

# Estimating True Income for Mongolia and Infer Policy Implications

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The countries that follow United Nation System of National Accounts (SNA), treat revenue derived from the sale of natural resources as stable income rather than appreciating such income unsustainable. Export of natural resources is often used to prop up national income. The aim of this paper is to discuss valuation techniques suggested in the literature for the context of depletion of non-renewable stock resources. We illustrate the true income for Mongolia by making adjustments for depreciation of natural resources. Depreciation is estimated as high as 40 per cent GDP in 2011 due to mineral depletion including that of coal and oil. This estimate varies with economic growth recorded over the years. Depreciation is estimated at 14 per cent in 2015 due to fall in GDP growth since 2011. The estimates also reveal that labour continues to be dominant force in

driving the income in Mongolia with share of 0.61-0.66 over the years while manufacturing capital plays a minor role. This underlines the need for government to prioritise infrastructure investments. Also, in order to achieve the income level as recorded in 2011, natural capital of almost twice the size of manufacturing capital is consumed. Dysfunctional consequences of greater consumption of natural capital is also evident with CO2 emissions rising at the rate of 15 per cent for period 2004-13. Marginal propensity to consume is estimated as high as 0.7 indicating the greater prioritisation of needs of present generation over future. The estimates also reveal that policy maker's pursuance of mistaken income targets does not bode well for the country.