

**MONGOLIA: MONTHLY MACROECONOMIC
OVERVIEW**

May 2016

Indicators:

<p>GDP growth of 3.2 percent Q1 2015 (YoY)</p>	<p>FDI reached USD 51.8 million (in April 2016)</p>	<p>Budget deficit MNT -877 billion</p>	<p>Inflation 1.8 percent</p>	<p>Non-performing loans increased by MNT 1065 billion</p>	<p>USD 1.5 billion in BoM foreign currency reserves in April</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 decreased by USD 51.9 million on the same period last year, and decreased by USD 3.7 million compared to the previous month.</p>	<p>MNT 2085.1 billion in revenue, MNT 2962.1 billion in expenditure and a balance deficit of MNT -877 billion.</p>	<p>An increase of 0.1 percent on the previous month, and 1.8 percent compared to the same period of the previous year.</p>	<p>Non-performing loans decreased by MNT 9 billion or 0.3 percent compared to the previous month reaching a total of MNT 1065 billion.</p>	<p>Increased by USD 277 million or 21.8 percent on the same period of the previous year. The amount of foreign currency reserves reached USD 1544 million.</p>




Average USD/MNT nominal exchange rate
1988.53 ₮



Housing price index
1.034
decreased by 0.05 percent compared to the previous month and decreased by 11.4 percent YoY

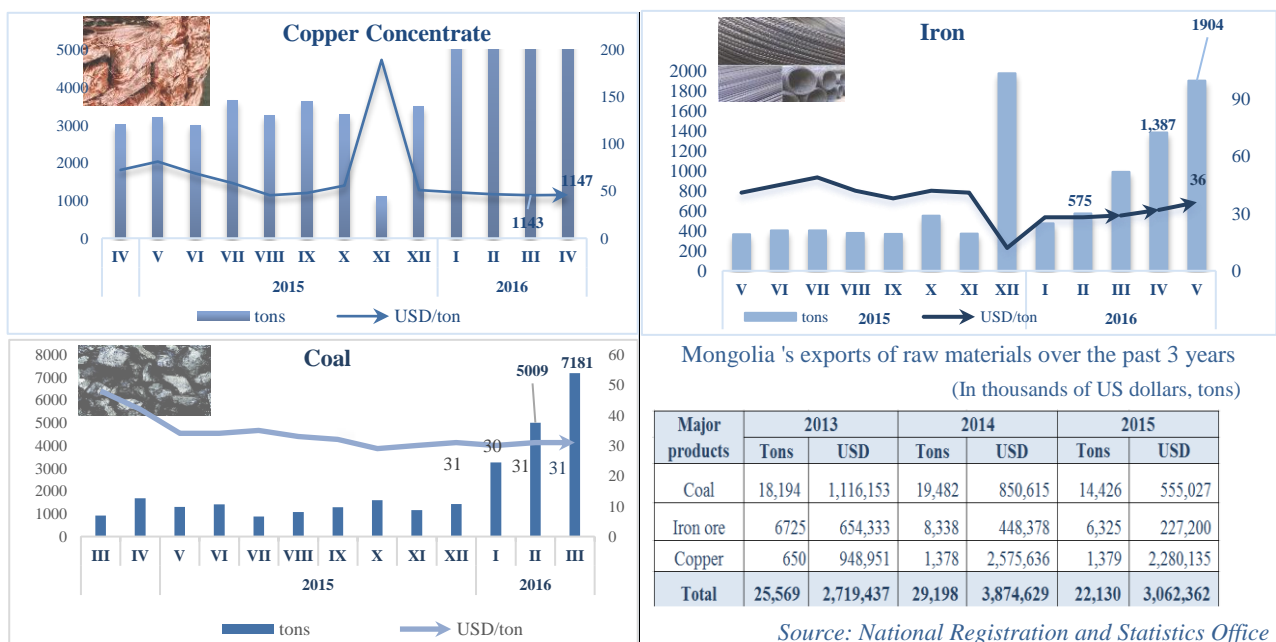


BoM policy rate
10.5 percent

 President of Mongolia Ts.Elbgedorj paid an official visit to the Republic of Korea on May 18-20 at the invitation of his South Korean counterpart Park Geun-hye. During the visit, the two presidents shared views on a broad range of issues related to fostering bilateral comprehensive partnership relations, keeping frequency of high-level mutual visits, strengthening bilateral economic ties and cooperation as well as on regional and international issues of mutual concern.

Major export commodity prices and volumes

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



The Monetary Policy Committee (MPC) at the Bank of Mongolia (BoM) took a decision to cut the policy interest rate by 1.5 percent to fix at 10.5 percent. This is the second time for this year that the monetary policy interest rate has been lowered.

Macroeconomic Indicators

May 2016

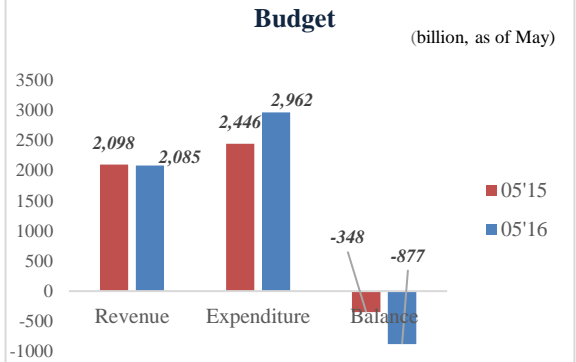
GDP

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 agricultural sector by 5 percent.



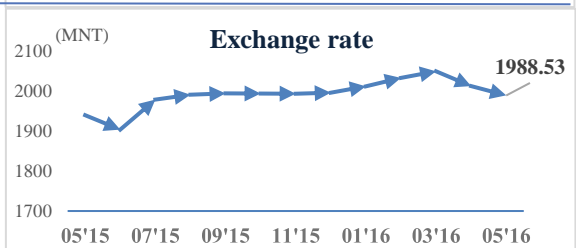
Budget

Cumulative state budget revenue (including aid) totalled MNT 2085 billion in May, while expenditure and net lending amounted to MNT 2962 billion. This resulted in a general government deficit of MNT (877) billion. Total expenditure and net lending of the General Government Budget reached MNT 1224.6 billion. The revenue decreased by 0.6 percent, expenditure increased by 21.1 percent compared to the same period last year.



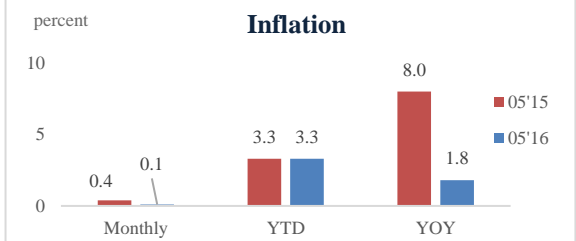
Exchange rate

In May, the MNT further depreciated against the USD. The average nominal exchange rate against the US dollar was MNT 1988.53. This is a 2.5 percent or MNT 49.2 increase from the same period of the previous year; a 1.2 percent or MNT 23.4 decrease from the previous month. The exchange rate has also fallen by 60 MNT in the last 2 months.



Inflation

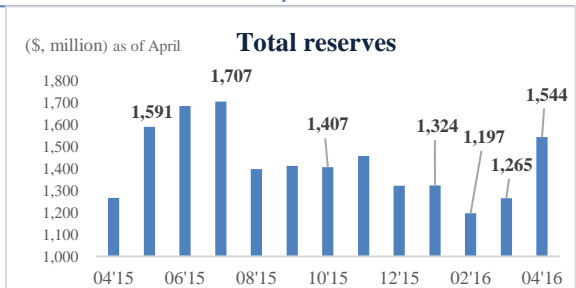
In May 2016, the Consumer Price Index increased by 0.1 percent on the previous month, and rose by 3.3 percent compared to the same period last year. An increase of 1.8 percent was mainly due to increases of 69.8 percent in education and 26.3 percent in clothing, footwear and cloth.



* Preliminary results, Source NRSO, BoM

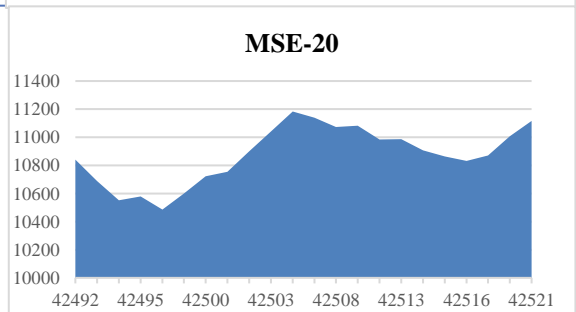
Foreign exchange reserves

As of April, 2016, foreign exchange reserves were USD 1544 million. This is a 22 percent, or USD 279 million increase on the previous month and an increase 21.8 percent or USD 277 million compared to the same period of the previous year.



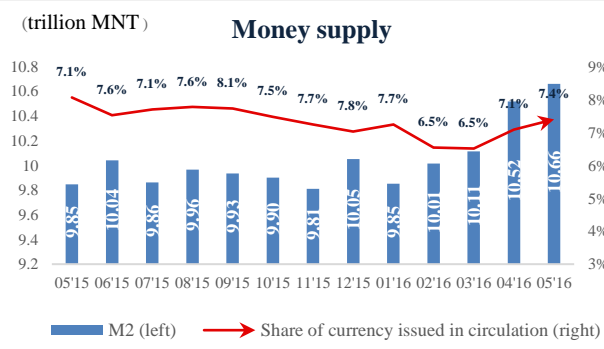
MSE-20 index

In May 2016, 0.5 million shares valued at MNT 37.5 billion were traded in the stock market. The securities traded decreased by MNT 9.1 billion or 19.5 percent compared to the last month. The Top-20 index in May was 10882 points, a decrease of 137 points and 1923 points, from the previous month and same period of the previous year, respectively.



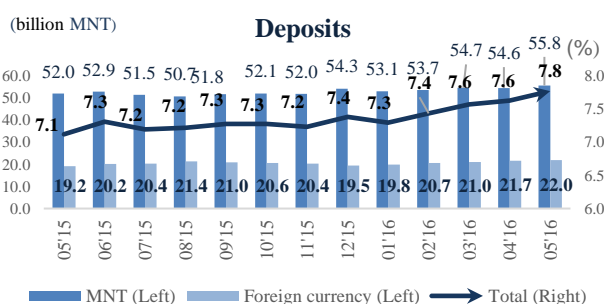
Money

M2 Money supply at the end of May 2016 totalled MNT 10.6 trillion, an increase of 140.8 billion or 1.3 percent on the previous month and an increased by 813 billion or 8.2 percent on the same period last year. In May, cash flows reached 788 billion. This is an increase of MNT 43.2 billion or 5.8 percent over the previous month and a decrease of MNT 5.3 billion or 0.6 percent on the same period last year.



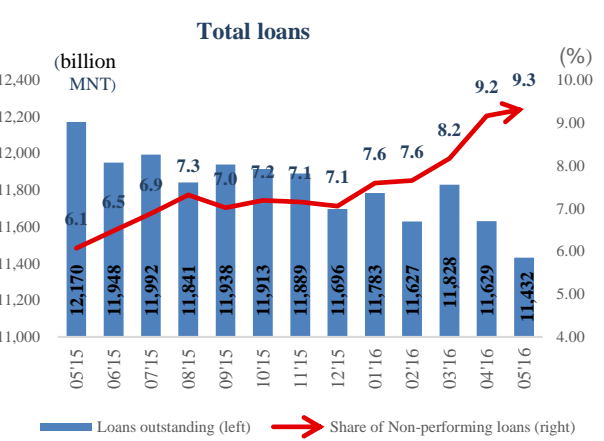
Deposits

Total deposits were MNT 7.8 trillion in May 2016, an increase of 143.5 billion or 1.9 percent on the previous month. This is an increase of MNT 651 billion or 9.1 percent on the same period last year. Savings in local currency increased by MNT 651.3 billion or 7.2 percent whereas foreign currency deposits increased by 7.2 percent or MNT 651.3 billion.



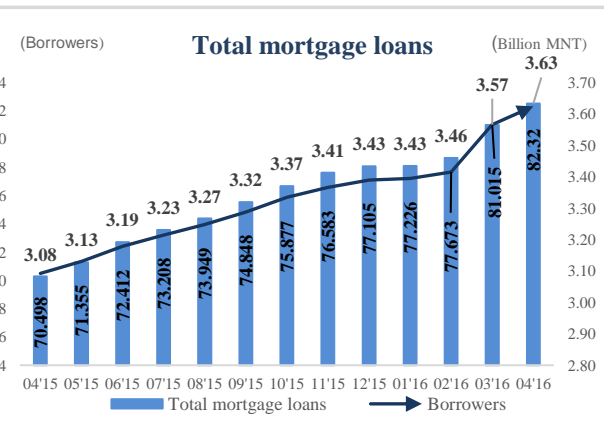
Loans

Total loans outstanding for businesses and individuals are MNT 11.4 trillion as of May 2016, which is a decrease of MNT 198 billion or 1.7 percent on the previous month and a decrease of 738 billion, or 6.1 percent compared to the previous year. Non-performing loans amounted to MNT 1065 billion, a 0.8 percent (9 billion) decrease on the previous month. This is an increase of 44.2 percent (MNT 327 billion) on the same period of last year. The share of non-performing loans made up 9.3 percent of total loans.



Mortgage

As of April 2016, the total value of outstanding mortgage loans rose by 1.9 percent (MNT 67.6 billion) on the previous month and increased by 17.9 percent (MNT 550.3 billion) from on the same period of the previous year, reaching MNT 3.6 trillion. In April, MNT 67.7 billion in mortgage loans were granted to 1305 applicants and the total number of borrowers reached 82,320. The ratio of mortgage loans between MNT and foreign currency is presently 98.9/1.1 percent in favor of domestic currency, and the total market share of non-performing mortgage loans reached 0.8 percent.

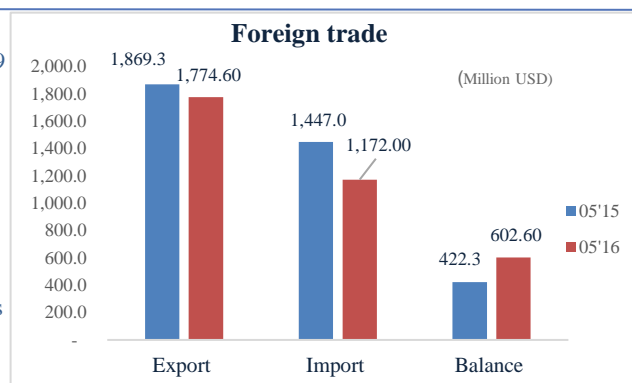


* Source Bank of Mongolia

Foreign Trade

Foreign Trade

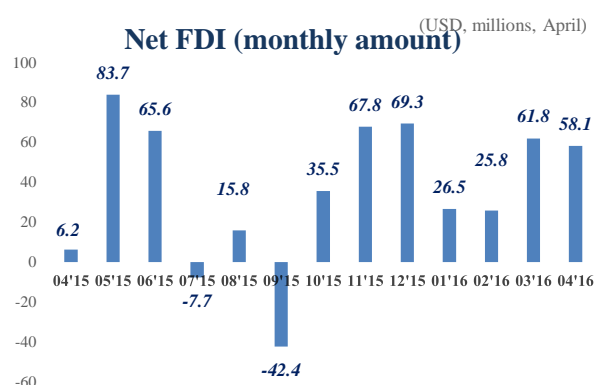
In May 2016, total trade turnover reached USD 2.9 billion, of which exports totalled USD 1.7 billion and imports amounted to USD 1.1 billion, resulting in a foreign trade surplus of USD 602 million. Compared to the previous year, total turnover decreased by USD 370 million or 11.1 percent, exports and imports decreased by USD 94.7 million or 5 percent and USD 275 million or 19 percent, respectively. The decrease in exports is attributable to mineral products, metal products, machinery and mechanical appliances.



* Source NRSO, BOM

Foreign direct investment

Net Foreign Direct Investment inflows in April 2016 amounted to USD 51.8 million. This is an increase by USD 51.9 million compared to the same period of the previous year, and a decrease of USD 3.7 million from the previous month. Investments outflow equated to USD -0.9 million, while investment inflows amounted to USD 59 million.

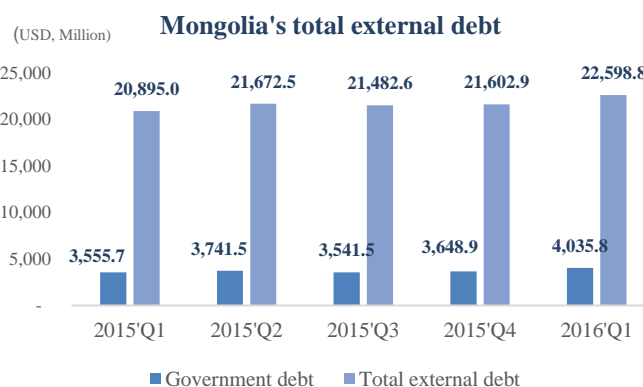


* Source NRSO, BOM

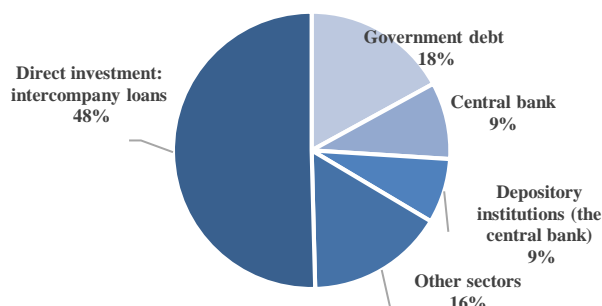
Mongolia's foreign debts

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 the 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

- 05.06-7** On May 5-6, Minister of Commerce Gao Hucheng led the trade and economic delegation of the Chinese government to visit Mongolia, and co-chaired the 14th Session of China-Mongolia Joint Committee of Trade and Economy with the Mongolian Foreign Minister Lundeg Purevsuren. During the visit, the two sides signed some economic and trade cooperation documents including the Minutes of the 14th Session of China-Mongolia Joint Committee of Trade and Economy and the Joint General Plan of China-Mongolia Erenhot-Zamyn-Uud Cross-border Economic Zone Cooperation.
- 05.07** The development of the underground mine at Oyu Tolgoi has been approved, marking the beginning of the next phase in the development of this world-class resource. The decision follows approvals by Rio Tinto, the Government of Mongolia and Turquoise Hill Resources to invest USD 5.3 billion to expand the mine, and the recent granting of all necessary permits, the OT LLC published the website.
- 05.12-13** ASEM Senior Officials Meeting held in Ulaanbaatar on May 12-13. Of the 51 ASEM partner countries and the European Union, Asia and outside the new business development group of the Association of South East Asian Regional Cooperation (ASEAN) a total of 170 representatives participated with representatives from the European funds.

Overview

Contract signed with investor of “Booroljuut” power station and mine

On May 31, the Minister of Energy signed an investment and electricity sales and purchase agreement for the Buuruljuut mine and power station, one of the largest energy projects moving forward in Mongolia. Construction of the Buuruljuut power plant, located 120 km from Ulaanbaatar in Tuv Province’s Bayanjargalan soum, will now commence. Total investment required for the project’s implementation is an estimated one billion USD. The power plant is expected to be operational by 2019, designed to produce 1.6 billion kwh annually, around 30 percent of Mongolia’s total energy consumption. The plant will start producing 3.2 billion kwh starting in 2022, supplying power for the country’s central energy network.

The Monetary Policy Committee (MPC) at the Bank of Mongolia (BoM) made a decision to cut the policy interest rate

The Monetary Policy Committee (MPC) at the Bank of Mongolia (BoM) decided to cut the policy interest rate by 1.5 percent to fix at 10.5 percent. This is the second time for this year that the monetary policy interest rate has been lowered. The previous meeting of the Monetary Policy Committee took the decision to cut the monetary policy interest rate by 1 point to achieve 12 percent. Now the inflation rate has declined to 1.7 percent as of March 2016 which is lower than the target level for the last 9 months. Both demand-driven and supply-shock inflationary pressures are expected to be at low level throughout this year; therefore it shall positively affect maintaining low and stable inflation. The overall balance of payments is projected to have no deficit at the end of 2016, supported by a positive outlook for foreign direct investments in the medium-term. However, it has been a mandatory measure and inevitable adjustment to cut budget expenditures in conjunction with the underperformance of revenues, and nullify budget deficits in order to achieve key objectives in the macroeconomic policy framework “The New Equilibrium”. Favorable changes and positive developments in the macroeconomic external balance have further expanded monetary policy room towards continued easing. Zoljargal.Kh, The president of Mongolbank informed.