ECONOMIC POLICY AND COMPETITIVENESS RESEARCH CENTER

MONGOLIA: MONTHLY MACROECONOMIC OVERVIEW

December 2016

GDP growth of **-1.7 percent** Q3 2016 (YoY)	FDI reached **USD -18.6 million** (in November 2016)	Budget deficit **MNT -3667 billion**	Inflation **1.1 percent**	Non-performing loans increased by **MNT 1052 billion**	**USD 1 billion** in BoM foreign currency reserves in November
The industrial and construction sector decreased by 15 percent, the service sector by 5 percent.	Net FDI decreased by USD 83.586.4 million on the same period last year, investment inflows amounted to USD -18.6 million.	MNT 5852 billion in revenue, MNT 9519 billion in expenditure and a balance deficit of MNT -3667 billion.	An increase of 0.5 percent on the previous month, increased by 1.1 percent compared to the same period of the previous year.	Non-performing loans decreased by 7.1 percent compared to the previous month, increased by 27.5 percent compared to the same period of the previous year reaching a total of MNT 1052 billion.	Decreased by USD 368 million or 10.6 percent compared to the same period of the previous year. The amount of foreign currency reserves reached USD 1304 million.

Average USD/MNT nominal exchange rate **2482.57₮**

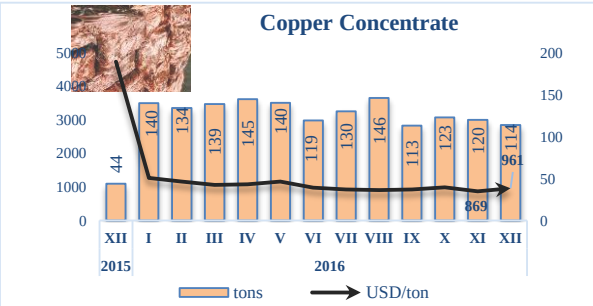
Housing price index **1.009**
increased by 0.1 percent compared to the previous month and decreased by 4.3 percent YoY

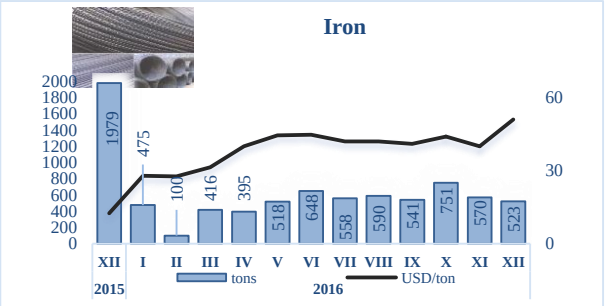
BoM policy rate **14 percent**

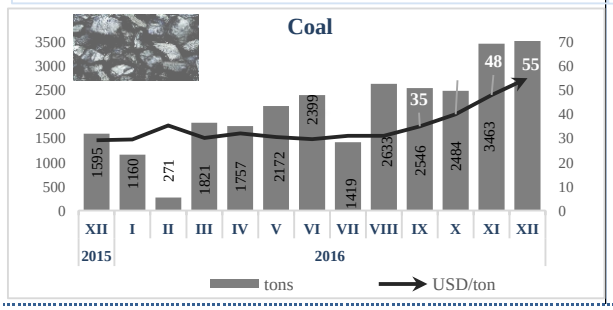
Bank of Mongolia's Monetary Policy Council met on December 19 and decided to lower the policy rate by 1 percentage point to 14%. The decision in August to hike interest rate has done its job of preventing currency instability, protecting foreign exchange reserves, and maintaining financial stability. BoM expects inflation to be below the target in 2017 and demand-side inflation pressures to be low. Better than expected foreign trade environment will positively affect foreign currency inflow, trade balance, and budget revenue.

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)

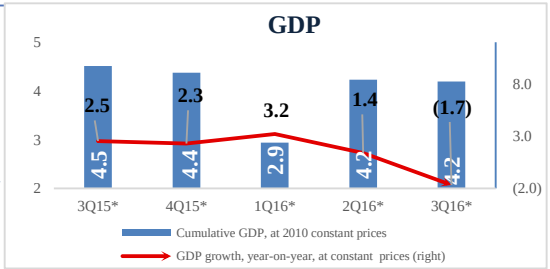
Major products	2014		2015		November, 2016	
	Amount (tons)	Revenue (USD)	Amount (tons)	Revenue (USD)	Amount (tons)	Revenue (USD)
Coal	19.5	0.8	14.4	0.6	22.1	7.7
Iron ore	6.3	0.4	6.3	0.2	5.5	2.2
Copper	1.4	2.5	1.4	2.3	1.4	1.5
Total	**27**	**4**	**22**	**3**	**29**	**11**

Source: National Statistics Office

The 2017 state budget outlines 117 projects and programs being funded by over 857 billion MNT in foreign loans and aid.

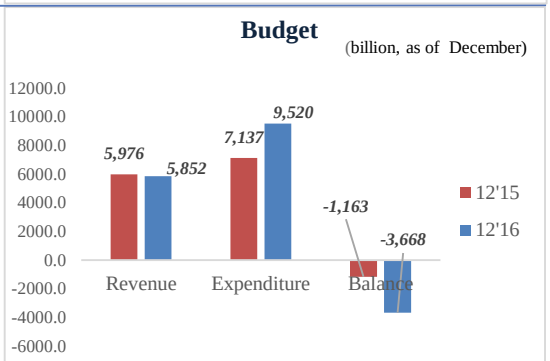
GDP

Cumulative GDP at constant prices in the third quarter of 2016 reached MNT 11.3 trillion, a decrease of MNT 193.3 billion or 1.7 percent compared to the same period of the previous year. For the same period, the industrial and construction sector decreased by 15 percent, the service sector by 5 percent.



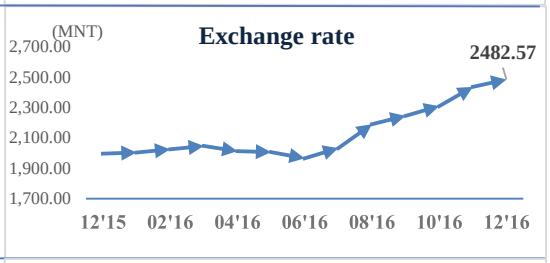
Budget

Government revenue decreased by 2.1 percent and expenditure increased by 33.4 percent from the same period of the previous year representing a budget deficit of MNT 3667 billion MNT. Total expenditure and net lending of the General Government Budget reached MNT 1783.2 billion which indicates an increase by MNT 861.2 billion (93.4%) from the previous month.



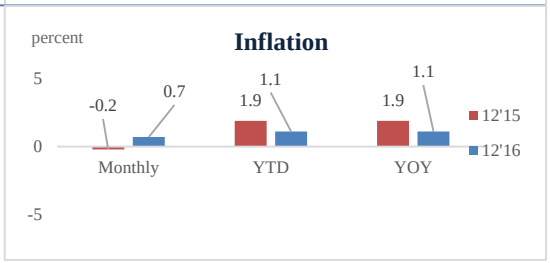
Exchange rate

In December, the MNT further depreciated against the USD. The average nominal exchange rate against the US dollar was MNT 2482.57. This is a 24.4 percent or MNT 486 increase from the same period of the previous year; a 2 percent or MNT 48.2 increase from the previous month.



Inflation

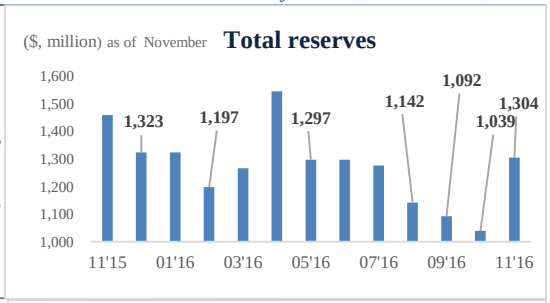
In December 2016, the Consumer Price Index increase by 0.5 percent on the previous month, and increased by 0.4 percent to the previous compared to the same period last year. This slight increase of 1.1 percent from the end of the previous year was mainly due to increases 29.4 percent in prices for food and non-alcoholic beverages group, 25.2 percent in prices for clothing, footwear and cloth group and 16.4 percent in prices for health group.



** Preliminary results, Source NSO, BoM*

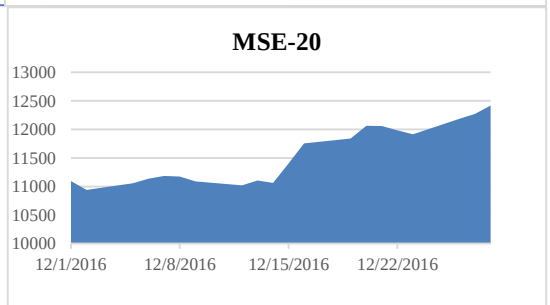
Foreign exchange reserves

As of November 2016, foreign exchange reserves were USD 1304 million. This is a 25.5 percent, or USD 265 million decrease compared to the previous month and a decrease 10.6 percent or USD 155 million compared to the same period of the previous year.



MSE-20 index

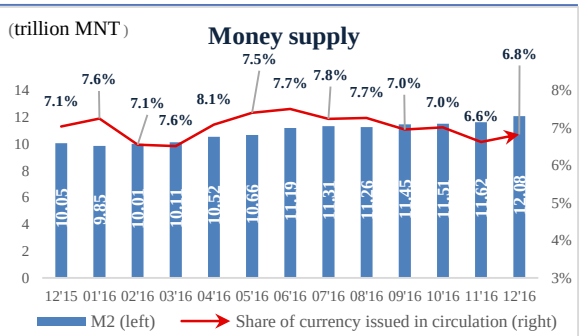
In December 2016, MNT 150.2 billion was traded in the stock market. The securities trade decreased by 38.3 million or 3.3 percent compared to the last month. The Top-20 index in December was 11605 points, a decrease of 755 points from the previous month and a decrease of 673 points from same period of the previous year, respectively.



** Mongolia Stock Exchange*

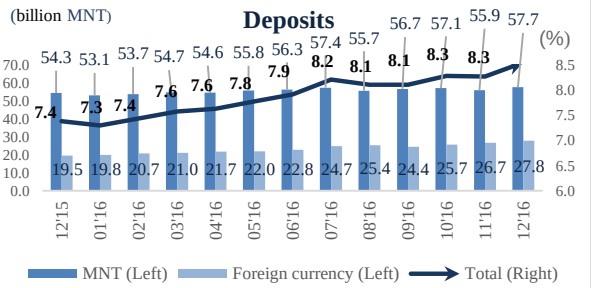
Money

Money supply (M2) at the end of December increased by 20.1 percent compared to the same period of the previous year and increased by 3.9 percent compared to last month. M2 reached MNT 12 trillion. The currency issued in circulation increased by 16.5 percent compared to the same period of last year and decreased by 7.1 percent from last month.



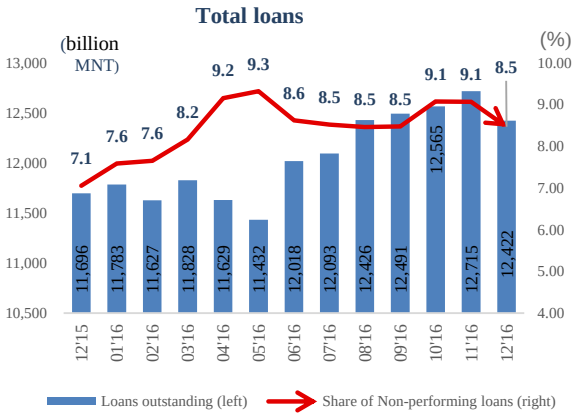
Deposits

Total deposits were MNT 8.5 trillion in December 2016, an increase of 280 billion or 3.4 percent on the previous month. This is an increase of MNT 1165.4 billion or 15.8 percent on the same period last year. Savings in local currency increased by MNT 172.2 billion or 6.1 percent whereas foreign currency depositsincreased by 4 percent or MNT 107.8 billion.



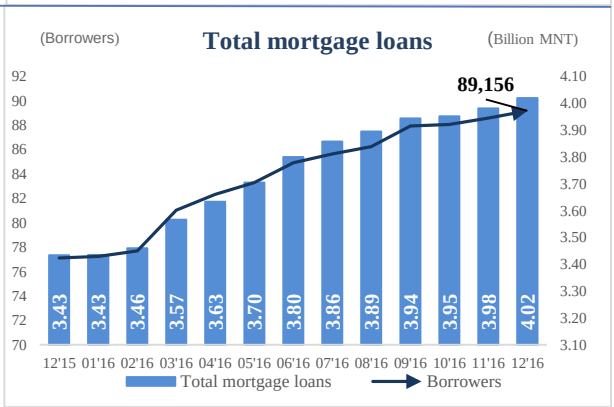
Loans

Total loans outstanding for businesses and individuals were MNT 12 trillion as of December 2016, which is a decrease of 2.3 percent on the previous month and an increase of 6.2 percent compared to the previous year. Non-performing loans amounted to MNT 1052 billion, a 7.1 percent decrease on the previous month and a 27.5 percent increase on the same period of last year. The share of non-performing loans made up 8.5 percent of total loans.



Mortgage

As of December 2016, the total value of outstanding mortgage loans rose by 1 percent (MNT 38.8 billion) on the previous month and increased by 17.1 percent (MNT 585.3 billion) from on the same period of the previous year, reaching MNT 4 trillion. In December, MNT 38.8 billion in mortgage loans were granted to 601 applicants and the total number of borrowers reached 89,156. The ratio of mortgage loans between MNT and foreign currency is presently 99.3/0.7 percent in favor of domestic currency.

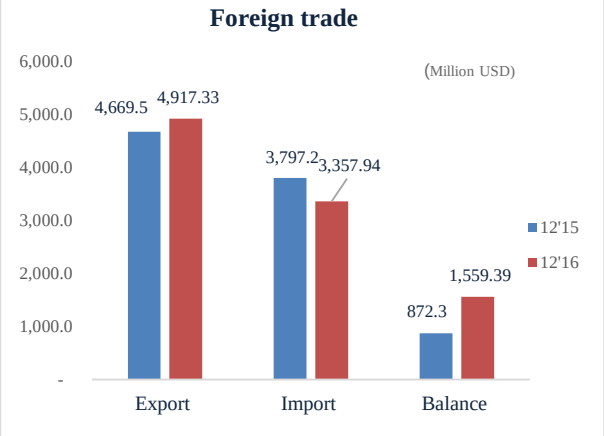


** Source Bank of Mongolia*

Foreign Trade

Foreign Trade

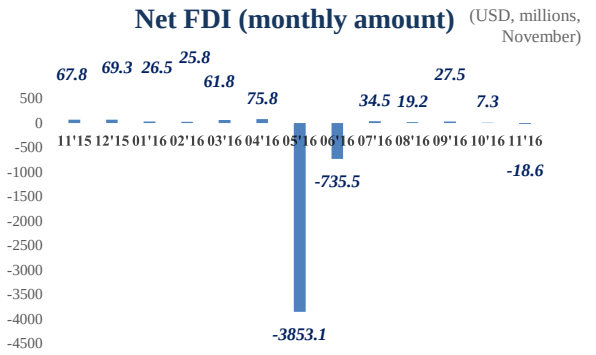
In December 2016, total trade turnover reached USD 8.2 billion, of which exports totalled USD 4.9 billion and imports amounted to USD 3.3 billion, resulting in a foreign trade surplus of USD 1559 million. Compared to the previous year, total turnover decreased by 2.2 percent, exports increased by 5.3 percent and imports decreased by 11.5 percent. The increase in exports was mainly due to a USD 194.3 million increase in mineral products, a USD 672.5 million increase in copper concentrate, and a USD 417.1 million increase in coal exports.



** Source NSO, BoM*

Foreign direct investment

Net Foreign Direct Investment inflows in November 2016 amounted to USD -18.6 million. This is a decrease of USD 86.4 million compared to the same period of the previous year. Investments outflow equated to USD -0.4 million, while investment inflows amounted to USD -11.3 million.

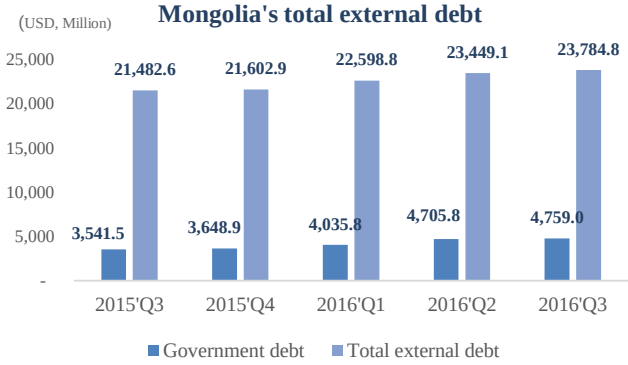


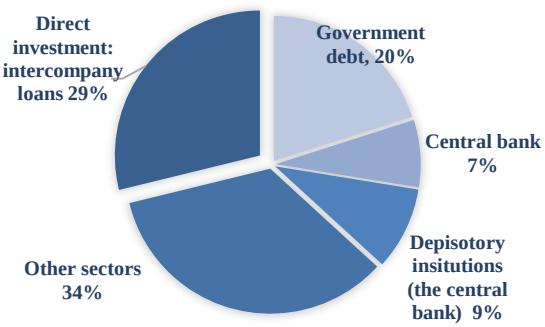
** Source NSO,BOM*

Mongolia's foreign debts

External debt

In the third quarter of 2016, Mongolia's total public foreign debt stood at USD 4.7 billion. Mongolia's total external debt outstanding is USD 23.7 billion. Government debt decreased by 1 percent compared to the previous quarter (USD 53 million) and total external debt decreased by 1 percent on the previous quarter (335 million). Of the total debt, 20 percent is attributable to the government, 7 percent to the central bank, 10 percent to depository institutions, 34 percent to other sectors, and 29 percent to inter-company loans. 96 percent of total debt from the Central Bank is short-term, while long-term liabilities account for 4 percent of the total debt.





**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-**	**Positive**	**B**	**Negative**
Date	**2016.8.19**		**2013.12.13**	

Standard & Poor's downgraded Mongolia's sovereign rating from B grade to -B grade in August 2016. 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 has caused financial instability in the economy, and is the main reason behind the rating downgrade.

Moody's :

Moody's credit rating for Mongolia has changed since September 2016, with a B3 classification and a negative outlook.

Date	Credit ratings	Perspective
June 10, 2009	**B1**	**Negative**
October 30, 2009	**B1**	**Stable**
May 26, 2014	**B1**	**Negative**
July 17, 2014	**B2**	**Negative**
September 05, 2016	**B3**	**Negative**
November 18, 2016	**Caa1**	**Negative**

Moody's international credit rating for Mongolia reduced from B3 to Caa1 in November, 2016. The cited reasons were (i) heightened uncertainty regarding the government's ability to meet its direct and indirect debt service obligations over the next two years and to shore up Mongolia's external liquidity, and (ii) the budget deficit will remain wider for longer than previously expected, which, combined with a weaker growth outlook in the coming 2 years, will raise the government's debt burden to elevated levels

Highlights of the month

12.14 Within the framework of a general credit agreement of USD one billion concluded between the Government of Mongolia and Export-Import Bank of the Republic of India, an oil-refinery construction project will be implemented in Sainshand soum of Dornogobi aimag. A total investment of the project is USD one billion, of which USD 0.7 billion will be spent on oil refinery construction, and USD 264 million on oil pipelines. As expected, the oil refinery is projected to earn net profit of USD 43 million each year from its annual sales of USD 1.2 billion and planned to recover its investment within 8-10 years. A total investment of the project is USD one billion, of which USD 0.7 billion will be spent on oil refinery construction, and USD 264 million on oil pipelines.

12.28 The Recovery Program (initially the "Program to Overcome Economic Difficulties and Achieve Economic Stabilization") was approved by Parliament Resolution The Recovery Program was produced as part of the Action Plan of the Government 2016-2020 which provided for the enactment of a program to overcome economic difficulties in the short term as well as to stabilize the economy.