

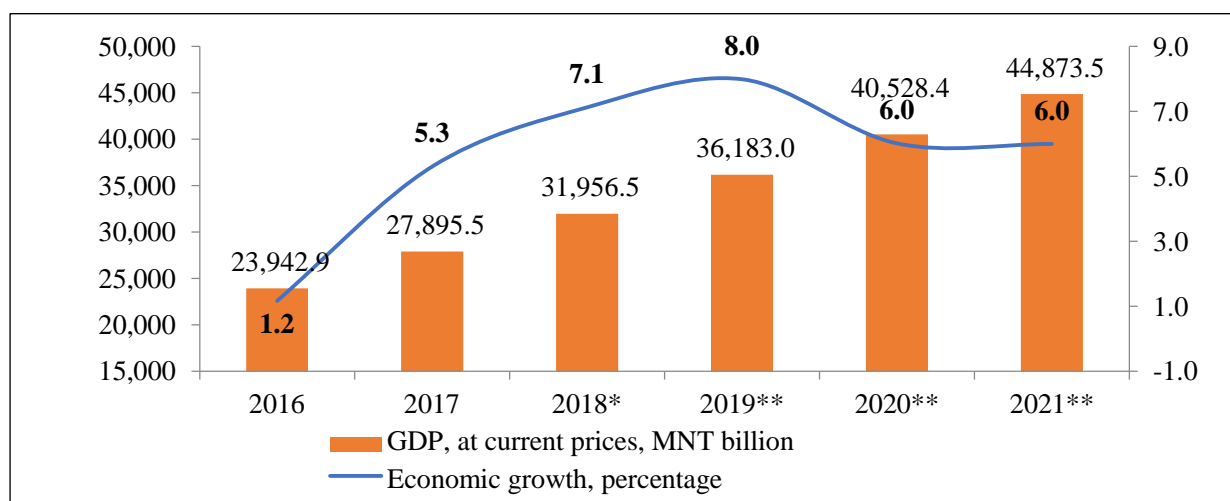
## Macroeconomic situation and external sector of Mongolia

### 1. Current macroeconomic situation

#### Economic growth

Economic growth of Mongolia reached **6.3** percent in the first half of 2018 and increased to **6.4** percent in the third quarter of 2018. Major factors impacting the positive economic growth include expansion of Oyu Tolgoi project development, growing production of cement and metal structures in the construction sector and increasing import volume. Economy is expected to maintain its upward momentum and is forecast to reach 7.1 percent at the end of 2018.

Graph 1. Economic growth and forecast of Mongolia



#### Monetary policy

At the unscheduled meeting held on 27 November 2018, the Monetary Policy Committee of the Mongolbank approved to increase the policy rate by 1.0 percentage point to 11 percent. As of November 2018, annual inflation measured by the consumer price index has reached 8.1 percent nationwide and 9.3 percent in Ulaanbaatar city. Although the price of commodities remained relatively high and economic growth reached 6.4 percent exceeding previous expectations, uncertainties in the external sector remain still.

Factors such as an approval of next year's budget with a relatively high level of deficit, the US Federal Reserve's decision to raise its federal funds rate, and the People's Republic of China's action to limit its coal imports are adversely affecting the balance of payments and creating pressures on the exchange rate. Thus, the Monetary Policy Committee approved to increase the policy rate in order to maintain a sustainable economic recovery in the medium term.

#### Extended Fund Facility of IMF

A total amount of USD 850 million was expected to be financed in 2018 within the framework of "Extended Fund Facility" by the IMF; however, only USD 300 million is currently financed because funding by the World Bank and Japan had been halted.

Conditions of the agreement between the Government and IMF had not been fully implemented such as a move to progressive rates for income taxation and increase

of pension age reforms. Funding by Japan is expected to be provided after the World Bank proceeds with its transaction.

An IMF staff team led by Mr. Geoff Gottlieb visited Ulaanbaatar from November 7-17, 2018 to conduct discussions on the sixth review of the three-year Extended Fund Facility (EFF) arrangement. The staff team, at the conclusion of the visit, stated that, while the external environment has been supportive with buoyant export demand, the recovery has become broader based on the sharp increase in consumption and investment. The overall fiscal balance has swung from a large deficit to a small surplus and all macroeconomic targets, including the fiscal deficit and net international reserves, are on track to be fulfilled by the end of the year.

For 2019, program goals are to continue reducing public debt, resume international reserve accumulation, and ensure that banking system is well-capitalized. In addition, it is critical that the authorities strengthen the investment climate to attract foreign capital necessary for Mongolia's long-term growth.

While welcome, this recovery brings new challenges. Stronger domestic demand conditions are widening the current account deficit, halting reserve accumulation. In response, the Bank of Mongolia should rein in high credit growth through tighter monetary conditions and the introduction of well-targeted macro-prudential measures.

## 2. External sector of Mongolia

### Foreign trade

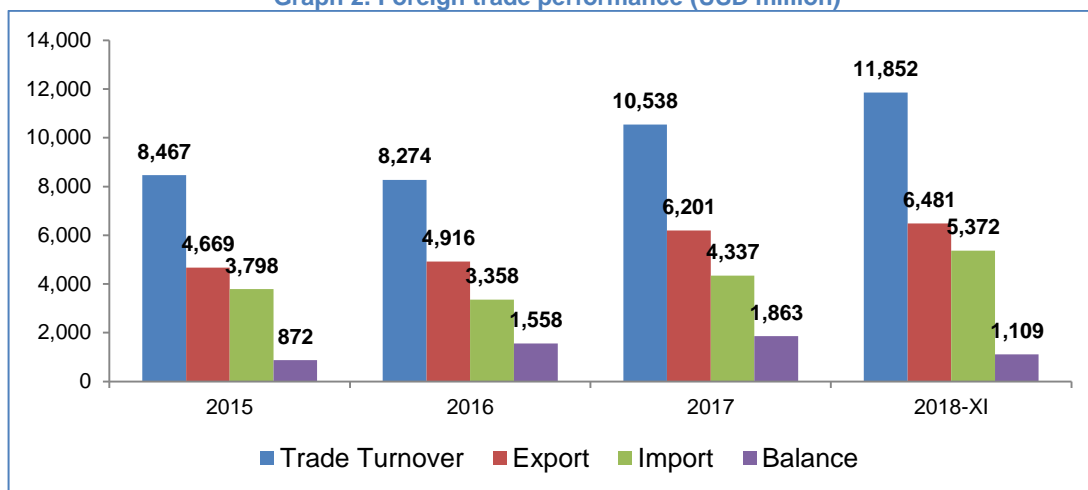
A total foreign trade turnover in the first 11 months of 2018 amounted to USD 11852.3 million which is an increase of USD 2261.1 million or 23 percent against the same period last year. Export volume exceeded import by USD 1109.2 million resulting in a positive trade balance.

Table 1. Foreign trade performance, USD million (2015-2018-XI)

Trade	Year		First 11 months				Change	
	2015	2016	2017	2016-XI	2017-XI	2018-XI	2018-XI/2017-XI	
Turnover	8,467	8,274	10,536	7,356	9,591	11,852	2,261	23%
Export	4,669	4,916	6,201	4,276	5,686	6,481	795	14%
Import	3,798	3,358	4,335	3,079	3,904	5,372	1,486	38%
Balance	872	1,558	1,865	1,197	1,781	1109	-672	-38%

Trade volume of USD 7,158 million or 66 percent of total trade was conducted with China while USD 1,467 million or 14 percent of total trade was with Russia.

Graph 2. Foreign trade performance (USD million)



## Export

Within the total export volume, minerals amounted to USD 5596.7 million or 86.4%, natural or cultured pearls, precious or semi-precious stones amounted to USD 145.5 million or 2.2%, raw hides and skins, leather, fur skins and articles thereof equaled USD 15.1 million or 0.2%, textiles and textile articles amounted to USD 405.1 million or 6.3% and these products make up 95.1% of the total export.

100 percent of crude oil, iron ores and concentrates, zinc ores and concentrates, 99.4 percent of copper concentrate, 98.9 percent of coal were exported to China. In terms of fluorspar concentrates, 64.9 percent and 35 percent were exported to China and Russia respectively. Majority of leather of bovine or equine animals were exported to China; 82.6 percent of combed cashmere to Italy; most of exported raw hides and skins, washed cashmere were to China and 100 percent of gold export was to the United Kingdom and these goods make up 91.5 percent of the total export.

Mongolia has exported goods to 76 countries including China (92.6%), the United Kingdom (2.6%), the Russian Federation (1.2%) and these countries receive 96.4% of Mongolia's total export.

## Import

Within the import volume, machinery, mechanic equipment, their parts, electric appliances amounted to a value of USD 1165.9 million (21.7%), minerals USD 1203.1 million (22.4%), (of which oil products were USD 1006.2 million - 83.6%) products of animal or vegetable origin and foodstuff USD 616.1 million (11.5%), vehicles and aircraft, their parts USD 819.7 million (15.3%), plastics, rubber and articles thereof USD 209.3 million (3.9%), base metals and products thereof USD 510.3 million (9.5%), chemical products USD 338.5 million (6.3%) and 90.6% of the total import consists of these goods and products

## Foreign trade forecast

It is forecast that the total trade turnover would reach USD 13.6 billion resulting in a positive trade balance of USD 1.3 billion at the end of 2018. Export volume is expected to increase by 23 percent and reach USD 7.5 billion. As commodity prices remain high in the international market, mining sector is revitalizing and imports of truck and

passenger vehicles, machinery, mechanic equipment, metal frames, gasoline and diesel fuels increased in comparison with last year.

However, volatility of USD exchange rate, protectionist trade policies pursued by the US and China are affecting international commodity market adversely.

### **Foreign direct investment**

Foreign direct investment inflow to Mongolia as of the 3<sup>rd</sup> quarter of 2018 reached USD 540 million. In comparison with the same time period last year, FDI flow shows a decrease of USD 10 million.

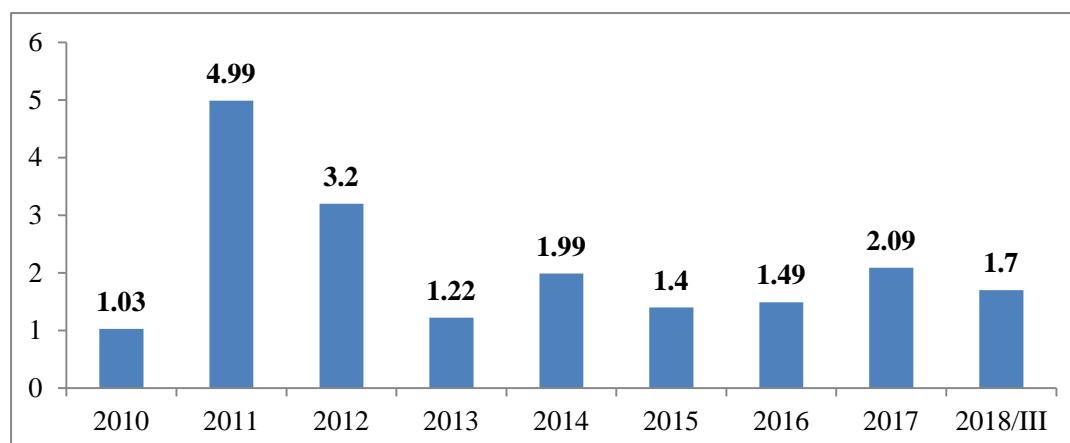
Thus, the total FDI flow in the first 10 months of 2018 reached USD 1.7 billion, which is a significant increase compared to last year (USD 1.34 billion). Breakdown of the FDI by countries is as follows: FDI from Canada increased by USD 87.6 million and reached USD 316.1 million, FDI from Japan increased by USD 47 million and reached USD 70.1 million, FDI from Luxembourg decreased by USD 134 million and reduced to USD 21.8 million while FDI from Australia decreased by USD 34 million and reduced to USD 4.4 million.

In breaking down the FDI volume by sectors, it shows increases in financial and insurance service sectors by USD 54 million, other services sectors by USD 12 million, wholesale and retail trade sector by USD 24 million, electricity, gas, ventilation sector by USD 22 million whereas a slight downturn is observed in the mining sector.

**Table 2. Foreign trade inflow to Mongolia, by country**

Country	2017					2018* /USD million/				
	I	II	III	IV	Total	I	II	III	I-III	
Canada	28.9	122.6	228.5	386.2	<b>766.3</b>	396.4	335.9	316.1	<b>1048.4</b>	
Japan	10.9	23.1	23.6	34.2	<b>91.8</b>	29.9	28.7	70.1	<b>128.7</b>	
Luxembourg	14.6	60.3	155.4	16.8	<b>247.0</b>	39.3	47.2	21.8	<b>108.3</b>	
China	58.6	112.4	1.6	51.2	<b>223.9</b>	35.3	25.5	24.3	<b>85.1</b>	
USA	18.0	40.2	25.2	55.4	<b>138.9</b>	17.4	41.3	15.4	<b>74.1</b>	
Hong Kong	24.8	55.4	5.8	15.9	<b>101.9</b>	31.7	12.2	24.5	<b>68.4</b>	
Belgium	0.0	0.0	0.0	24.9	<b>24.9</b>	24.4	0.3	24.4	<b>49.1</b>	
Cayman islands	0.9	6.1	1.9	2.1	<b>10.9</b>	17.5	18.4	0.2	<b>36.1</b>	
Great Britain	4.9	4.9	15.3	0.0	<b>25.1</b>	4.2	7.8	14.4	<b>26.4</b>	
Switzerland	2.3	0.7	0.6	0.6	<b>4.1</b>	0.4	1.3	14.5	<b>16.2</b>	
South Korea	3.0	0.5	2.9	3.7	<b>10.2</b>	11.2	2.7	2.0	<b>15.9</b>	
Russia	2.4	12.2	15.6	0.0	<b>30.3</b>	5.3	3.5	5.9	<b>14.8</b>	
Australia	0.6	3.7	38.9	0.0	<b>43.1</b>	2.9	2.0	4.4	<b>9.3</b>	
Germany	35.5	28.5	19.1	26.1	<b>109.2</b>	3.4	0.0	0.0	<b>3.4</b>	
Singapore	33.6	52.4	0.0	49.0	<b>135.1</b>	0.0	1.2	0.0	<b>1.2</b>	
France	2.5	0.0	1.4	5.1	<b>9.0</b>	0.2	0.0	0.5	<b>0.7</b>	
The Netherlands		7.1	5.6	55.7	<b>68.3</b>	0.0	0.2	0.0	<b>0.2</b>	
Turkey	0.5	0.1	0.3	0.0	<b>1.0</b>	0.1	0.0	0.0	<b>0.1</b>	
Other	12.0	6.0	8.4	18.9	<b>45.4</b>	6.4	534.3	1.7	<b>14.2</b>	
<b>Total</b>	<b>254.0</b>	<b>536.2</b>	<b>549.9</b>	<b>746.1</b>	<b>2086.3</b>	<b>626.1</b>	<b>1062.5</b>	<b>540.3</b>	<b>1700.7</b>	

Graph 3. Total foreign direct investment inflow, USD billion (2010-2018/III)



### Total foreign debt

Remaining balance of Mongolia's total foreign debt as of the 3<sup>rd</sup> quarter of 2018 reached USD 27.911 million which is an increase of USD 1.695 million compared to last year. Debt issued by the government increased by USD 783 million and reached USD 7.024 million while foreign debt by the Mongolbank increased by USD 82 million and reached USD 1.996 million. Debt owed by the banking and other sectors as well as by companies with foreign investment are calculated as the total private sector foreign debt which increased by USD 830 million compared to the same time of last year and reached USD 18.892 million.

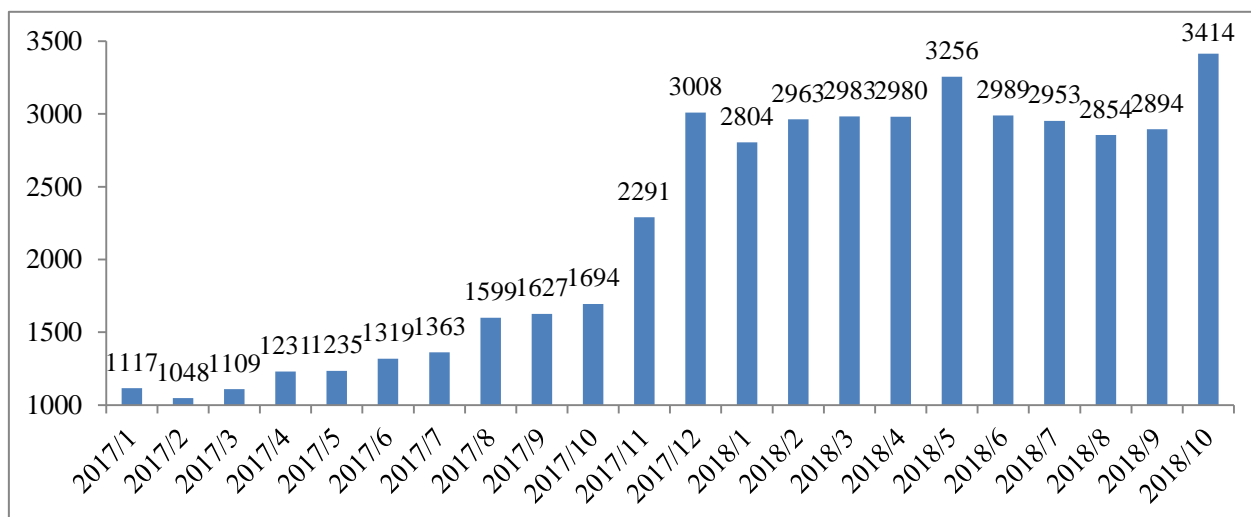
Table 3. Total foreign debt of Mongolia, 2016-2018 (USD million)

Category	12/30/ 2016	3/31/ 2017	6/30/ 2017	9/30/ 2017	12/31/ 2017	3/31/ 2018	6/30/ 2018	9/30/ 2018
Government	4,869	5,844	6,016	6,241	7,321	7,242	6,915	7,024
Central Bank	1,791	1,807	1,877	1,914	2,025	2,137	2,065	1,996
Saving institutions	2,417	2,351	2,177	2,231	2,194	2,346	2,300	2,299
Other sectors	8,121	7,473	7,891	7,967	7,956	7,954	7,959	7,753
FDI: Loan between companies	7,426	7,541	7,609	7,864	7,996	8,234	8,443	8,840
<b>Total foreign debt</b>	<b>24,625</b>	<b>25,017</b>	<b>25,569</b>	<b>26,216</b>	<b>27,493</b>	<b>27,913</b>	<b>27,681</b>	<b>27,911</b>

## **Foreign currency reserve**

Foreign currency reserve reached USD 3413,6 million in November 2018 and is equal to 6.7 months of import volume. Purchase of gold is one of the important means of accumulating foreign currency reserve. Consequently, the purchase of gold by the Mongolbank reached 18.94 tonnes in November 2018 which is comparable to last year.

**Graph 4. Foreign currency reserve, by month, 2017/I-2018/X (USD million)**



*Source: Reports and statistic data published and distributed by the Mongolbank, Ministry of Finance, General Customs Authority and National Statistics Office were referred to when formulating this report.*

DEPARTMENT OF FOREIGN TRADE AND  
ECONOMIC COOPERATION

MINISTRY OF FOREIGN AFFAIRS OF MONGOLIA