

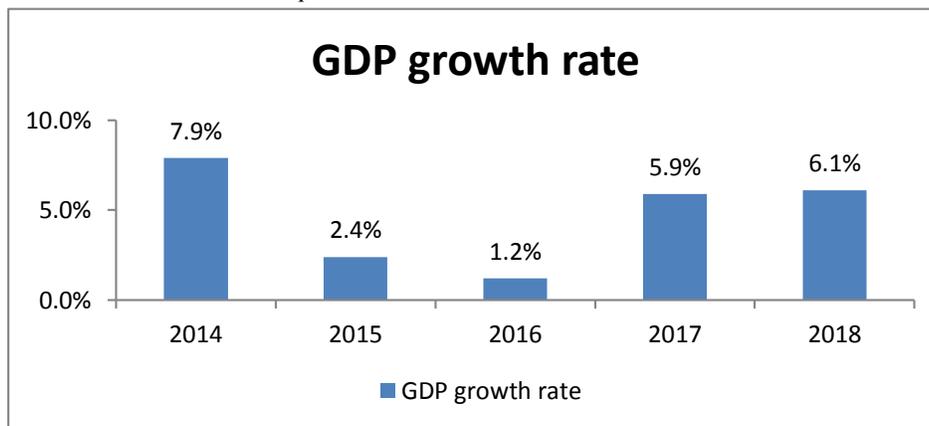
## MARKET AND ECONOMY REPORT OF MONGOLIA

### 1. Economic Performance Of Mongolia

#### GDP

Mongolia's economic performance improved dramatically in 2017 and at the beginning of 2018 with the GDP growth rate increasing from 1.2 percent in 2016 to 5.9 percent in 2017 and 6.1 percent during the first quarter of 2018. Strong growth was accomplished without excessive inflationary pressures. Indeed, the consumer price index (CPI) increased from 1.3 percent in 2016 to 6.4 percent in 2017 (6.1 percent in May 2018), but remained below the central bank target of 8 percent.

Graph 1. GDP Growth rate /in bn. MNT/



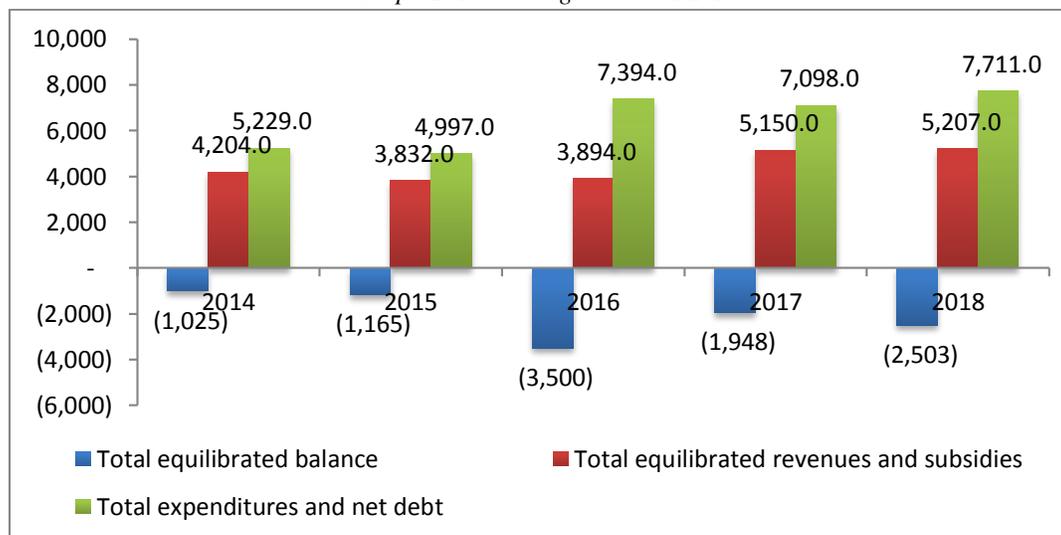
2017 was a good year for Mongolia. A strong economic recovery accompanied by moderate inflationary pressures, led to lower fiscal and Balance of Payment (BoP) deficits and triggered a slight decline of the country's public debt. Mongolia's economic performance is likely to further improve in 2018 and current prospects for the next couple of years assume continued or accelerated growth, and continued improvements in the country's public finance and balance of payments position, provided the government continues to implement its ongoing adjustment program with the support of its development partners.

The economic recovery was not due – at least initially – to strong growth in the mining sector. Despite a rebound of coal production, the mining sector contracted in 2017 because of the decline of the more important copper sub-sector still affected by unfavorable global commodity prices and geologically lower gold content in Oyu Tolgoi (OT)'s production. In 2018, copper production and exports increased significantly and, despite the low performance of coal, there was a general rebound of the mining sector. In essence, the main factor behind the strong economic growth of the past twenty months was large inflows of foreign direct investments, attracted by promising mega projects in the mining sector in an increasingly positive external environment. The mining sector alone represented 35 percent of the GDP growth.

## Total state budget

At the end of the reporting period, amount of total equilibrated budget revenue and subsidies stood at MNT 5,207 billion, while the amount of total expenditures and net debt stood at MNT 7,711 billion, thus bringing the total equilibrated budget balance at MNT 2,053 billion in deficit. The deficit of equilibrated balance of total budget rose by MNT 555 billion over the same period of the previous year, which is mainly due to the expenditure growth of 8.6 percent and a slight increase of 1.1 percent in revenue.

Graph 2. Total budget /in bn. MNT/



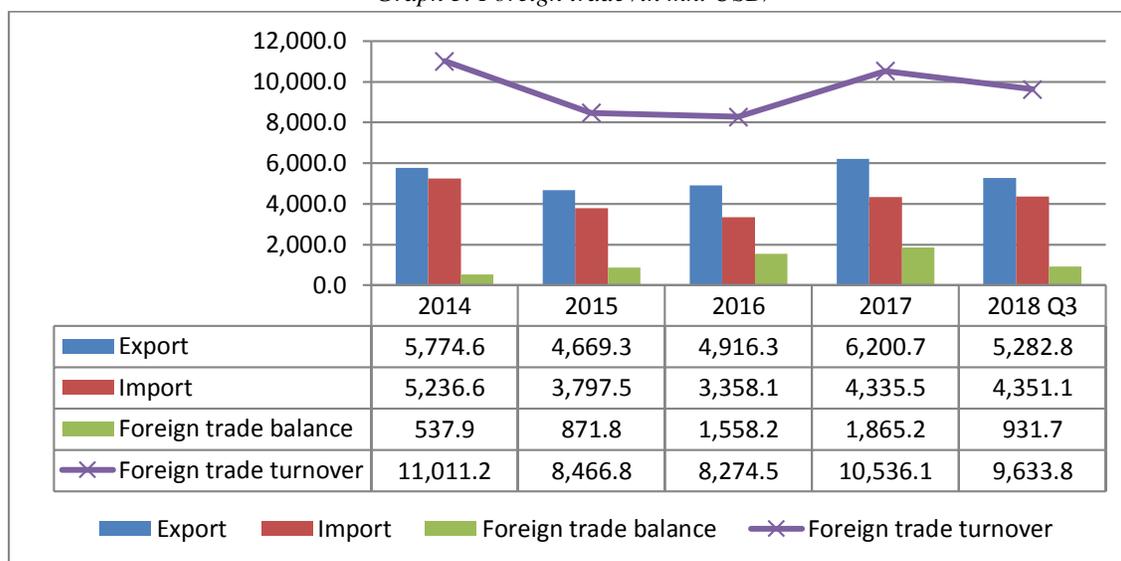
As part of the “Extended Fund Facility” the IMF, international organizations and donor countries have agreed to provide access to 5.5 billion USD and the funds are planned to be expended to improve not only the budget deficit but also the balance of payment deficit. Increased flow of foreign direct investment 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.

After successfully paying the 500 million USD of Chinggis Bond in January, 2018, there’s a significant need to minimize the negative effects of the looming payments of the Dim Sum Bond (1 billion CNY or 161.2 million USD) and the 300 million USD loan from Credit Suisse and upcoming bond principles.

## Foreign trade

As of December 2017, total trade turnover increased by 27% (or USD 2,262 million) from that of the previous year and reached USD 10,536 million. Total exports increased by 26% (or USD 1,284 million) and imports by 29% (or USD 977 million). During this period, as export surpassed import by USD 1,865 million, trade balance recorded a surplus that is USD 307 million higher than that of the previous year.

Graph 3. Foreign trade /in mn. USD/



The balance of trade paid in hard currency, in the first 12 months of 2017, recorded a surplus of USD 2,051 million, which is USD 433 million higher than that of the previous year.

**Exports** As of December 2017, total exports increased by 26% (or USD 1,284 million) from that of the previous year. The increase in exports of mining products explain 26 percentage points and other sectors exports products explain 0.1 percentage points of the total export growth. The weight of mining products in total exports increased by 3 percentage points, while manufacturing goods decreased by 2 percentage points.

Changes in the quantity of foreign goods trade increased exports in 2017 by USD 345 million, while USD 940 million increases were driven by the price changes. Increases in export price and export quantity of mining products, especially the coal export, resulted in the increase of USD 1,280 million. Export price and quantity increases of animal products resulted in increase of USD 63 million. Despite the increase in export quantity of manufacturing products, the decrease in export price resulted in a decrease of USD 49 million.

**Imports** As of the first 12 months of 2017, total import increased by 29% (or USD 977 million) from that of the previous year. Capital goods explain 16 percentage points, fuels explain 8 percentage points and consumer goods explain 4 percentage points of the total import growth. Contribution of

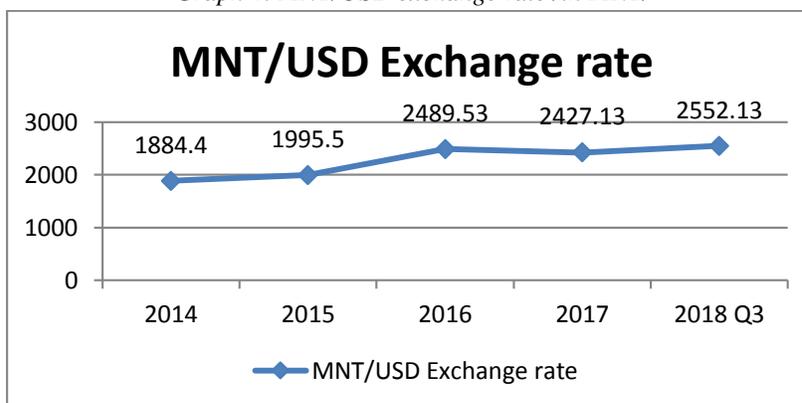
consumer goods in the total imports decreased by 5 percentage points from that of the previous year, while contribution of fuels increased by 2 percentage points.

In the first 12 months, USD 780 million increase in imports was driven by the changes in the quantity of imports and USD 198 million increase was due to changes in prices. Consumer goods increased by USD 127 million mainly as a result of the increase in quantity of imports. Capital goods import increased by 48% owing to the change in quantity of imports, while fuels import increased by 48%. As of December 2017, fuels import price is USD 648 per ton.

### Exchange rate

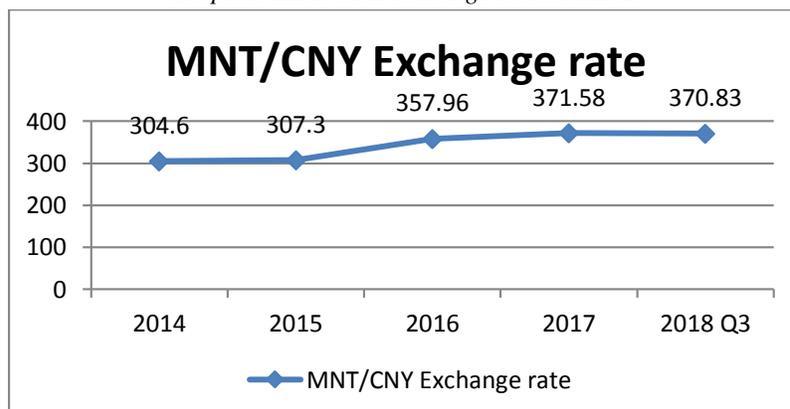
In September 2018, the nominal average MNT/USD exchange rate announced by Bank of Mongolia stood at MNT 2,552.13, which showed depreciation of MNT 125 or 5.2 percent over the end of the previous year. A slight appreciation of the Mongolian currency was observed in 2017. This led to a moderate appreciation of the real effective exchange rate which had no significant impact on the country's competitiveness.

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 370.83, showing a slight decrease of MNT 0.75 from the ending balance of the previous year.

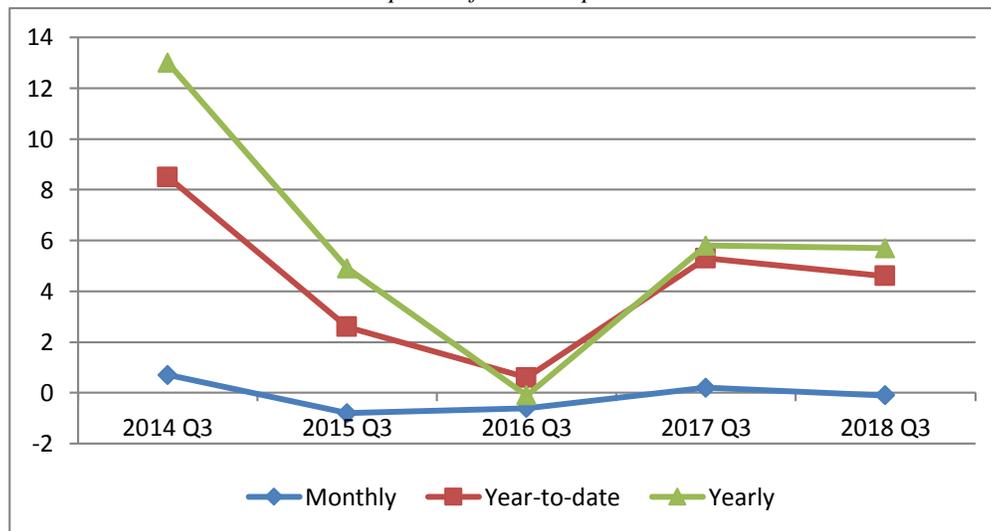
Graph 5. MNT/CNY exchange rate /in MNT/



## Inflation

The consumer price index (CPI) increased from 1.3 percent in 2016 to 6.4 percent in 2017 (6.1 percent in May 2018), but remained below the central bank target of 8 percent. The inflation rate at the end of the third quarter of 2018 stood at 4.6%, which was a 13.2% decrease from the same period of the previous year.

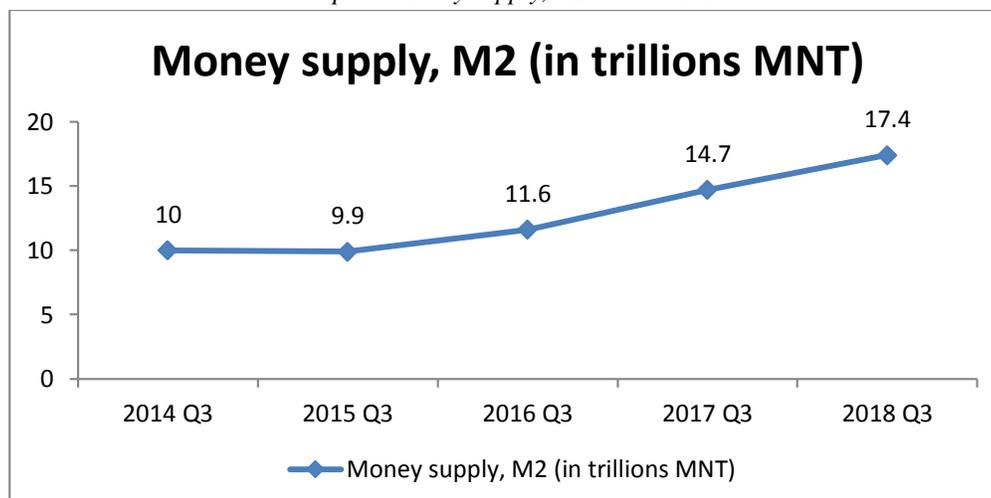
Graph 6. Inflation /in percent/



## Money Supply

Money supply (M2) reached MNT 17.4 trillion at the end of September 2018, demonstrating a 18.4 percent or MNT 2,7 trillion hike over the same period of the previous year. Improvement in the money supply was mainly due to massive inflows of FDI, strong donor support and the successful refinancing (on better terms) of government guaranteed bonds maturing in 2017 and 2018.

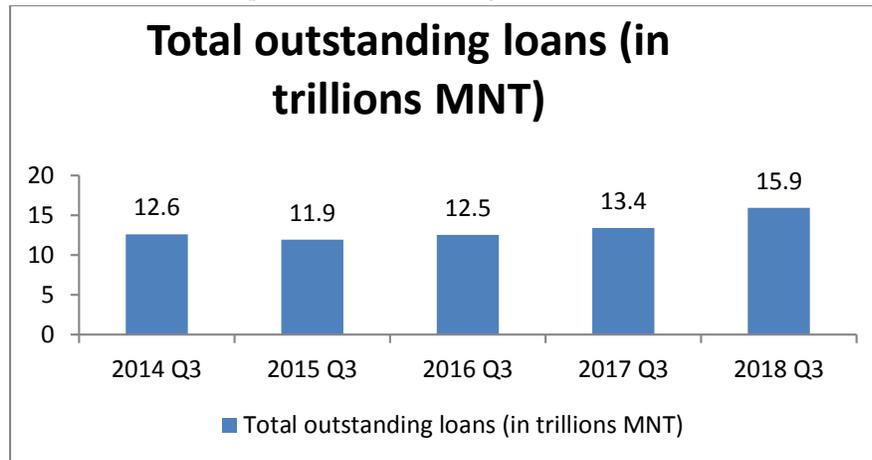
Graph 7. Money supply, M2 /in tn. MNT/



## Loan

Total outstanding loans to enterprises and individuals reached MNT 15.9 trillion at the end of September 2018, indicating an increase of MNT 2.5 trillion or 18.7 percent over the same period of the previous year.

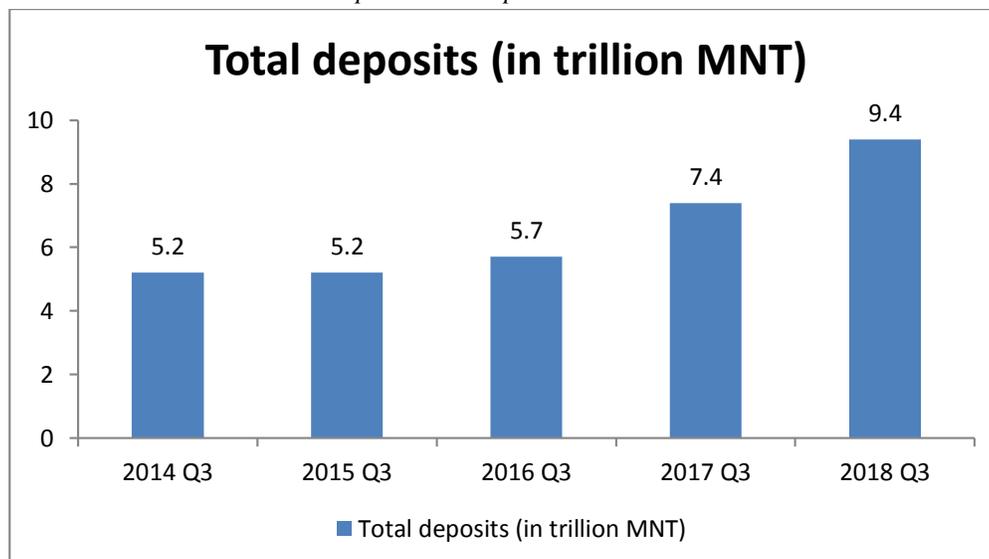
Graph 8. Total outstanding loan /in tn. MNT/



## Deposits

As of September 2018, total deposits of Mongolia stood at MNT 9.4 trillion, showing an increase of MNT 2.0 trillion or 27 percent over the same period from last year.

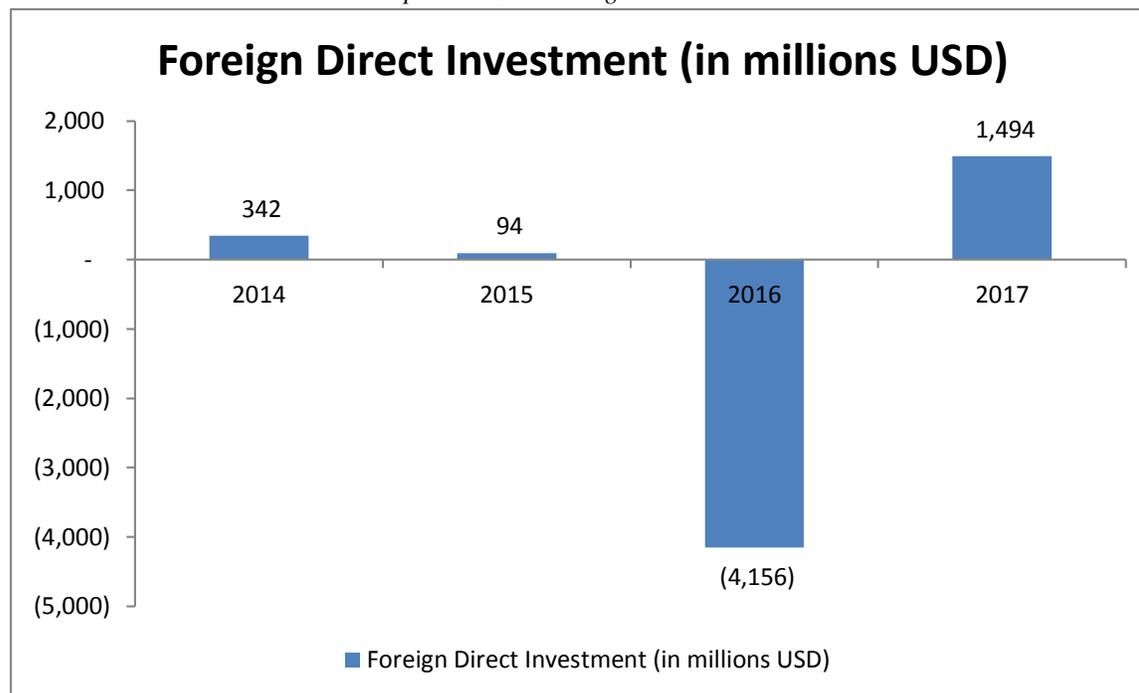
Graph 9. Total deposits /in tn. MNT/



## Foreign Direct Investment

Foreign direct investment has been the engine of Mongolia's economic growth and is strongly dependent on commodity prices. FDI flows to Mongolia accounted for USD 1.494 billion in 2017, an increase from USD -4.16 billion in 2016, thanks to the increase of metal price. FDI stock also grew to USD 18.02 billion in 2017.

Graph 10. FDI in Mongolia /in mn. USD/

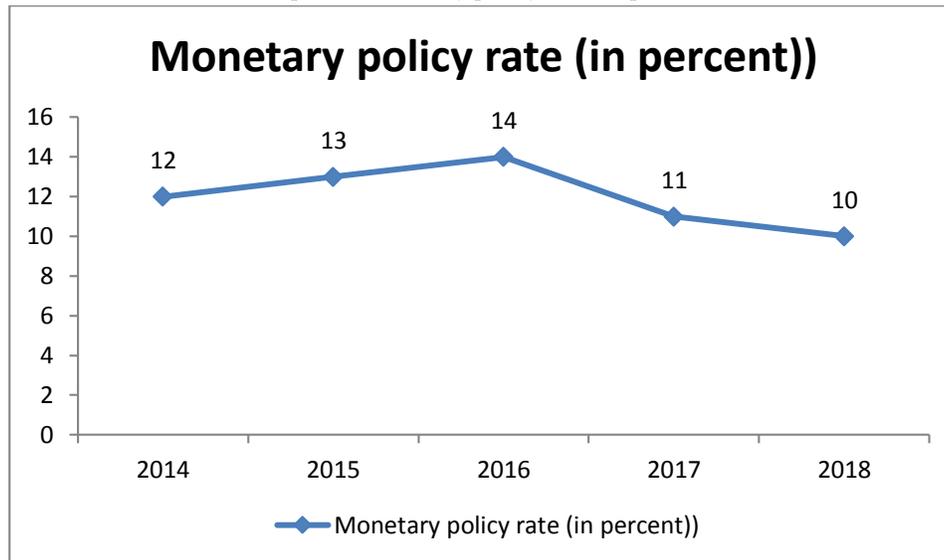


All sectors of Mongolia's economy are open to FDI, including raw materials, sizable livestock and many other sectors with high development potential (mining, food processing, telecommunications, tourism). However, the instability of economic policies and regulations, its geographical isolation, corruption and an inefficient transportation system are important obstacles. The country is 62nd in the World Bank's [2018 Doing Business](#) rankings.

Mongolia also expects to reach a combined 16 billion USD through 113 public-private partnerships aimed at sustainable development. Mongolia will also construct its first oil refinery in Q3 of 2018 and expects it to be completed by 2022. Mongolia's main investment partners are China, Canada, Russia, Great Britain, and the United States.

## Monetary policy rate

Graph 11. Monetary policy rate /in percent/



The Monetary Policy Committee meeting was held on 20 September 2018, and it was decided to keep the Policy rate unchanged at 10 percent. As of August 2018, annual inflation measured by the consumer price index has reached 6.0 percent nationwide and 6.4 percent in Ulaanbaatar city. In the medium term inflation is expected to stabilize around the central bank's target rate of 8 percent. Although supply related inflationary pressures are forecasted to decline, demand-pull pressure supported by economic recovery is rising at a nonaccelerating pace. Economic growth continued to gain momentum as mineral exports increased owing to relatively high prices of commodities and investments expanded following economic recovery.

Considering the momentum, the Bank of Mongolia revised its 2018 growth projections up, yet the economy remains highly susceptible to circumstances in external conditions. For instance, exchange rate volatility of togrog in the last quarter reflects direct and indirect effects from rising imports, capital outflows from emerging and developing markets, appreciation of USD against other currencies and changes in commodity prices driven by economic sanctions, set on certain countries, and trade war related factors. In an external environment of rising uncertainties, building resilience of the financial market agents and maintaining internal and external balance of the economy are crucial for the economic stability in the medium to long term. 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.

## 2. Capital Market Performance Of Mongolia

### 2018 at a glance:

- 5 IPOs and 1 SPO of Q3 2018, 2 more expecting
- Largest number of IPOs in the history of capital market
- TOP-20 Index, market cap hit the record high
- First dual listing
- First RTO
- First ever largest M&A
- Tax reduction will be approved soon

### Main indicators of capital market:

- Market capitalization: **MNT 2,484.9 billion**
- Listed companies: **303** /as of Q2 2018/,
- Listed companies that have filed their financials with MSE: All
- Listed companies that have announced 2017 dividends: **26**
- Average amount of trading in one day, 2017: **MNT 2.36 bln**,
- Number of “Compliant” brokers: **52**

By the end of 2017, market capitalization of capital market rose by 65% or by MNT 996.1 billion since the end of 2016 to reach MNT 2,440.2 billion.

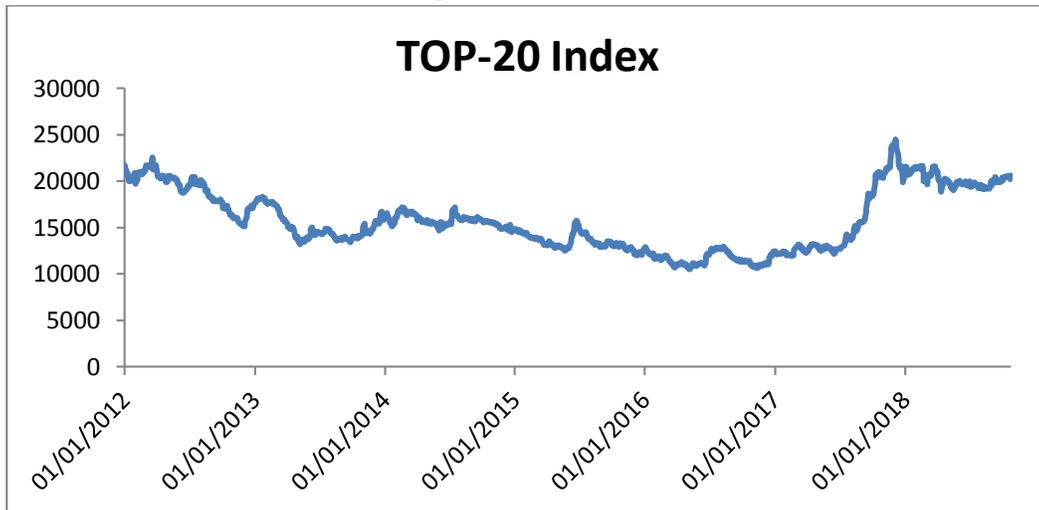
Graph 12. Market capitalization /in bn. MNT/



**TOP-20 Index**

The TOP-20 Index, despite its' continuous decrease between 2011 until 2016, has been increasing since the end of 2016 and it reached the record amount of 23,586.66 units in November 2017. By the end of 2017, the TOP-20 Index recorded a 65 percent or 8,280.9 units increase from the same period of the previous year and stood at 20,736.9.

*Graph 13. TOP-20 Index*

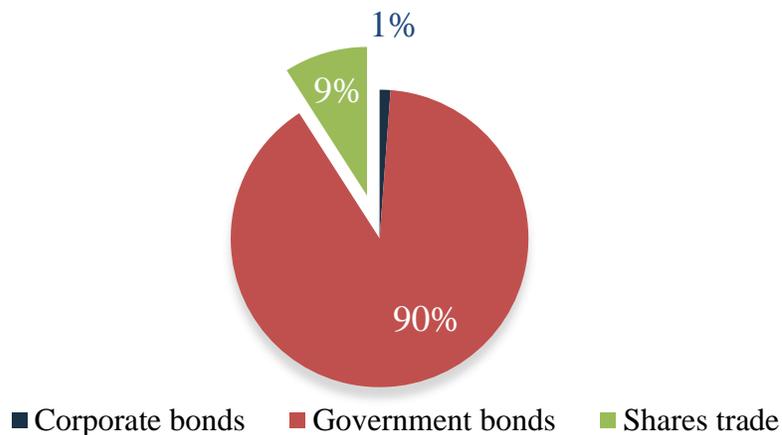


Besides the Top-20 Index, MSE-ALL Index was put to use since February 2015. By the end of 2017, MSE-ALL Index showed a 33.1 percent or 285.1 units increase from the previous year, standing up at 1146.3 units.

**Trade Structure**

In 2017, 106.1 million shares of 134 joint stock companies were traded with MNT 78.1 billion, while 6.7 million government securities were traded for MNT 630.2 billion on the primary market and 1.4 million government securities were traded for MNT 142.3 billion on the secondary market on the Mongolian Stock Exchange. Furthermore, Mongolian Securities Exchange reported total trades of 28 million shares of a single MNT 1.7 billion. If we examine the trade structure, 89.7 percent of all trades account for government securities while just 9 percent represents the trade of shares.

*Graph 14. Trade structure in 2017 /in percentages/*



Changes in the proportions of trading structures are evident in the 2018 Q3 Graph. Although the volume of shares traded until the end of third quarter of 2018 was MNT 75.1 billion (MNT 3 billion shorter than throughout 2017), the percentage of shares traded has shown a major increase from only 9% in 2017 to 71% in Q3 2018. This change in the trading structure of 2018 was due to the absence of government securities in the primary market.

*Graph 15. Trade structure in 2018 Q3 /in percentages/*

