

**MONGOLIAN: MONTHLY MACROECONOMIC  
OVERVIEW**

February 2015

**Indicators:**

<p>GDP growth of <b>7.8%</b> in Q4 2014 Y-o-Y</p>	<p>Net FDI in February <b>(88.2) million dollars</b></p>	<p>Budget deficit <b>MNT 185.3 billion</b></p>	<p>Annual Inflation <b>9.3% Y-o-Y</b></p>	<p>Non-performing loans <b>increased by MNT 10 billion</b></p>	<p><b>USD 1,327.8 million</b> in BoM foreign currency reserves at January</p>
<p>* 14.4% growth in agriculture, * 16.1% growth in industry and construction sector * 4.7% growth in services sector.</p>	<p>Net FDI decreased by USD 242 million compared to the same period previous year.</p>	<p>MNT 745.6 billion in revenue and MNT 930.9 billion in expenditure.</p>	<p>Inflation of 0.4 percent compared with previous month, and an increase of 1.1 percent year to date.</p>	<p>Non-performing loans rose 10 billion, 1.5% the previous month was 667 billion.</p>	<p>BOM reserves decreased by USD 322 million or 19.5 percent previous month..</p>



BoM is average US dollar nominal exchange rate

**MNT 1,962**



Housing price index

**1.173**

0.5% from the previous month and decreased by 1.4% on year



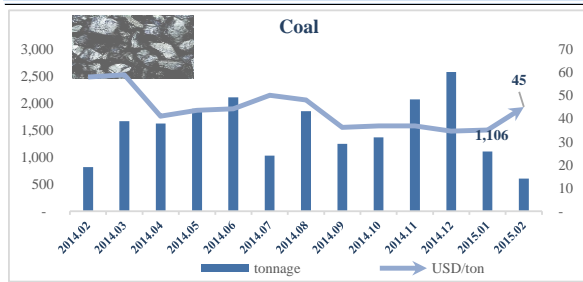
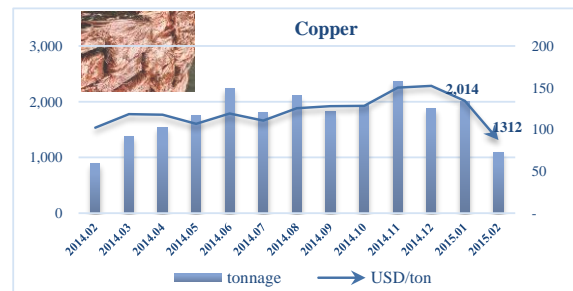
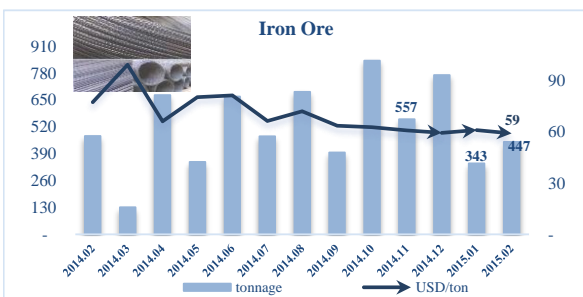
**BOM Increased official policy rate by 1% in Jan to 13%**



Mongolian traditional festival, "Tsagaan sar", a lunar New Year, was held on February 19.

**Major export commodity prices and volumes**

Primary export products - monthly export volumes and prices for Mongolia's major commodities for the past 12 months are presented in the following tables.



Mongolia's exports of raw materials over the past 3 years

(In thousands of us dollars, tons)

Major products	2012		2013		2014	
	Tons	USD	Tons	USD	Tons	USD
Coal	20574	1,880,396	18,194	1,116,153	1,106	850,615
Iron ore	6415	532,509	6725	654,333	8,338	448,378
Copper	575	838,780	650	948,951	1,378	2,575,636
<b>Total</b>	<b>27564</b>	<b>3,251,685</b>	<b>25,569</b>	<b>2,719,437</b>	<b>10,822</b>	<b>3,874,629</b>

Source: National Statistical Office

**Tavan Tolgoi negotiations**



A consortium selected to manage Tavan Tolgoi has embarked on negotiations with the Mongolian Government regarding payment of the TT Phase 2. This work is planned to be completed by March. Negotiations remained ongoing as of February 26.

## MONGOLIAN: MONTHLY MACROECONOMIC OVERVIEW

### Macroeconomic Indicators

February 2015

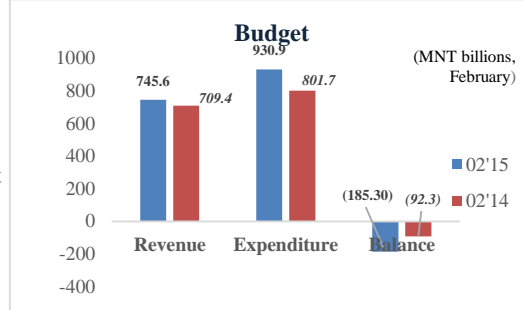
#### GDP

Cumulative GDP at constant prices for 2014 was MNT 15.5 trillion, an increase of 7.8% from the previous year. This comprised of agricultural sector (up 14.4%), industry and construction sector, (up 16.1%) and a 4.8 percent increase in the services sector.



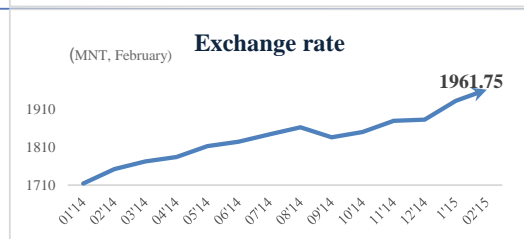
#### Budget

Cumulative state budget revenue (including aid) totalled MNT 745.6 billion in February, while expenditure and net lending amounted to MNT 930.9 billion. This resulted in a general government deficit of MNT 185.3 billion, an increase of MNT 93 billion (101%) from the previous year.



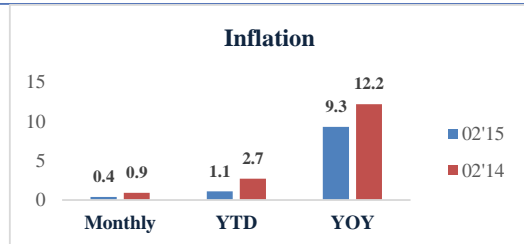
#### Exchange rate

In February 2015, the average nominal US dollar exchange rate was MNT 1,961.75. This average is MNT 209.62 (12%) weaker compared to the same period of the previous year, a 4.5% depreciation since the start of 2015, and a 2.6% fall from the last month.



#### Inflation

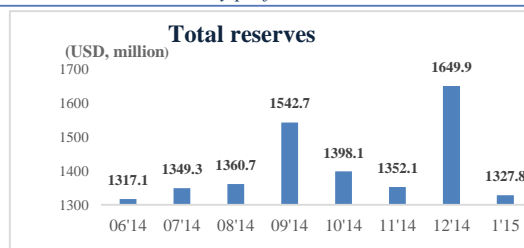
In February 2015, consumer price index rose 0.4 percent from the previous month, and increased 9.3 percent compared to same period of the previous year. In February 2015, the overall index rose 0.4 percent from the previous month for food and beverage products, 0.9 per cent for water, and 0.4% for clothing and footwear.



\* Preliminary performance, Source NSC, BOM

#### Foreign exchange reserves

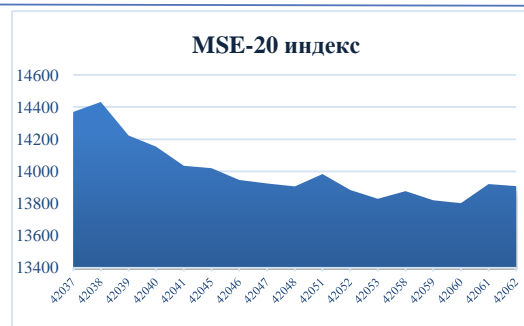
Foreign exchange reserves were USD 1,327.8 million in January 2015. This is a USD 322 million or 19.5 percent fall from the previous month and USD 1,119 million or 45.7 percent reduction from the same period last year.



\* Source BOM

#### MSE-20 index

In February, a cumulative total of 12.9 million shares valued at MNT 111.6 billion have been traded on the Mongolian stock exchange. This is an increase of MNT 103.3 billion and 10.4 million shares (500%) compared to the same period of the previous year. The Top-20 index in February 2015 reduced to 14,003.5, a fall of 513.7 points from the previous month.

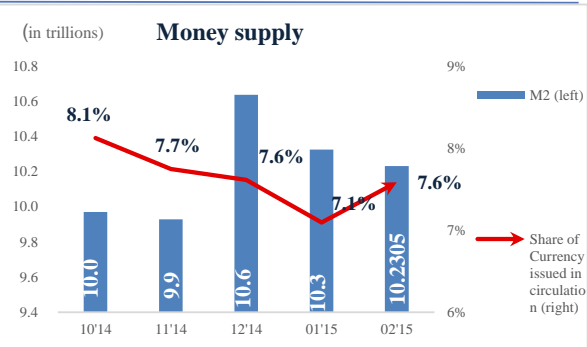


\* Mongolian Stock Exchange

The financial sector

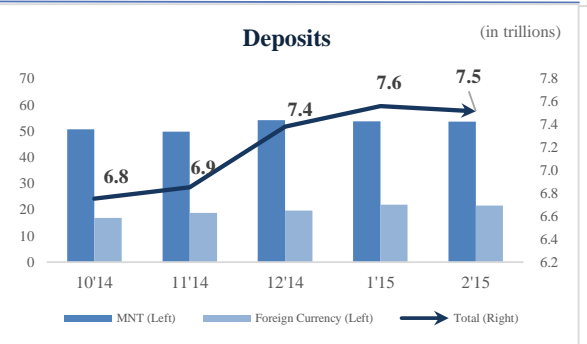
Money

Money supply (M2) reached 10.2 trillion at the end of February 2015, a decrease of 84.1 billion or 0.8% from the previous month. However, it remains a MNT 382.7 billion (3.9%) increase from the same period of the previous year. In February, cash in circulation totalled MNT 775.9 billion, MNT 43.5 billion or 5.9% an increase of from the previous month and an increase of MNT 19.3 billion or 2.5% from the same period the previous year.



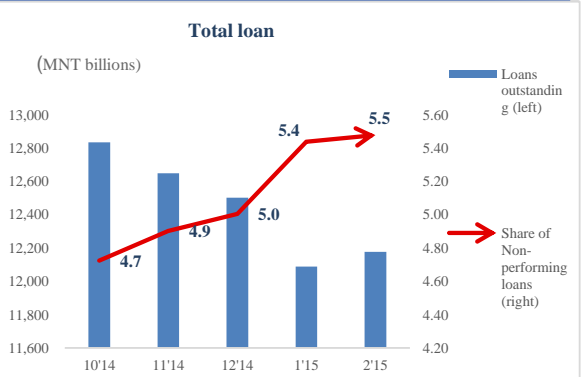
Deposits

Total deposits at the end of February 2015 totalled MNT 7.5 trillion. This is a fall of MNT 45 billion or 0.6 percent from the previous month, but an increase of MNT 637.6 billion or 8.3 percent from the same period of the previous year. Of total deposits, those in foreign currencies fell 1.8%, or 40 billion from previous month, while local currency deposits fell 0.1%, or MNT 5.1 billion.



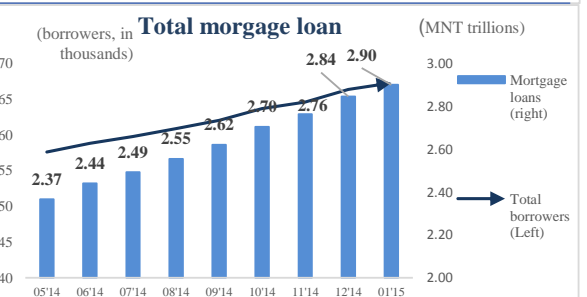
Loans

Business entity, total outstanding loans granted to 12.2 trillion reached in February 2015, 88 billion or 0.7 percent from the previous month and 1 trillion or 9.1% compared to the same period of the previous year. Non-performing loans amount to 667 billion or 1.5% from the previous month (10 billion), or 11.5% from the same period of the previous year (69 billion). The share of non-performing loans in total loans have increased in the last five months.



Mortgages

As of January 2015, total mortgage loans valued at MNT 2.9 trillion. This is an increase of MNT 54 billion or 1.9% from the previous month and MNT 877 billion or 43.4% increase from the same period of the previous year. Of total mortgage loans outstanding at the end of January, 98.1% were in MNT and 1.9% in foreign currency. 77.0% were in Ulaanbaatar city, loans outstanding as of the end of 2014,



\* Source BOM

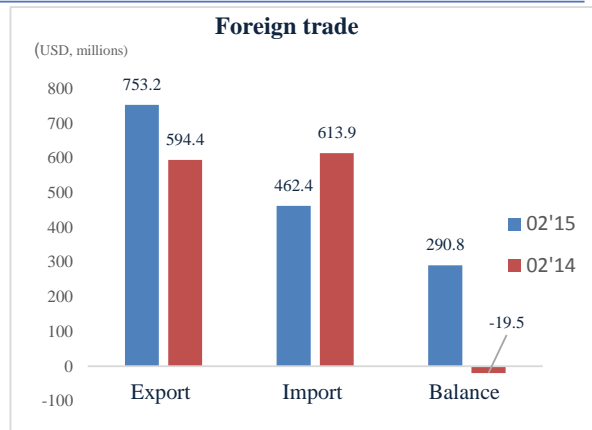
MONGOLIAN: MONTHLY MACROECONOMIC OVERVIEW

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Foreign Trade

Foreign Trade

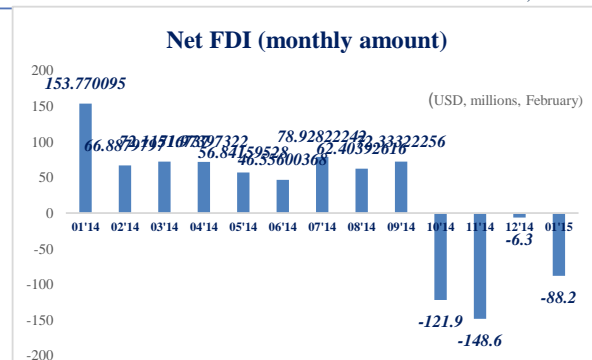
In February 2015, total cumulative trade turnover reached USD 1,215.6 million. Of this, exports accounted for USD 753.2 million while imports totalled USD 462.4 million, giving a trade balance surplus of USD 290.9 million. Compared with previous year, total turnover increased USD 7.1 million or 0.6%, exports rose USD 158.9 million, or 26.7%, and imports decreased by USD 151.5 million, or 24.7%. The increase in exports came as a result of increased exports for mineral products, precious stones, machinery, food products, while a fall in imports of machinery and mechanical equipment, caused the fall in total imports.



\* Source NSC, BOM

Foreign direct investment

Net foreign direct investment at the end of January 2015, decreased by USD 82 million relative to previous month, and USD 242 million compared to the same period of the previous year. .



\* Source NSC, BOM

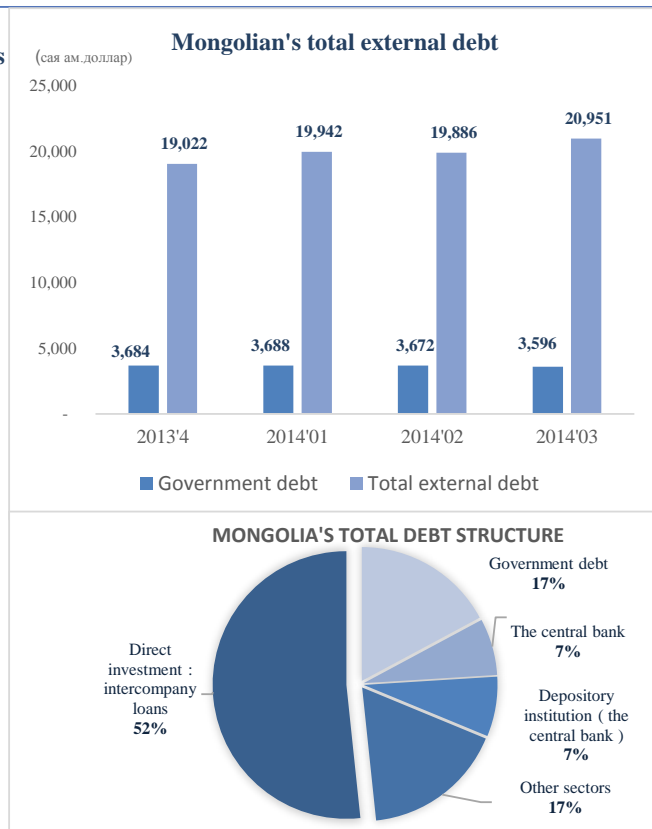
**Mongolian foreign debts and credit ratings**

*External debt*

**For the third quarter of 2014, the government's total external debt was valued at USD 3.6 billion.**

Mongolian total foreign debt as of the third quarter of 2014 was USD 20.9 billion. This is a 14.6% or USD 2.67 billion increase from the same period previous year (USD 18.28 billion) and a 5.3% increase or USD 1.6 billion from the previous quarter (USD 19.89 billion).

Of total outstanding debt, 17% is classified as government debt, 7% is from the Central Bank and depository institutions, debt from other sectors is 17%, and 52% is from direct investment and inter-company debt. 91% of the total debt from the Central Bank is short-term, while long-term liabilities accounts for 9%.



\* Source BOM

**Government external debt projections for 2015-2017**

*MNT billions*

Indicators	2014.09.3 Performance	2015	2016	2017
Government foreign debt	3,911.50	4,089.20	4,299.10	4,169.30
Government foreign debt securities	2,760.80	2,625.00	2,550.00	2,490.00
Government guarantees	2,305.50	2,515.80	2,439.20	1,312.50
Government external debt	8,977.80	9,230.00	9,288.30	7,971.80

\* Source News report from the Ministry of Finance

## MONGOLIAN: MONTHLY MACROECONOMIC OVERVIEW

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### External debt and credit ratings

Credit ratings	S&P		Fitch	
	Mongolian	B+	Stable	B+
Date	2014.04.29		2013.12.13	

Standard & Poor's lowered its rating for Mongolia in April. Mongolia's long-term credit rating fell from "BB" to "B +" with a stable outlook. Prior to this change, the country's credit rating "BB +" had not changed since April 2014.

The cited reasons for Mongolia's decline in credit rating is due to the decrease in foreign investments of approximately 50%, as well as the ongoing current debt burden and foreign exchange risk.

### Moody's :

Moody's credit rating for Mongolia has not changed since July 2014, with a B2 classification and negative outlook.

Date	Credit ratings	Perspective
On December 4, 2005	B1	Stable
On June 10, 2009	B1	Negative
On October 30, 2009	B1	Stable
On May 26, 2014	B1	Negative
On July 17, 2014	B2	Negative

### *Moody's credit rating reduced.*

Moody's international credit rating for Mongolia was reduced from B1 to B2 on July 17, the 2014. The cited reasons were (i) a sharp deterioration in Mongolia's external liquidity position - a substantial increase in Mongolia's foreign debt in recent years, high inflation and a large increase in the amount of non-performing loans in the banking system, and (ii) an expansionary fiscal stance. At the same time, Moody's issuer and bond ratings of B1 was also downgraded to B2.

The senior unsecured rating of the government-owned Development Bank of Mongolia was reduced to B2, with Moody's indicating that "*Since DBM's payment obligations carry a credit guarantee of the Government of Mongolia, its debt obligations justify a rating at the same level*".

Moody's has indicated that Mongolia will remain on negative outlook due to (i) inadequate foreign currency reserves (ii) unsustainable credit growth and inflationary pressures and (iii) unsustainable off-budget fiscal expenditure.

\* Source <http://www.moody.com/>  
<http://www.standardandpoors.com/>  
<http://www.fitchratings.com/>

*Highlights of the month*

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- February 4** The Government of Mongolia's Cabinet held an irregular informal meeting to discuss "measures for overcoming economic difficulties," - the recent telephone poll arranged by the President of Mongolia regarding OT and the economic future of Mongolia. A draft Resolution was discussed and submitted to Parliament.
- February 9** Mongolian Prime Minister Ch.Saikhanbileg made a working visit to Japan. He met with Japanese Prime Minister Sh.Abe, and signed into effect the Mongolian-Japanese Economic Partnership Agreement . During the visit, Prime Minister Ch.Saikhanbileg also raised Mongolia's "Medium-Term Strategic Partnership", eg, power stations, railways, iron, steel, copper smelting plants, highways, subway construction in this area, with a special focus on how these could be managed in cooperation.
- February 10** The Government held a meeting to discuss social welfare services and care, with emphasis on a 10 percent increase in the allowance from March 2015. The additional pension benefit increase was granted.
- February 13** By the agency of the Government Procurement measures to implement the project in 2015, in order to inform the public of the activities of the "Glass bid for the 2015" Open Day was held on the 13th of February.
- February 15** The National Security Council of Mongolia held a meeting to discuss the "TT negotiation result. were related dialogues. Details of the Investment Agreement and Concession Agreement to be signed by the Government were discussed as well as a large number of other issues.
- February 16** The President of Mongolia met with the Chairman of the State Duma of the Federal Assembly of the Russian Federation Mr Sergey Yevgenyevich Naryshkin. The recent visit of the Russian President to Mongolia last year, and the documents signed was highlighted during the visit, as well as Mongolia's ongoing and successful relationship with Russia.
- Feb-19 - Feb-21** Mongolia's traditional festival, "Tsagaan sar" awas held on February 19, 20 and 21, with national public holidays decreed for these days.
- Feb-23 -Feb-27** Chairman of the State Great Khural Z.Enkhbold visited Japan as part of an official invitation from the Speaker of the House of Representatives of Japan Mr N.Machimura.

## MONGOLIAN: MONTHLY MACROECONOMIC OVERVIEW

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### Overview

On February 18, 2015, the Parliamentary Assembly met to discuss a draft bill on "*Measures to overcome the facing economic difficulties*" as well as the draft resolution to the *Law with the Long Name* (Law to prohibit mineral exploration and mining operations at headwaters of rivers, protected zones of water reservoirs and forested areas).

On February 26, 2015, US citizen, Justin Kapla, and two citizens of the Republic of the Philippines Cristobal J. Devid and Khilarmon V. Kajukom JR, subjects of a recent tax evasion case in Mongolia, were given presidential pardon by the Mongolian President.

The Asian Development Bank's "Asian Development Outlook 2015" Economic Report was released on 24 March 2015. The report forecasts growth in Asia of 6.3% for 2015 and 2016. Mongolia is expected to experience a sharp decline in economic growth in the next two years, estimated at 3.0% in 2015 and 5.0% in 2016.

Research report:

The previous month's report is available on [www.ecrc.mn](http://www.ecrc.mn) website.

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