

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

Since the beginning of 2017, the Mongolian economy started to show the signs of recovery.

Mongolia's economy grew by 5.8% in Q3 2017, recovering strongly from the 1.2% growth rate recorded in 2016. The main drivers of the growth are the substantial export increase of mineral resources such as coal, copper due to hike up of commodities prices on international market, and the approval of the Extended Fund Facility program with the International Monetary Fund in May, which has helped to restore the business confidence.

\$5.5 billion bailout approved by the International Monetary Fund (IMF) this year has also helped to bring positive market sentiments.

The Government of Mongolia has managed to restructure its bonds on international capital market with an interest rate two times lower than last year.

The Bank of Mongolia has extended its CNY 15 billion swap agreement with the People's Bank of China for three years and it prevents Mongolia from risk concerning to external debt repayments until 2021.

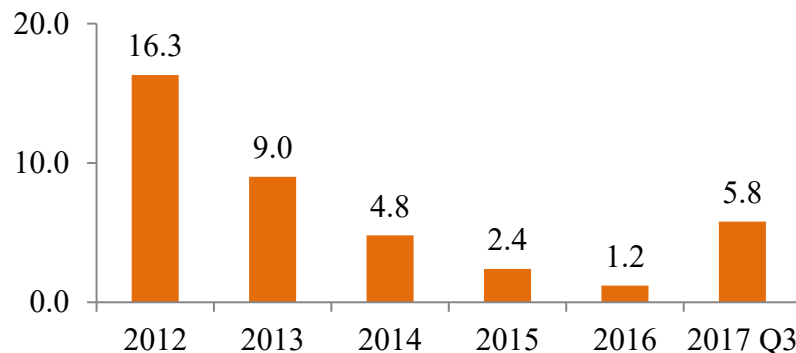
Mongolia's tremendous mineral reserves, agricultural endowments, and proximity to the vast Asia market continue to make it an attractive foreign direct investment (FDI) destination in the medium to long term. / Source: 2017 Investment climate statement US Department /

GDP

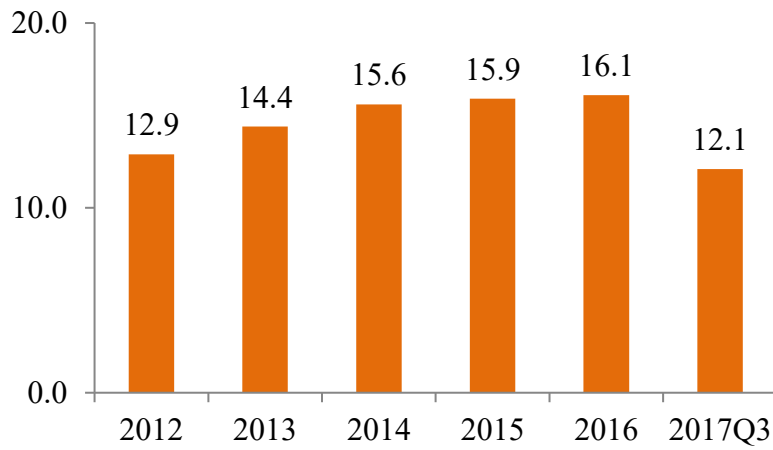
According to the preliminary performance result of the third quarter 2017, GDP at 2010 constant price reached MNT 12.1 trillion, demonstrating an increase of MNT 0.7 trillion or 6.1 percent over the same period of the previous year.

In Q3 2017, GDP at nominal price stood at MNT 19.9 trillion, increasing by MNT 2.7 trillion or 15.7 percent over the same period of the previous year.

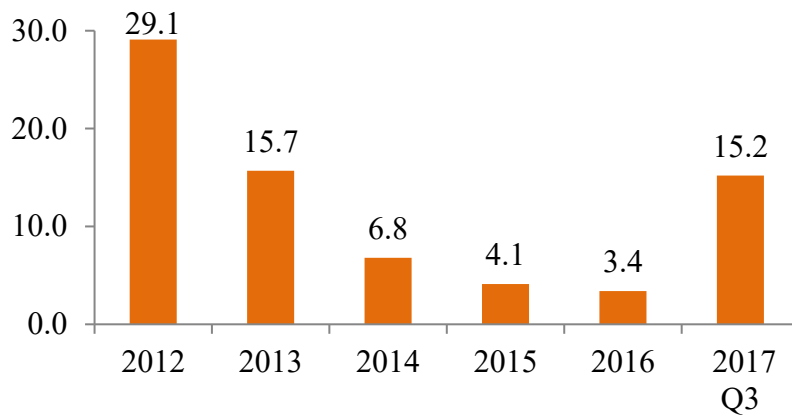
Graph1. Q3 GDP, at 2010 constant price /in percent/



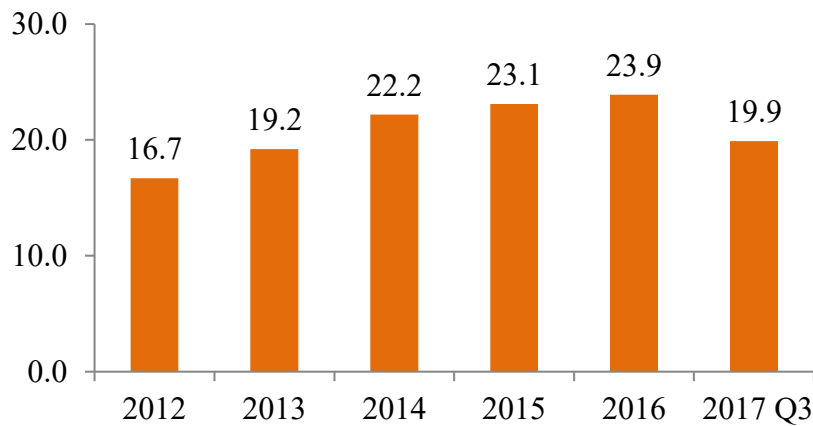
Graph2. Q3 GDP, at 2010 constant price /in trillion MNT/



Graph3. Q3 GDP, at nominal price /in percent/



Graph4. Q3 GDP, at nominal price /in trillion MNT/



Industrial production

In September 2017, total production of industrial sector reached MNT 9.4 trillion increasing by MNT 2.6 trillion or 37.4 percent over the same period of previous year. This was mainly driven by the mining and extractive sector production which increased by MNT 2.1 trillion or 43.5 percent, while manufacturing sector rose by MNT 441.9 billion or 30.9 percent, electricity, heating and water supply by MNT 32.0 billion or 5.2 percent respectively.

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

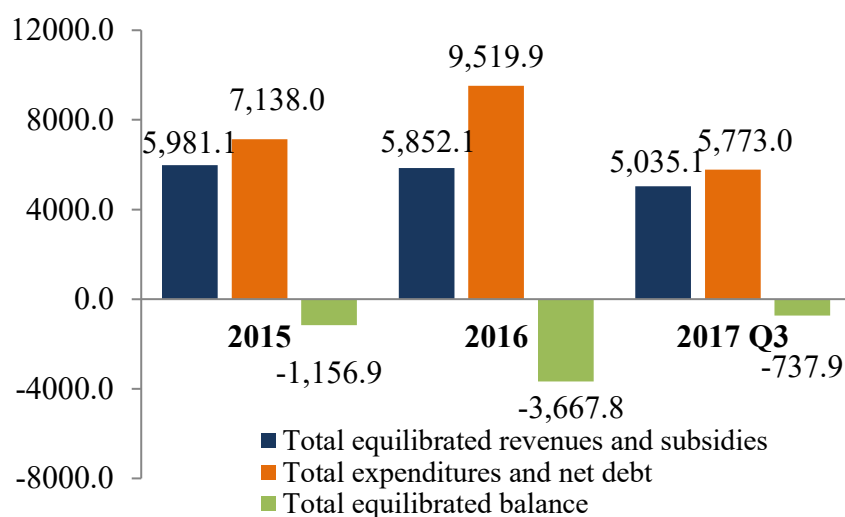
| | 2016 I-IX | 2017 I-IX | Δ | $\frac{2017 \text{ I-IX}}{2016 \text{ I-IX}}$ |
|--|-----------|-----------|---------|---|
| Total production of industrial sector /at current price/ | 6.847.0 | 9.409.1 | 2.562.1 | 137.4% |
| Mining and extractive sector | 4.798.1 | 6.886.3 | 2.088.2 | 143.5% |
| Manufacturing sector | 1.432.2 | 1.874.1 | 441.9 | 130.9% |
| Electricity, heating and, water supply | 616.6 | 648.6 | 32.0 | 105.2% |

Mining production reached MNT 6,886.3 billion in the first nine months of 2017, increasing by MNT 2,088.2 billion or 43.5 percent over the same period of the previous year. Coal mining grew the most by MNT 1,101.9 billion or by 148.2 percent while oil extraction increased by MNT 107.6 billion or by 33.9 percent, iron ore mining by MNT 802.6 billion or by 23.0 percent and, other minerals mining increased by MNT 13.2 billion or by 24.2 percent respectively. If we examine the composition of mining sector by sub-sectors, the weight of coal extraction has increased from 15.5 percent to 26.8 percent, while the weight of crude oil has decreased from 10.5 percent to 9.8 percent, the weight of iron ore from 72.9 percent to 62.4 percent over the same period of previous year.

Total general budget

In the reporting month, the total equilibrated revenue and subsidies of general budget stood at MNT 5,035.1 billion, whereas the expenditure and net debt stood at MNT 5,773.0 billion, thus bringing the equilibrated balance of general budget at MNT 737.9 billion in deficit which equals to 30.8 percent of planned amount or shrinking the deficit plan by MNT 1,655.6 billion.

Graph 5. Total budget /in bn. MNT/



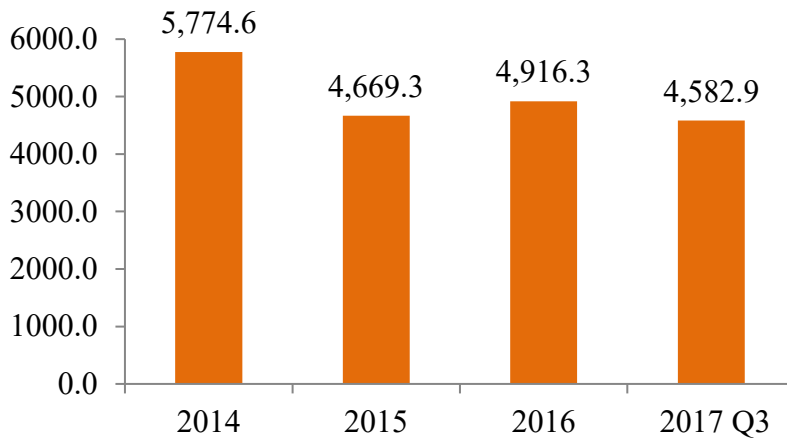
Foreign trade

In first nine months of 2017, the total trade turnover reached USD 7,713.6 million, increasing by USD 1,933.2 million or 33.5 percent over the same period of the previous year. The export turnover stood at USD 4,582.9 million, whereas the import turnover reached USD 3,130.8 million. The foreign trade balance has a surplus of USD 1,452.1 million.

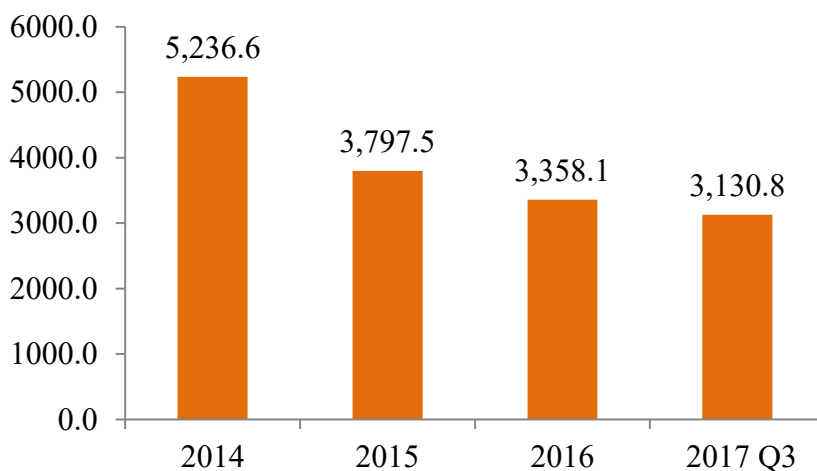
Table 2. Foreign trade /in mn. USD/

| | 2014 | 2015 | 2016 | 2017Q3 |
|----------------|----------|---------|---------|---------|
| Total turnover | 11,011.2 | 8,466.8 | 8,274.5 | 7,713.6 |
| Total balance | 537.9 | 871.8 | 1,558.2 | 1,452.1 |

Export increased by USD 1,250.5 million or 37.5 percent over the same period of the previous year as the growth of mining products export contributed 37.1 percentage points to this increase. The weight of mining products in total export increased by 4.0 percentage points, while manufacturing goods decreased by 3.0 percentage points YOY. Mongolia has exported goods to 62 countries of which 86.2% was with China, 9.9% with UK, 1.0% with Russia making up 97.1% of total export.

Graph 6. Export /in mn. USD/

Total import increased by USD 683.0 million or 27.9% over the same period of the previous year reaching USD 3,130.8 million. The growth of capital goods contributed 15 percentage points, growth of petroleum products 10 percentage points, and growth of consumer goods 3 percentage points respectively. The weight of consumer goods in total import decreased by 5 percentage points over the same period of the previous year, while the weight of petroleum products increased by 4 percentage points. Mongolia has imported goods originating from 152 different countries including the Russian Federation (28.8 %), China (32.0 %), the USA (4.8%), Japan (9.0%), Republic of Korea (4.7 %), and Federal Republic of Germany (2.9%), making up 82.0 percent of total import.

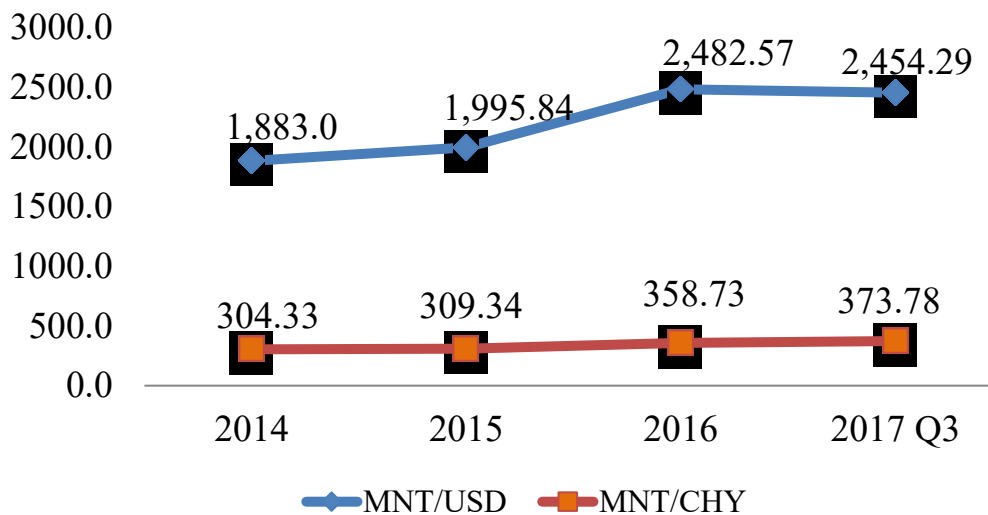
Graph 7 Import /in mn. USD/

Exchange rate

The nominal average MNT/USD exchange rate in September 2017 stood at MNT 2454.29 depreciating by MNT 210.3 or 9.4 percent over the same period of the previous year, and by 0.4 percent over the previous month.

The nominal average MNT/CHY exchange rate in September 2017 stood at MNT 373.78 depreciating by MNT 37.5 or 11.1 percent over the same period of the last year, and by 2.0 percent over the previous month.

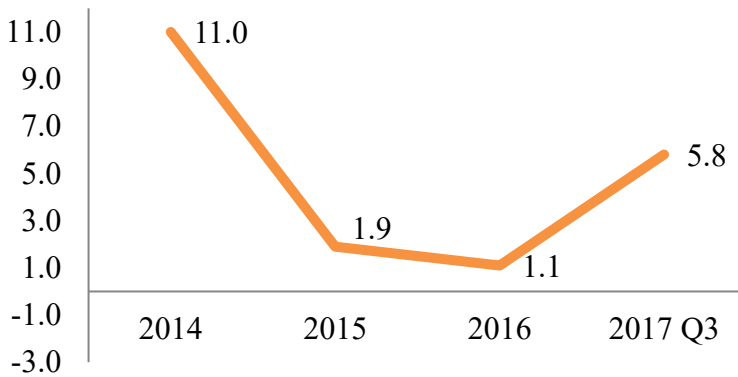
Graph 8 MNT/USD & MNT/CHY exchange rate /in MNT/



Inflation

At the end of September 2017, consumer goods and services indices rose by 0.2 percent nationwide over the previous month, by 5.3 percent since the beginning of the year and by 5.8 percent over the same period of the previous year, respectively. In September 2017, consumer goods and services indices increased by 5.8 percent over the same period of the previous year, which was mainly due to 10.4 percent increase of transportation, 7.5 percent increase of food and beverages including 31.2 percent of increase potatoes and vegetables, 12.7 percent of increase non-alcoholic beverages, 11.2 percent increase of dairy products and eggs, 7.4 percent of increase housing, electricity and heating including 8.4 percent of increase electricity, heating and other fuels, 5.5 percent of increase educational services including 32.1 percent of increase secondary educational services and 3.5 percent increase of clothing, textile and shoes respectively.

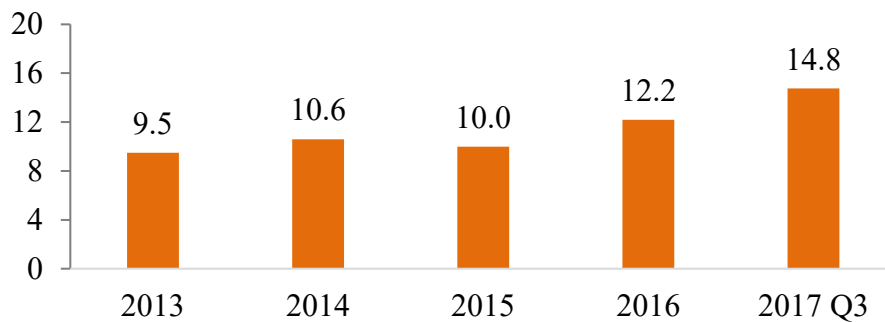
Graph 9. Inflation YOY /in percent/



Money

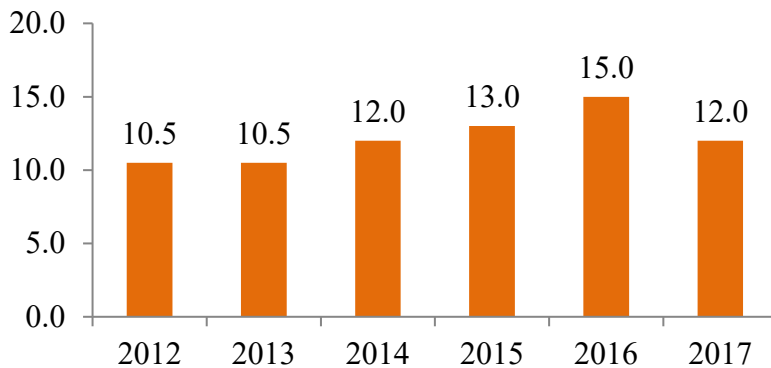
In September 2017, the money supply reached MNT 14.8 trillion, increasing by 1.5 percent over the previous month, and by 27.6 percent over the same period of the previous year. The growth of money supply was majorly due to growth of deposits in foreign currency. 51.4 percent of M2 comprises from savings in DC, 16.6 percent from savings in foreign currency, and 14.6 percent from current accounts in DC and, 12.9 percent from current accounts in FC, respectively.

Graph 10. Money supply, M2 /in tn. MNT/



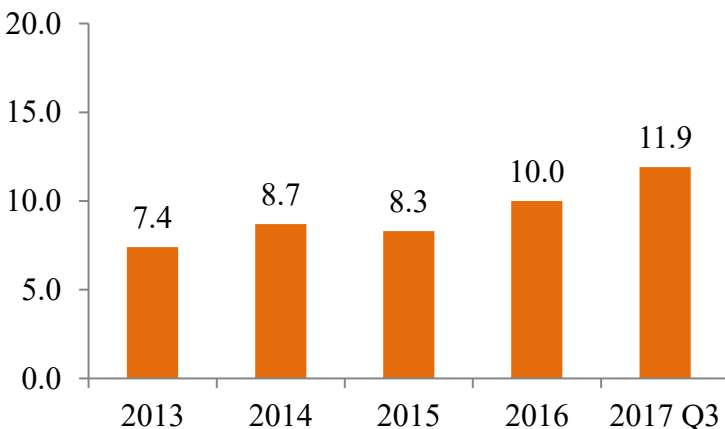
Monetary policy rate

In September 2017, WAIR on savings denominated in domestic currency was 13.0 percent, increasing by 0.5 percentage points over the last month. WAIR on loans granted in September decreased by 0.2 percentage points from the previous month reaching 19.9 percent. Interbank rate decreased by 0.1 percentage point to from previous month level to 12.1 percent.

Graph 11. Monetary policy rate /in percent/

Deposits

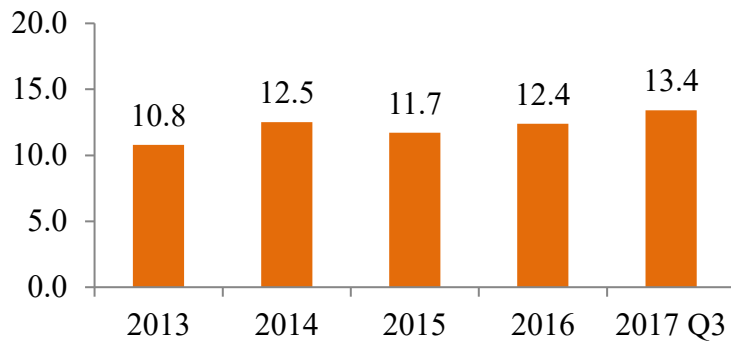
When compare the reporting month to the previous month, current account in DC increased by MNT 60.4 billion or by 2.8 percent, and by MNT 792.3 billion or by 50.1 percent over the same period of the previous year. On the other hand, deposits in DC fell by MNT 43.9 billion or 0.6 percent from the last month and rose by MNT 1,759.6 billion or by 31.0 percent over the same period of the previous year. The outstanding amount of deposits in foreign currency rose by MNT 186.7 billion or by 7.7 percent from the previous month and by MNT 161.8 billion or by 6.6 percent over the same period of the last year, while the outstanding amount of current accounts in foreign currency increased by MNT 39.2 billion or 2.1percent from the previous month and by MNT 492.6 billion or by 34.5 percent over the same period of the previous year, respectively.

Graph 12. Total deposits /in tn. MNT/

Loan

Total outstanding loans to enterprises, individuals has reached MNT 13.4 trillion in September 2017, posting an increase of MNT 156.5 billion or 1.2 percent over previous month, and an increase of MNT 930.6 billion or 7.4 percent over the same period of previous year.

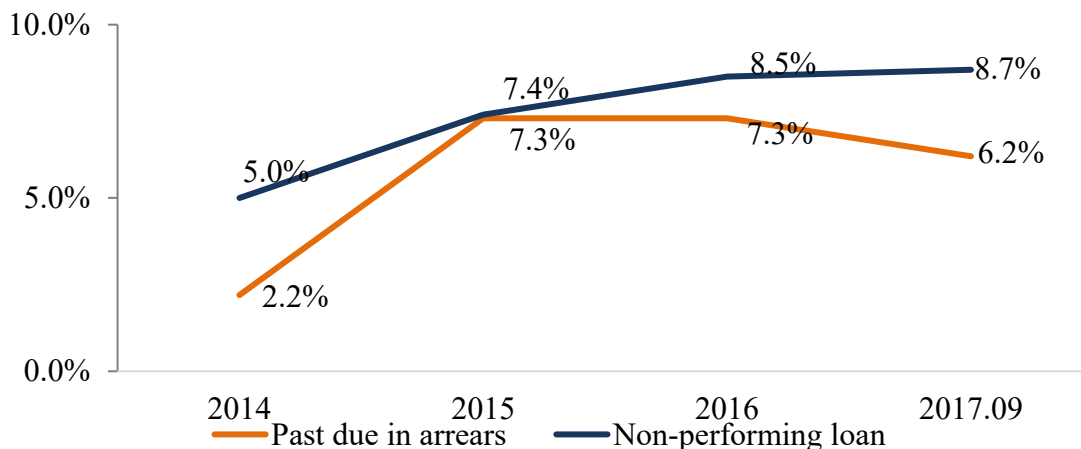
Graph 13. Total outstanding loan /in tn. MNT/



In the reporting month, the outstanding part due arrears reached MNT 827.0 billion decreasing by MNT 112.1 billion or 11.9 percent over the previous month, and by MNT 37.9 billion or 4.8 percent over the same period of previous year. The weight of past due arrears in total outstanding loans is 6.2 percent decreasing by 0.9 percentage point over the past month, and by 0.1 percentage point over the same period of previous year.

The non-performing loans reached MNT 1.2 trillion decreasing by MNT 1.7 billion or 0.1 percent over the past month, and by MNT 50.2 billion or 4.5 percent over the same period of previous year. Non-performing loans weight stood at 8.7 percent of the total outstanding loans, decreasing by 0.1 percentage point over the previous month and by 0.3 percentage points over the same period of previous year.

Graph 14. Weight in total outstanding loan of past due in arrears and non-performing loan /in percent/

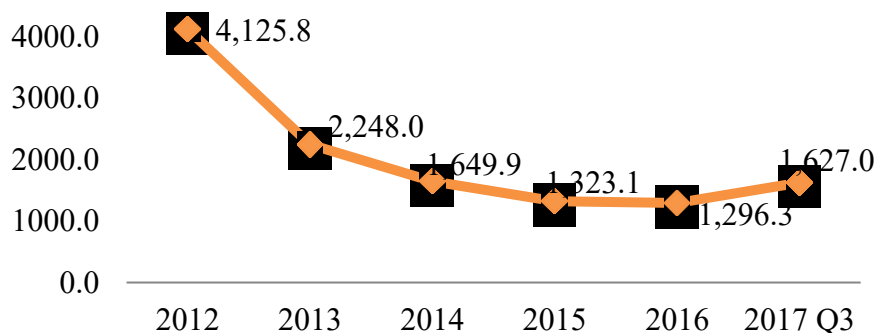


Reserves

Net foreign reserve of Mongolia has reached USD 1,627.0 million in September 2017, demonstrating an increase of 1.74 percent over the previous month, 25.51 percent increase from the beginning of the year, and 48.94 percent from the same period of previous year. The increase

in net foreign reserve is due to increased export of the country and increased purchase of gold by Bank of Mongolia to build up foreign reserve.

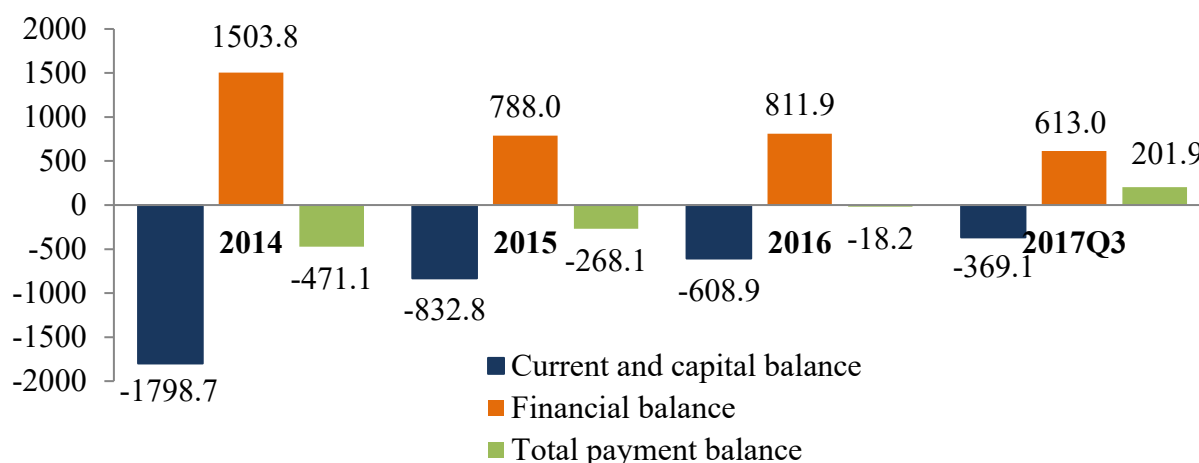
Graph 15. Total foreign currency reserves /in mn. USD/



Payment balance

As of September 2017, the balance of payments aggregated a surplus of USD 201.9 million. Current and capital account balance have experienced a deficit of USD 369.1 million, which USD 277.0 million decrease of deficit or by 43 percent over the same period of the previous year. The change was mainly driven by a decrease in deficit of goods and services account by USD 655.2 million, making a surplus of USD 411.0 million. Financial account balance totaled to a surplus of USD 613.0 million. In the first nine months of 2016, Mongolia had a net borrowing of USD 658.7 million from other countries, while this year the amount totaled to USD 613.0 million. Thus, the net external financing is decreased by USD 45.7 million.

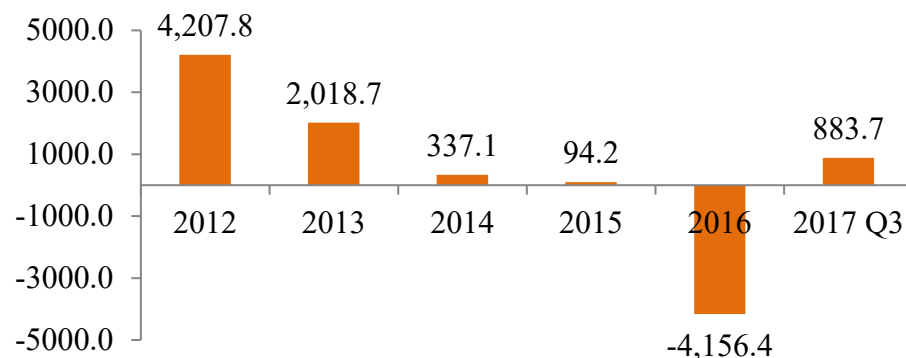
Graph 16. Payment balance /in mn. USD/



In September 2017, direct investment reached USD 866.4 million, of which FDI into Mongolia stood at USD 883.7 million. Equity capital reached USD 273.6 million while other capital

reached USD 518.0 million. In the reporting month income worth of USD 92.2 million was reinvested.

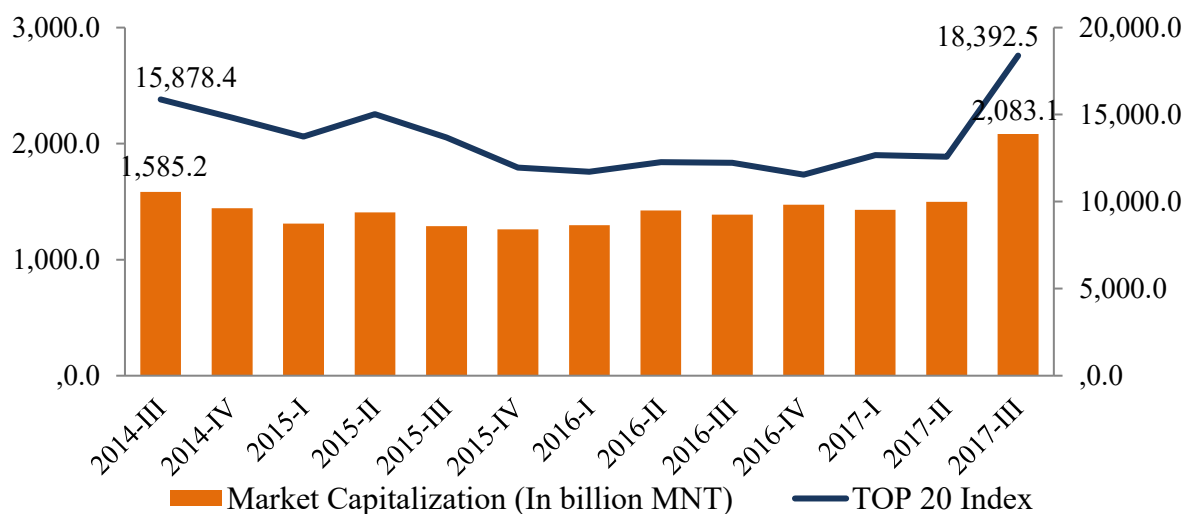
Graph 17. FDI in Mongolia /in mn. USD/



2. Capital Market Performance Of Mongolia /Q3, 2017/

As the economy recovers, the Mongolia Stock Exchange Top 20 Index, which had been posting negative returns since 2012, has soared 66.7 percent since the start of the year, the highest level since March 2012. Total capitalization of the market, meanwhile, for the first time surpassed the MNT 2.0 trillion (USD 812.35 million) in Q3 2017, increasing by more than 40 percent over last year.

Graph 18. Top 20 index and Market capitalization /in bn. MNT/



New Products

Suu Bond

Suu JSC, the largest dairy factory has issued the largest corporate fixed income since 2011.

“Itools ” JSC IPO

IT company operating in software development and information technology sector, raising fund for development of the modular data center park. Its IPO oversubscribed 3 times.

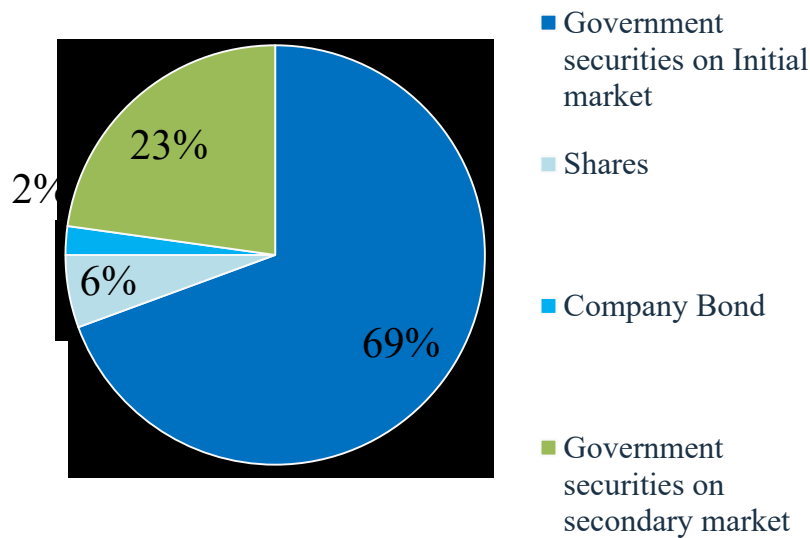
“AND Energy” JSC IPO

The company is operating in electricity sector. IPO proceed will be used for the extension of factory. It is the first IPO on Mongolian Securities Exchange, which has newly established in 2016. This IPO was also 2 times over subscription.

Trade structure of MSE

If we examine the trade structure, 69.0 percent or majority of it consisted of trade of Government securities on secondary market, while those on initial market remaining 23.0 percent. On the other hand 6.0 percent consisted of shares trade and remaining was company bond trade.

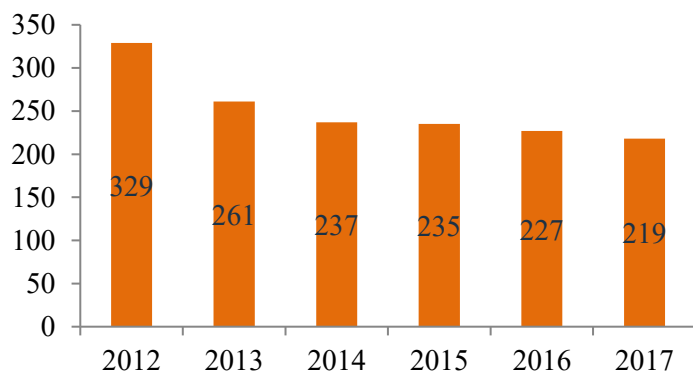
Graph 19. Trade structure in Q3 2017 /in percent/



Number of listed companies

Number of listed companies on Mongolian Stock Exchange reached 219 in Q3 2017.

Graph 20. Number of JSCs



What is the forecast?

ADB forecasts continued growth for Mongolia’s economy at 4% and 3% in 2017 and 2018, respectively, compared to the 2.5% and 2% previously projected.

The World Bank projected to further improve modestly to 3.1 percent in 2018 from about 2.8 percent in 2017 compared to -0.2 percent initially projected, and to accelerate to over 7 percent in 2019 and beyond.

The EBRD has raised its growth forecast for Mongolia by 1.2 percentage points (pp) in 2017 and 0.2 percent in 2018. In May 2017, it had forecasted 1.4 percent growth for 2017 and 2.8 percent for 2018. This means their revised forecast now states Mongolia’s real GDP is expected to grow by 2.6 percent in 2017 and 3.0 percent in 2018.

Table 3. Mongolian Economic growth forecasts of International Institutions /in percent/

| | In May 2017 | | In September 2017 | |
|----------------|-------------|------|-------------------|------|
| | 2017 | 2018 | 2017 | 2018 |
| ADB | 2.5 | 2.0 | 4.0 | 3.0 |
| The World Bank | -0.2 | 1.8 | 2.8 | 3.1 |
| EBRD | 1.4 | 2.8 | 2.6 | 3.0 |
| IMF | -0.2 | 1.8 | 3.3 | |

- ❖ In 2008-2009 Mongolia had implemented 18-month Stand-By Arrangement with IMF. And at that time, mineral prices surged on global market thus bringing impressive growth of economy of 17% in a short time.
- ❖ This time, we are going through the same experience.
- ❖ At the breaking point – if Mongolia is expected to break out of years of slump and enter a fresh phase of expansion in business cycle.
- ❖ It might be the best timing to invest.