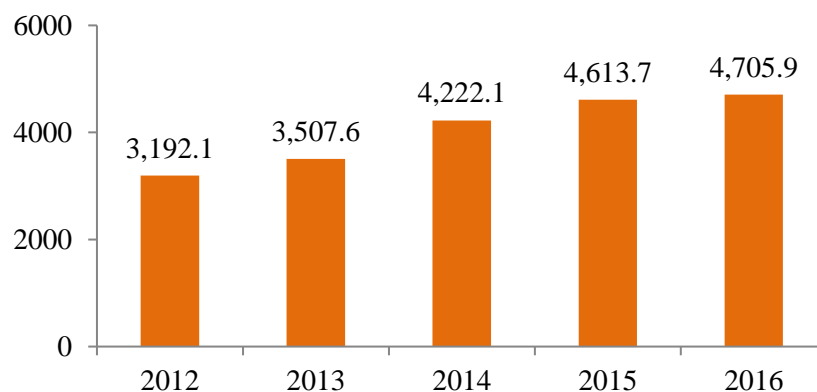


MARKET AND ECONOMY REPORT OF MONGOLIA**1. Economic Performance Of Mongolia /in Q3/****GDP**

GDP at nominal price stood at MNT 4,705.9 billion in Q1 2016, indicating an increase of 2.0 percent over the same period of the previous year. As a composition of this increase, 16.2 percent comprises of mining sector, 27.5 percent of construction sector, 3.7 percent of agricultural sector and 0.6 percent of other services. On the other hand, manufacturing sector, wholesale and retail trade, as well as transportation and storage decreased by 13.1 percent, 5.3 percent and 2.6 percent, while net goods tax declined by 1.4 percent, which altogether affected the economic growth negatively.

Graph 1. Q1 GDP, at nominal price /in bn. MNT/

**Industrial production**

By the end of the first nine months of 2016, total production of industrial sector reached MNT 6,828.3 billion, increasing by MNT 415.0 billion or 6.5 percent over the same period of the previous year. Of which, total production of manufacturing sector declined by MNT 165.8 billion or 10.5 percent, while total production of mining and extractive industry rose by MNT 486.8 billion or 11.3 percent. In September 2016, the industrial production index (seasonally adjusted) was 137.4 (2010=100), increasing by 2.4 percent over the same period of the previous year, by 5.0 percent since the end of the previous year and declined by 7.5 percent over the same previous month.

Table 1. Total production of industrial sector /in bn. MNT/

	Jan-Sep 2015	Jan-Sep 2016	2016 Jan-Sep
			2015 Jan-Sep
Total production of agricultural sector /at current price/	6,413.3	6,828.3	106.5
Mining and extractive industry	4,310.8	4,797.6	111.3
Manufacturing sector	1,579.9	1,414.1	89.5
Electricity, heating and water supply	522.6	616.6	118.0

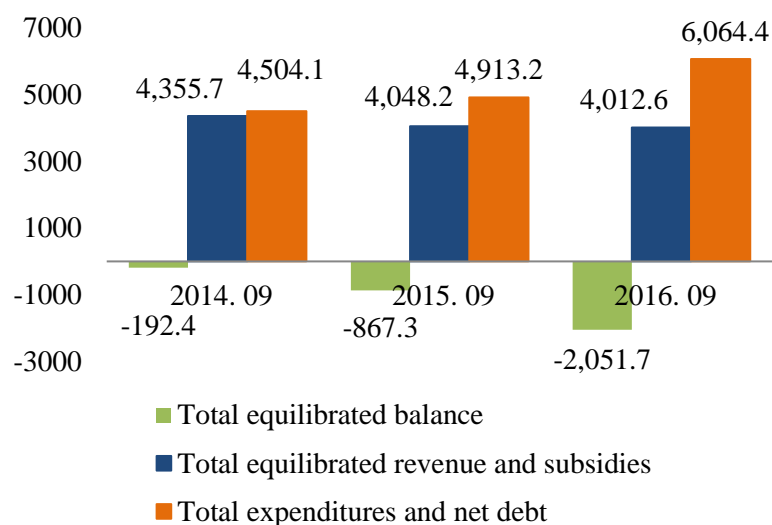
Industrial production index fell by 7.5 percent over the previous month due to 7.6 percent decrease of extractive industry production. In the mining and quarrying sectors the mining of products such as iron ore, molybdenum with concentrate, zinc with concentrate, copper with concentrate, coal and gold increased by 0.5-3.9 percent and in the manufacturing sector the production of products such as pure water, bakery products, milk, cigarettes, buuz and dumpling, alcoholic beverage, non-alcoholic beverages, printing plastic cards and metal sleeper increased by 0.7-1.5 percent over the same period of the previous year.

On the other hand, in the mining and quarrying sectors the mining products such as crude oil, flour spar concentrate, broken or crashed stone decreased by 4.4-39.0 percent and in the manufacturing sector production of major commodities such as beer, spirit, copper cathode, bread, cement, lime, wooden building door and windows, iron concrete, metal steel, vacuum windows and doors, metal foundries, steel casting fell by 0.7-65.6 percent over the same period of the previous year. Total sold products of industrial sector reached MNT 7,647.9 billion in the first nine months of 2016, of which MNT 4,670.8 billion or 61.1 percent was sold on foreign market.

Total state budget

At the end of reporting period, amount of total equilibrated budget revenue and subsidies stood at MNT 4,012.7 billion, while the amount of total expenditures and net debt stood at MNT 6,064.4 billion, thus bringing the total equilibrated budget balance at MNT 2,051.7 billion in deficit. The deficit of equilibrated balance of total budget rose by MNT 1,184.4 billion over the same period of the previous year, which is mainly due to the expenditure growth of 23.4 percent and revenue decline of 0.8 percent.

Graph 2. Total budget /in bn. MNT/



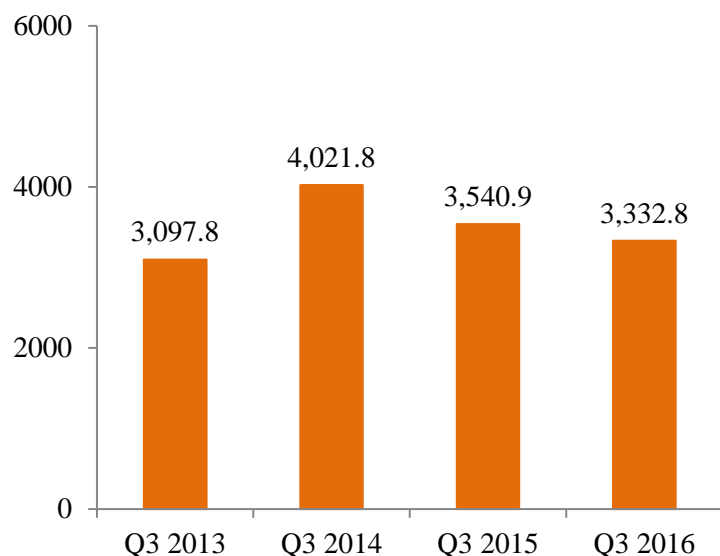
Foreign trade

In the first nine months of 2016, Mongolia conducted trade with 155 countries and total foreign trade turnover reached USD 5,780.8 million, of which export stood at USD 3,332.8 million and import stood at USD 2,448.0 million. Total trade turnover declined by USD 616.9 million or 9.6 percent to reach USD 5,780.8 million. Of which export and import decreased by USD 208.1 million or 5.9 percent and USD 408.8 million or 14.3 percent respectively, over the same period of the previous year. According to the September performance result, foreign trade balance experienced surplus of USD 884.8 million, showing an increase of USD 200.7 million over the same period of the previous year.

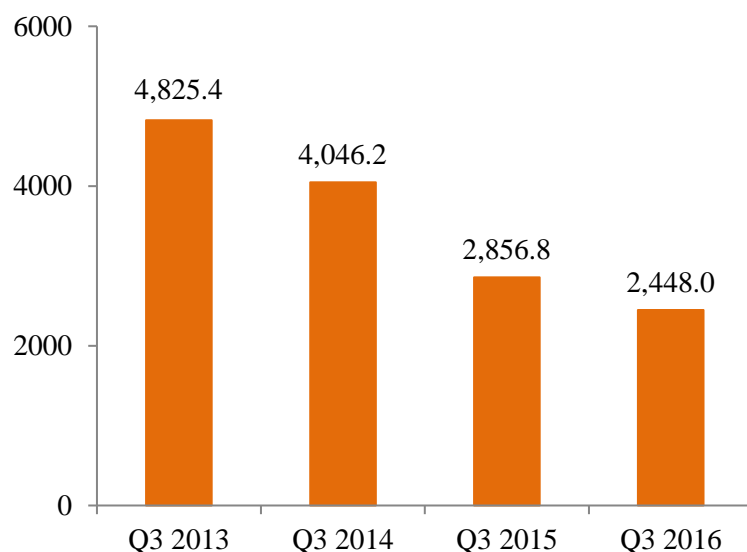
Table 2. Foreign trade /in mn. USD/

	Sep 2013	Sep 2014	Sep 2015	Sep 2016
Total turnover	7,923.3	8,068.1	6,397.9	5,780.8
Total balance	-1,727.6	-24.4	684.2	884.8

In the first nine months of 2016, export declined by 5.9 percent or USD 208.1 million over the same period of the previous year. If we examine export decline by main commodity groups, hike of industrial products export caused total export to rise by 2.6 percent, while decrease of mining products export caused the total export to decline by 7.7 percent. Furthermore, weight of mining products export in total export decreased by 2.7 percentage point, while weight of industrial products export rose by 3.0 percentage point over the same period of the previous year.

Graph 3. Export /in mn. USD/

In the first nine months of 2016, import declined by 14.3 percent or USD 408.8 million over the same period of the previous year. If we examine import decline by main commodity groups, decline of investment products caused total import to fall by 9 percent, while decrease of petroleum products caused the total import to decline by 6 percent. Weight of consumer goods in total import rose by 6 percentage point over the same period of the previous year, while the weight of petroleum products fell by 5 percentage point.

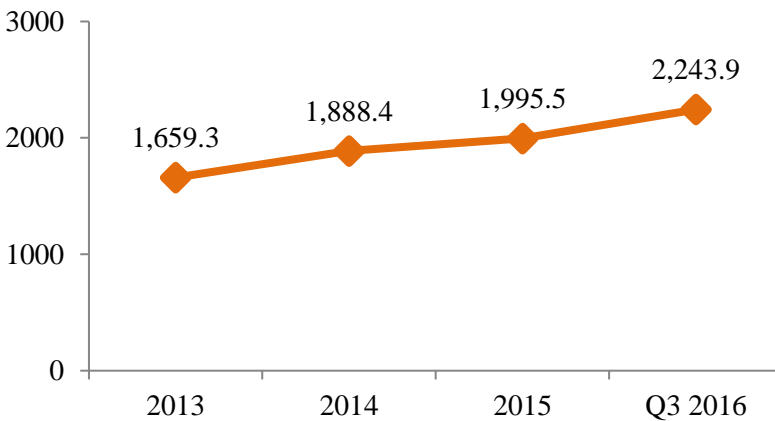
Graph 4. Import /in mn. USD/

Exchange rate

In September 2016, the nominal average MNT/USD exchange rate announced by Bank of Mongolia stood at MNT 2,243.98, which showed depreciation of MNT 250.19 or 12.5 percent

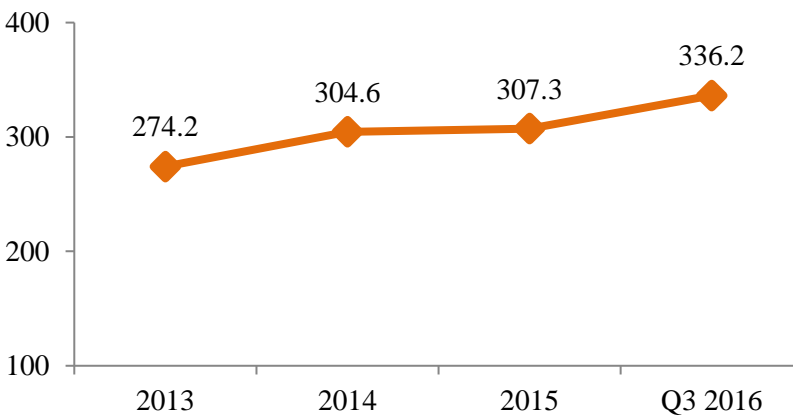
over same period of the previous year. The nominal average MNT/USD exchange rate depreciated by 7.7 percent and 2.5 percent in August 2016 and September 2016 respectively, over the previous months.

Graph 5. MNT/USD exchange rate /in MNT/



In the reporting month, the nominal average MNT/CNY exchange rate announced by Bank of Mongolia stood at MNT 336.29, showing the depreciation of MNT 23.24 or 7.4 percent over same period of the previous year. The nominal average MNT/CNY exchange rate depreciated by 8.1 percent and 2.2 percent in August 2016 and September 2016 respectively, over the previous months.

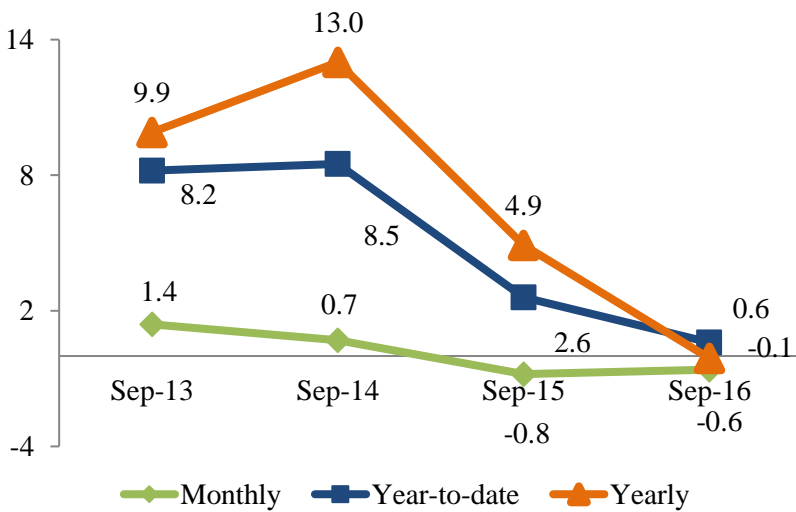
Graph 6. MNT/CNY exchange rate /in MNT/



Inflation

In September 2016, prices of consumer goods and service at national level decreased by 0.6 percent over previous month, declined by 0.1 percent over the same period of the previous year and rose by 0.6 percent since the end of 2015 respectively.

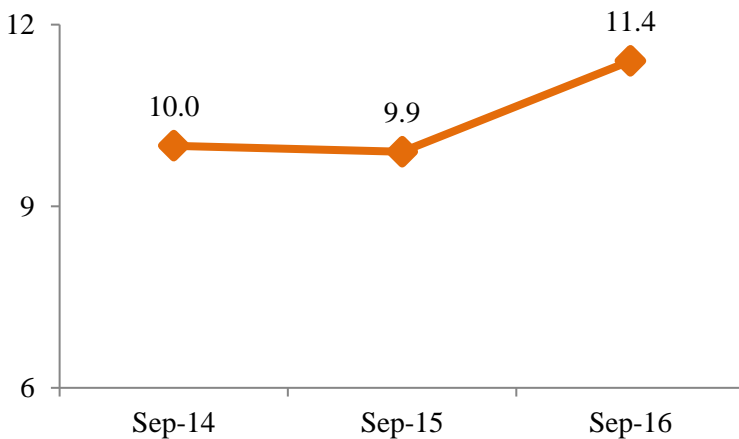
Graph 7. Inflation /in percent/



Money

Money supply (M2) reached MNT 11.4 trillion at the end of September 2016, demonstrating a MNT 184.9 billion or 1.6 percent increase over previous month and a 15.3 percent or MNT 1,515.4 billion hike over the same period of the previous year.

Graph 8. Money supply, M2 /in tn. MNT/

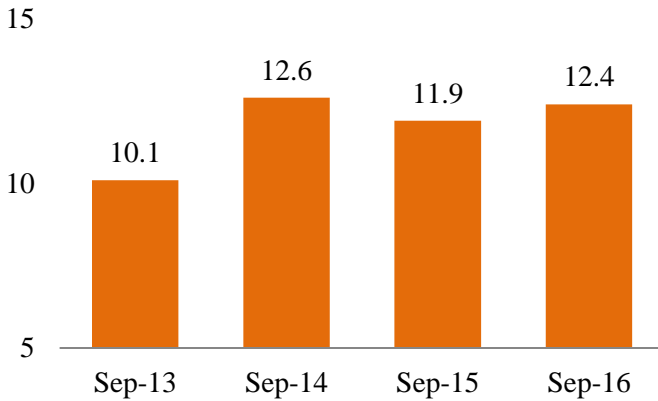


An MNT 184.8 billion increase of money supply in September 2016 was majorly due to MNT 306.2 billion hike in current account in foreign currency, deposits and current account in domestic currency, while money outside the banks and deposits in foreign currency declined by MNT 121.4 billion in total.

Loan

Total outstanding loans to enterprises and individuals reached MNT 12.4 trillion at the end of September 2016, indicating an increase of MNT 50.5 billion or 0.4 percent over the previous month and an increase of MNT 470.3 billion or 3.9 percent over the same period of the previous year.

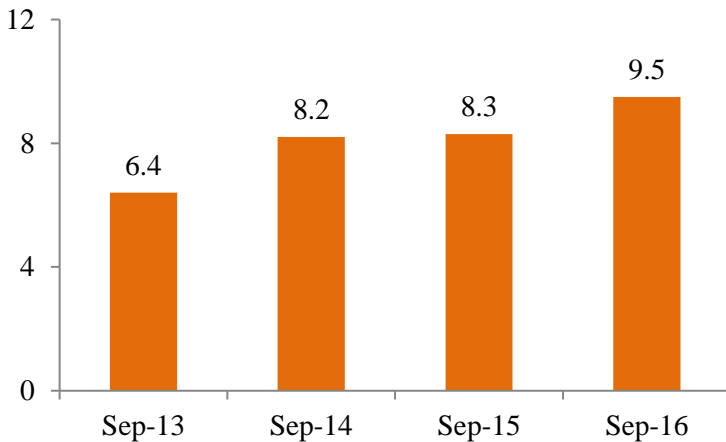
Graph 9. Total outstanding loan /in tn. MNT/



Deposits

Total deposits stood at MNT 9.5 trillion, of which deposits in domestic currency stood at MNT 5.7 trillion, deposits in foreign currency stood at MNT 2.4 trillion and current account in foreign currency stood at MNT 1.4 trillion, respectively.

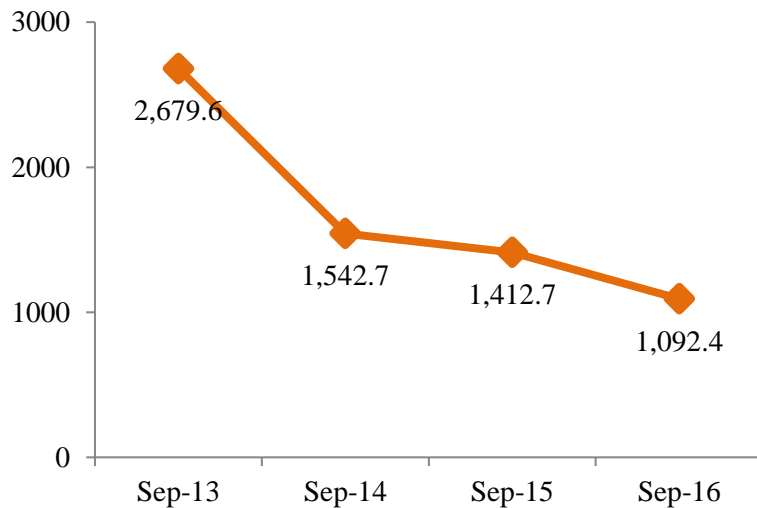
Graph 10. Total deposits /in tn. MNT/



Reserves

Net foreign reserves of Mongolia stood at USD 1,092.4 million in September 2016, demonstrating decrease of 4.34 percent over previous month, 22.68 percent over the same period of the previous year and 17.44 percent from the beginning of the year, respectively.

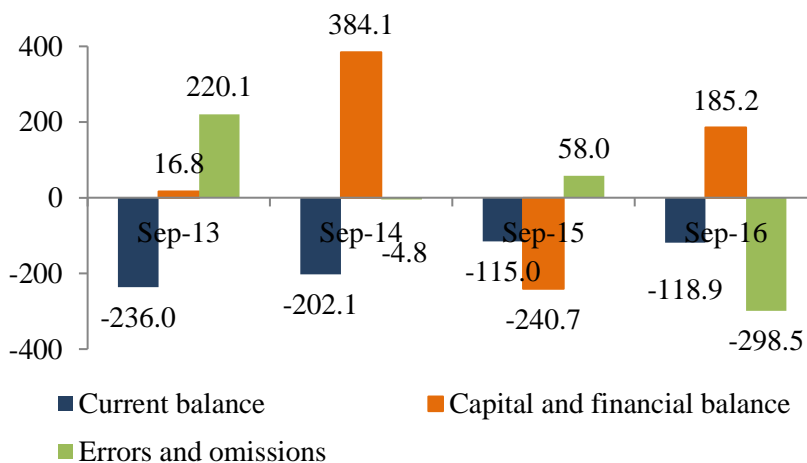
Graph 11. Total foreign currency reserves /in mn. USD/



Payment balance

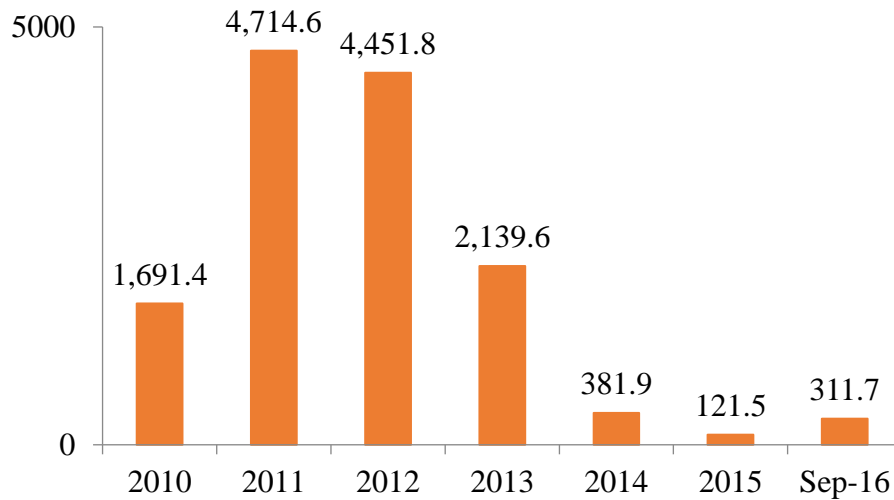
According to the September performance result, payment balance experienced a deficit of USD -232.1 million, demonstrating a deficit increase of USD 42.9 million over the previous month. The current balance of payment balance was in deficit of USD -118.9 million, a deficit increasing by USD 87.4 million over the previous month. Capital and financial account was in surplus of USD 185.2 million, showing a decline of USD 10.0 million over the previous month. Reserves and related items stood at USD 232.1 million.

Graph 12. Payment balance /in mn. USD/



In September 2016, direct investment stood at USD -4,280.1 million, of which direct investment in Mongolia reached USD -4,276.2 million. As a composition, equity capital and other capital stood at USD -130.8 million and USD -3,897.6 million, respectively. On the other hand, reinvested capital decreased to reach USD -247.7 million in September 2016.

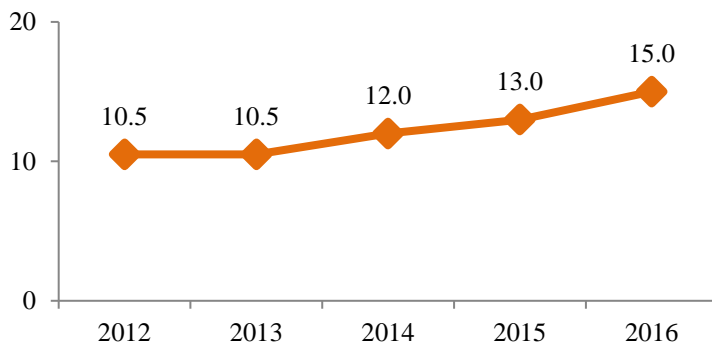
Graph 13. FDI in Mongolia /in mn. USD/



Monetary policy rate

In the reporting month, interest rate of loans in domestic currency issued by banks rose by 1.4 percentage points over the same period of previous year, reaching 20.1 percent. Weighted average interest rate of outstanding loans rose by 0.3 percentage point over the same period of the previous year to reach 18.4 percent. Weighted average interest rate of deposits stood stable at 13.2 percent in September 2016. Weighted average interest rate of Central Bank bills increased by 2.9 percentage points over the same period of the previous year and by 3.6 percentage points over the previous month, reaching 15.95 percent. Interbank interest rate rose by 2.8 percentage point over the same period of the previous year and by 2.2 percent over the same period of the previous month to reach 15.9 percent in September 2016.

Graph 14. Monetary policy rate /in percent/



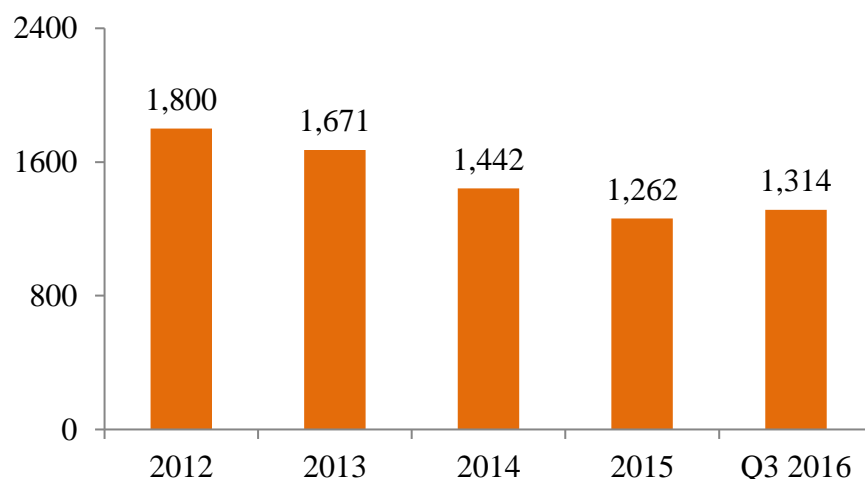
2. Capital Market Performance Of Mongolia /Q3/

Table 3. Main indicators of capital market

Market Capitalization	MNT 1,314.0 bn
Listed Companies	236
Listed companies that have filed their financials with MSE	All of them
Listed companies that have announced 2015 dividends	27
Average amount of trading in one day in 2015	MNT 2.7 bn
Number of Compliant brokers	58

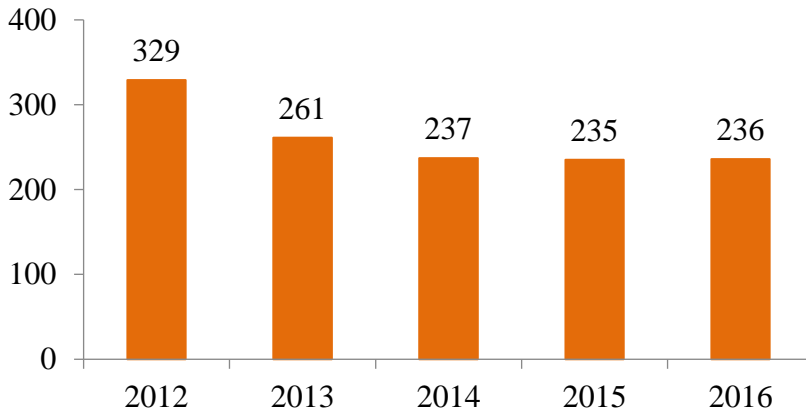
Market capitalization of capital market rose by MNT 52 billion since the end of 2015 to reach MNT 1,314.0 billion in Q3 2016. This increase was mainly due to new IPO issuance and increase of some share prices.

Graph 15. Market capitalization /in bn. MNT/



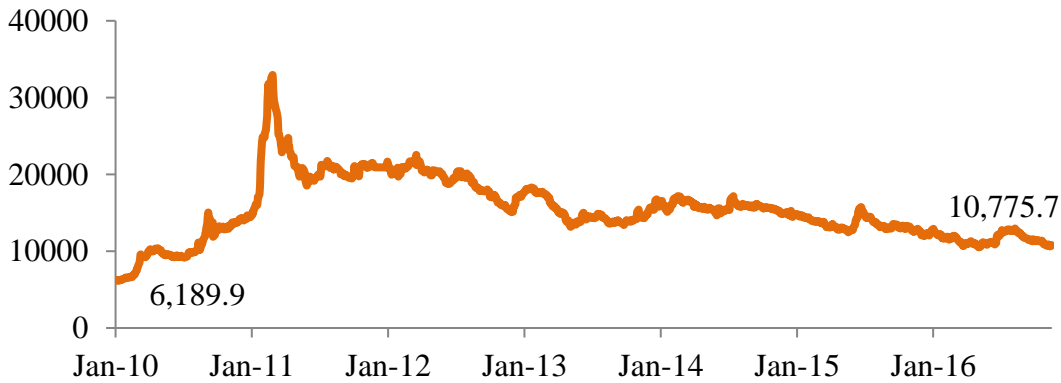
Number of joint stock companies listed on Mongolian Stock Exchange remained stable during previous years and it reached 236 in Q2 2016.

Graph 16. Number of JSCs

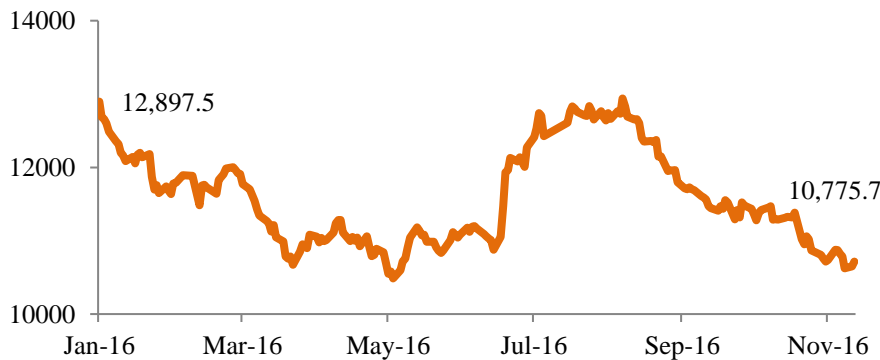


TOP-20 has been continuously decreasing since 2011 and it reached 10,485.7 unit in May 2016, which was the lowest since 2010. This decrease was followed by 17.06 percent increase in June to reach 12,274.1 unit in Q2 2016. However, TOP-20 index started declining once again in Q3 2016 after reaching its peak 12,939.5 in August.

Graph 17. TOP-20 Index in previous years

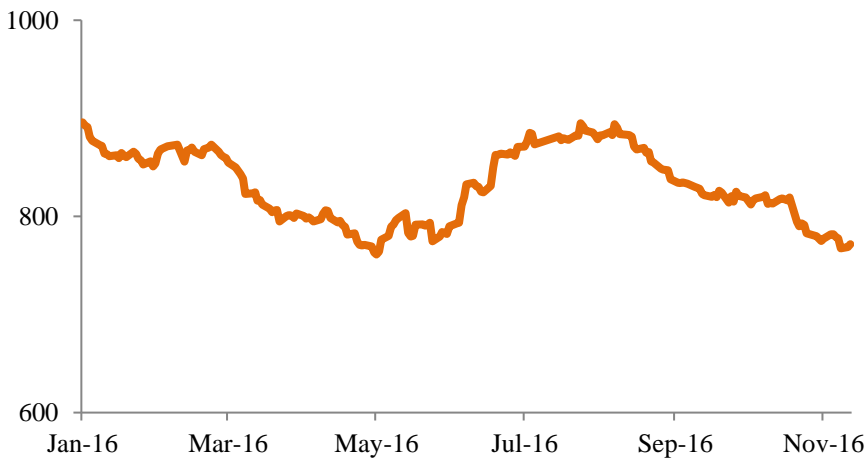


Graph 18. TOP-20 Index since the beginning of the year



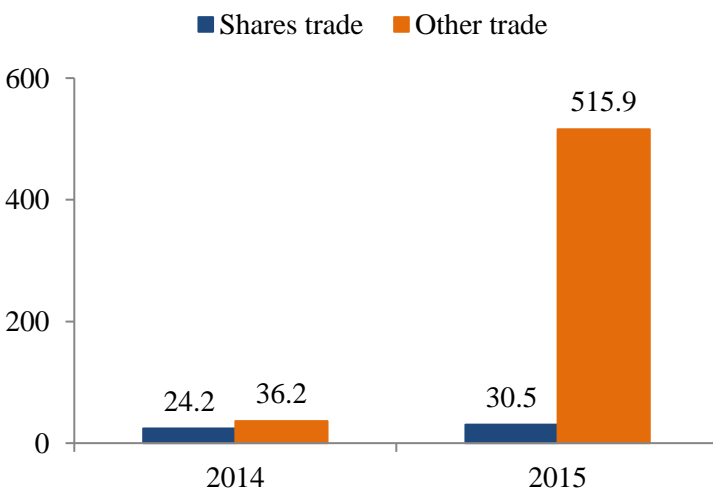
MSE All index experienced an increase to reach a peak of 894.94 in July 2016. However, at the end of Q3 2016, it decreased by 75.49 unit, reaching 819.94 unit.

Graph 19. MSE All Index since the beginning of the year



In 2015, 35.8 million shares of 125 joint stock companies were traded with MNT 30.5 billion, while 5.4 million Government securities were traded with MNT 510.3 billion. In addition, MNT 0.5 billion worth bonds were traded and MNT 5.1 billion worth Government bonds were traded on the secondary market.

Graph 20. Trade structure in 2015 /in bn. MNT/



If we examine the trade structure, 94.4 percent or majority of it consisted of trade of other securities while remaining 5.6 percent consisted of shares trade.

Graph 20. Trade structure in 2015 /in percent/

