



Mongolia

Recent Economic Development and Outlook

November 2013

The economy maintained double digit growth buoyed by expansionary economic policies...

Figure 1. Economic growth maintained double digits.

Quarterly GDP Growth (% , year-on-year)

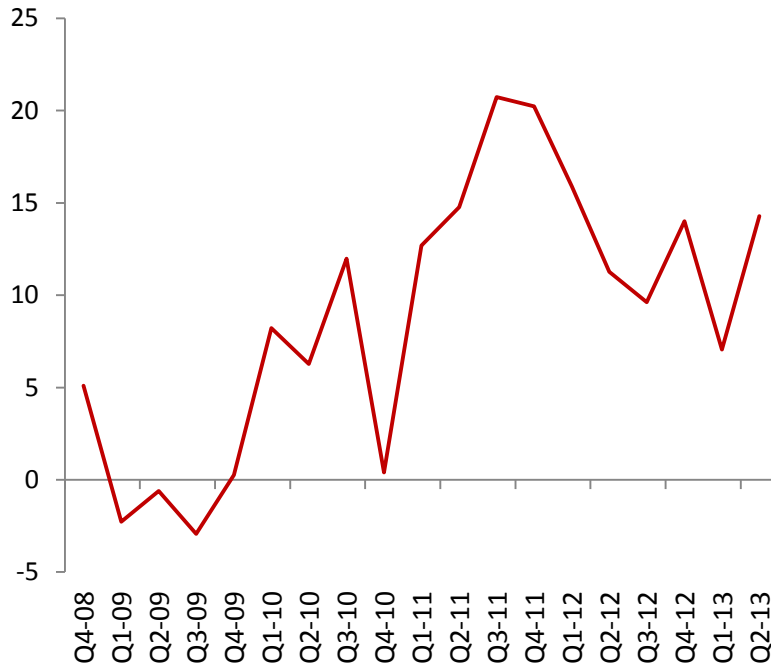
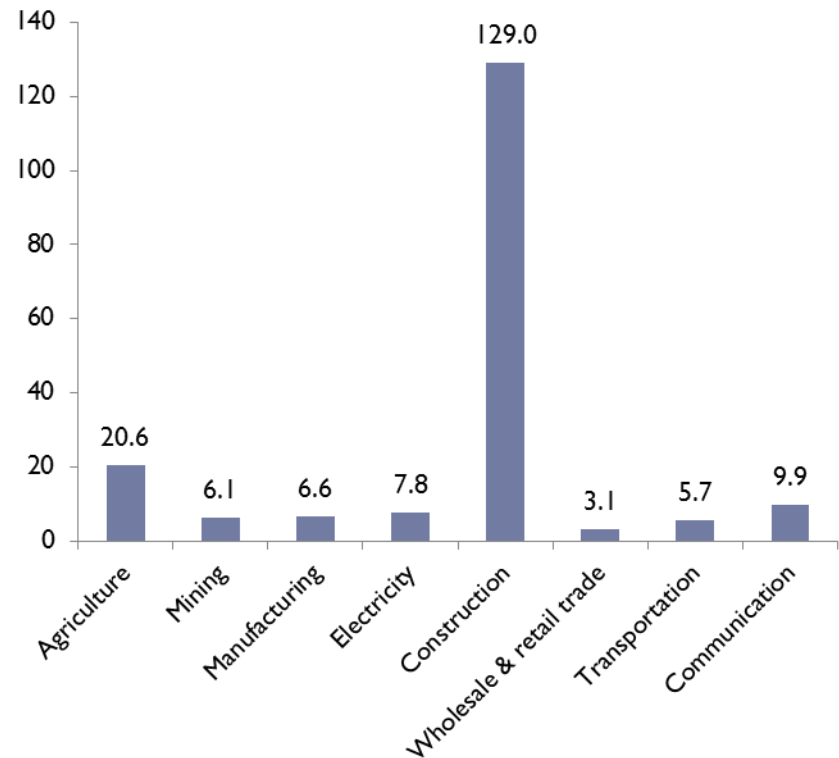


Figure 2. ... driven by strong non-mineral sector outputs.

2013 Second Half Growth rates by Sectors (%)



The high growth came with large balance of payments imbalance as the current deficit remains large and the FDI declines...

Figure 3. The high economic growth came with large current account deficit.

Economic Growth and Current Account Deficit to GDP Ratio (%)

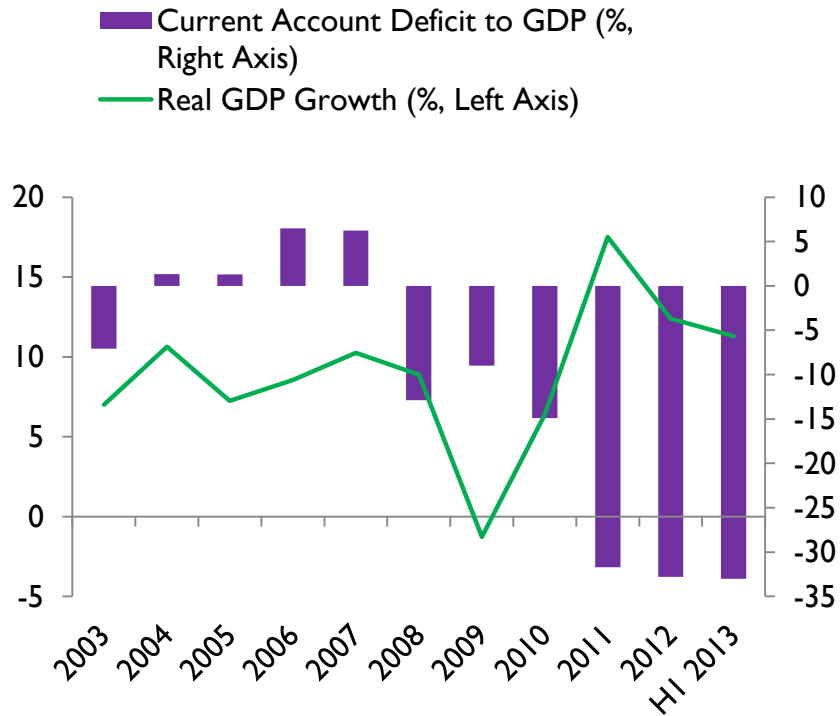
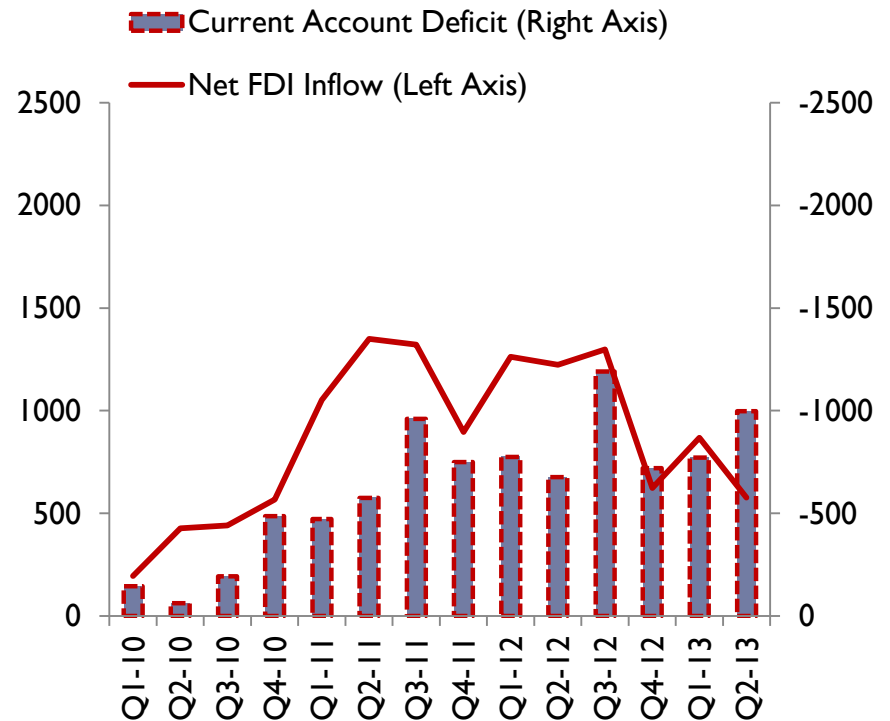


Figure 4. Foreign investment has been declining, putting pressure on the balance of payments.

Current Account Deficit and the FDI trend (in \$ million)



The large balance of payments pressures are reflected in international reserves and exchange rate.

Figure 5. The balance of payments pressure is reflected in foreign exchange market.

International Reserve Level and Exchange Rate

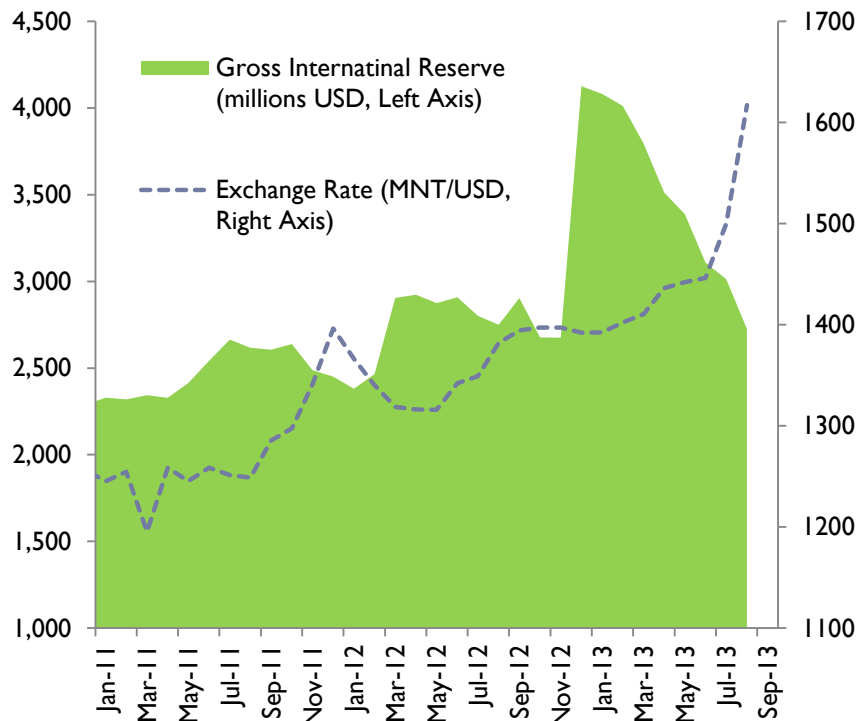
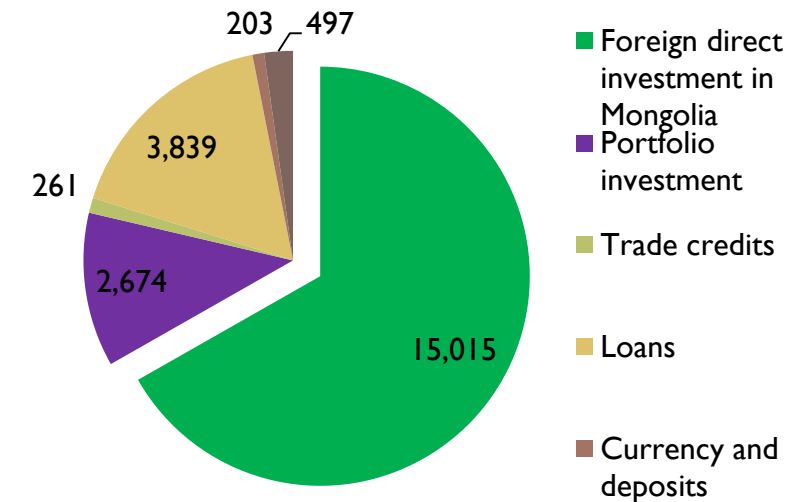


Figure 6. The share of foreigner's short-term investment is low in Mongolia's capital market.

Outstanding Foreign Investment Position (June 2013, \$ million)



Amidst the high growth and continuous loose economic policies, inflation has been rising in recent months

Figure 7. Inflation rose in recent months.

Consumer Price Inflation (% , year-on-year)

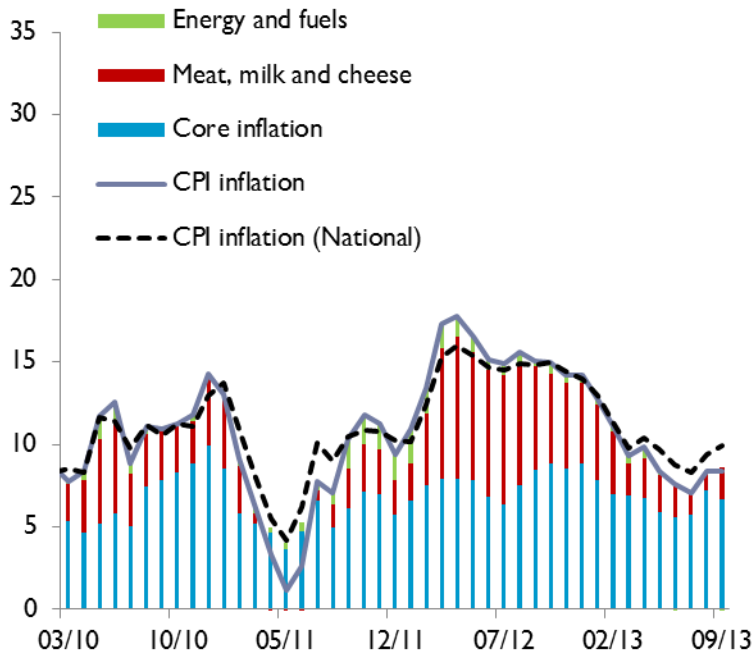
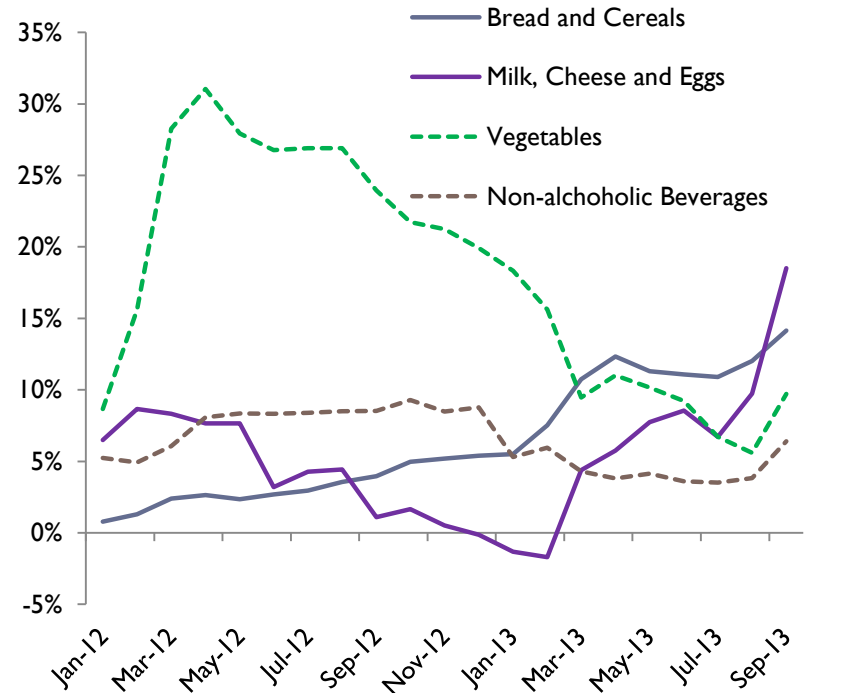


Figure 8. Food price inflation is also rising.

Price Changes in Major Non-meat Food Items (% , year-on-year)



Fiscal policy remains expansionary, boosting economic growth and import demand.

Figure 9. Off-budget spending has been increasing

On-budget and Off-budget expenditures

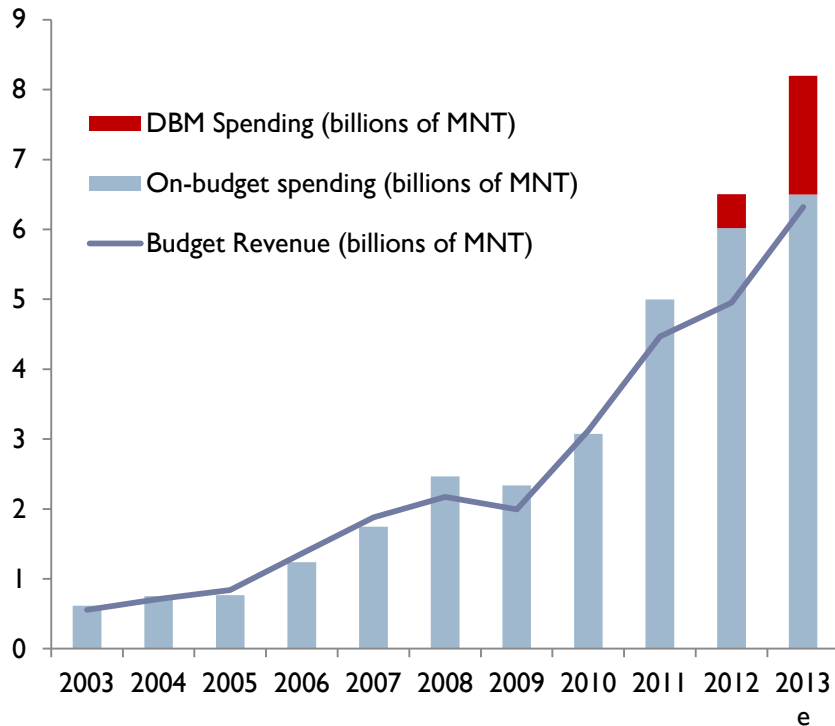
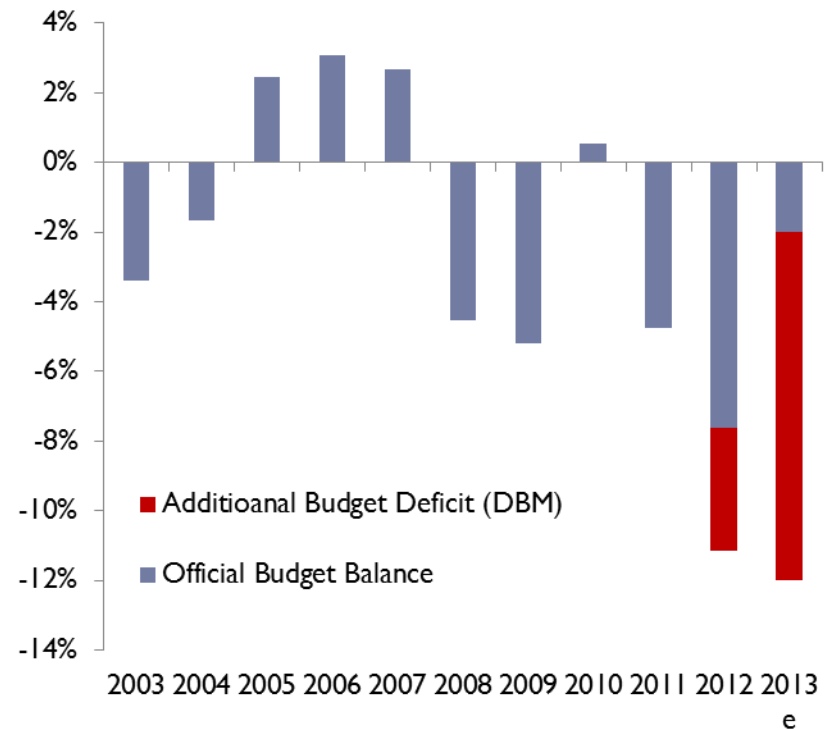


Figure 10. Overall budget deficit will reach 12% of GDP

Overall Budget Balance to GDP (%)



Public debt is on the rise.

Figure 11. Public debt to GDP ratio jumped in 2012

Public Debt to GDP Ratio (%)

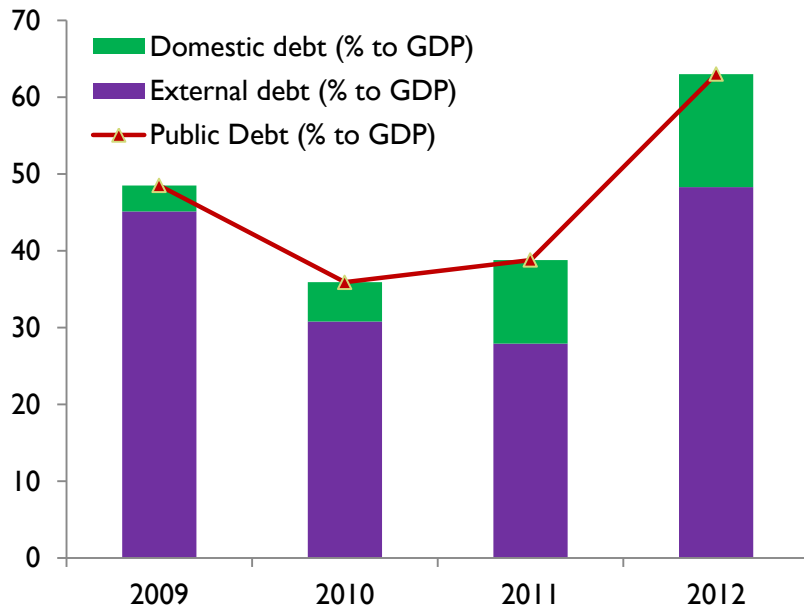
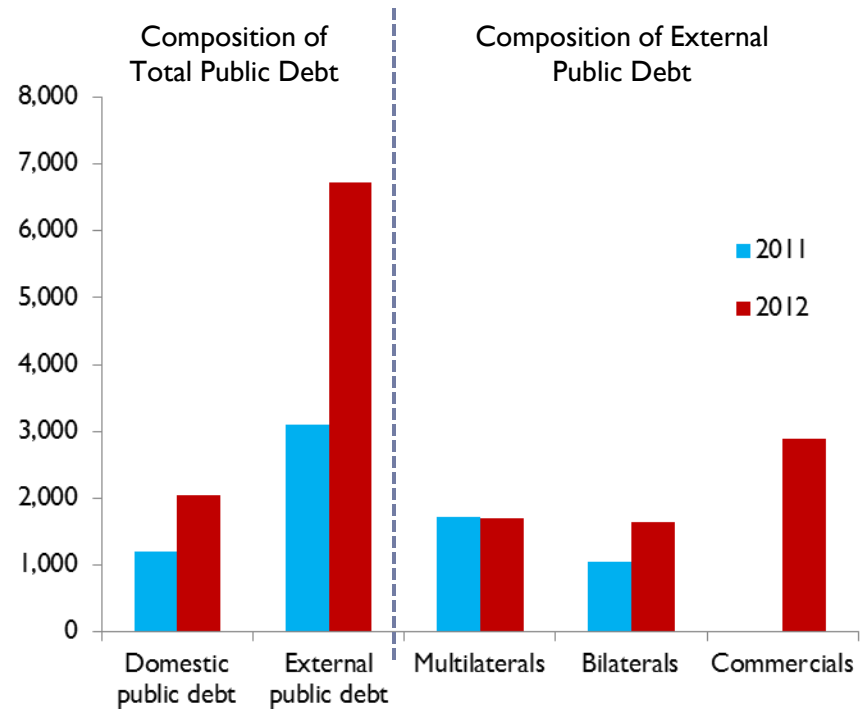


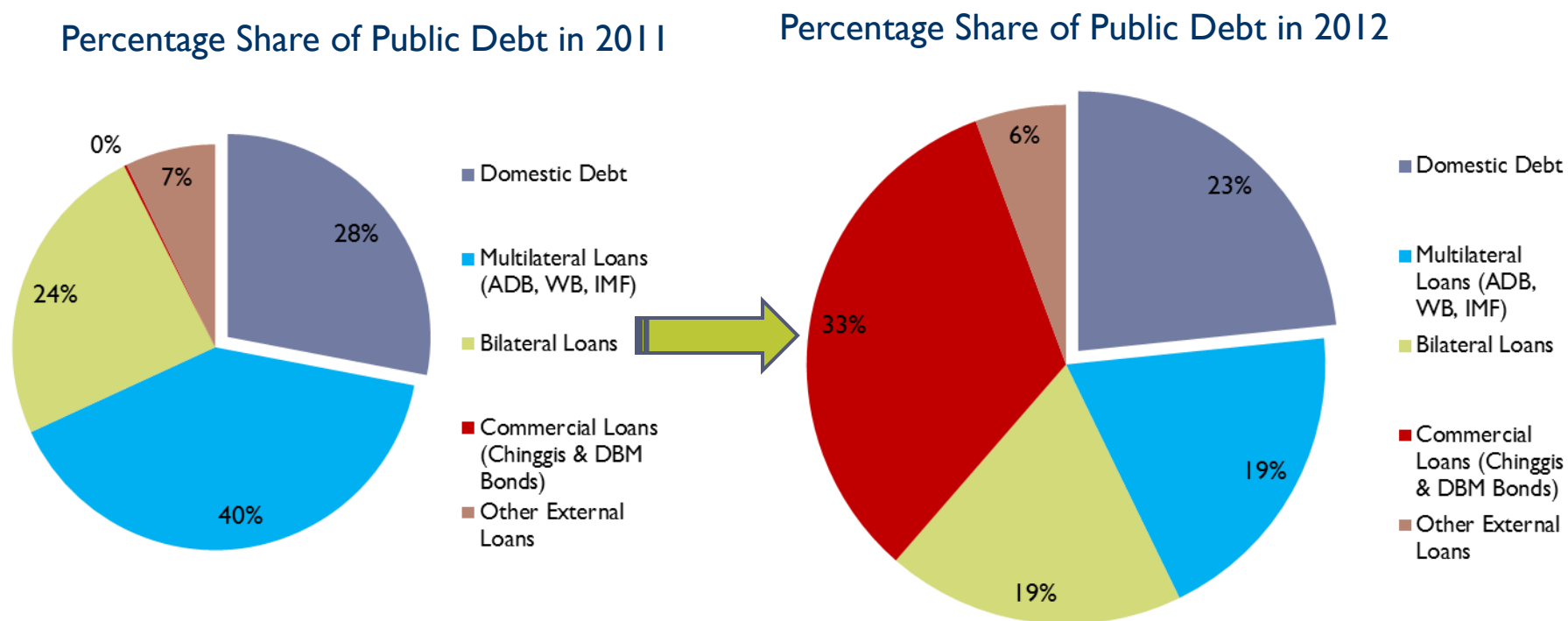
Figure 12. Commercial external loans rose in 2012 due to the issuance of Chinggis Bonds

Public Debt Composition (in billions of MNT)



The composition of public debt has changed as well.

Figure 13. Commercial external loans accounted for 1/3 of total public debt in 2012.



As monetary policy turned expansionary in 2013 as well, bank's loan has been increasing fast.

Figure 14. The BoM has been providing commercial banks with policy loans...

Bank Loans to Private Sector and Central Bank Loans to Banks

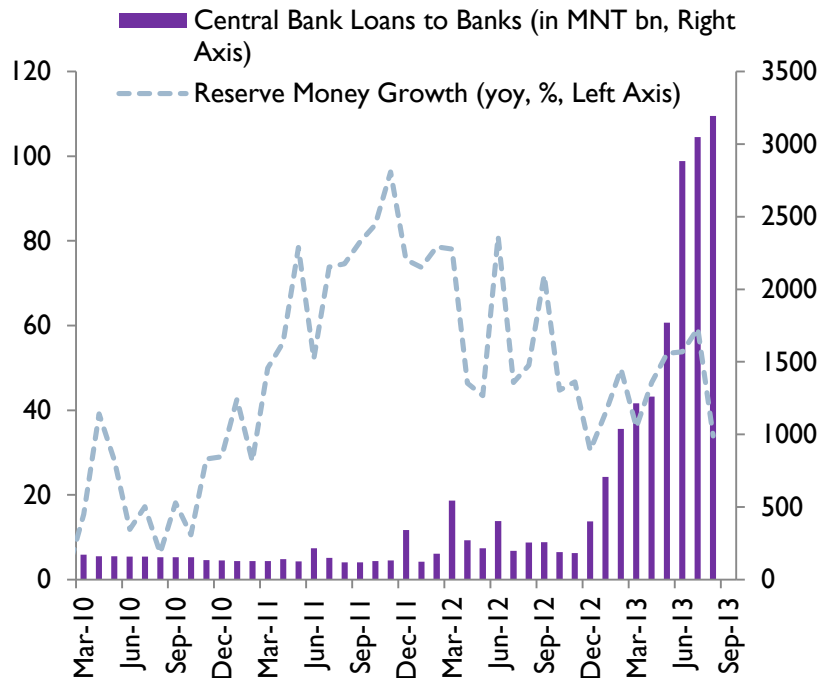
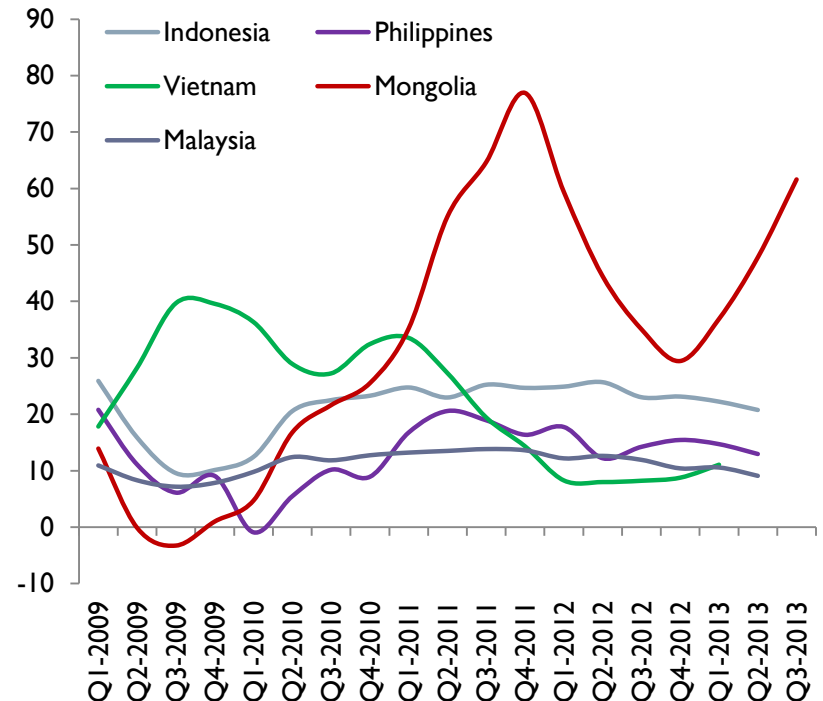


Figure 15. Domestic credit has been accelerating fast.

Domestic Credit Growth (in percent, year-on-year)



And the growth of banks loans are more concentrated on construction.

Figure 16. Loans to all sectors increased, especially to construction sector.

Bank Loan Growth by Sectors (% , quarter-on-quarter)

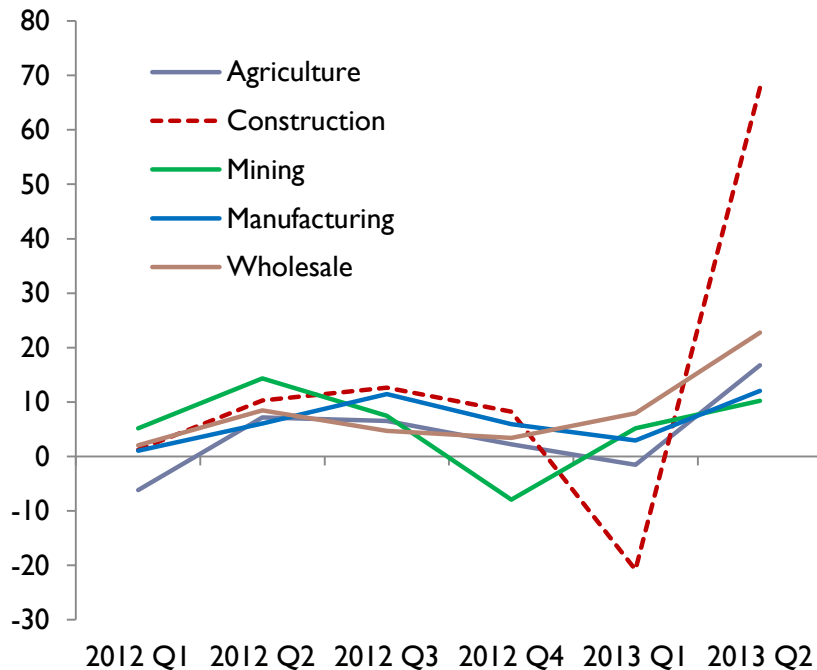
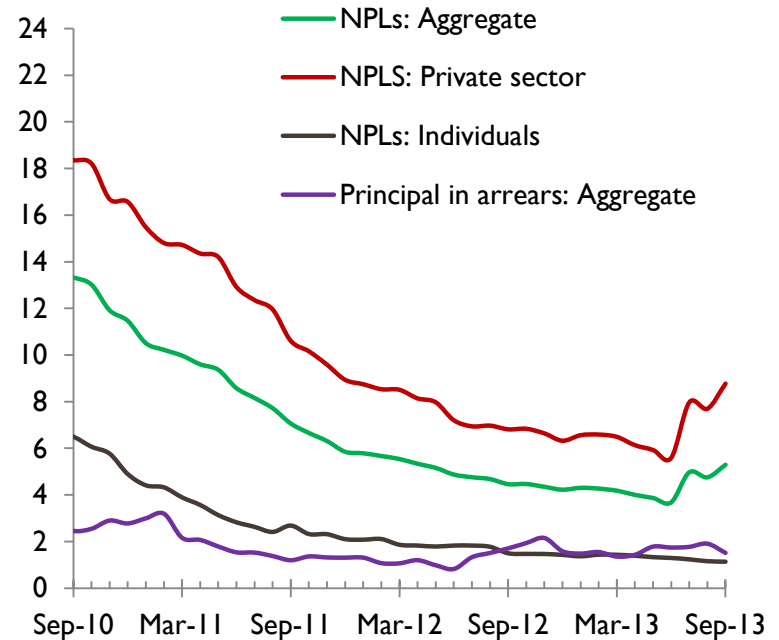


Figure 17. The NPL ratio rose in recent months.

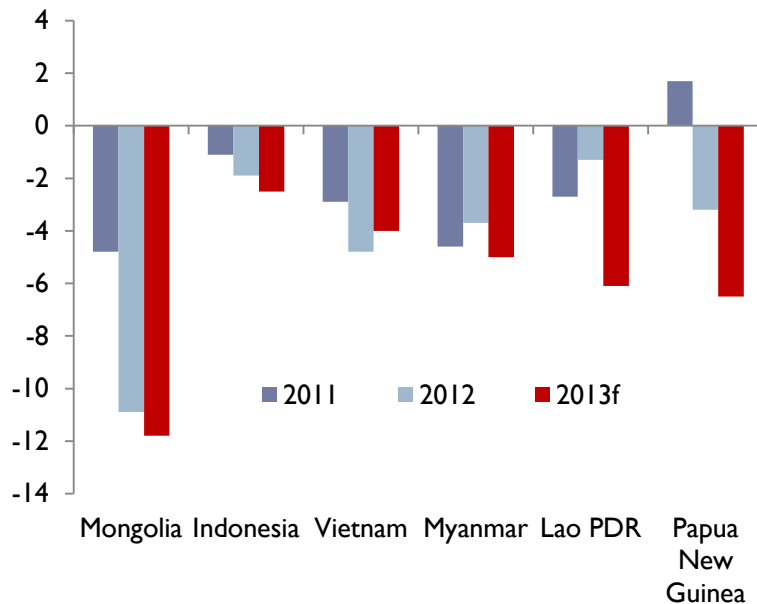
Bank's Non Performing Loans Ratio (%)



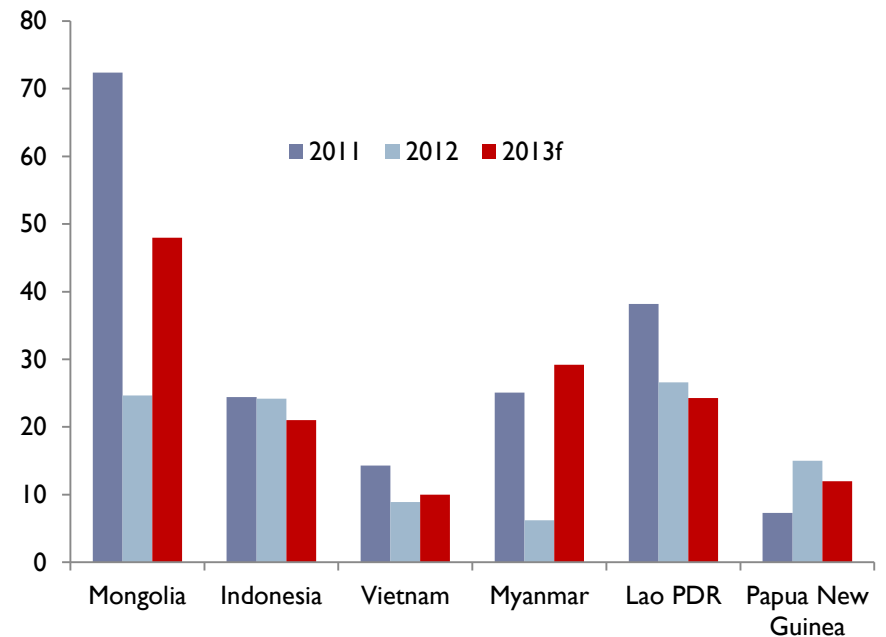
Economic policies have been highly expansionary compared with other countries in East Asia...

Figure 18. Economic policies are highly expansionary compared with other developing countries in East Asia.

Fiscal Deficits in percent to GDP

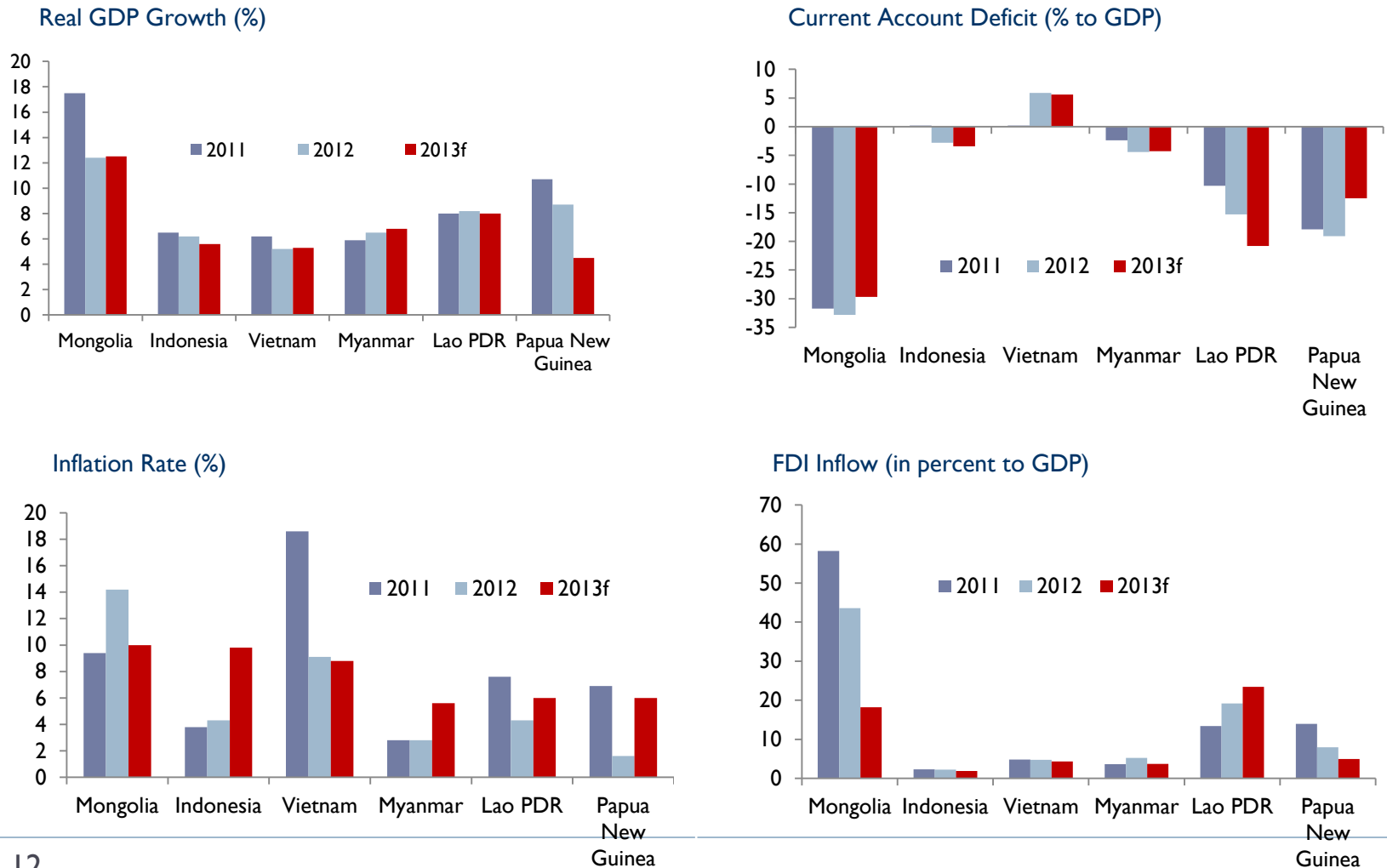


Domestic Credit Growth (year-on-year, %)



... and the economy became more vulnerable despite the higher growth.

Figure 19. Key economic indicators: Developing Countries in the East Asia region.



Economic policies need to be tightened further toward economic stability

The current economic policies are not sustainable given the large balance of payments pressures and rising inflation.

Economic policies should be further tightened to address the growing balance of payments pressure and economic vulnerability.

1. Fiscal policy should be tightened further. Spending of the DBM and the Chinggis bond proceeds should be included in the fiscal tightening.
2. Monetary policy also should be tightened. The rapid growth of credit needs to be curbed and policy lending programs should be phased out.
3. More focus is needed on how to spend well. Budget spending programs should be prioritized based on broad national development strategy.
4. Banking supervision should be strengthened in light of rapid growth in bank loans and the recent failure of Savings Bank.