

**MONGOLIA: MONTHLY MACROECONOMIC
OVERVIEW**

June 2016

Indicators:

<p>GDP growth of 3.2 percent Q1 2015 (YoY)</p>	<p>FDI reached USD 175 million (in May 2016)</p>	<p>Budget deficit MNT -1123 billion</p>	<p>Inflation 1.6 percent</p>	<p>Non-performing loans increased by MNT 1036 billion</p>	<p>USD 1.4 billion in BoM foreign currency reserves in May</p>
<p>The mining sector grew by 130.5 percent, the industry and construction sector by 9.4 percent, and the agricultural sector by 5.4 percent.</p>	<p>Net FDI increased by USD 91.3 million on the same period last year, and increased by USD 116.9 million compared to the previous month.</p>	<p>MNT 2541 billion in revenue, MNT 3665 billion in expenditure and a balance deficit of MNT -1123 billion.</p>	<p>A decrease of 0.3 percent on the previous month, increased by 1.6 percent compared to the same period of the previous year.</p>	<p>Non-performing loans decreased by MNT 30 billion or 2.8 percent compared to the previous month reaching a total of MNT 1036 billion.</p>	<p>Decreased by USD 149 million or 9.4 percent on the same period of the previous year. The amount of foreign currency reserves reached USD 1442 million.</p>



Average USD/MNT nominal exchange rate
1964.93₮



Housing price index
1.023
decreased by 1.1 percent compared to the previous month and decreased by 10.2 percent YoY



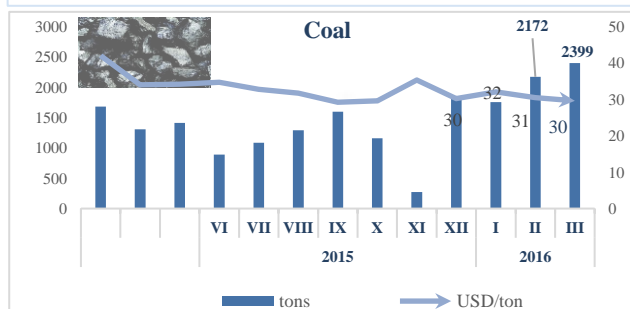
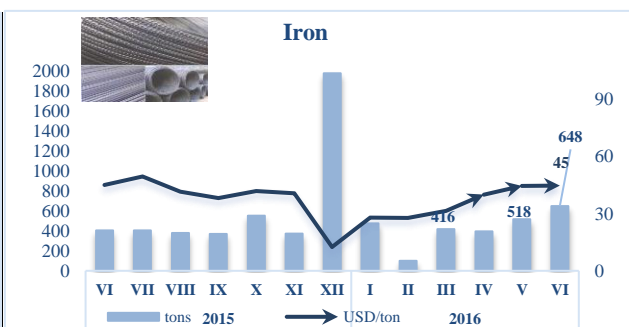
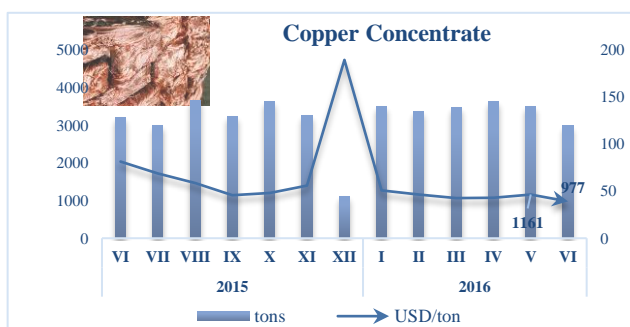
BoM policy rate
10.5 percent



Mongolia celebrated the International Day of Protection of Children's Rights. This year the Day of Mothers and Children was organized under the motto "The future of Friendly Ulaanbaatar starts from our children".

Major export commodity prices and volumes

Please see below monthly export volumes and prices for Mongolia's major commodities over the past 12 months.



Mongolia's exports of raw materials over the past 3 years
(In thousands of US dollars, tons)

Major products	2014		2015		July, 2016	
	Amount (tons)	Revenue (USD)	Amount (tons)	Revenue (USD)	Amount (tons)	Revenue (USD)
Coal	19.5	0.8	14.4	0.6	11.0	0.3
Iron ore	6.3	0.4	6.3	0.2	3.1	0.1
Copper	1.4	2.5	1.4	2.3	0.9	1.0
Total	27	4	22	3	15	1

Source: National Statistics Office

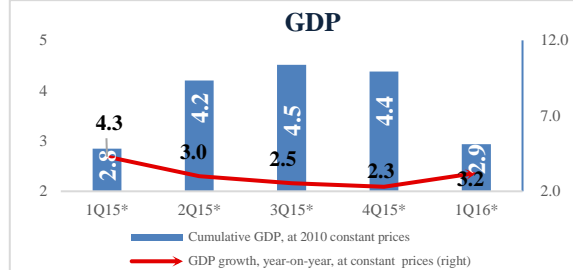
The cabinet resolved that the Mongolian government will own 10 percent of a copper concentrate smelting and refining plant without having to make investments and free of payments. Authority of the plant will be exercised by the Ministry of Industry.

Macroeconomic Indicators

June 2016

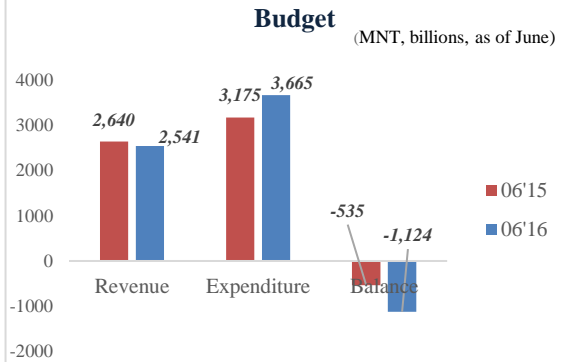
GDP

Cumulative GDP at constant prices in the first quarter of 2016 reached MNT 2.9 trillion, an increase of MNT 91.3 billion or 3.2 percent compared to the same period of the previous year. For the same period, the mining sector grew by 130.5 percent, the industry and construction sector by 9.4 percent, and the agricultural sector by 5 percent.



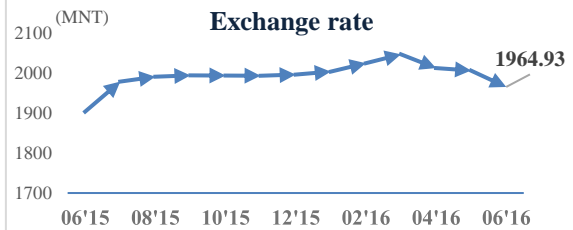
Budget

Cumulative state budget revenue (including aid) totalled MNT 2541 billion in June, while expenditure and net lending amounted to MNT 2541 billion. This resulted in a general government deficit of MNT (1124) billion. Total expenditure and net lending of the General Government Budget reached MNT 589 billion. Revenue decreased by 3.7 percent and expenditure increased by 15.4 percent compared to the same period last year.



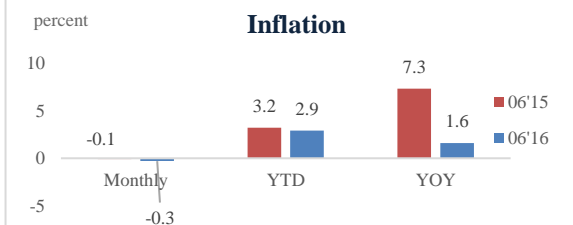
Exchange rate

In June, the MNT further depreciated against the USD. The average nominal exchange rate against the US dollar was MNT 1964.93. This is a 3.2 percent or MNT 61.6 increase from the same period of the previous year; a 2 percent or MNT 40 decrease from the previous month.



Inflation

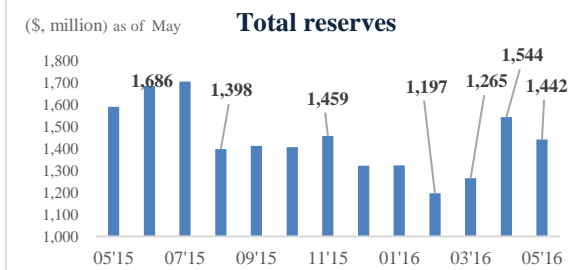
In June 2016, the Consumer Price Index increased by 0.1 percent on the previous month, and rose by 3.3 percent compared to the same period last year. A decrease of 0.3 percent was mainly due to food and non-alcoholic beverages.



* Preliminary results, Source NSO, BoM

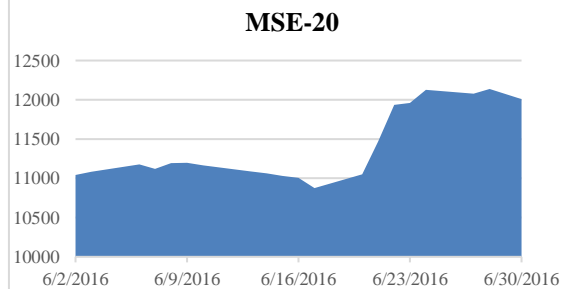
Foreign exchange reserves

As of May, 2016, foreign exchange reserves were USD 1442 million. This is a 6 percent, or USD 102 million decrease on the previous month and a decrease of 9.4 percent or USD 149 million compared to the same period of the previous year.



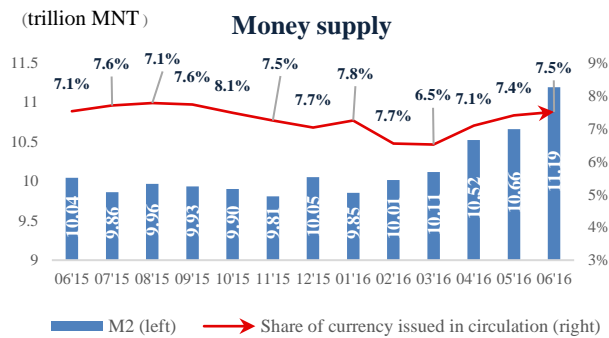
MSE-20 index

In June 2016, 1.1 million shares valued at MNT 5.5 billion were traded in the stock market. The securities traded decreased by MNT 32 billion or 85.3 percent compared to the last month. The Top-20 index in June was 11452 points, an increase of 569 points from the previous month and a decrease of 3140 points from same period of the previous year, respectively.



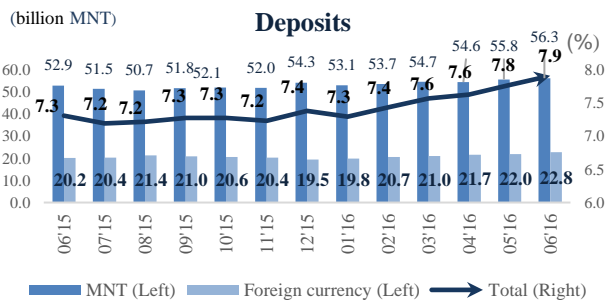
Money

M2 Money supply at the end of June 2016 totalled MNT 11.1 trillion, an increase of 528.6 billion or 4.9 percent on the previous month and an increased by 1146.8 billion or 11.4 percent on the same period last year. In June, cash flows reached 839 billion. This is an increase of MNT 51 billion or 6.5 percent over the previous month and an increase of MNT 83.4 billion or 11 percent on the same period last year.



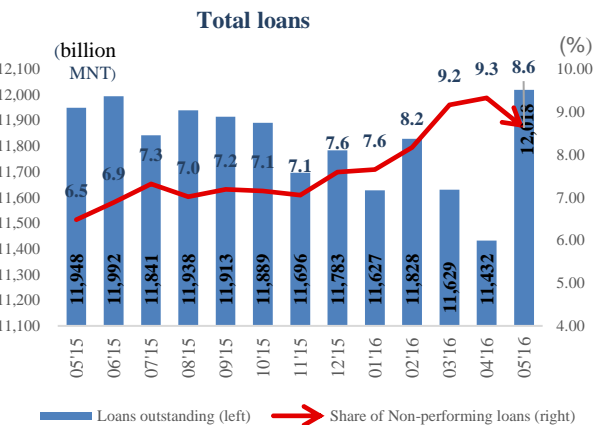
Deposits

Total deposits were MNT 7.9 trillion in June 2016, an increase of 141.1 billion or 1.8 percent on the previous month. This is an increase of MNT 602.1 billion or 8.2 percent on the same period last year. Savings in local currency increased by MNT 339.1 billion or 6.4 percent whereas foreign currency deposits increased by 13 percent or MNT 263 billion.



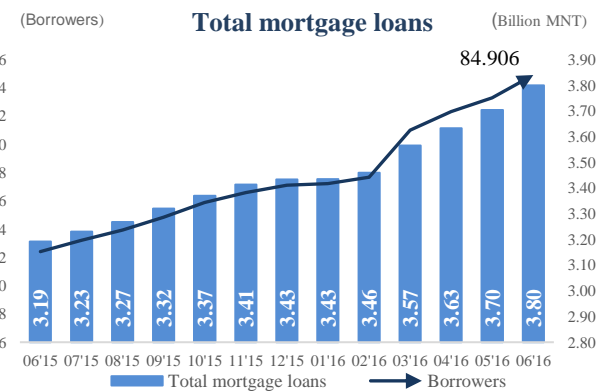
Loans

Total loans outstanding for businesses and individuals are MNT 12 trillion as of June 2016, which is an increase of MNT 586 billion or 5.1 percent on the previous month and a increase of 70 billion, or 0.6 percent compared to the previous year. Non-performing loans amounted to MNT 1036 billion, a 2.8 percent (30 billion) decrease on the previous month. This is an increase of 33.8 percent (MNT 262 billion) on the same period of last year. The share of non-performing loans made up 8.6 percent of total loans.



Mortgage

As of June 2016, the total value of outstanding mortgage loans rose by 2.6 percent (MNT 95.2 billion) on the previous month and increased by 19 percent (MNT 607.4 billion) on the same period of the previous year, reaching MNT 3.7 trillion. In June, MNT 95.2 billion in mortgage loans were granted to 1626 applicants and the total number of borrowers reached 84,906. The ratio of mortgage loans between MNT and foreign currency is presently 99.1/0.9 percent in favor of domestic currency.

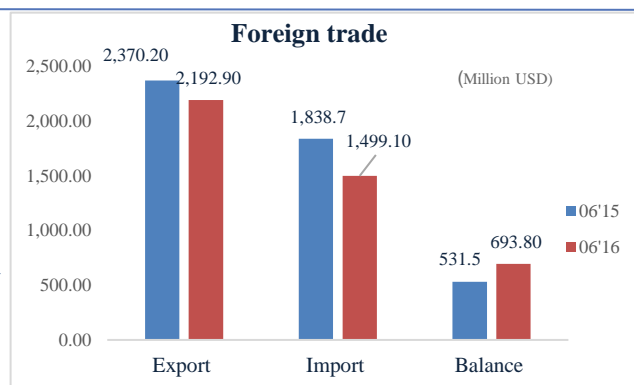


* Source Bank of Mongolia

Foreign Trade

Foreign Trade

In June 2016, total trade turnover reached USD 3.6 billion, of which exports totalled USD 2.1 billion and imports amounted to USD 1.4 billion, resulting in a foreign trade surplus of USD 693 million. Compared to the previous year, total turnover decreased by USD 517 million or 12.2 percent, exports and imports decreased by USD 177 million or 3 percent and USD 339 million or 18 percent, respectively.

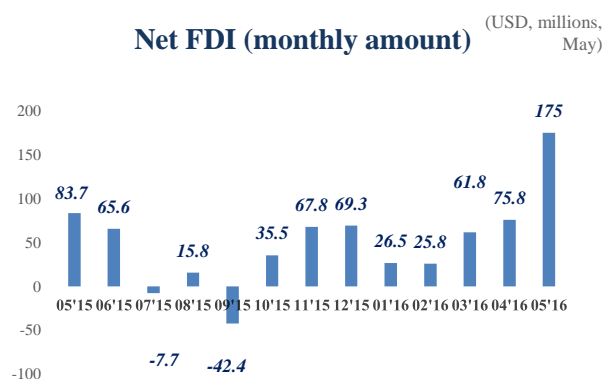


* Source NSO, BoM

Foreign direct investment

Net Foreign Direct Investment inflows in May 2016 amounted to USD 175 million. This is an increase by USD 91.3 million compared to the same period of the previous year, and an increase of USD 116.9 million from the previous month. Investments outflow equated to USD -0.1 million, while investment inflows amounted to USD 175.1 million.

Net FDI (monthly amount)

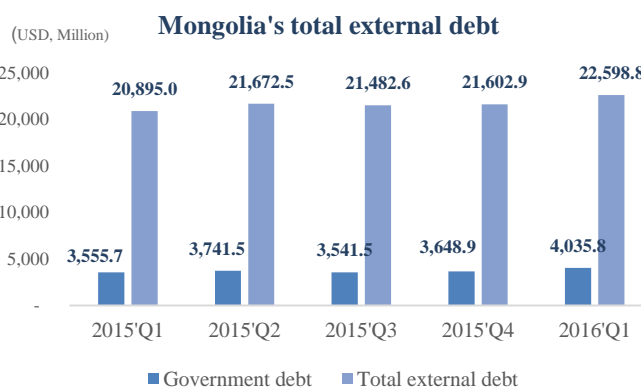


* Source NSO, BOM

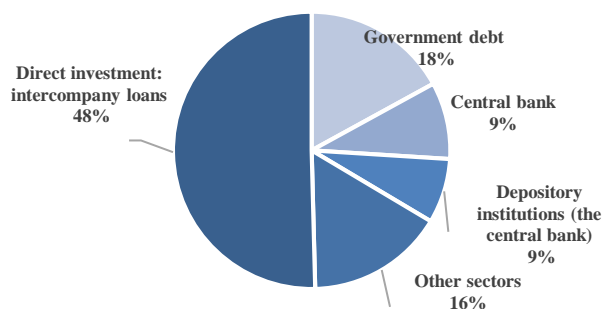
Mongolia's foreign debts

External debt

In the first quarter of 2016, Mongolia's total public foreign debt stood at USD 4 billion. Mongolia's total external debt outstanding is USD 22.5 billion. Government debt decreased by 11 percent compared to the previous quarter (USD 387 million) and total external debt decreased by 5 percent on the previous quarter (995 million). Of the total debt, 18 percent is attributable to the government, 9 percent to the central bank, 9 percent to depository institutions, 16 percent to other sectors, and 48 percent to inter-company loans. 97 percent of total debt from the Central Bank is short-term, while long-term liabilities account for 3 percent of total debt.



MONGOLIA'S TOTAL DEBT STRUCTURE



*Source Bank of Mongolia

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

External debt and credit ratings

Credit ratings

	S&P		Fitch	
Mongolian	B	Stable	B	Negative
Date	2015.11.05		2013.12.13	

Standard & Poor's downgraded Mongolia's sovereign rating from +B grade to B grade in November 2015. The main reasons behind the downgrades were non-investment, a risky economy and an unstable market. Mongolia's economy is dependent on the mining sector which is a non-manufacturing sector. It causes financial instability in the economy, which was the main reason for being listed among risky countries.

Moody's :

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

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

Moody's international credit rating for Mongolia reduced from B1 to B2 on July 17, 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 a negative outlook due to (i) inadequate foreign currency reserves, (ii) unsustainable credit growth and inflationary pressures and (iii) unsustainable off-budget fiscal expenditure.

Highlights of the month

- 06.05** The U.S Secretary of State John Kerry paid an official visit to Mongolia at the invitation of L.Purevsuren, the Mongolian Minister for Foreign Affairs. John Kerry held official talks to exchange views on Mongolia-USA relations and regional and international issues with Minister for Foreign Affairs L.Purevsuren, and he paid a courtesy call on President of Mongolia Mr.Elbegdorj Tsakhia.
- 06.09** The 12th Asia-Europe Finance Ministers' Meeting took place in Ulaanbaatar on June 9-10. The ASEM Finance Ministers' Meeting is an integral part of Asia-Europe connectivity, and the meeting aims to facilitate dialogues and common interests of the two regions. Mongolia welcomed finance ministers and heads of delegations from 43 ASEM nations, as well as chief representatives of 13 international economic and financial organisations, including the European Commission, IFC, World Bank, EBRD, ADB and ASEAN for the two-day event.
- 06.14** President of Mongolia Ts.Elbegdorj paid a working visit to the Republic of the Union of Myanmar on June 14-16 recognising the 60th anniversary of the bilateral diplomatic relations.
- 06.23** On June 23, a tripartite meeting of leaders of Mongolia, China and Russia was held for the third time in Tashkent city, Uzbekistan on the sidelines of the 16th Shanghai Cooperation Organization (SCO) summit. In the scope of the SCO meeting of state heads, Ts.Elbegdorj held a trilateral meeting with his counterpart from Russia and China. Following the trilateral meeting, the State leaders attended a document signing ceremony.

Overview

Mongolia ranked 60th in leading World Competitiveness Yearbook

Mongolia has slipped three places to be ranked 60 out of 61 countries in the annual World Competitiveness Yearbook 2016, recently released by the International Institute for Management Development (IMD) World Competitiveness Center. The ranking, published annually since 1989 and considered the leading assessment of the competitiveness of countries, saw the USA (ranked 3) overtaken as the world's most competitive economy for the first time in three years by China Hong Kong (1) and Switzerland (2).

As identified by the EPCRC team in the ranking, attracting more foreign direct investment (FDI) is a significant challenge: by the end of 2015 the rate of FDI had decreased by more than 22 times compared to that of 2012. This year the exchange rate against the USD is likely to weaken further, and improved infrastructure is needed across the country, although this is a process that will take some time. In a year where a number of Asian countries suffered significant declines in competitiveness, mainland China dropped back three spots on last year to be ranked 25. Fellow neighbor Russia improved by one to be ranked 44.

Source: IMD

“On the whole, there has been a significant drop in Asia’s competitiveness since our last ranking,” said Professor Arturo Bris, Director of the IMD World Competitiveness Center.

“This general decline has been caused by the fall in commodity prices, a strong dollar and the deterioration of balance sheets in both the private and public sectors.”