

MONGOLIA: MONTHLY MACROECONOMIC OVERVIEW

January 2015

Indicators:

<p>Y-o-Y GDP growth of 7.8% in Q4 2014</p> <p>* 14.4% growth in agriculture, * 16.1% growth in industry and construction sector * 4.8% growth in services sector</p>	<p>FDI decreased by 74.2% year-on-year</p> <p>FDI of USD 1,556.3 million, compared to the same period previous year decrease represents a 74.2%.</p>	<p>Fiscal deficit MNT 12.8 billion</p> <p>MNT 353.6 billion in revenue. MNT 366.4 billion in expenditure, and balance deficit of MNT 12.79 billion.</p>	<p>Inflation 9.8%</p> <p>Increased 0.7% from the previous month. 0.7% increase in prices for food and beverage. 0.8% increase for clothing, textiles and footwear group.</p>	<p>Non-performing loans increased by 31.7 billion</p> <p>Non-performing loans compared to the previous month increased MNT 31.7 billion (5.1%), reaching MNT 657.4 billion.</p>	<p>USD 1,649.9 million in BoM foreign currency reserves</p> <p>Increased USD 298 million or 22% from the previous month, reaching USD 1,649.9 million.</p>
<p>Monthly Average (US dollar) nominal exchange rate against MNT 1,932.7</p> 	<p>House price index 1.179</p> <p>0.9% from the previous month and decreased by 2.2% in the year.</p> 	<p>Increased BOM official policy rate by 1%</p> <p>13%</p> 			

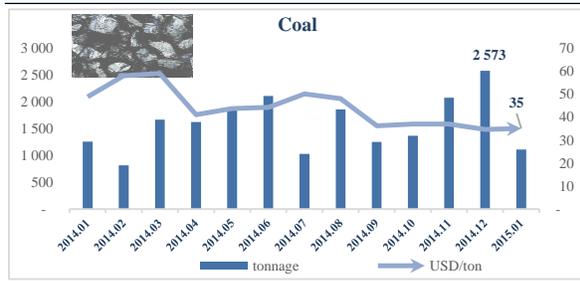
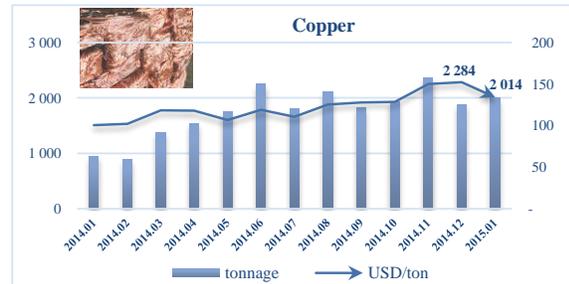


Mongolia's three millionth individual was born on Jan. 24, 2015.

Source: National Statistical Office

Major export commodity prices and volumes

Primary export products - monthly export volume and average monthly price graphs 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 dollars, tons)

Major products	2012 OH		2013 OH		2014 OH	
	Tonnes	USD	Tonnes	USD	Tonnes	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
Total	27564	3,251,685	25,569	2,719,437	10,822	3,874,629

Source: National Statistical Office

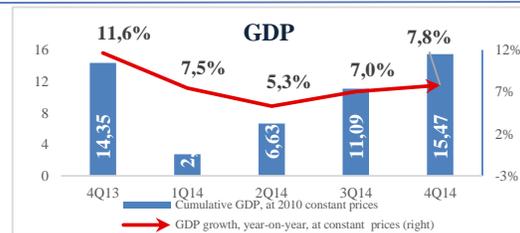
Tavan Tolgoi



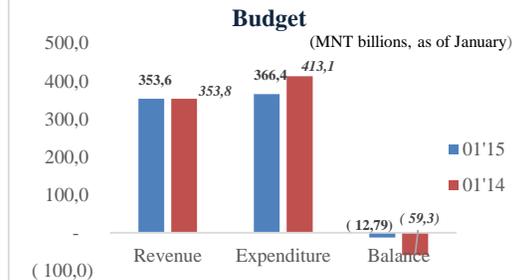
Jan. 5, 2015 - Tavan Tolgoi tender negotiations began to establish a strategic investment agreement between the Mongolian Government and the three-party consortium selected as strategic partner - China Shenhua Energy Co Ltd of China, Sumitomo Corporation of Japan, and Energy Resources LLC of Mongolia.

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Macroeconomic Indicators
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GDP

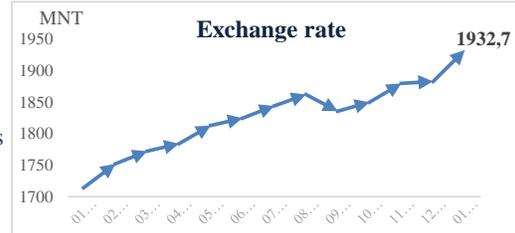
Cumulative GDP at constant prices for 2014 was MNT 15.5 trillion, an increase of 7.8% from previous year. This comprised the agricultural sector (up 14.4%), industry and construction sector, (up 16.1%) and a 4.8 percent increase in the services sector.


Budget

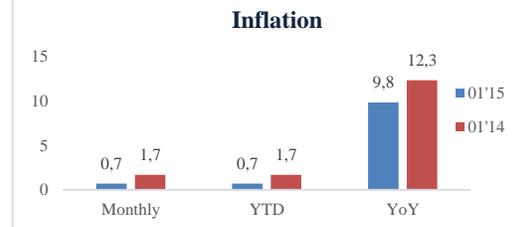
General government revenue totalled MNT 353.6 billion in January, while total expenditure and net lending amounted to MNT 366.4 billion. The government budget balance recorded a deficit of MNT 12.79 billion. This is a reduction of MNT 46.5 billion from previous year, primarily due to an 11.3% fall in expenditure y-o-y.


Exchange rate

The average USD/MNT exchange rate for January 2015 was 1,932.7. This is a 12.7% depreciation (MNT 218.4) compared to the same period previous year and a 2.6% fall (MNT 49.7) in 2015 alone.


Inflation

In January 2015, the consumer price index rose 0.7% compared to the previous month, and 9.8% compared to the same period previous year. The primary drivers of the increase were food and beverage products 0.7% increase in January, water (increase 0.9%), and clothing and footwear, (up 0.8%).



* Preliminary performance; Source NSO, BOM

Foreign exchange reserves

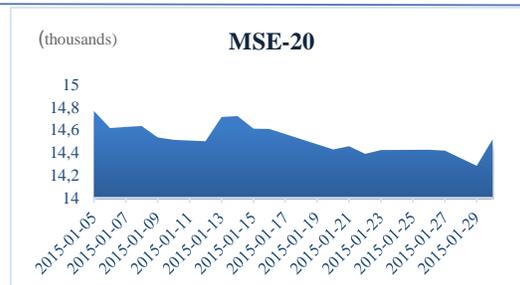
Foreign exchange reserves reached USD 1,649.9 million at the end of 2014, an increase of USD 298 million or 22% from the previous month. This was primarily due to private sector institutions and loans in foreign currency abroad. However, the total represents a 26.6% decrease (USD 598 million) from 12 months ago.



* Source BOM

MSE-20 index

MNT 65.1 billion of value and 5.8 million shares were traded in January 2015. The Top-20 index in January 2015 fell 315.8 points to reach 14,517.2.



* Mongolia Stock Exchange

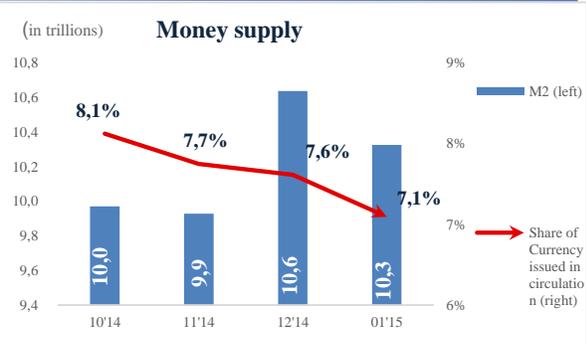
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The Financial Sector

January 2015

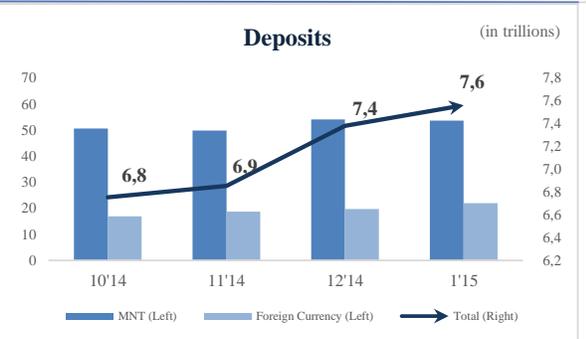
Money

Money supply (M2) reached MNT 10.3 trillion at the end of the first month of 2015, a decrease of MNT 311.3 billion or 2.9% from the previous month, and an increase of MNT 302.6 billion or 3% from the same period previous year. During the same period, Currency in circulation totalled MNT 732.4 billion, a fall of MNT 77.3 billion or 9.5% from the previous month, and a decrease of MNT 161.9 billion or 18.1% from the same period of the previous year.



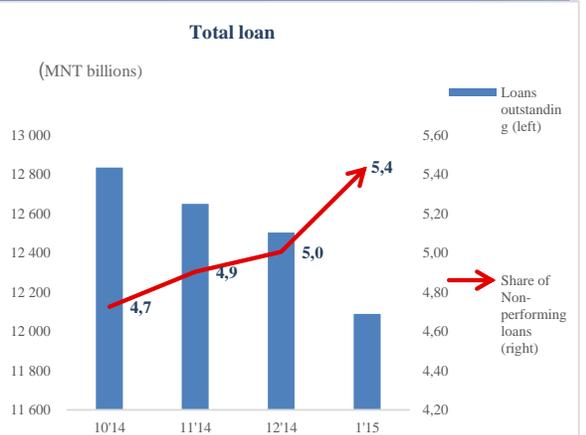
Deposits

Total deposits of MNT 7,560.3 billion at the end of January 2015 signalled an increase of MNT 180.2 billion or 2.4 percent from the previous month, and a MNT 688.5 billion increase or 9.9 percent from the same period previous year. Foreign currency deposits of MNT 2,195.5 billion was an increase of 11.5 percent last month, while local currency deposits reached MNT 5,364.5 billion, down 0.8 per cent for the same period.



Loans

Total outstanding loans fell to MNT 12.1 trillion at the end of the first month of 2015, a decrease of MNT 413.7 billion or 3.3% from the previous month and MNT 1.1 trillion or 9.8% compared to the same period of the previous year. Non-performing loans amounted to MNT 657.4 billion, a 5.1% increase from the previous month (MNT 31.7 billion) and 13.0% increase from the same period of the previous year (MNT 75.6 billion). In the last four months, the total amount of loans have decreased while non-performing loans have increased, now accounting for 5.44% of total.



Mortgages

At the end of 2014, of the total value of mortgage loans, 77.1% originated from Ulaanbaatar and 22.9% from rural areas. In rural areas, 15.9% of mortgage loans outstanding (MNT 100.7 billion) came from Darkhan-Uul, 15.2% (MNT 96.1 billion) came from Orkhon aimag and 9% (MNT 57.1 billion) from Dornogovi.



* Source BoM

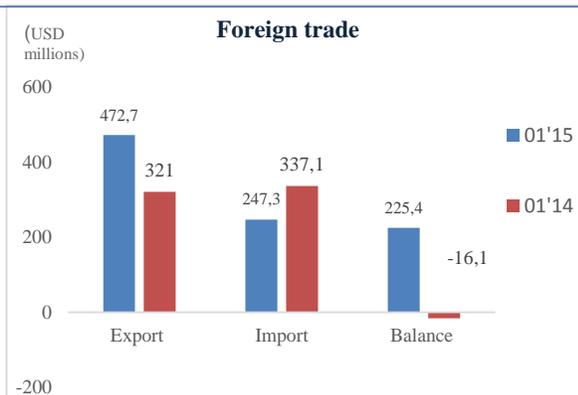
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Foreign Trade

Foreign Trade

For the first month of 2015, there was total turnover of USD 61.9 million, a 9.4% decrease from the same period previous year. Of this, exports increased by USD 151.7 million, or 47.3%, and imports decreased by USD 89.8 million, or 26.2%. The foreign trade balance was a surplus of USD 225.4 million.



* Source NSO, BoM

Foreign direct investment

Net foreign direct investment at the end of December 2014 was USD 541.8 million. This is a decrease of USD 26.1 million (4.6%) from the previous month and USD 1,556.3 million compared to the same period previous year (74.2%).



* Source BoM

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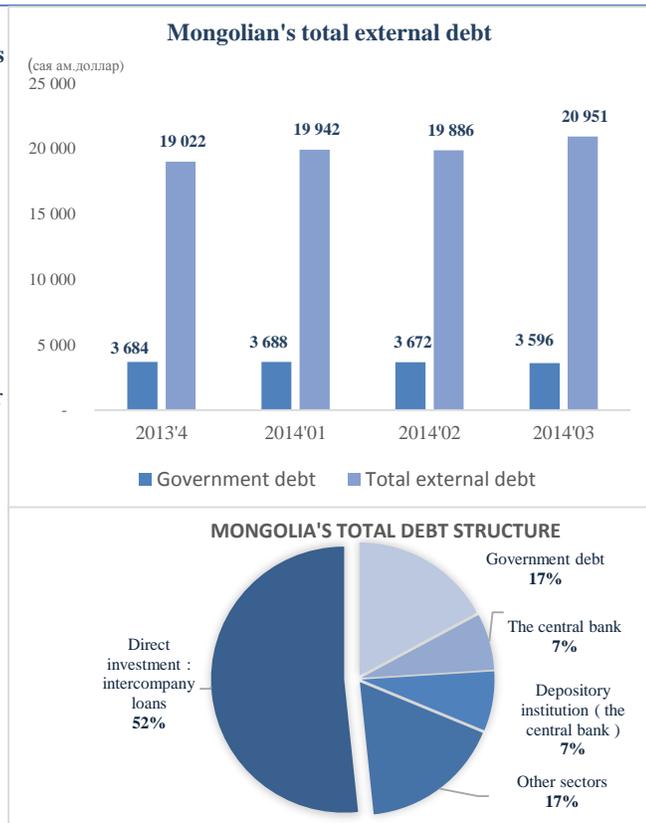
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Mongolia is foreign debts and credit ratings

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% increase from the same period previous year (USD 2.8 billion) and a 5.3% increase (USD 1 billion) from the previous quarter. Of total outstanding debt, 17% is classified as government debt, 7% is Central Bank and depository institutions each, while debt from other sectors is 17%, and 52% for direct investment and inter-company debt. 91% of the total debt from the Central Bank is short-term and long-term liabilities accounts for 9%.



* Эх сурвалж Монголбанк

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

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External debt and credit ratings

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

Standard & Poor's lowered its rating for Mongolia is international credit 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

Mongolian State in July of last year, Moody's credit rating reduced.

Moody's international credit rating for Mongolia was 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 Mongolian 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*".

Moodys 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.moodys.com/>
<http://www.standardandpoors.com/>
<http://www.fitchratings.com/>

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Highlights of the month

- January 1** Law on "Glass Account" took effect on January 1. Also known as the Budget Transparency Law, it is intended to permit the general public to better monitor the spending of public funds by government agencies, offices and other organizations contracted or otherwise-connected with the functions of government. All government agencies and legal entities with state involvement are required to publicly release information with respect to their budgets and financial matters, including: state and local budgets, local development funds, specialized government funds, procurement of goods, work and services with state and local funds, grant aid given to, and foreign and domestic loans, debentures and other financial instruments entered into by, central and local government, public and private partnerships and concessions, and guarantees given by the government and local governments and other acts which create budgetary payables and receivables.
- January 5** Tavan Tolgoi tender negotiations began to establish a strategic investment agreement between the Mongolian Government and the three-party consortium selected as strategic partner - China Shenhua Energy Co Ltd of China, Sumitomo Corporation of Japan, and Energy Resources LLC of Mongolia.
- January 12** Under the Minerals Act provisions in Article 10, paragraph 10.1.3, and Mongolian Government Resolution No:216 2014, a total of 10. million hectares of land have been opened up for mining exploration. This will include a re-bidding tender offer announced on February 11, 2015.
- January 14** The Monetary Policy Committee meeting was held on January 14, 2015, where the official Policy Rate was raised 1.0 percentage points, to 13.0%.
- January 23** The second discussion was held on the Budget Adjustment for 2015. Given the difficult economic conditions affecting the approved budget revenue, re-planning of government expenditures was discussed, notably the removal of certain deputy-ministers. The discussions are to enter a third round.
- January 24** Mongolia's 3 millionth citizen was born. The Government of Mongolia issued a decision to award and recognize the three millionth citizen as well as all babies who were born on the same day, in the nine districts of UB city and 21 provinces of Mongolia. The birth of the third millionth citizen of Mongolia was registered at the maternity hospital of Dalanzadgad Soum of Umnugobi Aimag on the morning of January 24, 2015, and born to of father Enkhtuvshingiin Khatanbold and mother Ganbatiin Azzaya.
- January 17-27** Mongolian President Elbegdorj took part in the 45th World Economic Forum in Davos, Switzerland. The meeting brought together some 2,500 top business leaders, international political leaders, selected intellectuals, and journalists to discuss the most pressing issues facing the world, including health and the environment.
- January 31** The Mongolian Government, under the initiative "Together let's choose our pathway of development for Mongolia 2015-2016" conducted a SMS poll sent to ordinary citizens with cellular capability to choose from two available paths for Mongolia's economic (1) Future - amendment of current breakdown in negotiations involving Oyu Tolgoi, (2) Renewed fiscal and economic discipline.

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Overview

On 11 January 2014, 77.1% of total mortgage value originated in Ulaanbaatar, while only 22.9% was rural. For these rural areas, 15.9% of outstanding mortgage loans (MNT 100.7 billion) was for the Darkhan-Uul province, 15.2% (MNT 96.1 billion) was for the Orkhon province, and 9% (MNT 57.1 billion) was for the Dornogovi province. The number of mortgage borrowers, and the amount outstanding both increased significantly in 2014.

Tavan Tolgoi coal deposit investor "China Shenhua Energy" and "Sumitomo" corporation, "ER" won LLC Joint Venture, and began negotiations with the Mongolian Government on January 5, 2015. This included discussion on project finance, international banks and financial institutions to be involved, as well as necessary investment in the project.

On 23 January 2015, the Parliamentary Assembly approved nominated amendments to the budget. With respect to the Mongolian State budget, revenue estimates for the 2015 budget required revision, notably: motor gasoline, diesel fuel excise tax (reduction of MNT 228 billion), corporate income tax (MNT 60 billion reduction), privatization income (MNT 17.9 billion reduction) and personal income tax (MNT 7.3 billion reduction). As a consequence, the expenditure side of the budget was also revised down, with the removal of recurrent costs such as the "notorious" star allowance (estimated at MNT 19.4 billion), social welfare fund benefits for pregnant and nursing babies, all mothers, regardless of whether they receive benefits from the Social Insurance Fund of the local social welfare costs in connection with the issuance (MNT 9.1 billion), and a 5% reduction (estimated at MNT 467.2 million) in recurrent costs for state government officials for purposes like stationery, fuel and transportation, communication and literature, foreign and domestic travel, and other streams.

The Mongolia Government, under the "Together let's choose our pathway of development for Mongolia 2015-2016" conducted a SMS poll of ordinary Mongolians with cellular capability on the preferred option of two available paths for Mongolia's economic future - amendment of current breakdown in negotiations involving Oyu Tolgoi, or renewed fiscal prudence. This was done on January 31, 2015 at 10.00 pm through to February 3. A total of 365,841 citizens participated in the survey (with 63,833 votes, or 17.45% canceled). Of the 302,008 valid votes, 169,230 or 56.1% chose to proceed with negotiations with OT, while 132,778 individuals, or 43.9% of the respondents, chose "reducing costs and strengthening economic discipline through pricing".