



*Moncoo Bank*



**THE BANK  
OF MONGOLIA**

**INFLATION REPORT**

**2020**

**SEP**

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**BANK OF MONGOLIA**

## **INFLATION REPORT**

September 2020

### **Monetary policy strategy**

According to the Law on Central Bank, **the main objective of the Bank of Mongolia is to stabilize togrog**. Within this objective, in the medium run, the Bank of Mongolia implements monetary policy to stabilize the annual inflation rate measured by consumer price index around its target rate set in the Monetary Policy Guideline. By stabilizing inflation at a low rate, the Bank intends to safeguard the real income and wealth of households, facilitate an environment conducive to banking and financial system stability, and promote investments and sustainable economic growth in the long run. The **Bank of Mongolia's inflation target for 2020 will be stabilized at 8 percent** and around 6 percent in the medium term.

In carrying out its monetary policy, the Central Bank alters the policy rate in response to changes in aggregate demand, to stabilize inflation by influencing market interest rate and consequently aggregate output, asset prices, expectations, exchange rate, and domestic demand. Coupled with the policy rate, since 2018 the Bank of Mongolia started to implement macroprudential policy measures such as setting adequacy ratios for the banking sector as a whole to cool down overheating credit market, to curb overcrowding of financial products in certain sectors, and to limit financial dollarization.

Successful implementation of the inflation targeting strategy of monetary policy depends on the Central Bank's ability to sustain market confidence and manage its expectations effectively. To this end, the Bank of Mongolia publishes the Inflation Report each quarter to inform the public on the performance and forecasts of macroeconomic indicators, inflation, near term economic outlook, and factors that influence overall economic outlooks such as external environment, financial sector, aggregate demand, aggregate supply, employment, prices, and costs. Informing the public on monetary policy decisions consistent with the Central Bank's target and inflation forecasts and on the decision-makers' rationale, serves the purpose of facilitating the Central Bank transparency, building public confidence in the Central Bank, thus supporting the Central Bank's policy objective to stabilize inflation around its medium-term target by managing market expectations.

### **Monetary policy decision**

During its scheduled meeting on September 14, 2020, the Monetary Policy Committee of the Bank of Mongolia decided to (1) lower the policy rate by 1 percentage point to 8 percent; (2) introduce a long-term repo financing instrument. Please read the monetary policy statement [here](#).

The data, figures and tables included in the inflation report can be downloaded at <https://www.mongolbank.mn/listmonetarypolicy.aspx?id=05>

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## EXECUTIVE SUMMARY

Despite implementation of a set of fiscal and monetary policy measures supporting domestic demand and financial stability, economic activities are expected to contract in 2020 due to COVID-19 pandemic leading to weaker external and domestic demand. Inflation is projected to remain at low levels under the circumstances that supply-driven shortages do not take place.

**Demand and supply-driven pressures on inflation is expected to remain subdued.** Annual inflation has been stable in recent months and has reached 3.4 percent nationwide and 3.2 percent in Ulaanbaatar city as of July 2020. From the demand side, the negative impact of COVID-19 pandemic surpasses the positive impact on inflation by measures implemented by the Central bank and the government, that are aimed at supporting consumption, and demand-driven inflation has been decelerating. With regards to supply factors, fuel prices have contributed to inflation reduction and meat and vegetable prices have declined following their seasonal patterns, supply-driven inflation is expected to remain subdued. Under the conditions that sudden price fluctuations induced by supply-driven factors do not take place, inflation is expected increase merely due to the base effect but to remain below the target level over the remaining months of 2020. The inflation is expected to gradually pick up and stabilize around the Central bank's medium-term target in 2021.

**As a result of persistent spread of COVID-19 pandemic and dramatic changes in the domestic and external economic environment within a short period of time the economic growth contracted sharply in the first half of the year and is expected to be followed by a gradual recovery in the latter half of 2020 and 2021.** Economic growth in the second quarter of 2020 fell below projections as COVID-19 led to contractions in all sectors except agriculture and information and communication. The mining sector production, contracted by 29.4 percent in the first half, is projected to recover from the third quarter of the year. Rise in prices for key export commodities at the international market and an increase in coal exports thanks to loosened of restrictive measures on coal transportation are expected to support the mining growth. For the rest of the year, the production of non-mining sector is expected to recover gradually as restriction measures are eased, the production of mining sector recovers, and public spending increases. The economy is expected to continue to recover next year as external demand and investments pick up and the mining production intensifies.

The changes in the economic outlook are prominently dependent on the containment of COVID-19 and the uncertainties remain elevated. On top of that, further trade conflicts and geopolitical tensions between powerful nations, the scope of Oyu Tolgoi underground mine development, risks of fiscal revenue shortage, and a resulting reduction in fiscal capital expenditure and implementation of domestic large-scale projects are considered the sources of uncertainty regarding projections.

**Money supply growth, which slowed for the last five consecutive quarters, has ascended from the second quarter of 2020.** Credit growth is expected to be constrained over the coming months by increased market risks associated with the spread of COVID-19 and reduced economic activities in the external and domestic environment. Annual growth of M2 money supply has increased to 5.8 percent as of July 2020 as the government has financed the budget deficit from its reserves in the banking system.

**Uncertainties in the external environment remain elevated.** Persistent spread of COVID-19 has induced the downward revision of global economic growth projections. Though circumstances regarding COVID-19 have improved in China, the growth projections of major economies such as the United States, Russia, and the Euro area are deteriorated. This could possibly drag China's external demand and disrupt the stability of the economic recovery. In addition, increased tensions between the United States and China have aggravated the inherent uncertainties. External demand outlook remains highly dependent on the rate of containment of COVID-19 pandemic and the ability to lower risks of spread.

**The balance of payments is expected to worsen in 2020.** As of the second quarter of 2020, the balance of payments was in deficit of 329 million USD or 1.8 percent of GDP<sup>1</sup>. Private sector bond repayments, registered under the portfolio investment outflow, have prominently rendered the financial account surpluses to decline by 432 million USD, and errors and omissions<sup>2</sup> of the balance of payments declined by 245 million USD from that of previous year, worsening the balance of payments. In the second quarter of 2020, the current account was in a deficit of 221.2 million USD (1.7% of GDP), narrowing of 124 million USD or 36 percent year-on-year. Inherent uncertainties in the external and domestic economy could worsen the balance of payments deficit further.

Terms of Trade has deteriorated by 3.4 percent year-on-year in July 2020 since export prices fell faster than import prices. Particularly, export prices fell by 10 percent and import prices fell by 6.8 percent year-on-year. While projections for oil price has been revised up marginally, prices of other main exporting commodities have been revised upwards, facilitating improvement in terms of trade in the latter half of 2020.

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<sup>1</sup> Accumulated 4 quarter GDP.

<sup>2</sup> Unexplained capital outflows increased.

## I. INFLATION

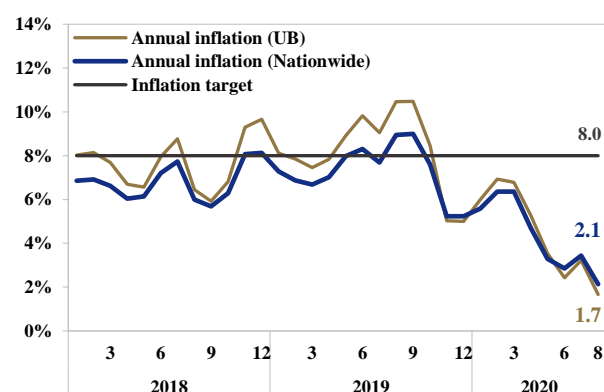
The Bank of Mongolia's monetary policy aims at stabilizing inflation, measured by a consumer price index, at around 8 percent during 2019-2020 and around 6 percent in the medium term.

### Inflation dynamics

Inflation continued to decelerate, averaging 3.7 percent in the second quarter, as a sharp contraction in economic activity has put downward pressure on **demand-driven** prices and descending movements dominated among **supply-side** prices. Headline inflation reached 2.1 percent nationwide and 1.7 percent in Ulaanbaatar city as of August 2020 (Figure I.1).

Figure I.1

### Inflation



Source: NSO

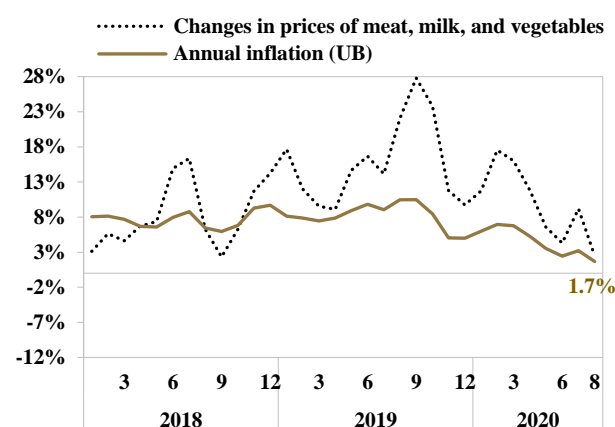
While the monetary, fiscal, macroprudential policies and financial regulations have supported the demand and spending, the demand-driven pressure on prices has been muted due to the negative consequences of the pandemic, such as a sharp contraction in investment and foreign trade, uncertainties affecting market participants adversely, and dampening credit growth.

Price increases associated with the supply side, which had significantly contributed to inflation in the past, have stabilized in the first half of the

year and prices of fuel have contributed to inflation reduction (Figure I.2, Figure I.3).

Figure I.2

### Annual growth in headline inflation and seasonal food items



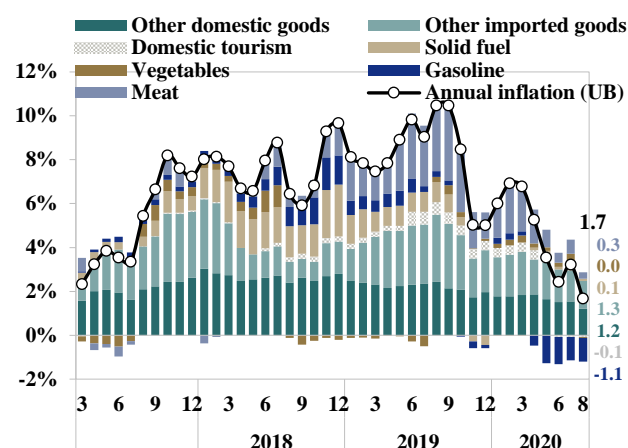
Source: NSO, Bank of Mongolia

**Domestic fuel prices** fell by 420 MNT on average in April and May in the wake of drop in global oil prices. However, domestic **fuel prices** increased by about 80 MNT in July and August following the recovery in oil prices at the global market to 45.3 \$/barrel in August and the depreciation of MNT. While fuel prices have risen over the past 2 months, it remains lower than that of previous year, contributing -1.1 percentage points of inflation in August 2020 (Figure I.3).

**The prices of meat** increased along with its seasonal patterns in the first half of the year and falling from mid-July, it contributed 0.3 percentage points of inflation in August 2020 (Figure I.2, Figure I.3).

Figure I.3

Contributions to annual headline inflation in Ulaanbaatar, by main categories of items



Source: NSO, Bank of Mongolia

### Comparison between inflation projections

In the second quarter of 2020, average inflation reached 3.7 percent, 0.4 percentage points lower than expected. Food prices has increased by 6.2 percent year-on-year, in line with expectations. However, an increase in non-food prices, particularly, a 4.7 percent year-on-year growth in price of imported goods was lower than expected. Fuel prices fell by 17.7 percent, below expectations.

Table I.1 Changes in the inflation outlook

Assumptions on near-term forecasts of inflation	
Previous forecast 2020Q2-2021Q1	Current forecast 2020Q3-2021Q2
<b>Prices of Meat</b>	<b>Projection revised up</b>
Prices of meat rose at a slower rate than its seasonal patterns in March and April. Hence, price forecasts are revised down.	Prices of meat rose at a slower rate than its seasonal patterns in July. Hence, price forecasts are revised up.
<b>Prices of imported goods</b>	<b>Projection revised down</b>
Prices of domestic goods rose slightly above expectations in the first quarter but fell short of its seasonal patterns in April.	Prices of domestic goods rose below expectations in the second quarter and July.
<b>Prices of domestic goods</b>	<b>Projection revised down</b>
Prices of domestic goods rose at a slower rate than expected in April. Hence, price forecasts are revised down.	Prices of domestic goods rose at a slower rate than expected in July. Hence, price forecasts are revised down.
<b>Prices of administered items</b>	<b>Projection unchanged</b>
Prices of administered items are assumed to remain unchanged.	Prices of administered items are assumed to remain unchanged.
<b>Prices of gasoline</b>	<b>Projection revised down</b>
Domestic fuel prices fell in line with expectations in the first quarter and in April, fell further in May.	Although domestic fuel prices rose slightly in July and August, it fell short of expectations in the second quarter.

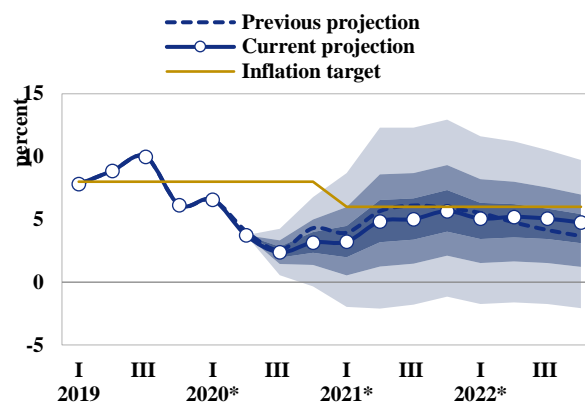
Source: Bank of Mongolia

### Inflation outlook

Stronger-than-expected negative consequences of COVID-19 pandemic on the economy and dampening of economic activities are the main factors to revise the inflation forecast down.

Figure I.4

Inflation forecast



Source: Bank of Mongolia

The inflationary pressure of supply-driven factors is expected to remain subdued over the coming quarters. In particular, domestic fuel prices, which fell in the second quarter, have been contributing to inflation reduction and meat prices are not likely to fluctuate drastically thanks to the a steady supply of meat.

On the demand side, headline inflation is projected to decelerate as the adverse impact of contraction of the domestic economy induced by COVID-19 pandemic prevails the inflationary impact of accommodative measures taken by the central bank and the government this year.

Inflation is expected to gradually pick up following the recovery in the economic activities and domestic demand next year and stabilize around the Central bank target in the medium-term.

Table I.2

Inflation forecast<sup>3</sup>

	2019 actual	2020* projection	2021* projection
Inflation, CPI <sup>4</sup>	6.1	3.2 [2.3-4.0]	5.7 [4.0-7.3]

Source: Bank of Mongolia

<sup>3</sup> A confidence interval of 30 percent

<sup>4</sup> Fourth-quarter average inflation of each year

### Uncertainties that could change inflation outlook:

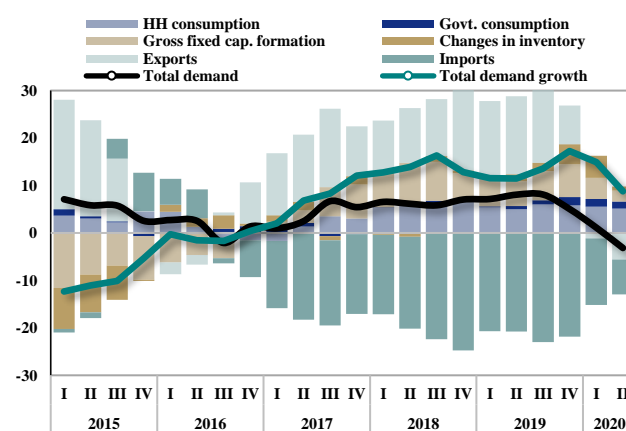
- Potential shortage or oversupply of goods and services have significant implications on inflation projections. For instance, depending on the weather conditions, prices of meat and vegetables may be subject to sudden fluctuations, prices of administered items may increase by exceeding projections and these factors may alter inflation forecasts.
- The potential second wave of COVID-19 pandemic, thereby extension or tightening of restrictive measures could weigh on economic activities and inflation outlook.
- Building up of international geopolitical risks and fueling uncertainties in the external environment, could bear negative consequences for commodity prices in the international market and capital inflows to the economy and may push MNT to depreciate further, thus having an inflationary impact.

## II. ECONOMIC GROWTH

According to the preliminary estimates, the economy contracted by 9.1 percent in the second quarter of 2020 and by 9.7 percent in the first half of the year. From the demand side, the economic growth was supported by household and government consumption, and net exports, while it was dragged down by a decline in gross capital formation (Figure II.1).

Figure II.1

Decline in gross capital formation and exports<sup>5</sup> revenue mainly contributed to the contraction of total demand.<sup>5</sup>

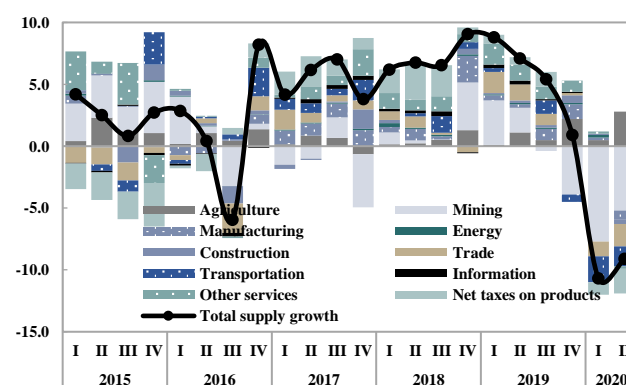


Source: NSO

In terms of economic sectors, sectors other than agriculture and information and communication have contracted (Figure II.2). The adverse effects of COVID-19 has been higher than anticipated.

Figure II.2

Restrictive measures related to COVID-19 pandemic have yielded significant negative consequences on economic growth.



Source: NSO

<sup>5</sup> Growth computed from the sum of the past 4 quarters

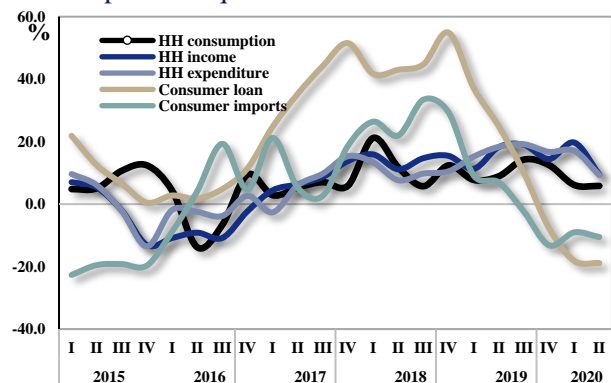


### Consumption

In the second quarter, **household consumption** expanded by 5.8 percent from that of previous year and contributed 3.5 percentage points to total demand growth. Implementation of measures namely, increasing wages for public sector employees and pensions in line with inflation, relieving from pension loan repayments, and delaying loan repayments, have supported the consumption. Consumer loan issued by banks, which had been supporting consumption in recent years, continues to slow down (Figure II.3).

Figure II.3

Growth of household consumption remained at the level of previous quarter.



Source: Bank of Mongolia

**Public consumption** or public expenditure on goods and services grew by 9.8 percent in real terms from previous year in the reporting quarter and contributed 1.4 percentage points to total demand growth.

### Investment

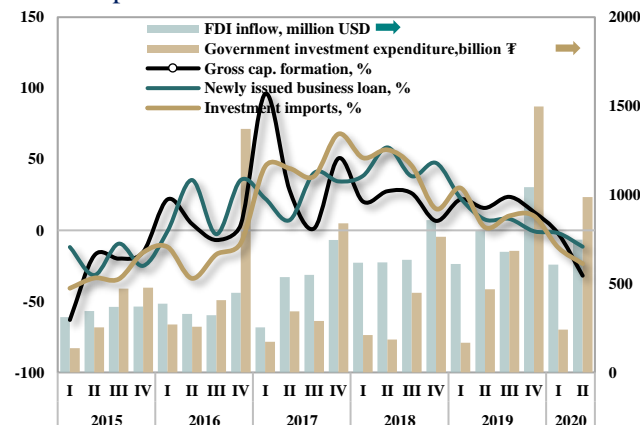
Uncertainties regarding expectations of market participants and investment environment persisted amid the pandemic, rendering gross capital formation to decline by 31.9 percent from previous year in the reporting quarter and contributed 14.0 percentage points to total demand contraction.

Though business loan issuance has been growing, the incoming flow of FDI, especially expenditures related to Oyu Tolgoi underground mine development decreased from previous

year, preceding a tendency for investment by private entities to decline.

Figure II.4

Gross capital formation declined.



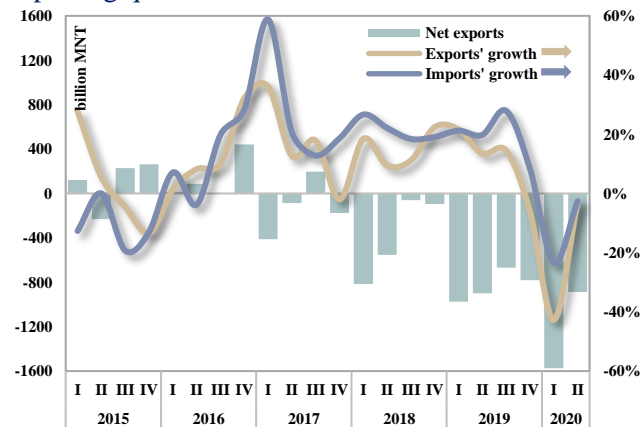
Source: NSO, Bank of Mongolia

### Net exports

Net exports contributed 0.3 percentage points to total demand growth. In the reporting quarter, exports and imports of goods and services declined by 2.7 and 2.6 percent, respectively, in real terms, year-on-year (Figure II.5).

Figure II.5

The foreign trade deficit widened sharply in the first quarter of 2020 but started declining from the reporting quarter.



Source: NSO

Prices of majority of commodities, excluding iron ore and gold, have been falling in international markets owing to COVID-19 pandemic. Moreover, export revenue was declined due to measures associated with the pandemic restricting transportation of coal and crude oil exports as well as metal content of copper concentrates from Oyu Tolgoi open pit

being reduced in accordance with the specific type of ore being extracted.

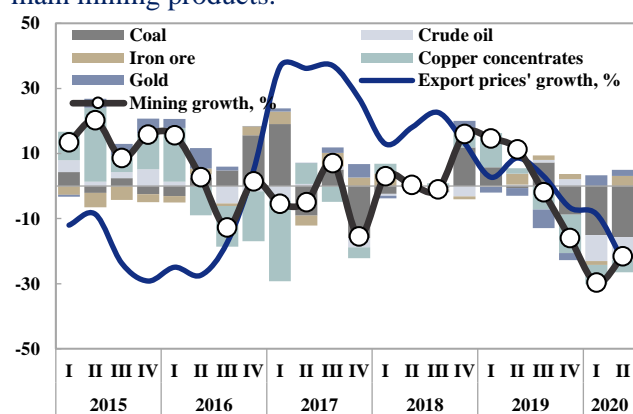
Decrease in imports was driven by reduced expenditure on durable consumption goods including, automobiles and investment items such as heavy machineries and equipment as well as lower prices and volume of fuel products. Furthermore, the fall in total services' imports was explained by a contraction in transportation, tourism, and non-resident consultant services.

### **Economic sectors**

In the second quarter of 2020, the adverse impact of COVID-19 continued weighing on domestic and external demand, dampening economic activity, and resulting in a continued contraction in the manufacturing and services sectors. Mining sector production contracted by 29.2 percent in the reporting quarter as the extraction of main commodities, excluding gold and iron ore, dropped. Particularly, the production of coal, crude oil, and copper concentrates declined by 60.2 percent, 66.5 percent, and 2.4 percent, respectively (Figure II.6).

Figure II.6

The slowdown in external demand induced a 21.6 percent contraction in the production of the five main mining products.



Source: NSO, Bank of Mongolia

Transportation sector value-added shrank by 34.8 percent in the reporting quarter, with declining coal exports impacting the transportation sector. In line with reduced activities in transportation sector, a drop in sales of gasoline and fuel products as well as heavy

machineries and equipment for investment purposes led to trade sector contracting less than expectations at 15.6 percent.

Construction sector value-added contracted by 10.6 percent, below expectations, due to a slowdown in major construction works amid COVID-19 pandemic.

The service sector value-added was higher than expected, declining 1.1 percent in the reporting quarter. COVID-19 and preventive measures were expected to drastically curtail the services sector and revenues from restaurants, entertainment and tourism declined rapidly. Yet the service sector value-added performed better than expected thanks to better-than-expected financial and insurance services and increased public services.

Agriculture sector growth exceeded expectations to reach 13.1 percent, as the growth rate of livestock was relatively high in the first 2 quarters of 2020.

Revenue from net taxes on products declined by 14.3 percent in the reporting quarter, as the VAT revenue declined with weakening economic activities, and imports of automobiles dropped.

### **Potential output**

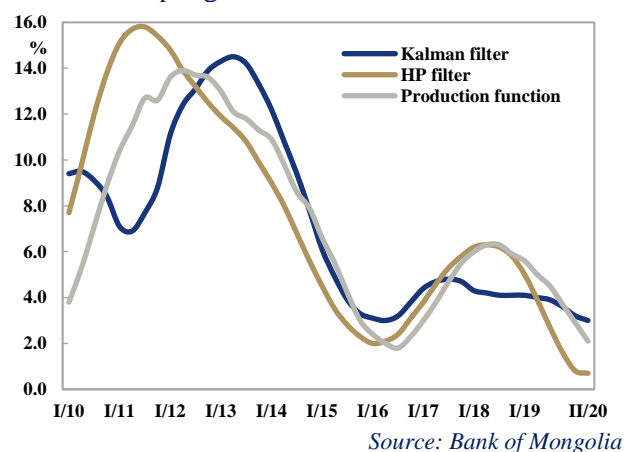
In recent years, increased investment for the development of the mining sector and its indirect impact have been spurring non-mining sector growth and thus, supporting potential output growth. However, due to COVID-19 pandemic, domestic economic activity was dampened in recent quarters and potential production growth has been decelerating gradually (Figure II.7).

The potential output growth estimated by single-variate HP filter and production functions suggests a sharp decline in recent quarters.

However, the estimate of Kalman filter, a multi-variate estimation that uses information on key macroeconomic indicators and their relations, suggests a gradual decline in potential output growth, fluctuating around 2-3 percent in the first half of the year.

Figure II.7

Potential output growth

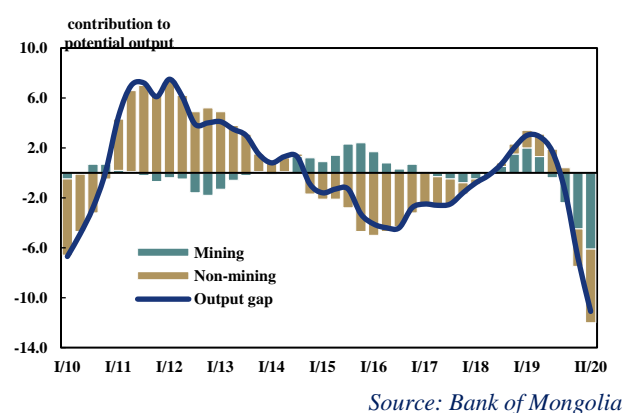


Output gap

Thanks to the growths in mining production and investment, the negative output gap closed in 2018 and remained positive throughout 2019. However, the output gap turned negative once again in the first half of the year owing to COVID-19 pandemic (Figure II.8).

Figure II.8

Output gap<sup>6</sup>



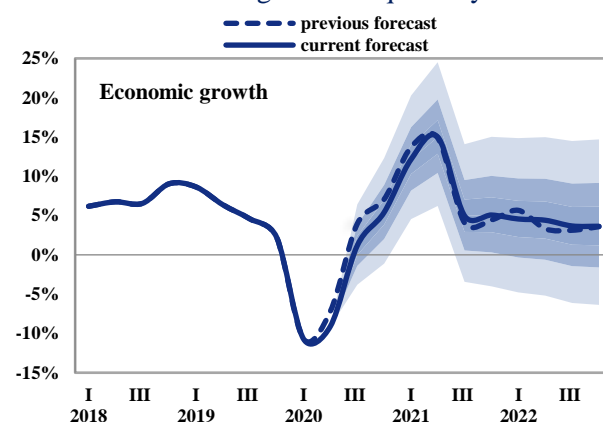
Economic outlook

Economic growth did not reach expectations in the second quarter of 2020. It was mainly due to the adverse impact of COVID-19 on the domestic economy that was larger than expected and the growth of non-agricultural sectors was lower than expected. Economic growth projections have been revised downwards this year and revised upwards slightly next year. Due to COVID-19 pandemic, the growths in most of the economic sectors have been revised down

for this year. As for next year, the pickup in the mining sector is expected to support overall economic growth (Figure II.9, Table II.1.1).

Figure II.9

Forecasts for annual growth of quarterly GDP



**Mining:** This year's growth in the mining sector has been revised down, as performance in the second quarter was low and production of most products fell short of expectations in July. Mining sector growth in 2021 is to be supported through recovery in the external demand, improvements in production volumes of key commodities including, copper, coal, and crude oil, and expected upswing in the metal content of Oyu Tolgoi copper concentrates.

**Non-mining:** The growth projections in non-mining sectors other than agriculture and construction have been revised down from previous projection. The reasons were the extension of some of the government's preventive measures of the pandemic to the third quarter and lower-than-expected economic performance in the second quarter of the year. The strong growth in the agricultural sector in the first half of the year is expected to resume in the second half of the year. In addition, public investment expenditures are expected to increase from previous forecast, supporting the growth of the construction sector in the second half of the year. In 2021, the growth in the non-mining sector is projected to improve as increase in foreign direct investment picks the

<sup>6</sup> Estimated by Kalman filter.

mining sector activities up and supports the non-mining sector indirectly.

Table II.1.1

Economic growth forecasts<sup>7</sup>

	2019 <i>actual</i>	2020* <i>projections</i>	2021*
GDP growth, %	5.1	(-3.3) – (-1.9)	6.7 – 10.8
Mining, %	-0.6	(-9.0) – (-7.6)	17.7 – 21.8
Non mining, %	6.7	(-1.8) – (-0.4)	4.1 – 8.2

Source: Bank of Mongolia

### Uncertainties that may affect the economic outlook

Continued outbreaks of COVID-19 and the likelihood of it not coming under control in the near term remain to be the main source of uncertainty affecting the economic outlook. The projection for economic growth may change if the assumptions regarding the spread of COVID-19 used in the forecast alter. Though circumstances regarding COVID-19 have improved in China, major economies such as the United States, Russia, and the Euro area are at risk of falling deeper into recession and delaying economic recovery in China. In addition, increased tensions between the United States and China have aggravated the uncertainties. Weaker external demand and economic growth in China translates to reduced demand for commodities and lower prices.

Some analysts have warned that countries lifting their quarantine measures too early could face further waves of COVID-19. In this case, global economic growth could have a "W" shape recovery and the slowdown could persist until 2022. This risks further declines in external demand and commodity prices.

In recent months, the prices of some mineral commodities at international markets have risen significantly, which has led to an upward revision in the export price forecast. However, given the current uncertainty surrounding

geopolitical issues and the pandemic, there is a high risk that mineral prices to turn down.

If the restrictions against the spread of COVID-19 are tightened and extended domestically, there are risks such as trade, services, and production to fall sharply, foreign trade to get disrupted, unemployment to rise and economic difficulties to deepen.

Table II.1.2

## Changes in the economic growth outlook

Changes in Economic growth outlook (2020)	
AGGREGATE DEMAND	Expectations weakened
<b>Consumption</b>	<b>Expectation unchanged</b>
<ul style="list-style-type: none"> <li>Household consumption has been supported by implementation of measures namely, relieving from pension loan repayments, increasing wages of public sector employees and pensions, and delaying repayments of loans.</li> <li>Households have been expanding their consumption of food items, under the specific circumstances of the COVID-19 pandemic.</li> <li>Government consumption growth is expected to pick up due to implementation of a set of fiscal measures aimed at easing economic difficulties.</li> </ul>	
<b>Investment</b>	<b>Expectation deteriorated</b>
<ul style="list-style-type: none"> <li>Uncertainties in the investment environment persists amid COVID-19 pandemic.</li> <li>Oyu Tolgoi's underground development expenditures have declined from the that of previous year, resulting in a slowdown in corporate investment.</li> <li>Business loan issuance continues to decelerate.</li> <li>Fiscal capital expenditure has been revised down by the fiscal amendment.</li> </ul>	
<b>Net exports</b>	<b>Expectation improved</b>
<ul style="list-style-type: none"> <li>Export revenues have shrunk as expected with reduced metal content in copper concentrate from the Oyu Tolgoi open pit mine and transportation restrictions of coal and oil export due to pandemic.</li> <li>Imports of investment-related machineries and equipment and construction materials have been revised down slightly from the previous projection as the developments in the mining sector and transportation of exports have slowed down and government capital expenditure has been revised down.</li> <li>Decline in costs of transportation, travel, and consulting services of foreign workers are contributing to import contraction.</li> </ul>	
AGGREGATE SUPPLY	Expectations weakened
<b>Mining</b>	<b>Expectations slightly weakened</b>
<ul style="list-style-type: none"> <li>The forecast was updated with the mining sector performance of July 2020 and the forecast for the remaining months was maintained. Coal production is expected to recover in the coming months due to declining coal reserves, as coal production has been reduced in previous months and exports have been made from the coal reserves.</li> </ul>	
<b>Non-mining</b>	<b>Expectations weakened</b>
<ul style="list-style-type: none"> <li>The adverse consequences of preventive measures and restrictions related to the COVID-19 pandemic on the non-mining sector have been larger than expected. Hence, the outlook for the non-mining sector has been revised down for the coming months.</li> </ul>	

Source: Bank of Mongolia

<sup>7</sup> A confidence interval of 30 percent

### III. DOMESTIC ECONOMIC CONDITIONS

#### III.1. Labor market

The working-age population has been declining since the third quarter of 2018 and in the reporting quarter, it was 3.4 thousand less than that of previous year.

Considering the movements in the structure of working-age population in the last 4 quarters:

- i. The employment rate increased by 1.2 percentage points to 55.8 percent, the labor force participation rate decreased by 1.0 percentage points to 59.8 percent, and the unemployment rate<sup>8</sup> decreased from 10.1 percent to 6.6 percent (Figure III.1.2). The number of unemployed people actively looking for work decreased by 47.4 thousand or 36.2 percent, the number of employed people increased by 23.0 thousand, and the population outside the labor force increased by 21.0 thousand people (Figure III.1.1).
- ii. Time-related under-employment decreased by 82.0 percent or 14.6 thousand people and full employment increased by that amount (Figure III.1.1).
- iii. Half of the people outside labor force, or 10.3 thousand people, were registered under “other people outside labor force”, improving the under-employment<sup>9</sup> (other indicators of unemployment).

Figure III.1.1

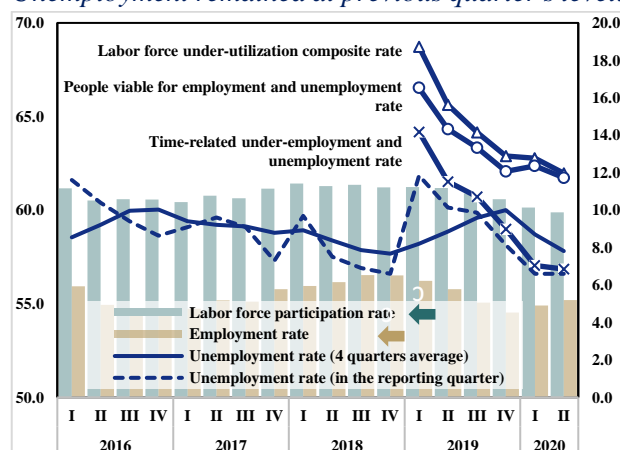
Movements in working age population



Source: NSO

Figure III.1.2

Unemployment remained at previous quarter's level.



Source: NSO

#### Employment and social security

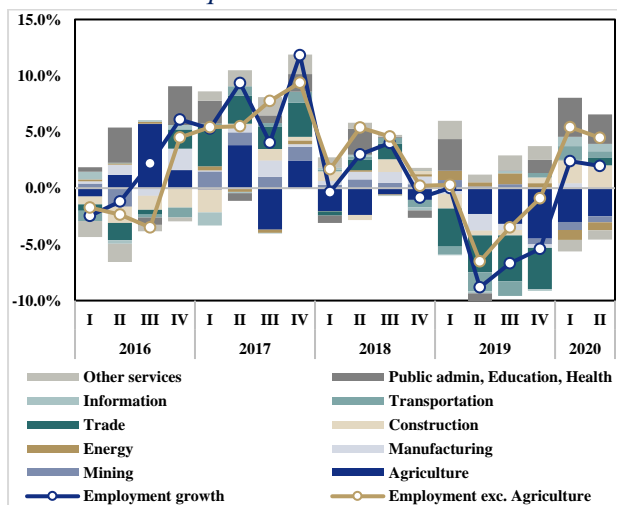
The number of employed people increased by 23.0 thousand or 2 percent year-on-year. In particular, employed people in public administration, education, health, construction, trade, transportation, warehousing, and information and communication have been growing, while those employed in agriculture, mining, and energy have been contracting.

<sup>8</sup> About 57.1 thousand people (4.8 percent of total employment) have been surveyed by the NSO in the reporting quarter to have not worked in the past 7 days, though they are engaged in full-time jobs. Out of this, 19.6 thousand people (1.7 percent of total employment) have not worked temporarily due to specific circumstances of the pandemic.

<sup>9</sup> Labor force under-utilization composite rate =  $\frac{\text{Unemployed people} + \text{Time-related under-employment} + \text{People viable for employment}}{\text{Labor force} + \text{People viable for employment}} \times 100\%$ ; People viable for employment and unemployment rate =  $\frac{\text{Unemployed people} + \text{People viable for employment}}{\text{Labor force} + \text{People viable for employment}} \times 100\%$

Figure III.1.3

Total number of employed people has increased for two consecutive quarters.



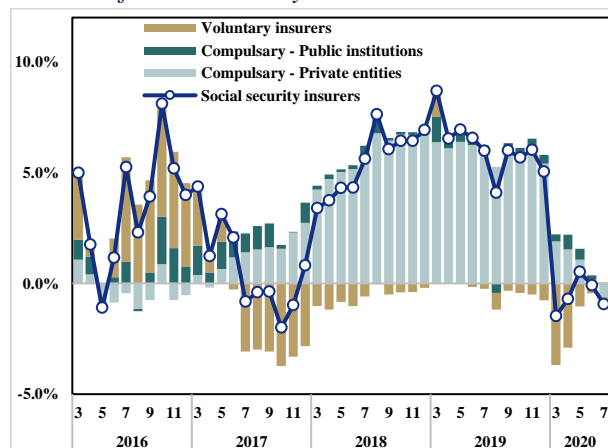
Source: NSO

Due to COVID-19 pandemic, the Parliament of Mongolia has passed the “Law of Mongolia on exemption from insurance premium and supporting from unemployment insurance fund”<sup>10</sup>. According to the law, about 75 percent<sup>11</sup> of employed people shall exempt from social insurance contributions. These include employees in all business entities of the private sector, all public and private universities and colleges, business entities with foreign investment, and employees at international organizations and voluntary insurers.

Growth of compulsory social security insurers employed in public and private institutions has slowed down to 0.7 percent as of the first 7 months of 2020, while the number of voluntary insurers decreased by 2.2 percent from previous year. From May to July, the number of new insured by private enterprises was 20.0 thousand less than in previous years, while voluntary insurers were twice as high as previous year (40.5 thousand people).

Figure III.1.4

Growth of social security insurers has slowed down.



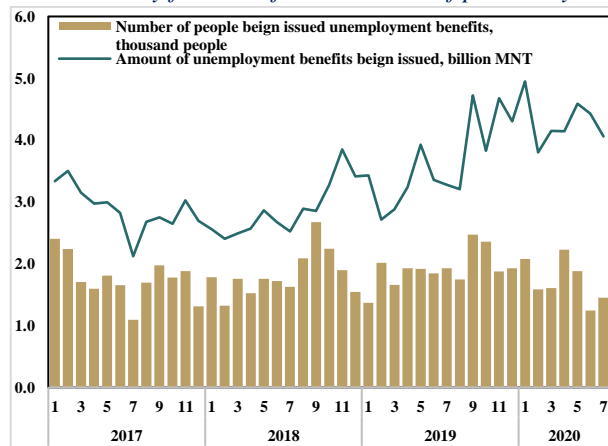
Source: Social insurance general office

### Unemployment

As of the first 7 months of 2020, unemployment benefits amounting to 30.1 billion MNT (32 percent growth from previous year) were issued to 12.1 thousand people (4.6 percent growth from previous year) from the social security fund. The measure has been taken to provide financial support of 200 thousand MNT on a monthly basis from the unemployment insurance fund to insurers employed in private entities subject to having their activities impacted by the pandemic and business revenue reduced by more than 50 percent. In the first 7 months of the year, 32.6 billion MNT was provided to 163.3 thousand insurers in double counting.

Figure III.1.5

Number of people being issued unemployment benefits from social security fund was fewer than that of previous year.



Source: Social insurance general office

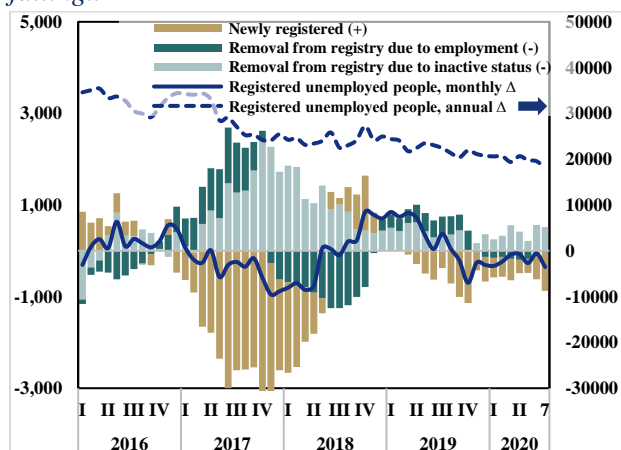
<sup>10</sup> <https://www.legalinfo.mn/law/details/15244>

<sup>11</sup> Of which 39.0 thousand employers, 705.0 thousand insurers, and 121.0 thousand voluntary insurers.

As of July 2020, there were around 18.0 thousand registered unemployed people (19.5 percent decline from previous year). Significant changes have not been observed in the structure of registered unemployment in recent months. As such, tendencies for falling newly registered unemployed people and rising removal from the registry due to inactive status have been maintained.

Figure III.1.6

Number of registered unemployed people has been falling..



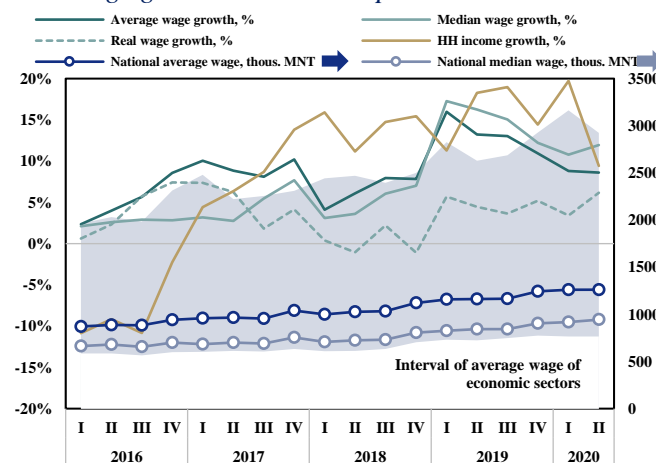
Source: General Office for Labor and Welfare Services

### Wages and household income

National average wage remained at the level of previous quarter, 1261 thousand MNT, and median wage amounted to 944 thousand MNT, growing 12 percent annually in the second quarter of 2020. Real wage growth, which illustrates the purchasing power of citizens, has reached 6.2 percent, the highest since the second quarter of 2017.

Figure III.1.7

Real wage growth reached 6.2 percent.



Source: NSO

Among economic industry classifications, average wages of employees working at health, finance and insurance, agriculture, trade, and mining sectors expanded by more than 10 percent, while average wages of people employed at other sectors expanded by 2-10 percent. With regards to the legal status of establishments, average wages of employees working at partnership, cooperatives, public institutions, and state-owned enterprises increased by more than 14 percent, while that of limited liability private companies grew by the least proportion of 5 percent.

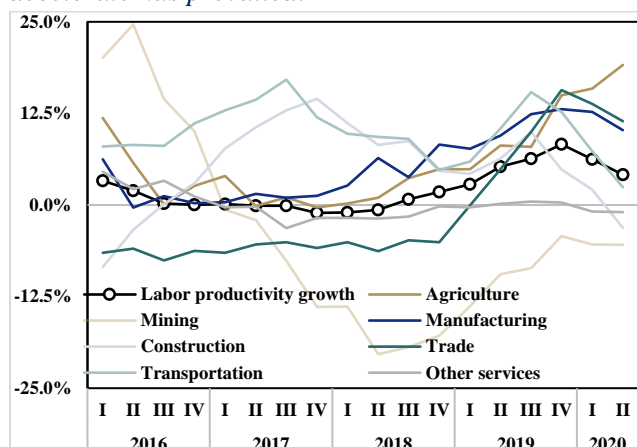
### Labor productivity and unit labor cost

Labor productivity<sup>12</sup> has been rising by 4 percent as an average of the latest quarters; though its growth decelerated in the first half of 2020, mostly owing to a significant contraction in economic activities. Among sectors, productivity growth in the construction and transportation sectors has declined most sharply in the last three quarters. Increase in labor productivity in the agriculture sector was driven by an increase in production coupled with decrease in number of employed people.

<sup>12</sup> Average of GDP per employed person.

Figure III.1.8

Tendency for labor productivity growth to decelerate has prevailed.<sup>13</sup>

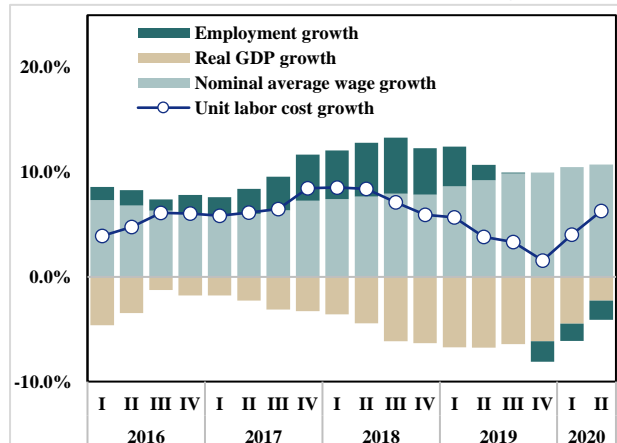


Source: NSO, Bank of Mongolia estimate

Unit labor cost<sup>14</sup> has been growing by 6 percent as an average of the recent quarters. Unit labor cost growth accelerated in the reporting quarter, as the expansion of wage expenditure was coupled with significant contraction in economic activities, leading to a deceleration in labor productivity growth.

Figure III.1.9

Growth in unit labor costs are accelerating.



Source: NSO, Bank of Mongolia estimate

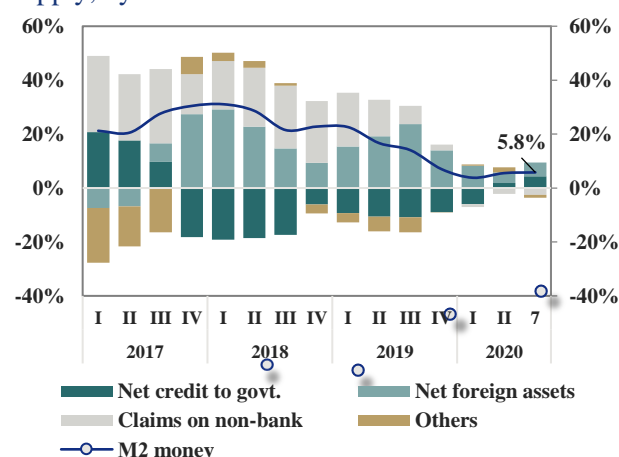
## III.2 Money and financial market

### III.2.1 Monetary and credit indicators

Annual growth of M2 money supply has been gradually increasing from the beginning of 2020 and reached 5.8 percent as of July 2020. The increase in government expenditures and amount of funding required have contributed positively to the money supply growth. On the contrary, decline in the loan outstanding in the banking system and decline in the growths of net foreign assets have contributed negatively to the money supply growth.

Figure III.2.1.1

Contributions to annual growth of M2 money supply, by assets



Source: Bank of Mongolia

In the first 7 months of 2020, the required budget funding reached 2.9 trillion MNT<sup>15</sup>. Of which about 1.3 trillion MNT was financed from the reserves accumulated in the treasury fund, increasing the government's net lending (Figure III.2.1.1). However, the deficit in the balance of payments reached 680 million USD in the first 6 months of 2020 and thus the growth of net foreign assets, and its contribution to M2 growth has decreased. The credit growth has slowed as the external and domestic activities weakened

<sup>13</sup> Average growth of the past 8 quarters.

<sup>14</sup> Average labor cost or wage expenditure per unit of GDP.

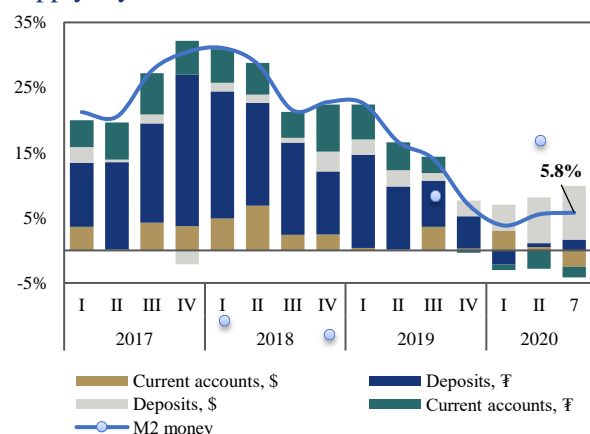
<sup>15</sup> Of which, 2 trillion 466 billion MNT is spent on financing the budget deficit, while the remaining 454 billion MNT is spent on the repayments of debts.



and market risks and uncertainties persisted amid COVID-19.

Figure III.2.1.2

Contributions to annual growth of M2 money supply, by liabilities

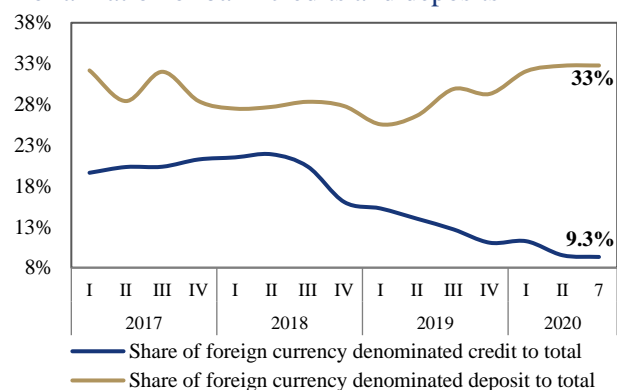


Source: Bank of Mongolia

Money supply growth, from the liabilities side, was mainly supported by the expansion of deposit accounts in foreign currencies. As the growth of deposit accounts denominated in foreign currencies continues, bank deposit dollarization has been increasing. Foreign currency current accounts and deposits of individuals and the private sector increased by 39 percent and 23 percent, respectively, compared to previous year. As a result, the dollarization of the banking system's liabilities reached 32.8 percent in July 2020.

Figure III.2.1.3

Dollarization of bank credits and deposits



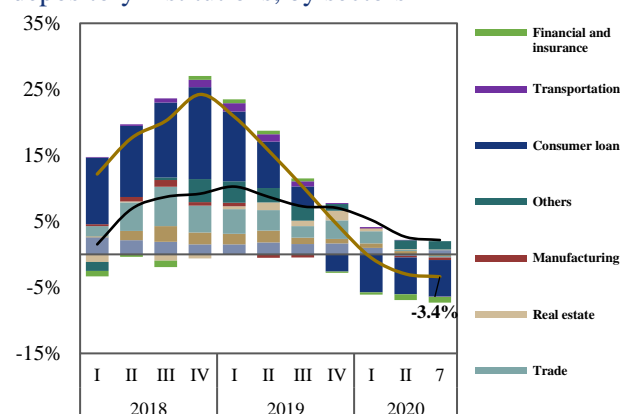
Source: Bank of Mongolia

<sup>16</sup> Banks securitize mortgages by selling mortgage portfolios to the Mongolian Mortgage Corporation, and the growths of these securities are considered to be part of credit growth.

On the other hand, current accounts in local and foreign currency decreased from that of previous year. This was mainly driven by the decrease in current accounts of public institutions.

Figure III.2.1.4

Contributions to annual growth of credit issued by depository institutions, by sectors



Source: Bank of Mongolia

Total loan outstanding continues to decline as business credit growth slows and consumer loans continue to decline. Combined outstanding level of total credit issued by depository institutions and mortgage loans converted to mortgage-backed securities (MBS<sup>16</sup>) decreased by 3.4 percent<sup>17</sup> as of July 2020. Moreover, an outstanding amount of consumer loans declined by 18.8 percent. Excluding the effect of measures of relieving pension loan repayments, the outstanding amount of consumer loans declined by 7 percent year-on-year. The growth of consumer loans other than herders' loan has continued to decelerate. In particular, salary loans decreased by 403 billion MNT, and automobile purchase loans by 110 billion MNT. On the other hand, herders' loan increased by 53 percent or 240 billion MNT.

As of July 2020, business loan growth slowed to 0.3 percent. This is due to the decline in outstanding loans of both SMEs and large

<sup>4</sup> Total loans issued for individuals comprise mortgage loans, SME, consumption, wage, pension, and other types of consumer loans.

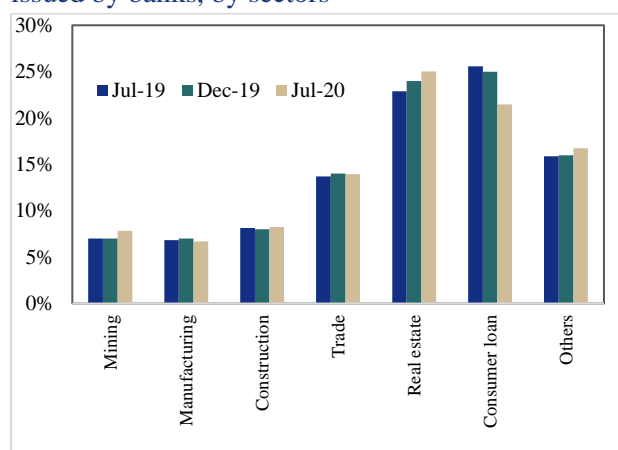
<sup>17</sup> It is -0.1 percent annual growth adjusting the impact of pension loan repayments write-offs.

enterprises. For instance, as of July 2020, outstanding loans to SMEs and large enterprises declined by 10.4 and 4.5 percent year-on-year, respectively. The decline in business loans was mainly in the trade, mining, construction, real estate, and transportation sectors. On the contrary, SME loans to individuals increased by 5 percent year-on-year.

In terms of currency type, domestic currency loans declined by 1 percent and foreign currency loans declined by 35 percent year-on-year.

Figure III.2.1.5

Composition of the outstanding amount of credit issued by banks, by sectors

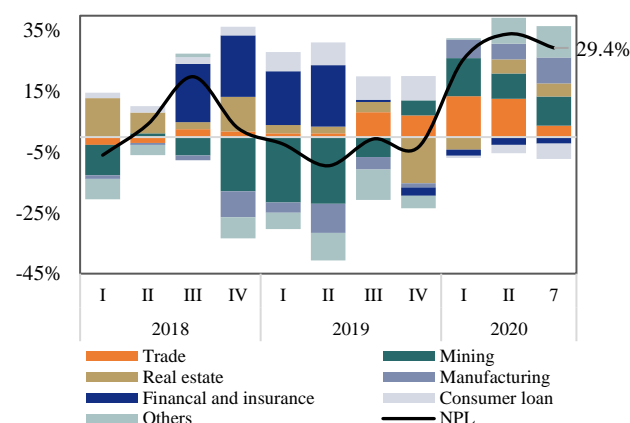


Source: Bank of Mongolia

Looking at the composition of the outstanding amount of total credit, the share of consumer loans has diminished. Specifically, the share of consumer loans to total credit fell by 4 percentage points year-on-year to reach 21 percent. On the other hand, combined shares of loans issued to real estate, mining, and other services sectors to total credit increased by 4 percentage points compared to that of previous year.

Figure III.2.1.6

Annual growth of past-due loans of banks, by sectors



Source: Bank of Mongolia

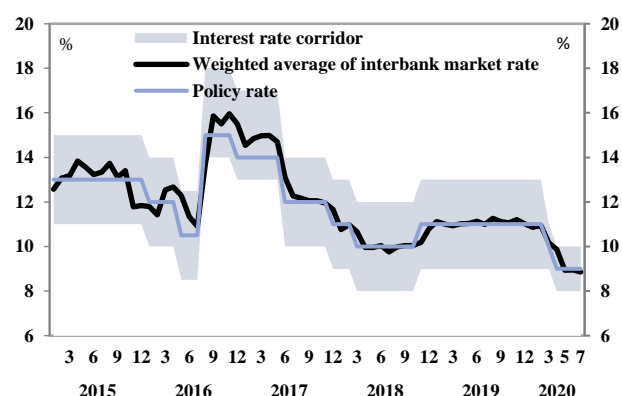
The slowdown in the economic activity and increasing market risks and uncertainties have dragged the bank loan repayments, and past-due loans increased. Annual growth in past-due loans increased steeply by 33 percentage points from the beginning of the year, reaching 29.4 percent in July 2020. In particular, total past-due loans increased by 315 billion MNT, most of which were in the manufacturing, mining, construction, trade, and other services sectors. The share of past-due loans in total loans increased by 2 percentage points from the beginning of the year, reaching 6.6 percent in July 2020. Non-performing loans in total loans portfolio increased by 1.2 percentage points to 11.3 percent.

### III.2.2 Interest rate

The Monetary Policy Committee of the Bank of Mongolia decided to keep the policy rate at 9 percent and lower the policy rate by 1 percentage points to 8 percent during its scheduled meeting in June and September 2020.

Figure III.2.2.1

## Interbank market rates



Source: Bank of Mongolia

In July 2020, the weighted average of interbank market interest rate decreased by 0.1 percentage points from previous month and reached 8.85 percent. This was mainly attributable to a 0.09 percentage points decrease of interest rate on overnight loans to 9 percent, 0.03 percentage point decrease in interest rates on direct trading of central bank bills to 8.69 percent, and a 0.05 percentage points drop in repo transactions secured by the central bank bills to 8.83 percent. However, the interest rate on interbank deposits increased by 0.22 percentage points to 10.3 percent.

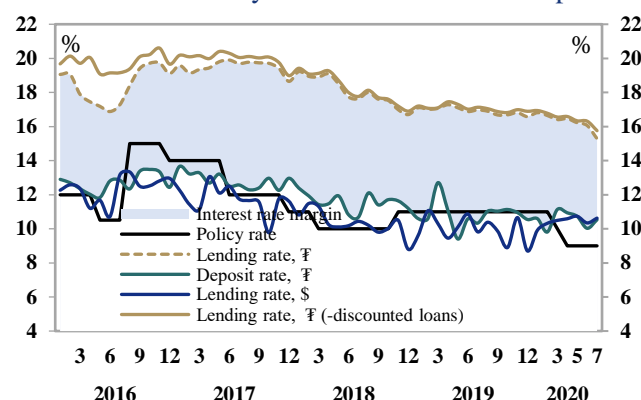
Decrease in the interest rate on newly issued loans and a relatively stable interest rate on new deposits resulted in a narrower interest rate margin. In July 2020, interest rate on credits issued in MNT decreased by 1.68 percentage points from that of previous year to 15.29 percent, and interest rate on MNT deposits decreased by 0.2 percentage points to 10.53 percent. Consequently, interest rate margin narrowed by 1.88 percentage points from that of previous year to 4.75 percent.

The interest rate margin of foreign currency loans and deposits widened. The interest rate on newly issued foreign currency loans increased by 0.81 percentage points from that of previous year to 10.63 percent in July 2020. At the same time, the interest rate on new foreign currency deposits decreased by 1.56 percentage points. Consequently, interest rate margin of foreign currency loans and deposits widened by 2.37

percentage points from that of previous year to 7.38 percent.

Figure III.2.2.2

## Interest rate on newly issued loans and new deposits



Source: Bank of Mongolia

Classifying the lending rate distribution of newly issued MNT loans by borrowers, a decrease in corporate lending rates in recent years has dragged the weighted average lending rates down (Table III.2.2.1).

Table III.2.2.1

## Average interest rate on newly- issued loans (₮)

Total credits issued	% in Total credits issued	share	2017.12	2018.12	2019.12	2020.07
	As of July 2020					
			18.6	16.7	16.1	15.3
I. Loan issued to enterprises	51.8	100.0	18.0	16.3	15.8	14.0
1. Trade	12.0	23.1	17.0	16.3	16.2	14.7
2. Real estate	1.3	2.5	21.4	15.5	17.8	13.5
3. Construction	9.1	17.5	17.3	15.5	15.8	16.7
4. Mining	8.8	17.0	18.0	18.0	12.0	12.7
5. Manufacturing	7.4	14.3	18.0	16.1	12.6	9.7
6. Transportation	1.6	3.2	19.6	13.3	12.9	6.6
7. Finance and insurance	1.9	3.6	21.9	14.5	18.3	16.4
8. Other	9.8	18.9	19.7	17.8	15.7	15.9
II. Loan issued to individuals (-other)	48.2	100.0	19.4	17.1	16.4	16.8
1. Mortgage loan	10.0	20.8	10.5	10.1	10.3	10.7
2. Salary loan	16.9	35.2	22.4	17.0	17.9	17.8
3. Pension loan	0.8	1.7	16.8	17.8	13.4	16.8
4. SME loan	9.7	20.1	22.8	18.6	18.6	16.5
5. Saving collateralized loan	3.2	6.6	20.3	19.5	18.3	18.5
6. Consumer loan	7.5	15.6	22.9	14.5	15.5	24.4
Of which:						
i. Herders' loan	4.0	53.5	-	-	-	21.1
ii. Automobile loan	1.6	21.6	19.3	17.1	19.8	18.7
iii. Credit card loan	1.5	19.3	23.0	11.5	10.3	26.9
iv. Other household loan	0.4	5.5	-	-	-	21.5

Source: Bank of Mongolia, Bank loan reports

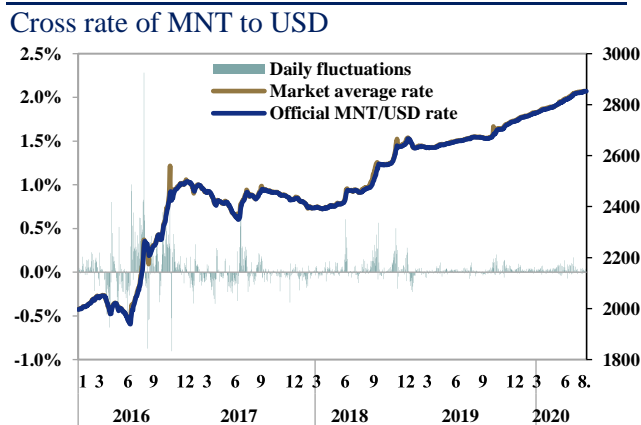
The decrease in corporate lending rate is attributable to lower lending rates in trade, real estate, mining, manufacturing, and transportation sectors. However, lending rates on individual loans have hardly decreased. In terms of loan purposes, the lending rates on consumer and pension loans have increased since the end of previous year, while the lending rates on mortgage and salary loans, the main

components of individual loans, are relatively stable. However, lending rates on SME loans to individuals have decreased.

### III.2.3 Exchange rate

The MNT has depreciated against the US dollar by 180.9 MNT or 6.8 percent year-on-year, 118.6 MNT or 4.3 percent year-to-date, reaching 2852.9₮/\$ at the end of August 2020 (Figure III.2.3.1). Togrog depreciation against the US dollar was mainly driven by a negative foreign currency net flows over the past 8 months amid COVID-19 pandemic. A deficit in foreign currency net flows widened as inflows declined by 24 percent and outflows increased by 24 percent year-on-year in the first 5 months of the year. In the past 3 months, inflows declined by 14 percent and outflows declined by 7 percent, rendering a reduction in the deficit in foreign currency net flows compared to the first 5 months. Looking ahead, an anticipated increase in export inflows are expected to ease the depreciation pressure on the exchange rate.

Figure III.2.3.1

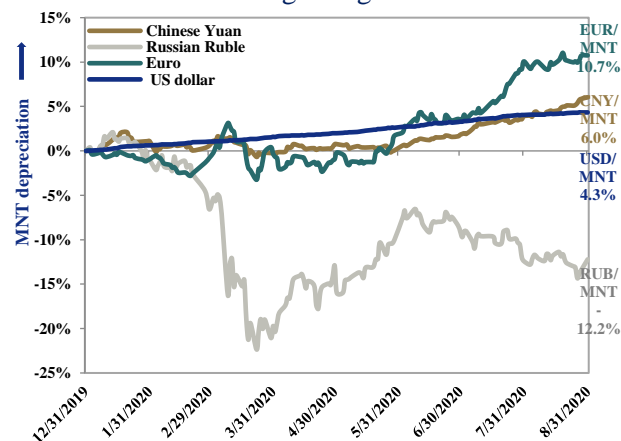


Source: Bank of Mongolia

As togrog depreciates against the major currencies except RUB, the nominal effective exchange rate (NEER), weighted by trade turnover, depreciated by 3.1 percent year-on-year in July 2020. The MNT appreciated by 5.7 percent year-on-year against RUB and depreciated by 9.0 percent and 4.5 percent, respectively, against EUR and RMB.

Figure III.2.3.2

Change in MNT rate against major currencies /from the beginning of 2020/

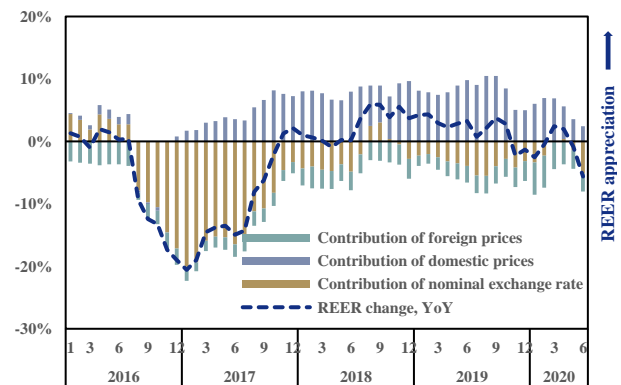


Source: Bank of Mongolia

Real effective exchange rate (REER) depreciated by 2.5 percent year-on-year in July 2020. This was induced by the appreciation of the nominal exchange rate and the decline in domestic price faster than the foreign price (Figure III.2.3.3).

Figure III.2.3.3

Annual change of real effective exchange rate of MNT

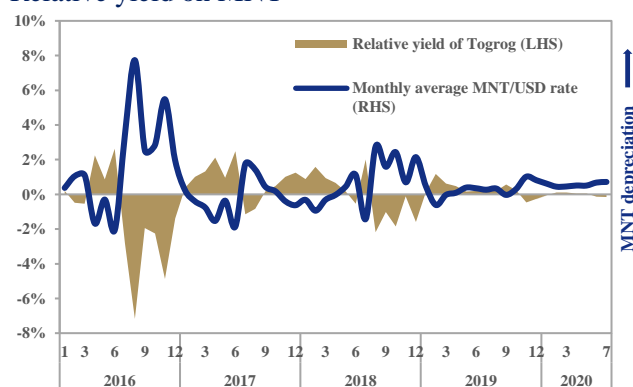


Source: Bank of Mongolia

The relative return on togrog, which has remained positive since the beginning of the year, decreased by 0.43 percentage points year-on-year to -0.16 percent in July 2020. Although the difference between the togrog and foreign currency deposit rates is relatively stable, the depreciation of the togrog against the US dollar was the main reason for the decrease in relative return on the togrog (Figure III.2.3.4).

Figure III.2.3.4

Relative yield on MNT



Source: Bank of Mongolia

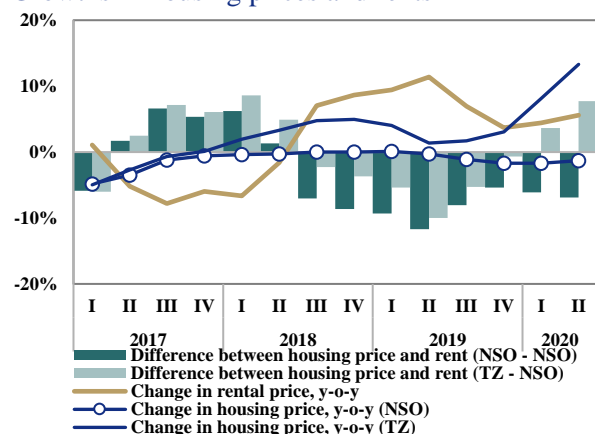
III.2.4 Capital Market

In the second quarter, the housing market indicators remained relatively unchanged. In July 2020, the TOP-20 index, a key stock market indicator, has rebounded.

Housing market

Figure III.2.4.1

Growths in housing prices and rents



Source: NSO, Tenkhleg-Zuuch

The housing price index, estimated by the NSO, remained at the same level as previous quarter, down 1.3 percent from a year earlier in the second quarter of 2020 (Figure III.2.4.1). Rental prices of apartments increased by 1.8 percent from previous quarter and 5.6 percent annually.

The housing price index, reported by the Tenkhleg Zuuch LLC, on the other hand, increased by 3.8 percent from previous quarter and 13.3 percent annually in the second quarter of 2020 mainly attributable to the increase in new housing prices. The prices of new high-end

and business-class apartments, that contributes most of the Tenkhleg Zuuch LLC, has increased in line with the demand.

Table III.2.4.1

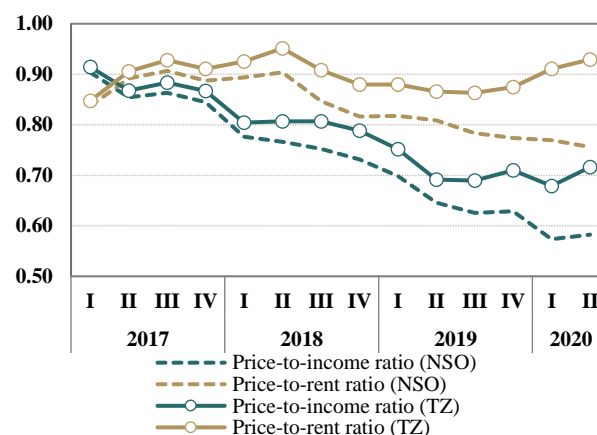
Real estate sector indicators			2020-Q1	2020-Q2
Change in housing price, %				
NSO	q-o-q		0.1	0.0
	y-o-y		-1.7	-1.3
Tenkhleg Zuuch	q-o-q		4.9	3.8
	y-o-y		8.1	13.3
Price-to-rent ratio, %	q-o-q		0.7	1.8
	y-o-y		4.4	5.6

Source: NSO, Tenkhleg-Zuuch, Bank of Mongolia

Calculating the housing market ratio using the housing price index reported by the NSO, the price-to-rent ratio decreased from previous quarter (Figure III.2.4.2). However, price-to-income ratio declined as household average income decreased by 1.6 percent from previous quarter.

Figure III.2.4.2

Price-to-income ratio and price-to-rent ratio



Source: NSO, Bank of Mongolia

In recent quarters, the housing price per 1 square meter has been relatively high, and the sales and order prices of high-class and business-class spacious apartments have been increasing, as evidenced by the housing price index calculated by Tenkhleg Zuuch LLC.

Calculating the housing market ratio using the housing price index reported by Tenkhleg Zuuch LLC, the price-to-rent and price-to-income ratios increased quarter-on-quarter in the second quarter of 2020 as the increase in housing prices exceeded the increase in rents

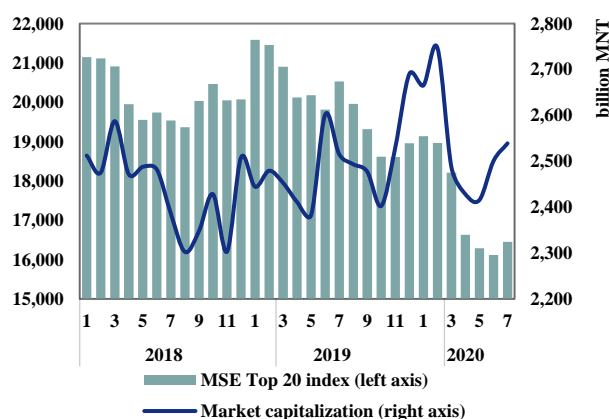
and household average income (Figure III.2.4.2). Housing price ratios have been relatively stable and have not experienced large volatilities in recent quarters indicate a low risk of a housing bubble.

### Stock Market

As the adverse impact of COVID-19 weighs on the economic activity, the TOP-20 index decreased throughout the first half of the year. As of July 2020, however, the TOP-20 index reached an average of 16,450.5 points, increasing 2.0 percent from previous month's average (Figure III.2.4.3). The increase in the TOP-20 index was mainly supported by the increase in the share prices of companies such as “Standard Agricultures Group”, “Mongol Leather”, and “Ulaanbaatar Carpet”<sup>18</sup>.

Figure III.2.4.3

Main indicators of the stock market

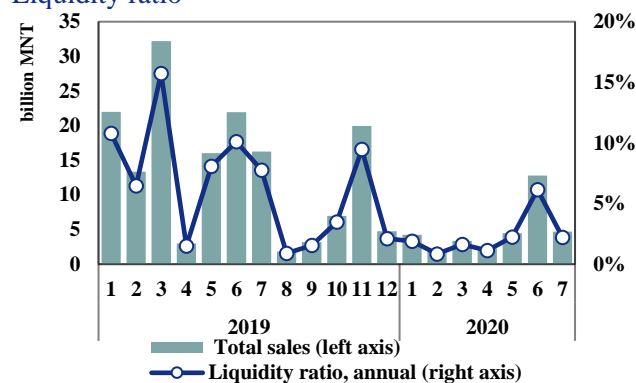


Source: Mongolian Stock Exchange

The stock market activity remains weak. In the first 7 months of 2020, a total of 33.8 billion MNT worth of securities were traded at the stock market, which is a decrease of about 73 percent compared to that of previous year (Figure III.2.4.4). In July 2020, “Invescore”, “Makh Impex”, “BDsec” have led the way in terms of trade value, while “Lendmn NBF”, “Mandal Daatgal” and “Bodi Daatgal” have led the way in terms of trade volume. The stock market liquidity ratio<sup>19</sup> recovered in June following the increased volume<sup>20</sup> of securities trading but declined back in July 2020.

Figure III.2.4.4

Liquidity ratio



Source: NSO, Bank of Mongolia

<sup>18</sup> Source: Market info, [www.marketinfo.mn](http://www.marketinfo.mn)

<sup>19</sup>  $Liquidity\ ratio = \frac{Total\ trading\ value}{Market\ capitalization}$ ;

The liquidity ratio is an indicator of the current condition of activity of the stock market, and a high ratio indicates that

investors are optimistic about the market, thus increase their investment, boosting the trading activities.

<sup>20</sup> Lend MN issued 5 billion MNT worth of bonds to the public, a key factor in the increase in securities trading in June 2020.

### III.3 The consolidated budget and sovereign debt

**The consolidated budget:** According to the budget amendment, the equilibrated budget revenue is expected to decrease by 1 trillion 207 billion MNT (-10.1 percent) and expenditure by 3 trillion 148 billion MNT (+27.5 percent) in 2020 from previous year, and fiscal policy is expected to loosen (Table III.3.1).

Table III.3.1

#### Fiscal indicators

billion MNT	2019		2020		2020.08	
	Act.	App.	Тод.	Act.	%	
<b>Total revenue</b>	<b>11937</b>	<b>12900</b>	<b>10729</b>	<b>6084</b>	<b>78.1</b>	
Future heritage fund	1040	977	943	364	71.1	
Stabilization fund	95	125	55	21	27.2	
<b>Equilibrated revenue</b>	<b>10802</b>	<b>11798</b>	<b>9731</b>	<b>5699</b>	<b>79.1</b>	
Tax revenue	9749	10656	8847	5160	79.8	
Non-tax revenue	1053	1142	884	539	72.8	
<b>Total expenditure</b>	<b>11429</b>	<b>13873</b>	<b>14577</b>	<b>8356</b>	<b>83.1</b>	
Primary expenditure	10568	12913	13605	7873	82.5	
Current expenditure/-interest payr	7347	9060	10178	6108	90.0	
Capital expenditure	2818	3806	3408	1756	67.9	
Net credit	403	47	19	10	8.8	
Interest expenditure	861	960	973	483	83.5	
<b>Total equilibrated balance</b>	<b>-628</b>	<b>-2075</b>	<b>-4847</b>	<b>-2657</b>		
in percent of GDP	-1.7%	-5.1%	-12.5%			
Primary balance	233	-1115	-3874	-2174		
in percent of GDP	0.6%	-2.7%	-10.0%			

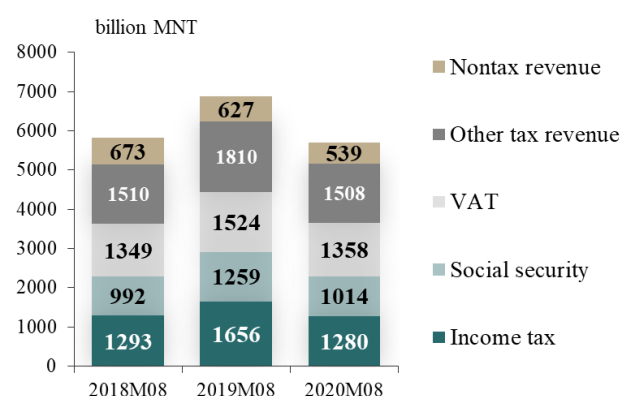
Source: Ministry of Finance

As of August 2020, the total revenue and equilibrated budget revenue were 21.9 percent and 20.9 percent lower than planned and the budget expenditure was 16.9 percent lower than planned, resulting in a deficit of 2 trillion 272 billion MNT in total balance and a deficit of 2 trillion 657 billion MNT in the equilibrated balance.

As of August 2020, **total equilibrated revenue** declined by 1 trillion 177 billion MNT (-17.1%) from that of previous year and 90.5 percent of the equilibrated budget revenue was made up of tax revenue. In particular, income tax decreased by 375.6 billion MNT, social insurance revenue by 245.2 billion MNT, import-related tax revenue by 191.7 billion MNT, revenue from royalties by 131.6 billion MNT, non-tax revenue by 88.0 billion MNT, and VAT revenue on domestic goods and services by 20.1 billion MNT. The VAT refunds increased by 54.9 billion MNT (Figure III.3.1).

Figure III.3.1

#### Structure of budget revenue



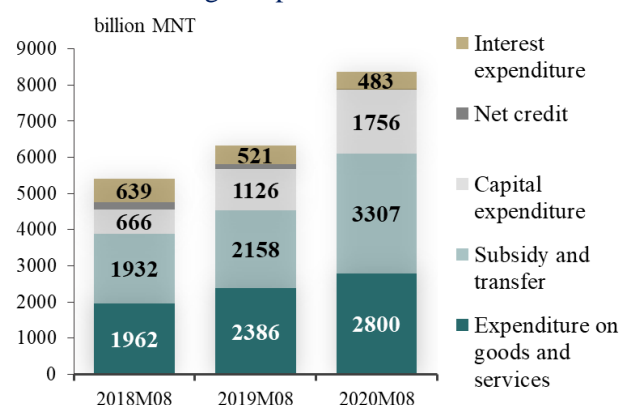
Source: Ministry of Finance

**Total expenditure and net credits:** As of the first 8 months of 2020, total budget expenditure utilization was 83.1 percent, and the capital expenditure utilization was 67.9 percent of the scheduled amount. Budget expenditure increased by 2 trillion 29.4 billion MNT (32.1 percent) compared to that of previous year.

Of which, expenditure on subsidies and transfers increased by 149.1 billion MNT, capital expenditure increased 629.6 billion MNT, expenditure on goods and services by 414.2 billion MNT while net lending declined by 124.8 billion MNT (Figure III.3.2).

Figure III.3.2

#### Structure of budget expenditure



Source: Ministry of Finance

**The ratio of newly issued debt-to-debt repayment:** The ratio of government debt in nominal GDP at present value is within the legal limit (70%) for this year. The present value of total government debt to GDP ratio

was stated to be at 54.3 percent in the approved budget, but it is expected to reach 62.2 percent according to the amendment, increase of 3.5 trillion MNT from previous year, and 2 trillion MNT from the approved amount.

Table III.3.2

Present value of government debt and debt services

	2017	2018	2019	2020*	2020*
<i>billion MNT</i>	Гүй.	Гүй.	Гүй.	Бат.	Тод.
Government debt	20212	18956	20526	22089	24064
<i>in % of GDP</i>	74.4	58.9	56.1	54.3	62.2
<b>Debt limit/GDP</b>	<b>85.0</b>	<b>80.0</b>	<b>75.0</b>	<b>70.0</b>	<b>70.0</b>
Debt service payments	1156	1046	861	960	973
<i>in % of budget revenue</i>	16.0	11.3	8.0	8.1	10.0
Budget balance	-1742	12	-628	-2075	-4847
<i>in % of GDP</i>	-6.4	0.0	-1.7	-5.1	-12.5

Source: Ministry of Finance, Bank of Mongolia

## IV. EXTERNAL CONDITIONS OF THE ECONOMY

### IV.1 Assumptions regarding the external conditions<sup>21</sup>

*While the growth outlook of China remains around previous forecast, the growth forecasts of Russia and the Euro area are now revised down for 2020 and those are revised upwards for 2021 compared to previous forecast.*

### External demand<sup>22</sup>

China's economic growth forecasts range from 1.0 to 1.9 percent in 2020 with an average of 1.6 percent<sup>23</sup> around previous projection as the spread of COVID-19 in China is under control and domestic demand is has been recovering from the second quarter of 2020. The growth forecast for 2021 is revised up by 0.2 percentage points to 8.2 percent.

As the second quarter GDP overperformed the expectations, industrial production has intensified, and the contraction in other sectors has narrowed, Bloomberg economists revised up China's growth forecast to 5.1 percent in the third quarter, and 6.2 percent in the fourth quarter.

China's industrial recovery continued in August, with the official manufacturing PMI index reaching 51. The recovery in the service sector, which was slower in previous projection, increased during the reporting period, with the non-manufacturing PMI reaching 55.2 in August, well above expectations.

The authorities are expected to support the domestic demand and the growth through fiscal and monetary policies, as the uncertainties regarding the pandemic persist.

<sup>21</sup>Forecasts of economic growth and inflation in main trading partner countries were compiled from external outlook as of August 10, 2020, June 2020 edition of EIU Global Forecasting Report, August 2020 edition of Roubini Global Economics and the median of forecasts conducted by Bloomberg analysts. It does not include the assessment of the Bank of Mongolia.

<sup>22</sup>External demand for Mongolia is calculated as the weighted average of main trading partner countries (where China 0.90, Russia 0.02, and Euro Area 0.08).

<sup>23</sup> The average of the forecasts from the IMF, the EIU, the Roubini Global Economics, and Bloomberg as of August 10, 2020.



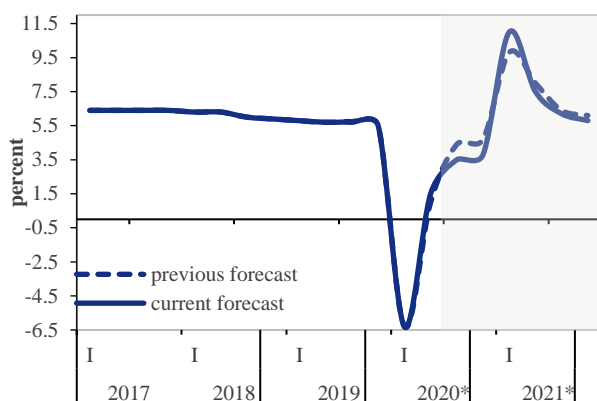
Table IV.1.1

Changes in Key Judgments of External Environment	
Previous forecast (2020)	Current forecast (2020)
<b>External demand</b>	<b>Revised down</b>
"Phase 2" trade deal is expected. China's growth is revised up. The growth forecasts of Russia and the Euro Area revised down.	"Phase 2" trade deal is expected. China's growth remains around the previous forecast. The growth forecasts of Russia and the Euro Area revised down.
<b>Terms of Trade</b>	<b>Revised up</b>
Commodity prices are revised down from earlier forecasts as China's economic activity has been slowly improving but not returned to normal levels. However, due to lower oil and food prices, the import price forecast is revised down and terms of trade has improved slightly from the previous forecast, but the downward trend continues.	China's economic activity has improved, while growth in other parts of the world has slowed, the spread of the virus has slowed since mid-May, with some monthly data suggesting higher economic activity, boosting demand for raw materials.
<b>Foreign interest rate</b>	<b>Projection unchanged</b>
The Fed kept the Fed funds rate at 0.0-0.25 percent in June 2020. The Fed funds rate is expected to be kept at around zero until the end of 2022.	The Fed kept the Fed funds rate at 0.0-0.25 percent in July 2020. The Fed funds rate is expected to be kept at around zero until the end of 2022.
<b>Foreign inflation</b>	<b>Revised down</b>
The global inflation is not likely to increase due to lower-than-expected growth in trading partners except China and higher growth in China and lower oil prices. Inflation in China is expected to be lower than previously expected. While the impact of pork prices on inflation remains high, Chinese domestic demand has not returned to normal, resulting in a downward revision in the inflation outlook.	The global inflation outlook is revised down due to lower-than-expected growth in trading partners except for China, weaker expectations of external demand, elevated uncertainty in the global economy, and a slower impact of swine fever on Chinese inflation.

Source: Assumptions from external sources

Figure IV.1.1

Change in external demand, in percent



Source: Bloomberg, EIU, The IMF, Roubini Global Economics

Analysts forecast **Russia's** economic growth in 2020 to be between -3.9 to -6.6 percent and an average growth forecast of -5.1 percent<sup>24</sup> is 0.7 percentage points down from previous forecast. The growth forecast for 2021 is revised up by 0.4 percentage points on average to 2.5-2.9 percent. Russia's economy contracted by 9.6 percent in the second quarter, according to a preliminary estimate, and total output fell to mid-2011 levels. Russia's growth forecast for

<sup>24</sup> The average of the forecasts from the IMF, the EIU, the Roubini Global Economics, and Bloomberg as of August 10, 2020.

this year is revised down due to the tightened quarantine measures in the reporting quarter due to the increased spread of COVID-19, decline in total investment, household consumption, and industrial production, continued decrease in crude oil and oil production under OPEC+, and weak demand for oil, and trade sanctions by western countries that remain intact. Nevertheless, the implementation of national infrastructure projects is expected to accelerate the growth in the second half of 2020 with the amount of about 23 percent of GDP to be spent on projects covering 13 economic sectors between 2018 and 2024.

The Bank of Russia cut its key rate by 25 basis points to 4.25 percent at its July meeting and is expected to cut it another 25 basis points this year. The government has amended its budget to offset the negative consequence of the pandemic on the economy by providing an additional 1.8 trillion rubles. It will be financed by 2.3 trillion rubles of government bonds to be issued in the domestic financial market. As a result of the increase in budget expenditures, the budget deficit is expected to reach 8.5 percent of GDP<sup>25</sup> this year. Nevertheless, the impact of the negative shock on the budget is expected to be relatively small, with an average oil price forecast of 42 USD per barrel as stated in the government budget draft for 2020. Moreover, the Fitch agency reported in September that the government's crisis recovery package is expected to reach about 3.5 percent of GDP.

In addition, Russia cut oil production by 23 percent from May to July as part of an OPEC+ cut-off agreement, and another 18 percent cut by the end of the year is expected to reduce export revenue by 150 to 160 billion USD. Looking ahead, OPEC+ is likely to continue the

<sup>25</sup> While the Russian government estimates the budget deficit at 8.5 percent of GDP, the OECD expects the budget deficit to be 2.5-2.6 percent of GDP.

production cut, by about 1.2 percent of GDP in 2020-21, thus the impact on the government budget and the growth could be greater than expected. The recovery in emerging economies, higher oil demand and price outlook, bolstering of national infrastructure projects, and a boost in investments are expected to support the growth outlook for 2021.

Analysts forecast the **Euro Area's** growth in 2020 to be between -7.9 to -9.6 percent and an average growth forecast of -8.7 percent is 3.7 percentage points down from previous forecast. The growth forecast for 2021 is revised up by 2.9 percentage points to 3.0-5.9 percent. The growth forecast is revised down in 2020 mainly attributable to the continued spread of COVID-19 in European countries and the tightening of restrictions on key regional economies such as Germany, France, Spain, and Italy in the second quarter of 2020. Moreover, the persistent risks of COVID-19 and global economic uncertainties are expected to drag the economic recovery down below expectations.

In 2021, expected pick up in emerging economies' growth and external demand, the European Central Bank's negative interest rate policy, unconventional monetary policy and expansionary fiscal policy in key regional economies are expected to support next year's regional economic recovery and the domestic demand, rendering an upward revision in the growth forecast for 2021. However, uncertainties regarding the path of the economic recovery and availability of vaccines are limiting growth in investment and consumption in the region.

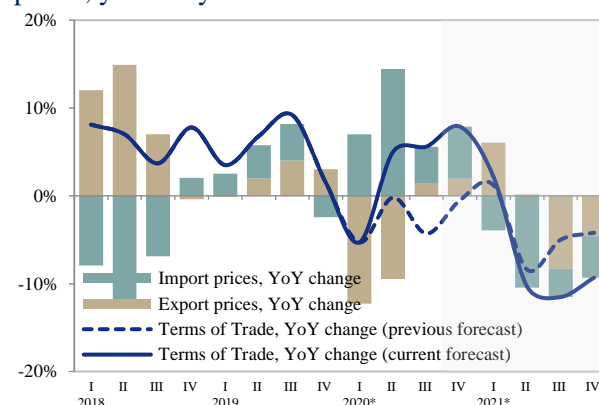
### Terms of Trade

**Terms of trade is expected to improve in 2020 than previously forecasted** (Figure IV.1.2). This is mainly driven by higher-than-expected performance of coal price and upward revisions in export price forecasts of gold, copper, iron ore, and crude oil. The low supply

of copper and iron ore has had a positive effect on prices. The demand and price of gold have risen due to the uncertainty in the global economy.

Figure IV.1.2

Changes in Terms of trade, export, and import prices, year-on-year



Source: Bank of Mongolia estimate

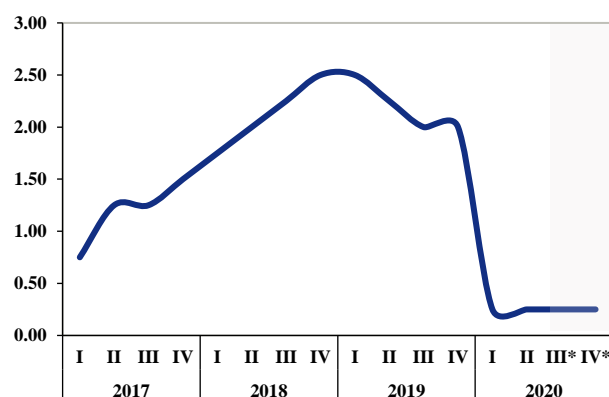
Although copper prices are expected to rise in 2021, coal and iron ore prices are expected to fall from this year's level due to the expected increase in supply. In addition, a rise in oil price is expected to push up import prices, worsening terms of trade in 2021.

**Foreign interest rate:** The Fed's FOMC decided to keep the Fed funds rate on 0.0-0.25 percent in July 2020. The Fed sees the economy contracting by 6.5 percent this year due to the pandemic. The Fed intends to keep the policy rate at near zero percent until the end of 2022 since economic activity and employment have picked up somewhat in July, August but remain well below their pre-crisis levels. Moreover, the Fed announced in August that it had changed its monetary policy strategy to "pursue a strategy of keeping inflation at an average of 2 percent." As a result, the inflation target is expected to be more flexible and the Fed will have more room to implement policies aimed at the real economy and employment. In addition to maintaining the liquidity of financial markets, the Fed has been utilizing tools to support the financing of enterprises and small and medium-sized businesses in the real sector within the policy framework to mitigate the

negative effects of the external environment and promote employment amid COVID-19.

Figure IV.3.5

The Federal funds rate, percent



Source: Bloomberg

**Global inflation** outlook is revised down from previous forecast. Inflation outlook in China is revised down from 3.5 percent to 3.2 percent for 2020 according to a forecast average of Bloomberg, and Roubini Global Economics. This was mainly attributable to a gradual recovery in domestic demand that has not reached normal levels, a downward revision in external demand, and a subsiding impact of swine flu on inflation.

However, food prices are expected to rise due to tightened food import requirements amid pandemic and floods in central and southern parts of China.

Inflation outlook in Russia is revised down 3.8 percent to 3.3 percent for 2020 according to a forecast average of Bloomberg, and the Roubini Global Economics, below the central bank's target of 4 percent. The expansionary monetary policy, geopolitical issues, weaker ruble and a sharp decline in domestic demand have resulted in a downward revision in the inflation outlook.

Inflation outlook in the United States is revised up from 0.7 percent to 0.9 percent for 2020 according to a forecast average of Bloomberg, and the Roubini Global Economics. The inflation outlook is dragged down by an unemployment rate that is projected to rise

between 8.5 to 11 percent in 2020, reduced transportation costs due to lower oil prices, and sluggish housing prices. However, the inflation outlook is pushed up as foreign relations between the United States and China are unfavorable and the risk of disruptions to the transportation network due to the pandemic is likely to increase the prices of goods such as food and electronics.

Inflation outlook in the Euro Area is kept at 0.5 percent for 2020 according to a forecast average of Bloomberg, and the EIU. Though regional economic activity has weakened below expectations, the euro is expected to depreciate with the expansionary fiscal and monetary policy.

### Uncertainties in the external conditions

The extent and duration of the spread of COVID-19 and the risk of the second wave of outbreaks, economic recovery to be slower than expected, and geopolitical risks are the main uncertainties in the external economic environment. In the event of a resurgence of the pandemic and the implementation of strict quarantine measures to prevent it, this could hurt the Mongolian economy, mainly through lower exports and fiscal revenues as global economic growth and China's industrial growth slow, and commodity prices fall. Moreover, the risk of escalating trade disputes between the United States and China, expectations of a post-Brexit trade agreement remain unclear.

### IV.2 Prices of Mongolia's main exporting commodities at the global market

*Price of gold, copper, iron ore, and oil are revised up due to the expectation of supply shortage with increased COVID-19 cases in major commodity suppliers, the risk of escalating trade disputes between the United States and China, as well as elevated uncertainty and risk in the global economy.*

**Copper:** The average price of copper per ton at the London Metal Exchange was 6373 USD

in July 2020 and rose to 6498 USD in August 2020. The continued recovery in China's economic activity, which accounts for 50 percent of the global copper demand, Chinese manufacturing PMI rose to 53.1 in August, and increased demand in some countries with a gradual easing of restrictions have had a favorable impact on the copper market, pushing prices up. On supply side, continued COVID-19 outbreaks in major copper producers such as Peru and Chile could lead to supply shortages in 2020. On demand side, the resumption of China's manufacturing sector and its recovery could support the copper prices up.

Copper prices are expected to average 5803 USD per ton in 2020 and rise to 6127 USD per ton in 2021, according to forecasts by the Bloomberg, the Roubini Global Economics, and the BREE. Although copper prices are expected to rise in 2021 as the global economy recovers, there are risks that could harm the metal demand in the medium term. These include further escalation of trade disputes between the United States and China, the continued outbreaks of COVID-19 leading to a potential second wave of the pandemic.

**Gold:** Gold price averaged 1975 USD per ounce in July 2020 and slightly fell to an average of 1968 USD per ounce in August 2020. The demand for gold, considered a risk-free investment, remains elevated with the persistent uncertainty in the global economy, the risks of the second wave of the pandemic and escalating trade disputes, and the prospect of weakening currencies due to the expansionary fiscal and monetary policy of developed countries. The gold price is expected to average 1839 USD per ounce in 2020 and 1828 USD per ounce in 2021, exceeding previous forecast, according to forecasts by the Roubini Global Economics and the Bloomberg.

Having a more flexible inflation target, the Fed is expected to implement policies to support the real economy and employment. The effect of such policies is expected to support the US

dollar throughout 2021, pushing gold prices to fall slightly.

**Coking coal:** The price of coking coal traded at the Australian market averaged 115 USD per ton in July 2020 and dropped to 113 USD per ton in August 2020. The price decline was induced by lower demand for coal due to increased domestic production and reserves in China, an increase in the spread of COVID-19, deterioration of external demand outlook, and the risk of the escalating trade disputes. The coking coal price is expected to be 127 USD per ton on average in 2020 and 136 USD per ton in 2021, according to forecasts by the BREE and the Bloomberg. Although the upward revision in China's economic growth is expected to push coking coal demand and prices up in 2021, the domestic coking coal supply is expected to increase in the medium term.

**Iron ore:** The price of iron ore averaged 105 USD per ton in July 2020 and rose to 119 USD per ton in August 2020. Coke and steel producers in major Chinese cities resumed their operations at normal level, and the regional production shutdown, which accounts for 10 percent of Vale's total production, was suspended due to the spread of COVID-19 in Brazil have resulted in a rise in iron ore prices. Iron ore price is revised up to an average of 88 USD per ton in 2020 and revised down to 76 USD per ton in 2021, according to forecasts by the BREE and the Bloomberg. The price forecast is revised up in 2020 due to the possibility of a supply shortage amid the increasing spread of COVID-19 in the main iron ore supplier countries. However, in 2021, the risk of supply disruptions is expected to subside and demand is expected to remain stable, pushing the iron ore price down.

**Crude oil:** A barrel of Brent oil was sold at an average of 43 USD in July 2020 and marginally rose to 45 USD in August 2020. Oil prices rose in August as Hurricane Laura swept across the

United States, temporarily shortening the capacity of some refineries and continued production cut by OPEC+ amidst increased spreads of COVID-19 and lower oil demand throughout the world.

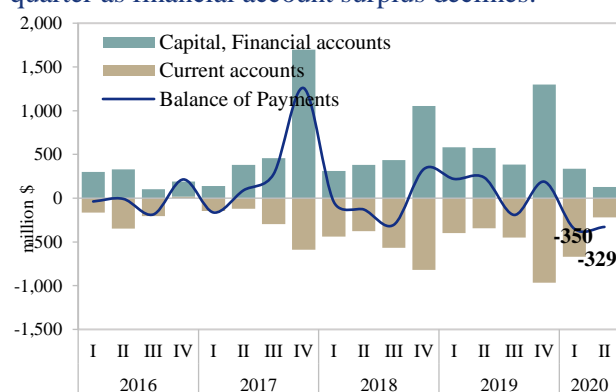
The oil price forecast is revised up to an average of 41 USD per barrel in 2020 and 45 USD per barrel in 2021, according to forecasts by the EIU, the BREE, and the Bloomberg. Oil prices are expected to remain subdued throughout 2020 as oil demand remains weak reliant on global economic activity. For 2021, while demand is expected to recover, the oil supply is not likely to pick up rapidly, resulting in a marginal upward revision to the oil price forecast.

### IV.3 Balance of Payments

In the second quarter of 2020, the balance of payments of Mongolia was in a deficit of 329 million USD or 1.8 percent of GDP<sup>26</sup>, which is a deterioration of 565.4 million USD year-on-year.

Figure IV.3.1

The balance of payments was in a deficit in second quarter as financial account surplus declines.



Source: Bank of Mongolia

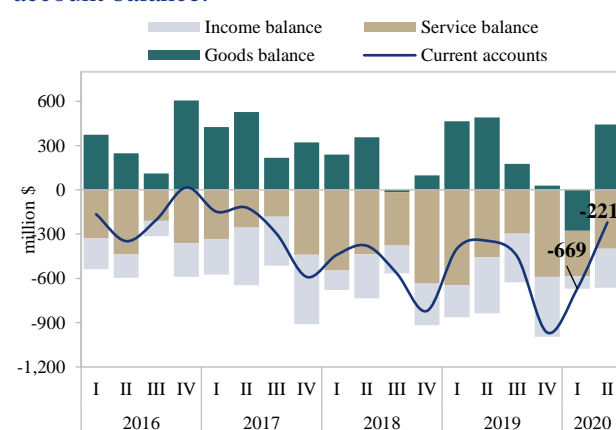
Despite the decline in export revenue due to COVID-19, imports of goods and services shrank, and the current account deficit narrowed by 124 million USD year-on-year. Private sector bond repayments, registered

under the portfolio investment outflow, have prominently rendered the financial account surpluses to decline by 432 million USD, and errors and omissions<sup>27</sup> of the balance of payments declined by 245 million USD from that of previous year, worsening the balance of payments.

**The current account deficit** narrowed from that of previous year. In the reporting quarter, the current account deficit is 221.2 million USD (1.7% of GDP), a decrease of 124 million USD or 36 percent year-on-year. The current account deficit widened as the export revenues contracted by 1.2 billion USD from that of previous year due to COVID-19. On the other hand, services deficit narrowed by 457 million USD, income account deficit by 180 million USD, and imports by 165 million USD as the economic activity weakens. While export revenue declined due to COVID-19, imports shrank by 267 million USD, the services deficit narrowed by 59 million USD, and the income account deficit narrowed by 113 million USD as the economic activity weakens.

Figure IV.3.2

Shrink in imports and decline in deficits of services and income accounts resulted in a narrower current account balance.



Source: Bank of Mongolia

**Goods' balance** was in a surplus of 442.5 million USD in the second quarter of 2020. Export revenue decreased by 375 million USD

<sup>26</sup> 4-quarter cumulative nominal GDP.

<sup>27</sup> Unexplained capital outflows increased.

or 17.3 percent year-on-year (Table IV.3.2). Exports of all goods, excluding gold, declined in the reporting quarter. Coal exports recovered gradually in the second quarter, but the recovery was relatively slow due to COVID-19 preventive measures. In addition, copper export revenues declined with declining gold content of Oyu Tolgoi copper concentrate. Since Chinese demand for cashmere fell sharply amid COVID-19, and cashmere export volume decreased by 38 percent and prices fell by 64 percent.

Table IV.3.2

The export revenues of coal, copper concentrate, crude oil, and cashmere declined while export revenues of gold increased.

	2019 II	2020 II	YoY change	Contribution %
<b>Total exports</b>	<b>2,167</b>	<b>1,792</b>	<b>-17.3%</b>	<b>-17.3%</b>
Coal	899	438	-51%	-21.3%
Copper concentrate	559	390	-30%	-7.8%
Cashmere	229	83	-64%	-6.7%
Crude oil	92	16	-82%	-3.5%
Machinery, equipment Zinc ores and concentrates	50	7	-85%	-2.0%
Fluorspar, leucite, nepheline	45	32	-29%	-0.6%
Meat, meat products	17	6	-68%	-0.5%
Iron ore	145	142	-2%	-0.1%
Silver	-	51		2.3%
Non-monetarized gold	-	526		24.3%
Other	80	62	-23%	-0.8%

Source: Mongolian customs, Bank of Mongolia

As the gold prices climbed at the global market, the Bank of Mongolia exported golds it purchased this year and a portion of monetized gold that were accumulated in previous two years, contributing 24.3 percentage points to total exports. Iron ore exports resumed at normal levels.

**Imports** contracted by 267 million USD or 17.1 percent year-on-year in the second quarter of 2020. World oil prices remained low and import payments of petroleum products fell. Imports of machinery and equipment in the mining sector and imports of passenger cars continued to decline due to weaker domestic demand and declining economic activity.

Table IV.3.3

Imports of diesel, passenger cars, and capital goods declined.

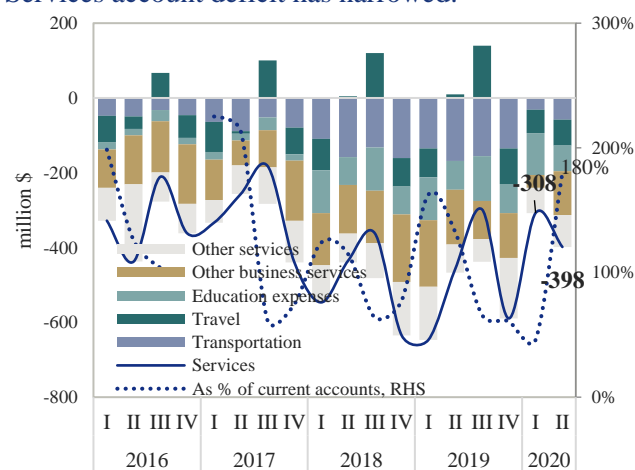
	2019 II	2020 II	YoY change	Contribution %
<b>Imports</b>	<b>1,566</b>	<b>1,299</b>	<b>-17.1%</b>	<b>-17.1%</b>
Consumer goods	453	406	-10.5%	-3.1%
Of which: Passenger cars	154	107	-31%	-3.1%
Capital goods	685	556	-18.8%	-8.2%
Fuels	256	155	-39.5%	-6.5%
Of which: Diesel	152	80	-48%	-4.6%
Other fuels	104	75	-28%	-1.8%
Industrial inputs	170	181	6%	0.7%
Others	2	1	-	0%

Source: Mongolian customs, Bank of Mongolia

**services account** deficit narrowed. In the second quarter of the year, the deficit narrowed by 59 million USD or by 12 percent year-on-year reaching -398 million USD. This was mainly driven by a reduction in costs of business, trade, financial, and travel services and a smaller deficit in freight services as the foreign trade turnover decreased.

Figure IV.3.3

Services account deficit has narrowed.



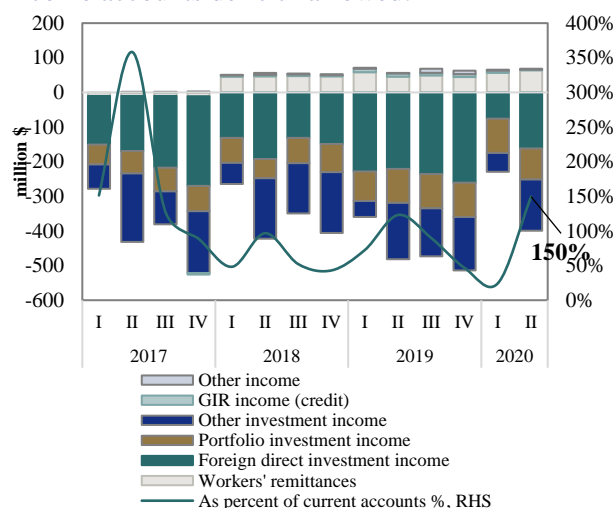
Source: Bank of Mongolia

Owing to border restrictions, the precautionary measure against COVID-19, travel revenue was reduced by 98 percent and travel expenses by 28 percent. The decline in foreign trade turnover has reduced the deficit in freight services. A weak economic activity has reduced the costs of business services.

**Income account** was in a deficit of 330.8 million USD in the second quarter of 2020, a decrease of 94.2 million USD or 22 percent year-on-year. This was mainly driven by the decreased outflow of FDI income by 74.1 million USD or 16 percent year-on-year.

Figure IV.3.4

Income accounts deficit narrowed.



Source: Bank of Mongolia

In particular, as a result of the low profitability of banks and enterprises, the outflow of reinvestment earnings decreased by 44 million USD from that of previous year, reaching 200 million USD. Moreover, the outflow of dividends under oil product sharing agreements declined by 82 percent to 5.6 million USD. The deficit in primary income accounts for 150 percent of current account deficits in the reporting period.

**The financial account** was in a surplus of 108.9 million USD in the second quarter of 2020, a decrease of USD 432 million USD or 80 percent year-on-year. While surplus in net inflows of other investments increased by 186 million USD, net inflows in portfolio investments declined by 595 million USD and FDI net inflows by 28 million USD.

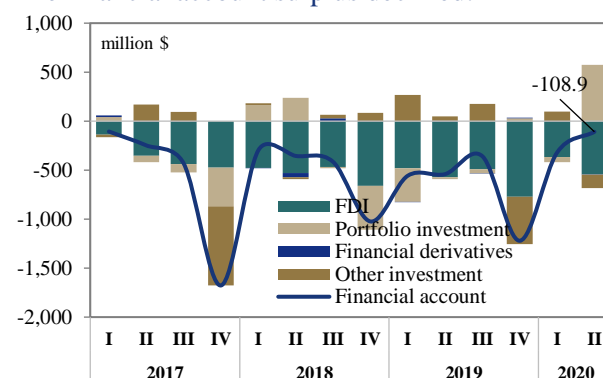
In the reporting period, the low profitability of enterprises resulted in a 99 percent or 44 million USD decrease in the reinvestment earnings, resulting in a net inflow of 200 million USD. However, the net inflow of FDI decreased. While the FDI of Oyu Tolgoi

increased in the reporting period, the FDI of other enterprises decreased by 184 million USD down to 99.3 million USD.

The portfolio investment decreased by 595 million USD from that of previous year to a net outflow of 575.7 million USD, becoming the main factor of a decline in the financial accounts. This was a result of the followings. 1) TDB repaid 500 million USD bond in May 2020. 2) In the second quarter of 2019, Energy Resource LLC issued a bond worth of 440 million USD at the international market (repaying 398 million USD of the 412 million USD bond issued in 2017), affecting the base year.

Figure IV.3.5

The financial account surplus declined.



Source: Bank of Mongolia

The other investment account was in a net outflow of 47.6 million USD in the second quarter of previous year, it was in a net inflow of 138.3 million USD in the reporting quarter. In the second quarter of 2020, the central bank's long-term external borrowing increased by 102 million USD to 102 million USD, the government's long-term external borrowing increased by 307.4 million USD to 389.7 million USD with the increased donor financing, and the banks' long-term external borrowings increased by 117.7 million USD to 24.2 million USD. On the other hand, cash and current accounts decreased by USD 198 million and a net outflow of USD 153.2 million were due to the increase in the use of foreign loans by banks. While external borrowings increased, the banks replenished their foreign

nostro accounts, the currency and deposits decreased by 198 million USD, resulting in a net outflow of 153.2 million USD.

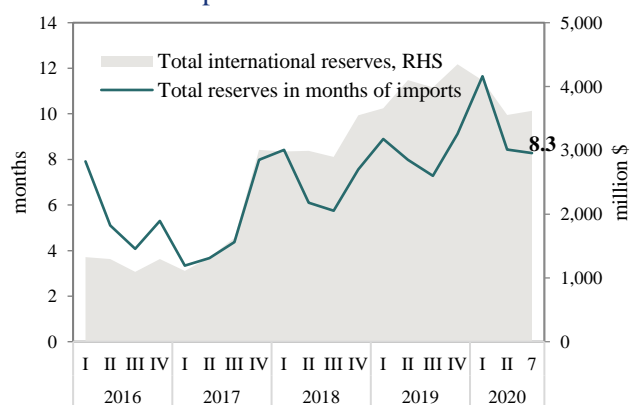
**Gross international reserves:** decreased by 792.7 million USD from the beginning of the year, reaching 3555.9 million USD at the end of June 2020<sup>28</sup>. It is an adequate level to cover 8.4 months of imports, calculated as an average of the last three months' import payment made in hard currency (Figure IV.3.6).

The balance of payments increased in July to 344 million USD as of the first seven months, up by 335 million USD from the first half of the year. This improvement was mainly due to an increase in gold exports and a recovery of coal exports.

The gross international reserves increased by 65 million USD in July from previous month as the parts of improvement in the balance of payments was canceled out by a decrease in monetarized gold reserves.

Figure IV.3.6

Gross international reserve stands at a level to cover 8.3 months of imports.



Source: Bank of Mongolia

**Terms of Trade** deteriorated by 3.4 percent from that of previous year in July 2020. Export prices fell by 10 percent and import prices fell by 6.8 percent year-on-year.

In July 2020, the export custom's price of coal declined by 16.8 percent, the custom's price of crude oil by 36 percent, the price of cashmere

by 42 percent, the price of iron ore by 3.7 percent, custom's price of copper concentrate by 2 percent. Conversely, the custom's price of gold increased by 31 percent year-on-year, contributing positively to the export price.

The 6.8 percent decline in import prices was mainly driven by lower foreign inflation, decline in the prices of food and oil prices at the global market rendering lower prices imported consumer goods, investment products, and petroleum products.

Table IV.3.1

### Changes in Key assumptions of BOP projection (2020)

Previous forecast of 2020	Current forecast of 2020
<b>Exports</b>	<b>Revised up</b>
Advance financing for gold miners → Gold purchase, exports ↑, Oyu Tolgoi's gold concentrate in the copper ore declines. The recovery in coal exports is slower than previously expected. Prices: Coal, copper, oil price forecasts ↓, Gold, iron ore forecasts ↑.	Gold purchase+Part of monetarized gold will be exported → Gold price ↑ gold export ↑, Oyu Tolgoi's gold concentrate in the copper ore declines. The recovery in coal exports is the same as previously expected. <b>Prices ↑</b> : Coal price performance, copper, gold, crude oil, iron ore price forecasts ↑.
<b>Imports</b>	<b>Revised down marginally</b>
Oyu Tolgoi FDI ↓, crude oil processing plant ↑, fiscal capital expenditure cut → Imports of capital goods ↓. Economic activity ↓, coal exports ↓ → fuel imports ↓, passenger cars' imports ↓, fiscal economic support packages → consumer imports ↑.	Oyu Tolgoi FDI is same as previously forecasted, crude oil processing plant FDI ↓, fiscal capital expenditure cut → Imports of capital goods ↓. Economic activity ↓ → passenger cars' imports ↓, oil price ↑ → fuel imports ↑
<b>Services</b>	<b>Revised down</b>
Coal, iron ore exports ↓ → income and expense of transport services ↓. COVID-19 → International flights are canceled → Travel accounts income ↓, passenger transportation income ↓, Oyu Tolgoi FDI ↓ → business and financial services expenses ↓. Economic activity ↓ → business services expenses ↓.	COVID-19 → Border lockdown → Tourism revenues are not expected to come in this year, and travel costs to shrink as well. Performance of services sectors other than transportation ↑ → forecast of other services ↑
<b>FDI</b>	<b>Revised down</b>
Due to COVID-19, the construction of the Oyu Tolgoi underground mine has slowed down slightly and investment will decline. The crude oil processing plant project will be financed by FDI. Companies' profitability declined and reinvestment earning projection is revised down.	FDI inflow for the oil refinery is expected to be delayed till next year. Amid COVID-19, external financing has slowed and the outlook for foreign direct investment of enterprises has declined.
<b>Other investments</b>	<b>Revised up</b>
The IMF EFF program financing plan is revised up for 2020. The loan disbursements in the private sector are revised down.	The planned amount of government donor funding has increased, and the private sector's long-term foreign loan disbursement plans have increased slightly. Currency and deposit account outflows increased in Q2.

Source: Bank of Mongolia

<sup>28</sup> The difference between the balance of payments and GIR is explained by changes in monetized gold.





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