

Association of securities and dealers of Mongolia

Country report for Mongolia

2019 Q3

Contents

MARKET AND ECONOMY REPORT OF MONGOLIA.....	2
Economic performance of Mongolia (Q3).....	2
GDP.....	2
Total state budget.....	3
Foreign trade.....	3
Exchange rate.....	4
Inflation.....	5
Money Supply.....	6
Loan.....	7
Deposits.....	8
Reserves.....	8
Foreign direct investment.....	9
Capital Market Performance of Mongolia (2019 Q3).....	9
2019 at a glance:.....	9
Main indicators of capital market:.....	10
TOP-20 Index.....	11
Trade Structure.....	11
Graph 1 GDP Growth rate /in bn. MNT/.....	2
Graph 2 Total budget /in bn. MNT/.....	3
Graph 3 Foreign trade /in mn. USD/.....	4
Graph 4 MNT/USD exchange rate /in MNT/.....	5
Graph 5 MNT/CNY exchange rate /in MNT/.....	5
Graph 6 Inflation YOY /in percent/.....	6
Graph 7 Money supply, M2 /in tn. MNT/.....	6
Graph 8 Monetary policy rate /in percent/.....	7
Graph 9 Total outstanding loan /in tn. MNT/.....	7
Graph 10 Total deposits /in tn. MNT/.....	8
Graph 11 Total foreign currency reserves /in mn. USD/.....	8
Graph 12 FDI in Mongolia /in mn. USD/.....	9
Graph 13 Market capitalization /in bn. MNT/.....	10
Graph 14 TOP-20 Index.....	11
Graph 15 Trade structure in 2019 Q3 /in percentages/.....	11

MARKET AND ECONOMY REPORT OF MONGOLIA

Economic performance of Mongolia (Q3)

Mongolia urgently needs to restore macroeconomic stability to ensure social stability, and to develop in the longer term a more resilient and diversified economy that can consistently deliver rapid, inclusive, and sustainable growth.

Substantial improvements in the fiscal balance contributed to the sharp reduction in government debt in 2017-18. Growth outlook remains positive in 2019 and beyond, mainly driven by private consumption, and mining sector investment. Despite a positive outlook, prudent economic management should continue. Risks to the outlook include political uncertainty, commodity price shocks, implementation delay of mega projects, and slower implementation of banking sector reforms.

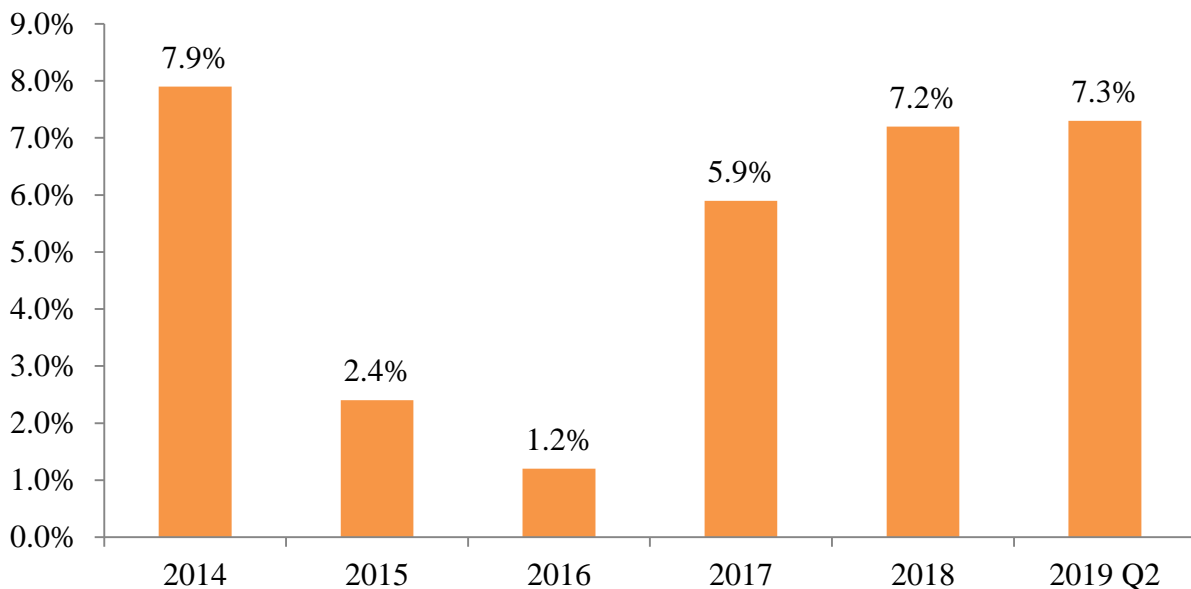
GDP

The economy grew by 7.3 percent in the first half of 2019 and 7.2 percent in 2018, compared to 1.2 percent in 2016. Growth has been driven primarily by robust private consumption, strong foreign direct investment (FDI) inflows, and a revival in mineral exports.

According to the preliminary performance result of the half year 2019, GDP at 2010 constant price reached MNT 8.6 trillion, demonstrating an increase of MNT 0.5 trillion over the same period of the previous year.

In Q2 2019, GDP at nominal price stood at MNT 17.7 trillion, increasing by MNT 2.3 trillion or 15.3 percent over the same period of the previous year.

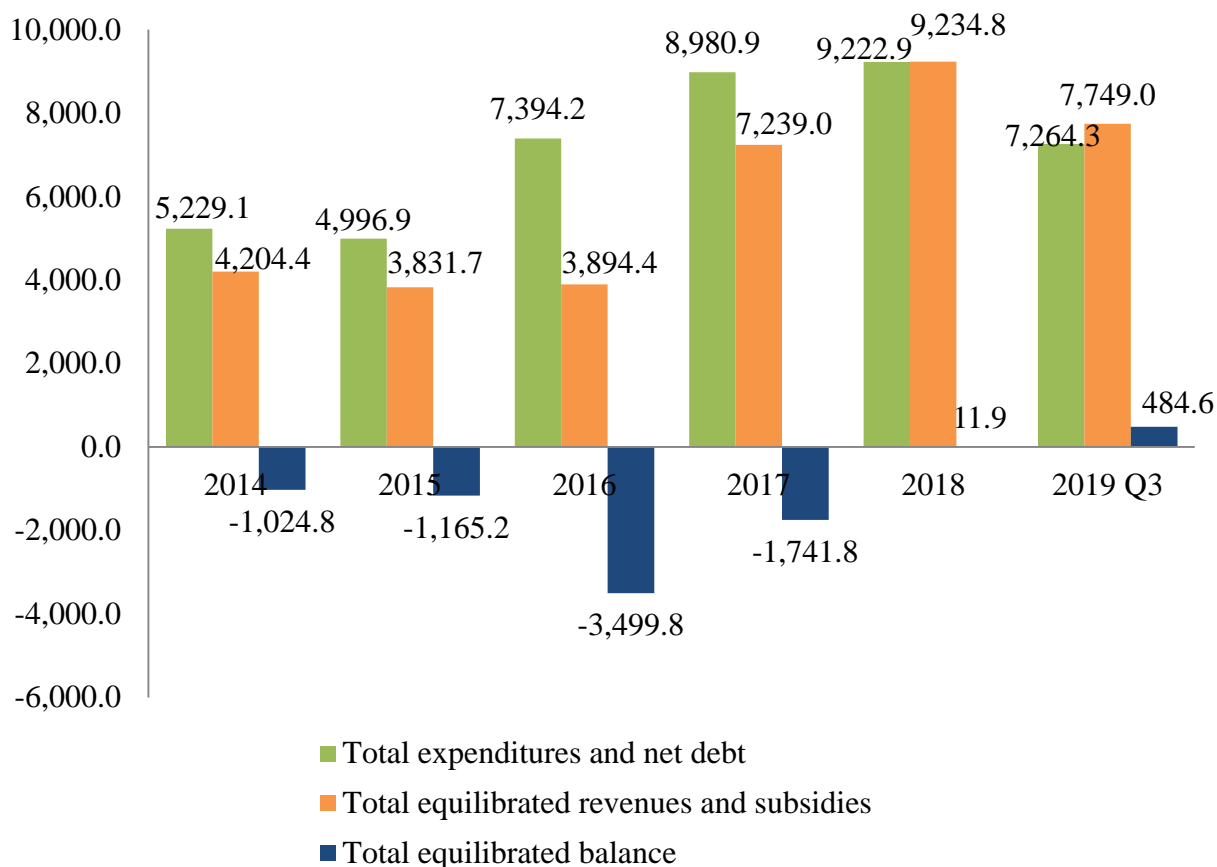
Graph 1 GDP Growth rate /in bn. MNT/



Total state budget

At the end of the reporting period, amount of total equilibrated budget revenue and subsidies stood at MNT 7,749.0 billion, while the amount of total expenditures and net debt stood at MNT 7,264.3 billion, thus bringing the total equilibrated budget balance at MNT 484.6 billion in surplus.

Graph 2 Total budget /in bn. MNT/

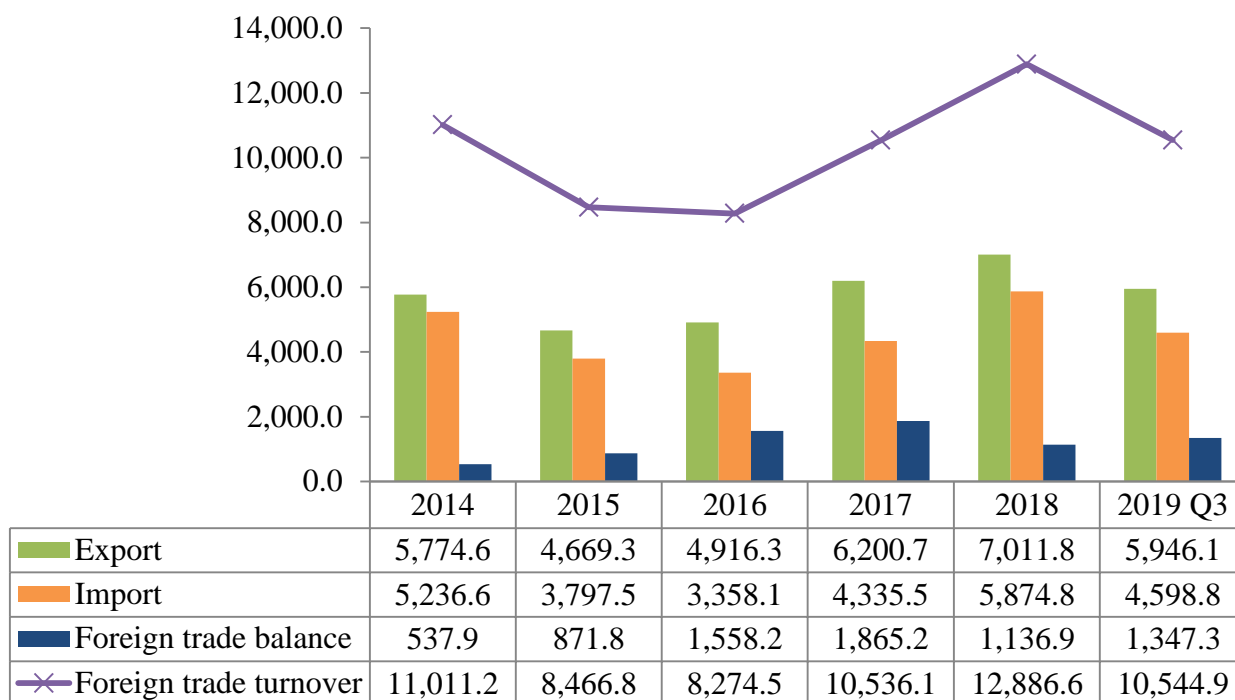


As part of the “Extended Fund Facility” the IMF, international organizations and donor countries have agreed to provide access to 5.5 billion USD and the funds are planned to be expended to improve not only the budget deficit but also the balance of payment deficit. Increased flow of foreign direct investment related to the Oyu Tolgoi Underground Project, as well as other mining infrastructure investments, is forecasted to lead to greater surpluses in the financial account.

Foreign trade

In first nine months of 2019, the total trade turnover reached USD 10,544.9 million, increasing by USD 911.0 million or 9.5 percent over the same period of the previous year. The export turnover stood at USD 5,946.1 million, whereas the import turnover reached USD 4,598.8 million. The foreign trade balance has a surplus of USD 1,347.3 million.

Graph 3 Foreign trade /in mn. USD/



■ Export
 ■ Import
 ■ Foreign trade balance
 ✕ Foreign trade turnover

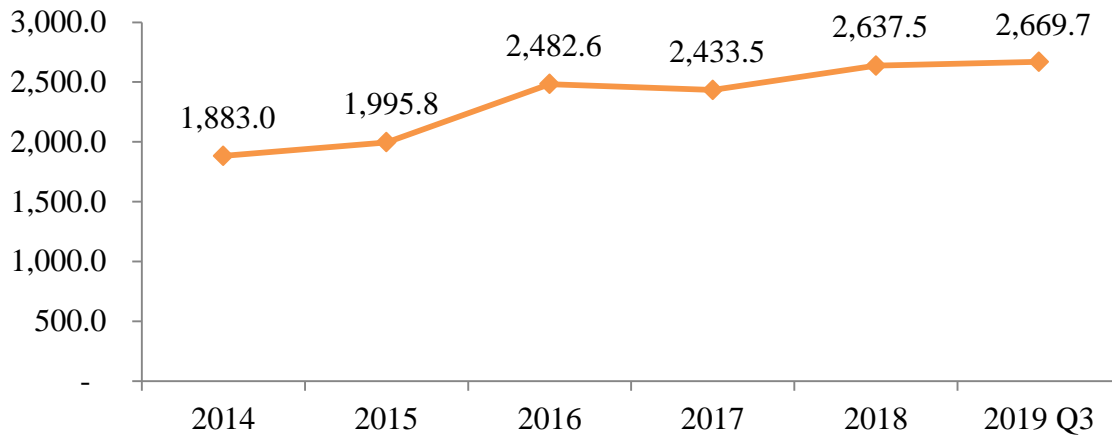
Export increased by USD 663.3 million or 12.6 percent over the same period of the previous year. It was mainly driven by the increase of USD 315.5 million of coal export and USD 199.8 million of gold, unwrought or in semi-manufactured forms. Mongolia has exported goods to 72 foreign countries including China (89.1%), United Kingdom (4.5%), the Russian Federation (0.9%) and 94.5% of whole export comes to these countries.

Total import increased by USD 247.7 million or 5.7% over the same period of the previous year reaching USD 4,598.8 million. This was influenced by the increase of minerals for USD 40.9 million including petroleum products for USD 93.6 million and machinery and mechanic equipment and parts thereof accounts for USD 179.8 million. Mongolia has imported goods originating from 145 different countries including the Russian Federation (27.4%), China (33.2%), the USA (5.1%), Japan (10.3%), Republic of Korea (4.4%) and Federal Republic of Germany (3.0%) and goods from these countries are equal to 83.4% of total import.

Exchange rate

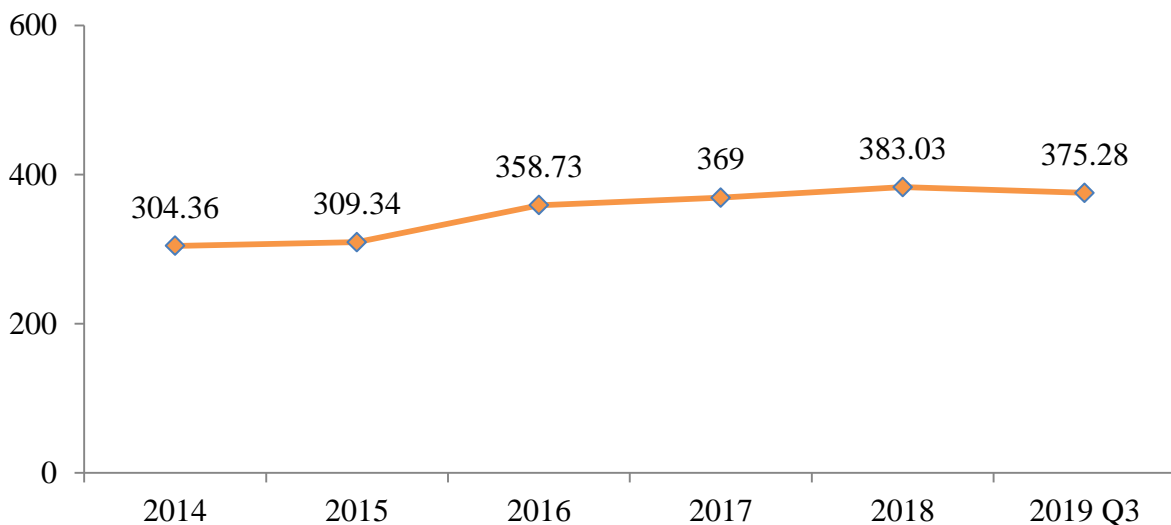
The nominal average MNT/USD exchange rate announced by Bank of Mongolia in September 2019 stood at MNT 2,669.7 depreciating by MNT 166.37 or 6.6 percent over the same period of the previous year, and by MNT 32.2 or 1.2 percent over the last month of the previous year.

Graph 4 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 375.28 showing a slight appreciation by MNT 10.1 or 2.8 percent over of the same period of the last year, and by MNT 7.7 or 2.0 percent the ending balance of the previous year

Graph 5 MNT/CNY exchange rate /in MNT/



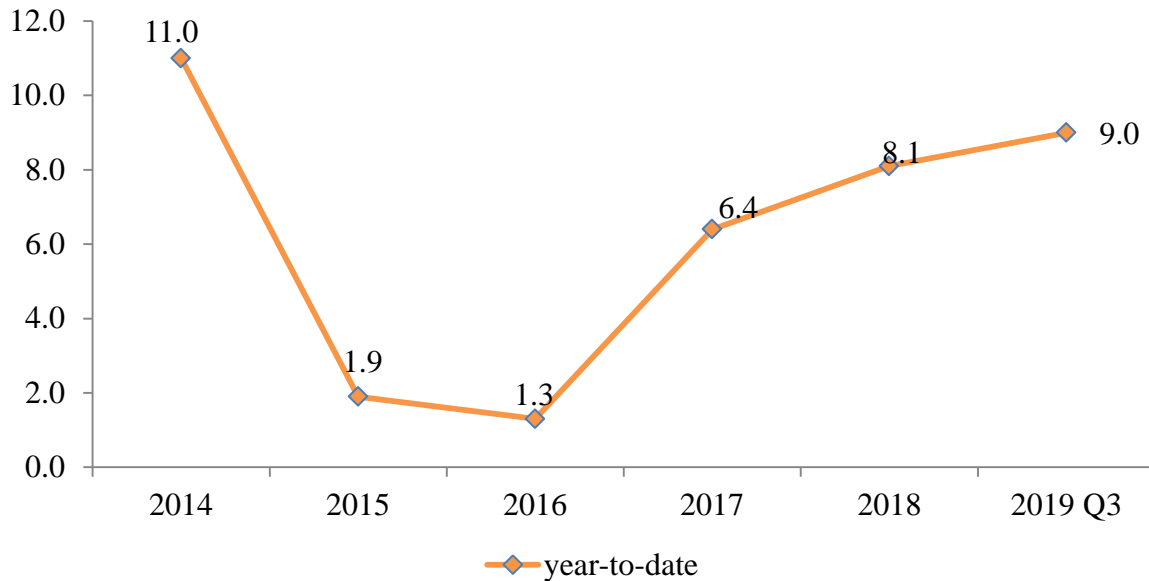
Inflation

At the end of September 2019, consumer goods and services indices (CPI) unchanged nationwide over the previous month, by 5.4 percent since the beginning of the year and by 9.0 percent over the same period of the previous year, respectively.

Consumer goods and services indices increased by 9.0 percent over the same period of the previous year, which was mainly due to 15.6 percent increase of food and beverages including 37.2 percent of meat and meat processed products, 4.7 percent of increase non-alcoholic beverages, 3.6 percent

increase of alcohols and cigarettes, 11.3 percent of increase housing, electricity and heating including 14.0 percent of increase electricity, heating and other fuels, 5.3 percent of increase medicines and medical services and 8.9 percent increase of clothing, textile and shoes respectively.

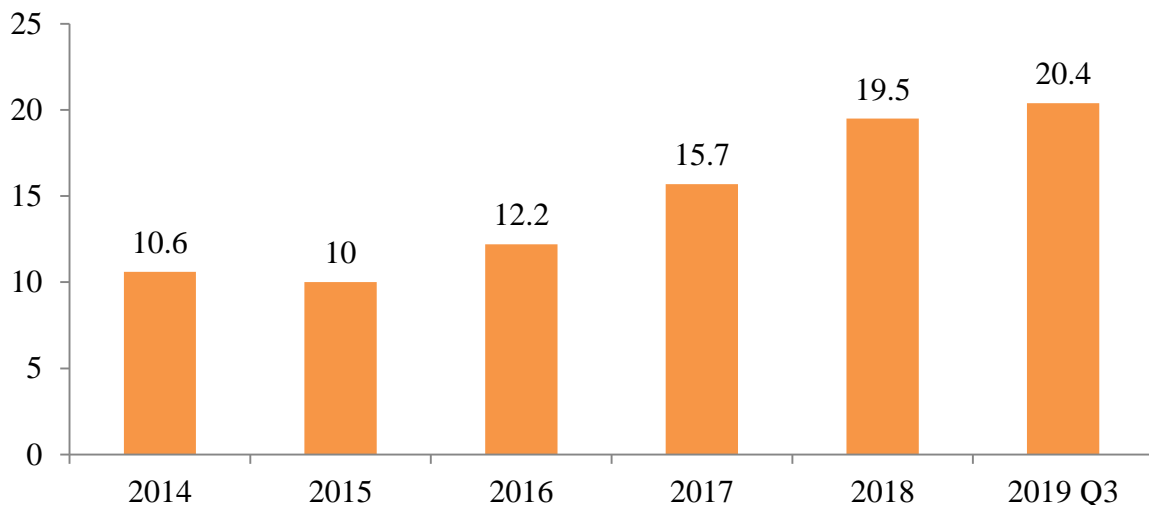
Graph 6 Inflation YOY /in percent/



Money Supply

Money supply (M2) reached MNT 20.4 trillion at the end of September 2019, demonstrating a 14.0 percent or MNT 2.5 trillion hike over the same period of the previous year. The growth of deposits in domestic currency contributed 7.1 percentage points, growth of current account in foreign currency 3.6 percentage points, growth of current account in domestic currency 2.5 percentage points and growth of deposits in foreign currency 1.2 percentage points, respectively.

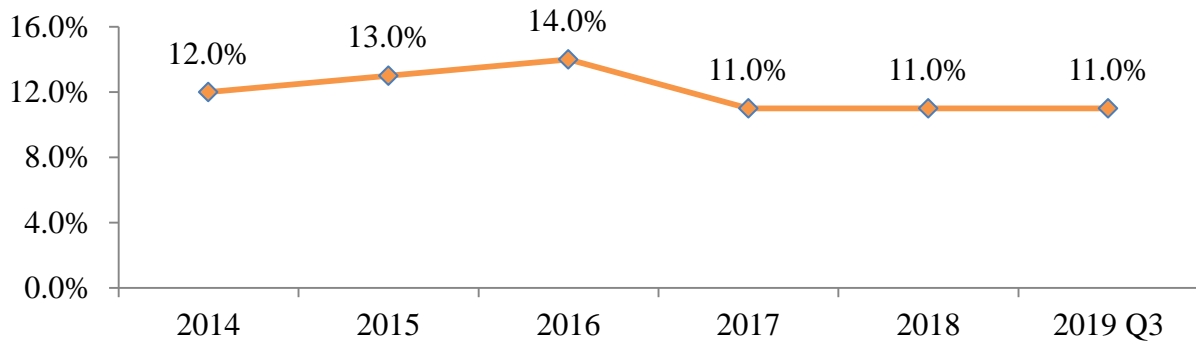
Graph 7 Money supply, M2 /in tn. MNT/



Monetary policy rate

In September 2019, WAIR on savings denominated in domestic currency was 11.5 percent, decreasing by 0.8 percentage points over the same period of the previous year. WAIR on loans granted in September decreased by 0.7 percentage points from the previous year reaching 17.0 percent. Interbank rate increased by 1.1 percentage point to from previous year level to 11.1 percent.

Graph 8 Monetary policy rate /in percent/

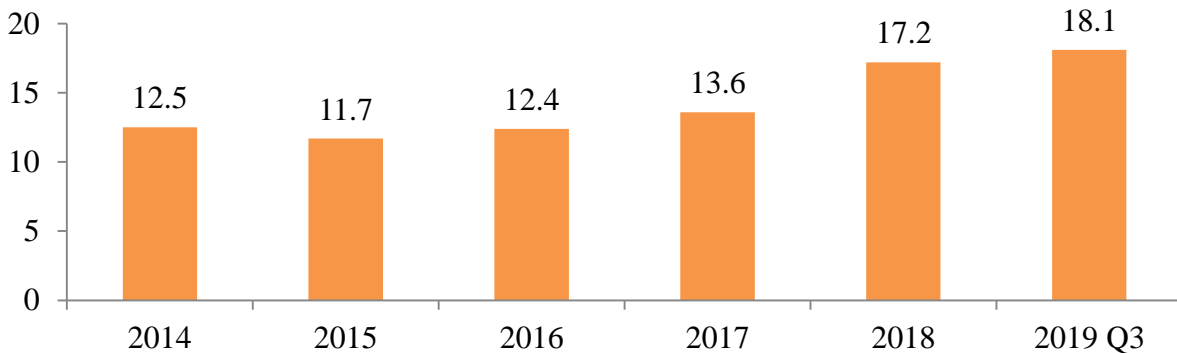


The Monetary Policy Committee meeting was held on 17 September 2019, and it was decided to keep the Policy rate unchanged at 11.0 percent. Demand related inflationary pressures are relatively stable. The Bank's decision to maintain the policy rate unchanged is consistent with its aim to stabilize inflation around the target rate and would support business and economic activities.

Loan

Total outstanding loans to enterprises and individuals reached MNT 18.1 trillion at the end of September 2019, indicating an increase of MNT 1.9 trillion or 11.7 percent over the same period of the previous year.

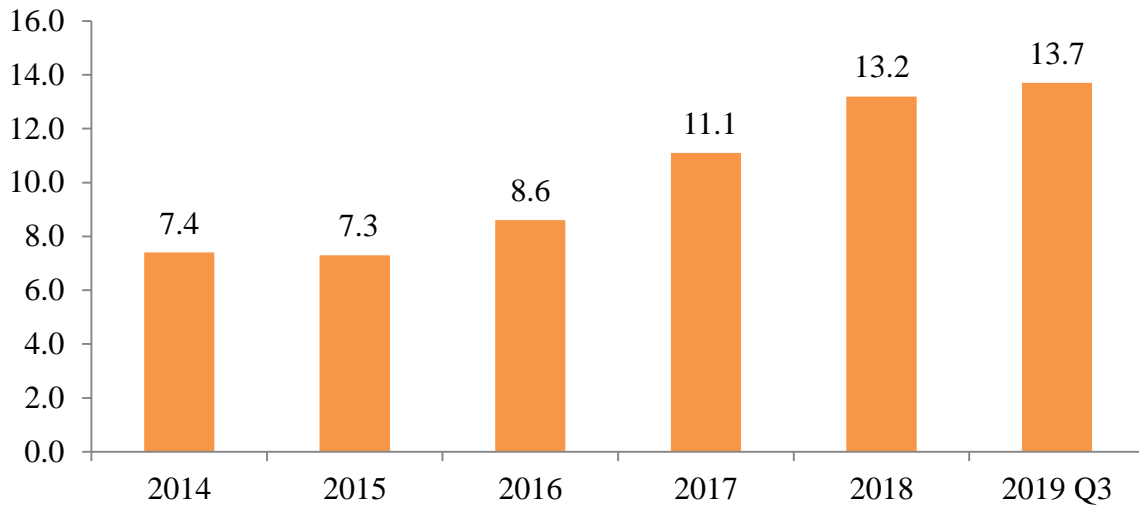
Graph 9 Total outstanding loan /in tn. MNT/



Deposits

As of September 2019, total deposits of Mongolia stood at MNT 13.7 trillion, showing an increase of MNT 1.5 trillion or 12.3 percent over the same period from last year.

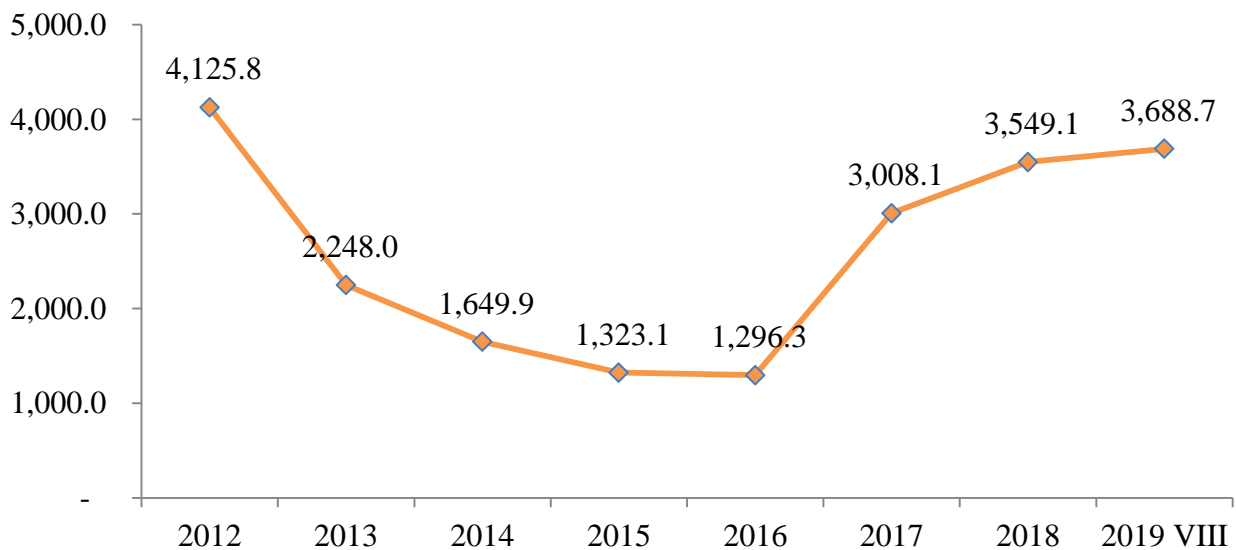
Graph 10 Total deposits /in tn. MNT/



Reserves

Net foreign reserve of Mongolia has reached USD 3,688.7 million in August 2019, demonstrating an increase of 1.8 percent increase from the beginning of the year, and 29.2 percent from the same period of previous year.

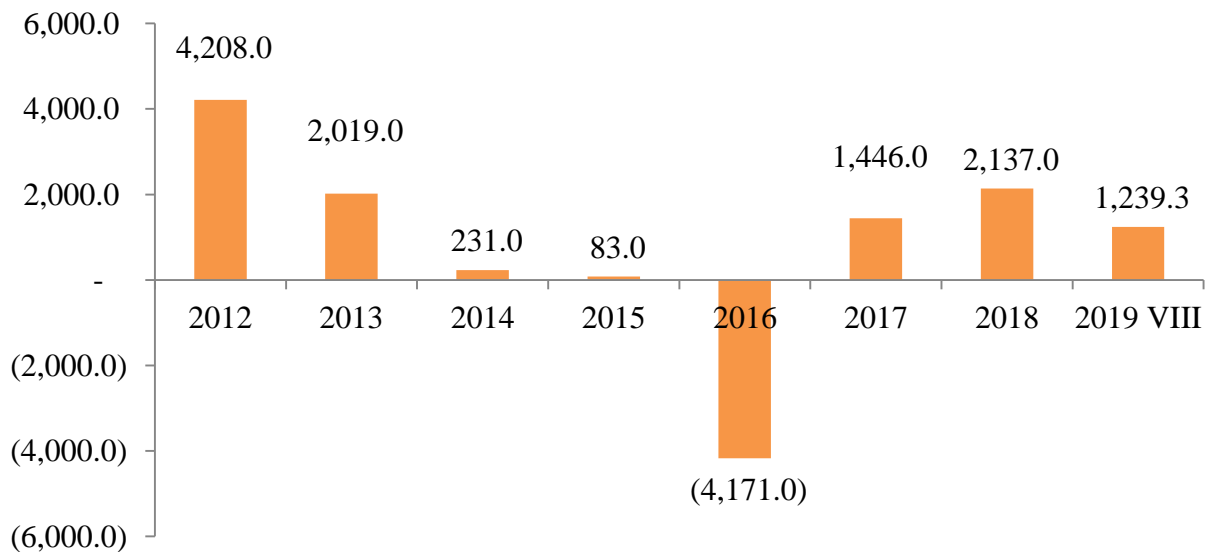
Graph 11 Total foreign currency reserves /in mn. USD/



Foreign direct investment

Foreign direct investment has been the engine of Mongolia's economic growth, reaching USD 1,239.3 million as of the first eight months of 2019, an increase from USD -4,171.0 million in 2016. FDI stock also grew to USD 2,137.0 million in 2018. All sectors of Mongolia's economy are open to FDI, including raw materials, sizable livestock and many other sectors with high development potential (mining, food processing, telecommunications, tourism). However, the instability of economic policies and regulations, its geographical isolation, corruption and an inefficient transportation system are important obstacles.

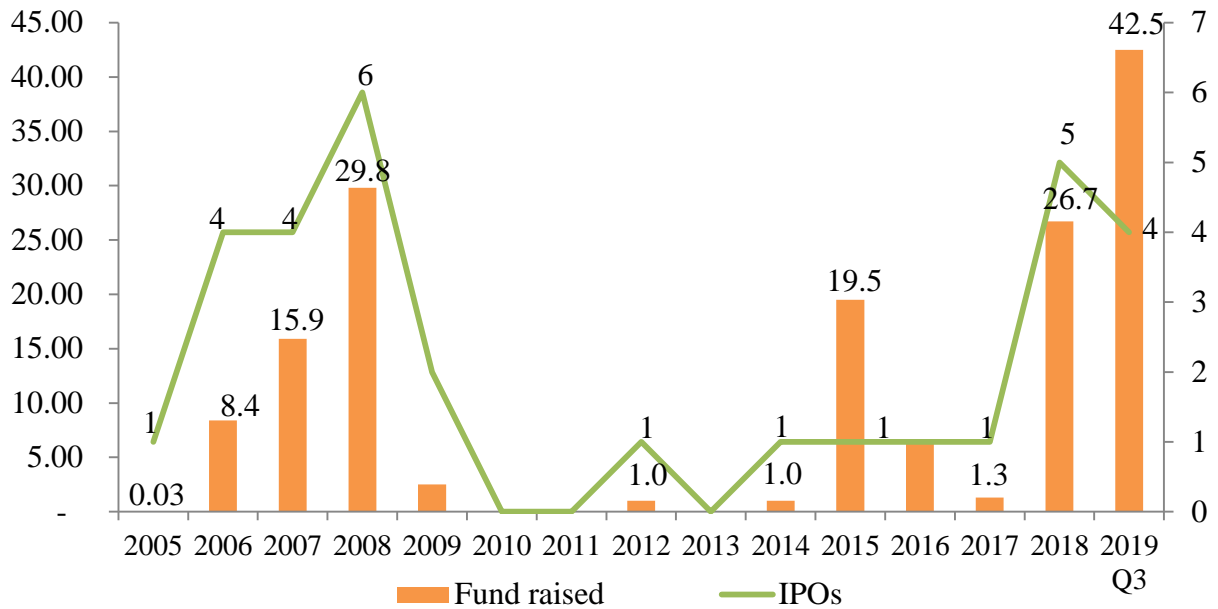
Graph 12 FDI in Mongolia /in mn. USD/



Capital Market Performance of Mongolia (2019 Q3)

2019 at a glance:

- 4 IPOs as of 2019 Q3
- Tax reduction will be effective from 1st of Jan, 2020

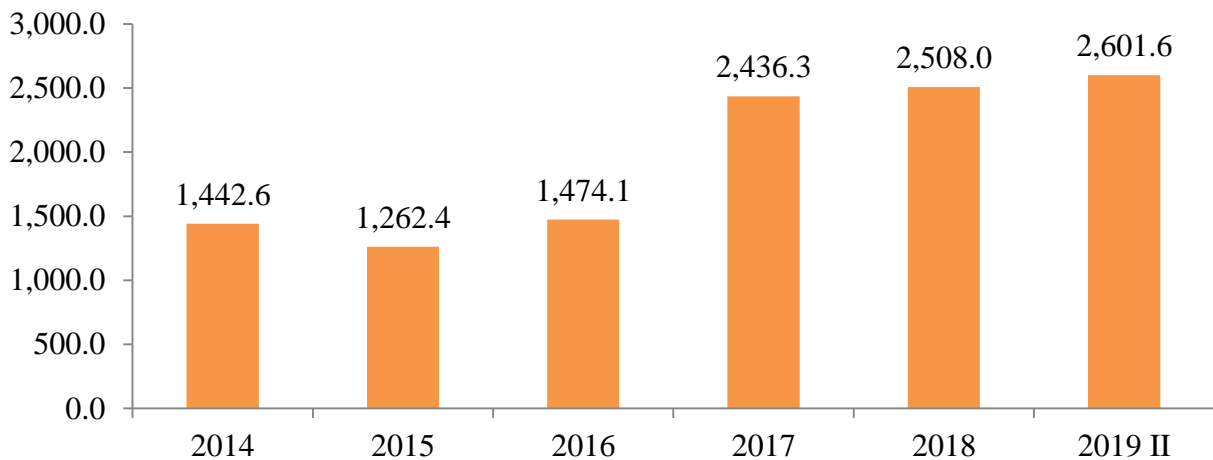


Main indicators of capital market:

- Market capitalization: **MNT 2,601.6 billion**
- Listed companies: **198** /as of 2019 Q3/,
- Listed companies that have filed their financials with MSE: All
- Listed companies that have announced 2018 dividends: **30**
- Average amount of trading in one day, 2019 Q3: **MNT 337.9 million,**
- Number of “Compliant” brokers: **52**

As of September 2019, market capitalization of capital market rose by MNT 129.7 billion or by 5.25 percent over the same period of the last year to reach MNT 2,601.6 billion.

Graph 13 Market capitalization /in bn. MNT/



TOP-20 Index

The TOP-20 Index, despite its' continuous decrease between 2011 until 2016, has been increasing since the start of 2017, and it reached 20,723.36 which increased by 873.32 unit or by 4.3 percent over the third quarter of 2018.

Graph 14 TOP-20 Index



Trade Structure

In Q3 2019, 26.8 million shares of 95 joint stock companies were traded with MNT 20.6 billion, while 6.7 thousand government securities were traded for MNT 684.6 million on the secondary market. If we examine the trade structure, 91.3 percent of all trades account the trade of shares while just 8.7 percent represents government securities. This change in the trading structure of 2018 and 2019 was due to the absence of government securities in the primary market.

Graph 15 Trade structure in 2019 Q3 /in percentages/

