

**MONGOLIA: MONTHLY MACROECONOMIC
OVERVIEW**

October 2016

GDP growth of -1.7 percent Q3 2016 (YoY)	FDI reached USD 41.1 million (in September 2016)	Budget deficit MNT -2320 billion	Inflation -0.1 percent	Non-performing loans increased by MNT 1046 billion	USD 1 billion in BoM foreign currency reserves in September
The industrial and construction sector decreased by 15 percent, the service sector by 5 percent.	Net FDI increased by USD 83.5 million on the same period last year, and compared to the previous month, investment inflows amounted to USD 29.4 million.	MNT 4494 billion in revenue, MNT 6814 billion in expenditure and a balance deficit of MNT -2320 billion.	A decrease of 0.7 percent on the previous month, decreased by 0.1 percent compared to the same period of the previous year.	Non-performing loans decreased by 1.1 percent compared to the previous month, increased by 22.3 percent compared to the same period of the previous year reaching a total of MNT 1046 billion.	Decreased by USD 50 million or 4.3 percent compared to the previous month. The amount of foreign currency reserves reached USD 1092 million.



Average USD/MNT nominal exchange rate
2307.80₮



Housing price index
1.013
decreased by 0.19 percent compared to the previous month and decreased by 7.3 percent YoY



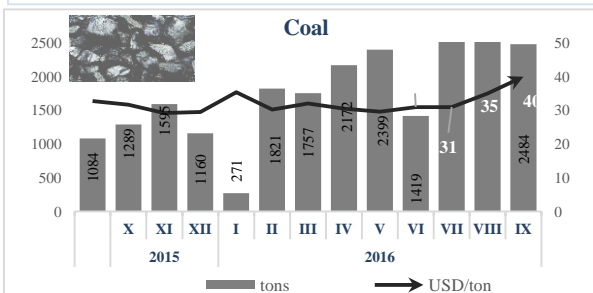
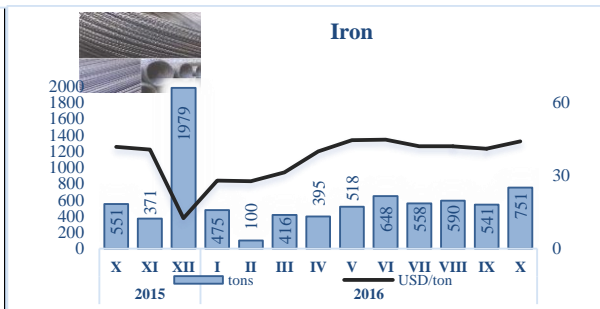
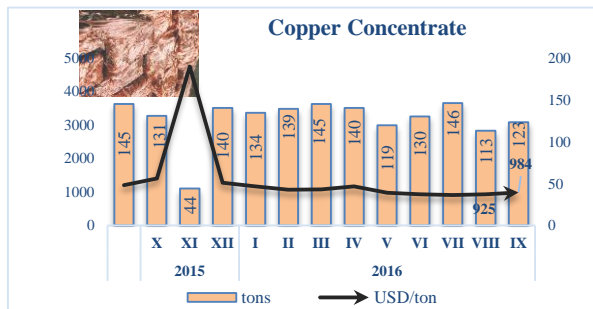
BoM policy rate
15 percent



The voting for the citizen representatives in the local councils (Khurals) of soums and city districts commenced on Wednesday, October 19, at 7:00-22:00. According to the press statement by the Capital City Election Committee made at 12:30, the voter turnout reached 12.9 percent in Mongolia.

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		October, 2016	
	Amount (tons)	Revenue (USD)	Amount (tons)	Revenue (USD)	Amount (tons)	Revenue (USD)
Coal	19.5	0.8	14.4	0.6	18.6	6.0
Iron ore	6.3	0.4	6.3	0.2	4.9	2.0
Copper	1.4	2.5	1.4	2.3	1.3	1.4
Total	27	4	22	3	25	9

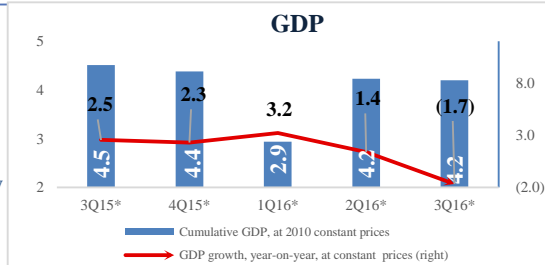
Source: National Statistics Office

Macroeconomic Indicators

October 2016

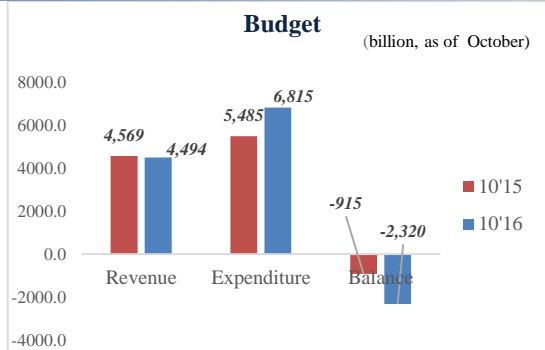
GDP

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.



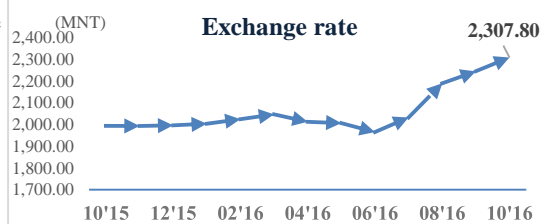
Budget

Government revenue decreased by 1.6 percent and expenditure increased by 24.3 percent from the same period of the previous year representing a budget deficit of MNT 2320 billion MNT. Total expenditure and net lending of the General Government Budget reached MNT 1405 billion. Revenue decreased by 1.7 percent and expenditure increased by 24.3 percent compared to the same period last year.



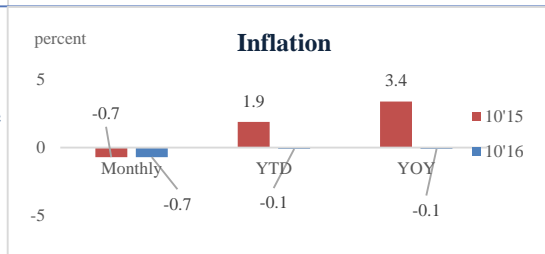
Exchange rate

In October, the MNT further depreciated against the USD. The average nominal exchange rate against the US dollar was MNT 2,307.80. This is a 15.8 percent or MNT 314 increase from the same period of the previous year; a 2.8 percent or MNT 63.8 increase from the previous month.



Inflation

In October 2016, the Consumer Price Index decreased by 0.7 percent on the previous month, and decreased by 0.1 percent to the previous compared to the same period last year. The decrease of average rates of prices was mainly due to the 3.7 percent decrease in housing, water, electricity and fuels, a 1.8 percent in transport sector and a 0.2 percent decrease in the food and non-alcoholic beverages.



* Preliminary results, Source NSO, BoM

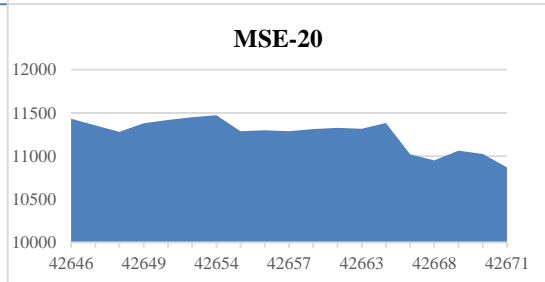
Foreign exchange reserves

As of September 2016, foreign exchange reserves were USD 1092 million. This is a 4.3 percent, or USD 50 million decrease compared to the previous and a decrease 22.7 percent or USD 320 million compared to the same period of the previous year.



MSE-20 index

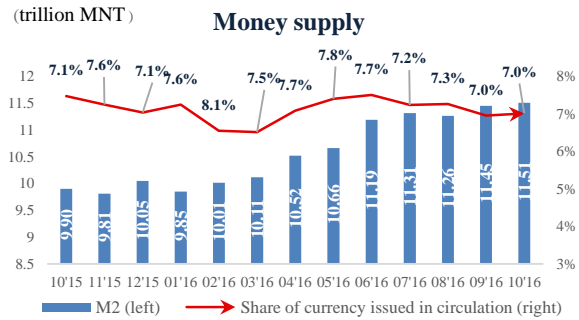
In October 2016, MNT 51.7 billion were traded in the stock market. The securities trade increased by 1.1 million or 3.6 percent compared to the last month. The Top-20 index in October was 11226 points, a decrease of 313 points from the previous month and a decrease of 1899 points from same period of the previous year, respectively.



* Mongolia Stock Exchange

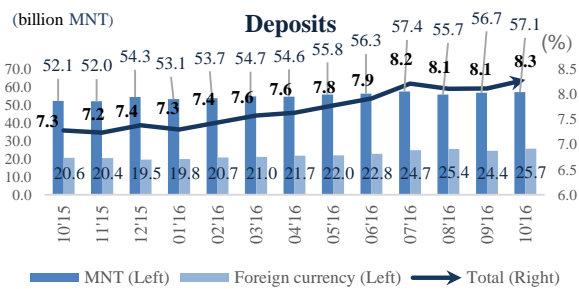
Money

Money supply (M2) at the end of October increased by 16.2 percent compared to the same period of the previous year and increased by 0.4 percent compared to last month. M2 reached MNT 11.5 trillion. The currency issued in circulation increased by 9 percent compared to the same period of last year and increased by 1.3 percent from last month. Compared to last month, the deposits in national currency show a slight increase.



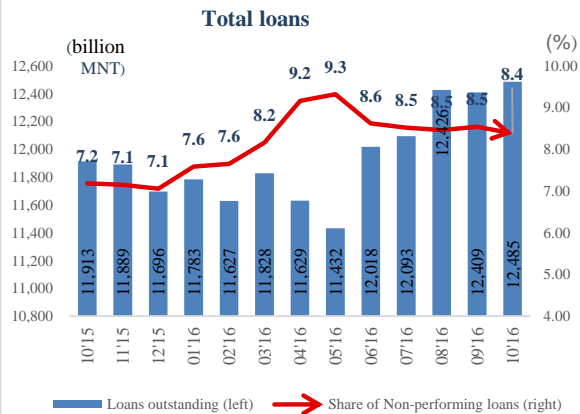
Deposits

Total deposits were MNT 8.3 trillion in October 2016, an increase of 173.4 billion or 2.1 percent on the previous month. This is an increase of MNT 1005.9 billion or 13.8 percent on the same period last year. Savings in local currency increased by MNT 46.1 billion or 0.8 percent whereas foreign currency deposits increased by 5.2 percent or MNT 127.3 billion.



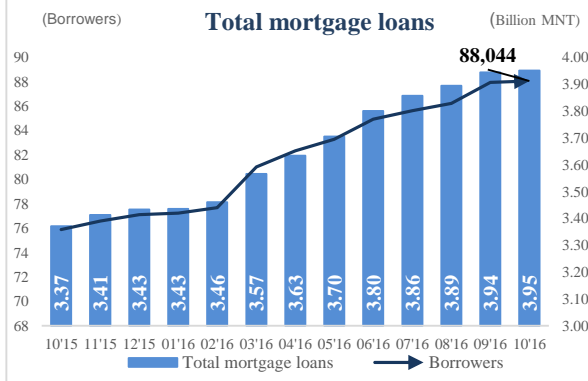
Loans

Total loans outstanding for businesses and individuals were MNT 12 trillion as of October 2016, which is a decrease of 0.1 percent on the previous month and an increase of 4.8 percent compared to the previous year. Non-performing loans amounted to MNT 1046 billion, a 1.1 percent decrease on the previous month. This is an increase of 22.3 percent on the same period of last year. The share of non-performing loans made up 8.3 percent of total loans.



Mortgage

As of October 2016, the total value of outstanding mortgage loans rose by 0.2 percent (MNT 7.1 billion) on the previous month and increased by 17.2 percent (MNT 579.6 billion) from on the same period of the previous year, reaching MNT 3.9 trillion. In October, MNT 7.1 billion in mortgage loans were granted to 119 applicants and the total number of borrowers reached 88,044. The ratio of mortgage loans between MNT and foreign currency is presently 99.1/0.9 percent in favor of domestic currency.

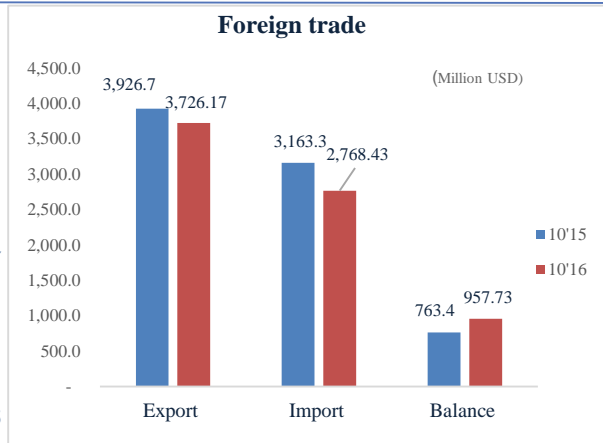


* Source Bank of Mongolia

Foreign Trade

Foreign Trade

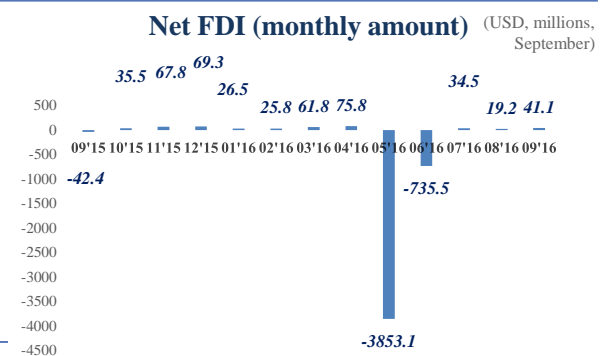
In October 2016, total trade turnover reached USD 6.4 billion, of which exports totalled USD 3.7 billion and imports amounted to USD 2.7 billion, resulting in a foreign trade surplus of USD 957 million. Compared to the previous year, total turnover decreased by 8.4 percent, exports and imports decreased by 5.1 percent and 12.4 percent, respectively. The decrease in imports was mainly due to a USD 224.8 million decrease in mineral products and USD 127.9 million percent decrease diesel fuel and auto petrol USD 80.3 million.



* Source NSO, BoM

Foreign direct investment

Net Foreign Direct Investment inflows in September 2016 amounted to USD 41.1 million. This is an increase of USD 83.5 million compared to the same period of the previous year. Compared to the previous month, investment inflows amounted to USD 29.4 million.

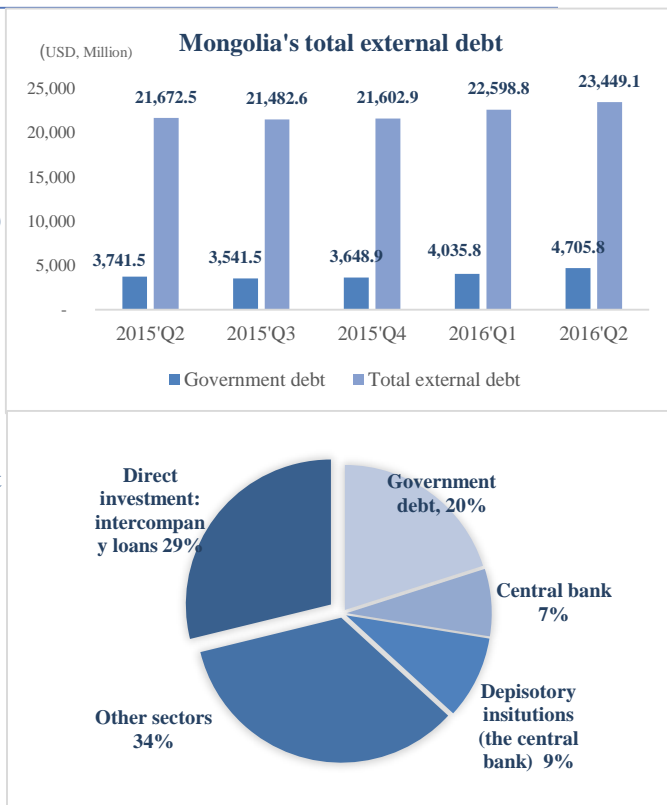


* Source NSO, BOM

Mongolia's foreign debts

External debt

In the second quarter of 2016, Mongolia's total public foreign debt stood at USD 4 billion. Mongolia's total external debt outstanding is USD 23.4 billion. Government debt decreased by 17 percent compared to the previous quarter (USD 670 million) and total external debt decreased by 4 percent on the previous quarter (850 million). Of the total debt, 20 percent is attributable to the government, 7 percent to the central bank, 9 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

Mongolian	S&P		Fitch	
	B-	Positive	B	Negative
Date	2016.8.19		2013.12.13	
<i>Credit ratings</i>	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
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
September 05, 2016	B3	Negative

Moody's international credit rating for Mongolia reduced from B2 to B3 in September, 2016. 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.

Highlights of the month

10.13

The International Silk Road Conference of Nomadic Tourism and Sustainable Cities, co-organized by the World Tourism Organization, the Ministry of Environment and Tourism of Mongolia and the World Cities Scientific Development Alliance opened on October 13 at the Tuushin Hotel of Ulaanbaatar. Tourism is one of the most thriving industries of economy in this era of globalization, highlighted Mr.Enkhbold. The International Silk Road Conference has attracted over 350 delegates from 33 countries and international tourism organizations.

10.20

Oyu Tolgoi continued to deliver solid safety performance over the past quarter, achieving record material mined over the quarter crossing 25 million tonnes and delivering continuing progress with underground development - including award of critical contracts. Turquoise Hill Resources continues to expect Oyu Tolgoi to produce 175,000 to 195,000 tonnes of copper in concentrates and 255,000 to 285,000 ounces of gold in concentrates for 2016, reports ot.mn.