9
Lending interest rate	24.5	17.0	19.0
Savings rate	2.4	1.4	3.5

FINANCIAL SECTOR RISK INDICATORS:

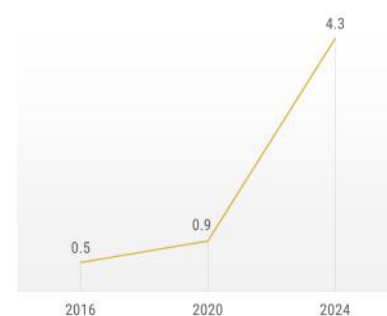
Non-performing loans (NPL): In 2024, the share of non-performing loans in the loan portfolio is 10.8%. NPL levels are relatively higher in the trade and agriculture sectors compared to other industries.

Liquidity ratio: While the minimum liquidity ratio required by the central bank is 45%, it stands at 73.1% in 2024.

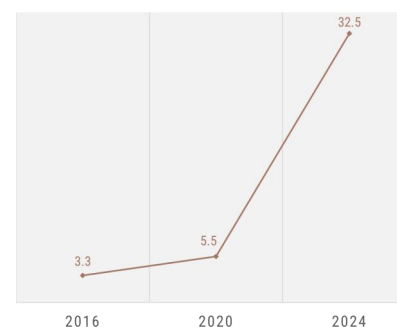
Capital adequacy: The minimum capital adequacy ratio is 12%, but it reached 22% in 2024.



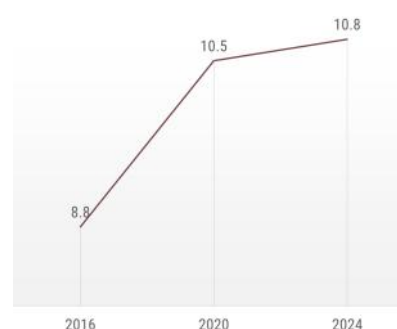
ROA



ROE



NPL RATIO



KAZAKHSTAN

- In addition to driving digital transformation and introducing innovation in the banking sector, significant legal and regulatory reforms in recent years have positively contributed to the sector's growth.



CHARACTERISTICS OF THE BANKING AND FINANCIAL SECTOR:

In recent years, Kazakhstan's banking sector has implemented policies focused on bank consolidation and asset quality reform to reduce the level of non-performing loans, resulting in improved asset quality.

In 2024, the total assets of the country's banking sector grew by 20.4%, reaching an equivalent of 44% of GDP. Banks are actively adopting fintech solutions and undergoing digital transformation, investing heavily in technology to improve service quality and efficiency for customers.

As of 2024, 21 commercial banks and 11 foreign banks are operating in the country. The average loan interest rate stands at 17.1%, influenced by high credit risk costs and unfavorable external conditions, which led the central bank to raise its policy rate.

In recent years, significant attention has been given to attracting foreign investment and improving international relations .

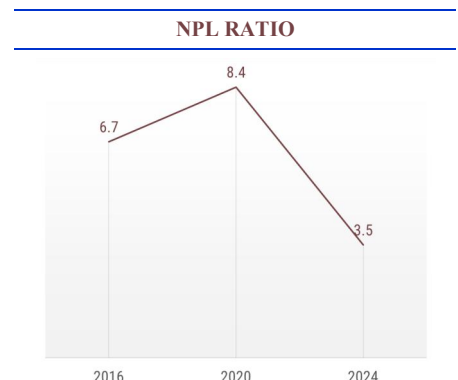
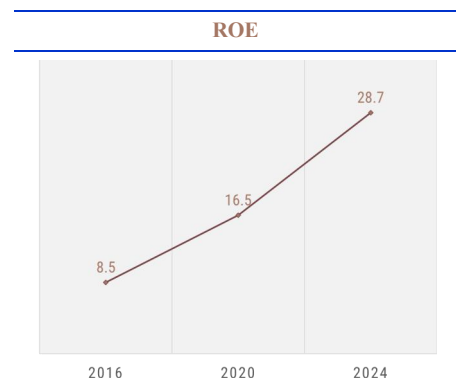
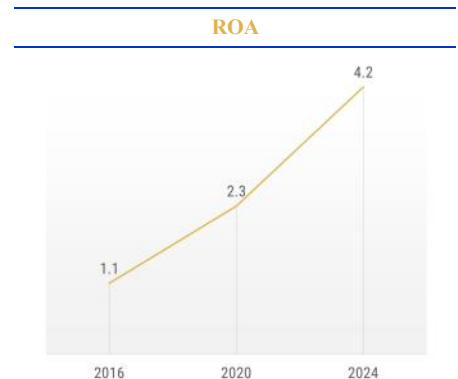
	2016	2020	2024
Bank Assets / GDP	52.7	49.0	45.9
Loans /GDP	36.5	25.0	24.6
Savings / GDP	41.5	36.0	18.3
Policy rate	12.0	9.0	15.3
Lending rate	13.5	14.9	17.1
Savings rate	9.0	9.2	13.2

FINANCIAL SECTOR RISK INDICATORS:

Non-performing loans (NPL): In 2024, the share of non-performing loans in the loan portfolio stands at 3.05%. In recent years, the increase in lending aimed at supporting various economic sectors has contributed to the decline in the proportion of non-performing loans. Additionally, legal and regulatory measures to reduce non-performing loans have been actively implemented.

Liquidity Ratio: According to central bank requirements, the minimum liquidity ratio is set at 59%; however, in 2024, it stands at 78.9% .

Capital Adequacy: The minimum capital adequacy ratio is set at 19.4%; however, it stands at 20% in 2024.



UZBEKISTAN

- Since 2016, Uzbekistan’s banking sector has been actively implementing reforms aimed at reducing state involvement and transitioning banking operations toward market-based principles. Particular emphasis has been placed on protecting the rights and interests of shareholders and consumers.



CHARACTERISTICS OF THE BANKING AND FINANCIAL SECTOR:

Although the adoption of digital banking services is growing rapidly, the development of financial infrastructure remains at an average level compared to other countries in the region.

In 2024, the total assets of the country’s banking sector increased by 35%, reaching a level equivalent to 53% of GDP.

Banks are actively implementing measures to expand shareholder participation, sustain credit growth, and support the development of various economic sectors.

As of 2024, 31 commercial banks are operating in the country, of which 17 are classified as large banks and the remaining 14 as small banks.

The average loan interest rate stands at 23.4%, influenced by high credit risk costs and unfavorable external conditions, which prompted the central bank to raise its policy rate.

	2016	2020	2024
Bank Assets/GDP	19.8	52.5	52.9
Loans/GDP	21.8	40.5	36.7
Savings/GDP	15	16	21
Policy Rate	8	14	13.5
Lending rate	13.5	18.8	23.4
Savings rate	14.75	14.8	19.7

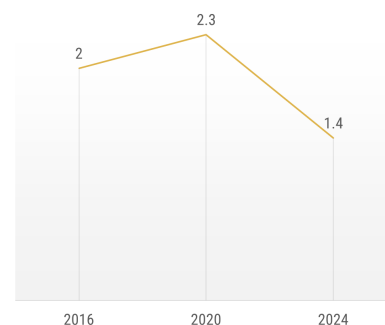
RISK INDICATORS OF THE FINANCIAL SECTOR:

Non-performing loans (NPL): In 2024, the share of non-performing loans in the loan portfolio is 4.3%. In recent years, increased lending aimed at supporting economic sectors has contributed to the decline in the proportion of non-performing loans.

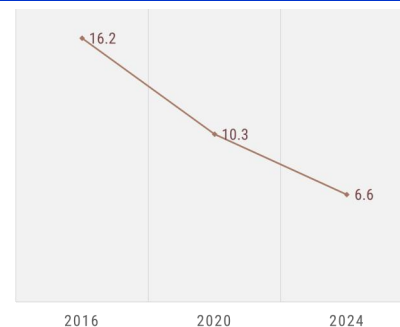
Liquidity ratio: While the minimum liquidity ratio required by the central bank is 100%, it stands at 116.9% in 2024. Compared to other countries, the regulatory requirement for the liquidity ratio is considered excessively high.

Capital adequacy: The minimum adequacy ratio is set at 17.3%, while the actual level sits at 17.4%.

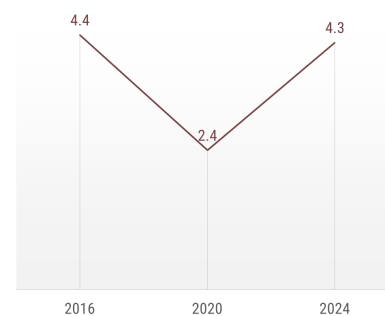
ROA



ROE



NPL RATIO



INDONESIA

- Indonesia’s banking sector is undergoing rapid digital development, with rising internet usage among banks driving the expansion of digital platforms and mobile services. In response, the government is actively supporting the digital transformation of the banking sector.

CHARACTERISTICS OF THE BANKING AND FINANCIAL SECTOR:

To ensure financial stability, Indonesia has begun strengthening the regulation of the fintech sector and tightening oversight mechanisms to protect consumer rights.

In 2024, the total assets of the country’s banking sector grew by 6%, reaching a level equivalent to 51% of GDP. In recent years, significant efforts have been made to reduce non-performing loans through active legal and regulatory reforms.

As of 2024, a total of 100 banks—including commercial, regional, and Islamic banks—are operating in the country. Compared to other countries, competition in the banking sector is relatively high.

The average lending rate stands at 8.62%, which is relatively low compared to the three previously mentioned countries.

	2016	2020	2024
Bank Assets/GDP	52.7	72.0	51.5
Loans/GDP	36.5	31.4	35.4
Savings/GDP	41.5	43.2	32.6
Policy rate	4.8	5.8	5.8
Lending rate	11.4	9.5	8.6
Savings rate	6.0	5.5	5.0

RISK INDICATORS OF THE FINANCIAL SECTOR:

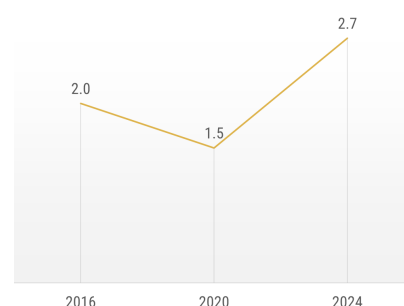
Non-performing loans (NPL): In 2024, the share of non-performing loans in the loan portfolio is 2.08%. Post-pandemic measures and the implementation of robust credit risk management have contributed to keeping the level of non-performing loans low.

Liquidity ratio: According to central bank requirements, the minimum liquidity ratio is set at 87.5%, while in 2024, banks’ actual liquidity ratio reached 113.6%.

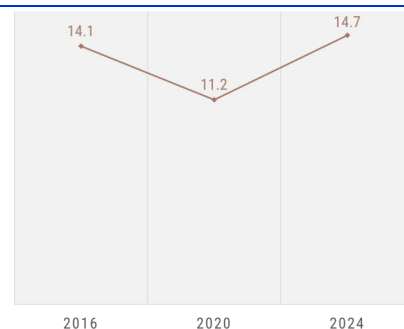
Capital adequacy: Banks are maintaining a capital adequacy ratio at the minimum required level of 26.69%.



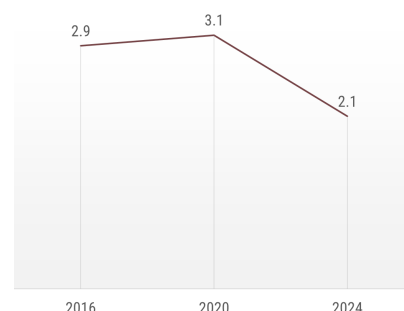
ROA



ROE



NPL RATIO



10. MONGOLIA'S COMPETITIVENESS

The International Institute for Management Development (IMD) annually calculates the Competitiveness Index of countries. This index is composed of four main categories: economic performance, government efficiency, business efficiency, and infrastructure. Each category consists of five sub-factors.

In 2024, Mongolia ranked 61st out of 67 countries included in the index, improving by one position compared to the previous year.

In terms of the economic performance index, Mongolia ranked 42nd out of 67 countries in 2024, climbing 18 positions from the previous year. This improvement was driven by stable economic growth and gradually declining inflation over the past three years. However, the lack of significant growth in foreign direct investment, limited diversification in foreign trade, and high unemployment rate negatively affected the index score.

In the government efficiency index, Mongolia ranked 53rd out of 67 countries in 2024, moving up 5 positions from the previous year. The relatively stable tax policy and social financing contributed positively to the score. However, weak performance in establishing a legal and institutional environment conducive to business and in supporting social and institutional development negatively affected the index value.

In the business efficiency index, Mongolia ranked 62nd in 2024, up 2 positions from the previous year. Low labor productivity, inefficiencies in the labor

market, insufficient financial support for entrepreneurs, and weak improvements in management and governance practices among businesses have negatively impacted the index.

For the infrastructure index, Mongolia ranked 64th out of 67 countries in 2024, dropping one position from the previous year. The country shows relatively poor development in infrastructure that supports science and technological advancement. Additionally, limited progress in infrastructure related to the environment, health, and education has had a negative effect on the index score.

In 2025, Mongolia is expected to face the following challenges:

- Continued expansionary fiscal policy and populist promises may lead to increased money supply and rising inflation.
- Multiple budgeted projects, along with increases in wages and pensions, are likely to place pressure on the exchange rate.
- Declining prices and volumes of key export commodities, particularly coal, could reduce export revenues and make it more difficult to sustain economic growth.
- Failure to take effective action to reduce air and soil pollution and improve basic infrastructure will further restrict the right to live in a healthy and safe environment.
- Escalation of the trade war between the U.S. and China, and geopolitical tensions between Russia and China, pose significant risks to Mongolia's economy. Addressing these challenges will require focused attention and the development of robust strategic responses.

Competitiveness Rank (out of 67 countries)



Source: IMD

11. BANKING SECTOR REVIEW

Since 2004, Mongolia’s banking sector has grown at an average annual rate of 24%. This growth has been significantly influenced by the mining-driven economic cycle and various government-initiated projects and programs. Over the past four years, banks have made substantial progress in developing technology-driven products and services, enabling faster, more convenient financial services for consumers.

This section aims to compare the key financial indicators of the banking sector in 2019 and 2025. Presenting the sector’s performance using the Compound Annual Growth Rate (CAGR) is considered important to demonstrate to investors the sector’s efficiency and stable long-term growth.

The return on equity (ROE) of the banking sector increased from 7% in 2019 to 24% in 2024, which is twice the global average. This significant rise was primarily driven by increased loan issuance at the beginning of the year, which boosted interest income and contributed to higher profitability.

Between 2020 and 2023, the "Banking Sector Reform Program" was implemented with the aim of strengthening the sector. The program focused on

increasing banks' capital, enhancing their risk-bearing capacity, introducing external oversight through public ownership, and improving transparency and corporate governance.

Under the reform program, systemically important banks began offering shares to the public starting in 2022, becoming publicly listed companies. This move increased their capital by 447 billion MNT. In addition, recent years have seen improvements in employee productivity through the use of technology, allowing banks to offer faster and more convenient services to customers, thereby enhancing cost efficiency.

Return on assets (ROA) stood at 0.7% in 2019, a period when several economic sectors were contracting. This contraction led to a rise in non-performing loans and an increase in credit risk costs. Moreover, high operating expenses and low interest margins contributed to the relatively low efficiency in asset utilization at the time.

As of 2024, the ROA has reached 2.1%. This increase was largely driven by the steady growth in lending since 2021, particularly through program-based loans aimed at mitigating the economic impact of the

The banking sector has operated efficiently and grown steadily over the past 5 years, playing an im-



Source: Banking sector review-2024, Banking & Finance Academy

pandemic and supporting key economic sectors, as well as loans issued from banks' own resources. These developments significantly boosted interest income, contributing to the overall improvement in asset profitability.

In addition, banks have accelerated technological upgrades and introduced technology-based products and services through digital platforms, leading to a notable increase in non-interest income. As a result, the ratio of operating income to total assets has doubled compared to 2019, reaching 10% in 2024.

In 2019, 40% of non-interest income was allocated to operating expenses. However, with the active adoption of technological solutions, employee productivity has improved while operational costs have declined. By 2024, only 25% of non-interest income was used for operating expenses. Consequently, the compound annual growth rate of operating expenses stands at 10%.

Beginning in early 2019, contractions across economic sectors led to a rise in non-performing business loans, which in turn increased credit risk costs for the banking sector. However, since 2022, as economic activity began to recover, non-performing business loans started to decline, playing a key role in reducing risk-related expenses. In parallel, with the shift toward public ownership, banks conducted asset quality assessments and implemented more effective credit risk management strategies, leading to improved asset quality. By the end of 2024, the non-performing loan ratio had dropped to 5%, the lowest level in the past 15 years.

As operating income increases and credit risk costs decline, the return on equity continues to rise, enhancing the banking sector's overall contribution to the economy and society. This is reflected in a steady increase in tax payments by banks each year. Furthermore, banks are showing a growing interest in engaging in environmentally and socially responsible activities and investing in these areas as part of their corporate social responsibility commitments.

In 2019, taxes paid by banks accounted for 24% of their pre-tax profit, whereas by 2024, this figure had increased to 37%.

The banking sector is leveraging each 1 MNT of its own capital to support approximately 10 MNT worth of loans, investments, and other productive activities. While the CAGR of this leverage compared to 2019 is only 1%—a relatively modest figure—this is

largely due to pandemic-related economic cycles, weak loan demand in 2020 and 2021, and tightened regulatory conditions aimed at mitigating potential risks.

Since 2022, systemically important banks have gone public, contributing to a roughly 102% increase in the total market capitalization of the stock market compared to 2021. These banks alone now account for 48% of total market capitalization and 50–60% of daily trading volume, playing a critical role in the development of Mongolia's capital market.

Although the banking sector's financial indicators remain relatively stable—with return on equity maintained at around 20% over the past three years—the sector's average price-to-book (P/B) ratio remains comparatively low relative to listed companies in the trade, manufacturing, and transport logistics sectors, indicating that bank shares are relatively undervalued.

Looking at the structure of Mongolia's capital market participants, foreign investors are limited, portfolio investment remains underdeveloped, and most participants are small-scale individual investors. Consequently, there is limited information available to investors about the banking sector's profitability, governance practices, and relative competitiveness in the region. Therefore, banks need to regularly communicate their profitability and financial performance, improve investor relations, and provide tailored information to investors on how they are enhancing the quality of their assets.