



*Monko Bank*



**THE BANK  
OF MONGOLIA**

**INFLATION REPORT**

**2020**  
**DEC**

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**BANK OF MONGOLIA****INFLATION REPORT**

December 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** (4<sup>th</sup> quarter of 2020)

The Monetary Policy Committee (MPC) held an unscheduled meeting on November 23, 2020 in light of recent lockdown measures taken due to the state of public preparedness declared in response to the local spread of COVID-19 pandemic. At this meeting, the MPC decided to:

1. Lower the policy rate by 2 percentage points to 6 percent,
2. Reduce the reserve requirement on banks' domestic currency liabilities by 2.5 percentage points to 6 percent,
3. To continue to implement restructuring and extension of the maturity of consumer loans with repayment difficulties by 12 months until July 1, 2021,
4. Introduce a long-term refinancing instrument aimed at supporting SMEs and non-mining exports.

Please read the monetary policy statement [here](#).

At the scheduled meeting held on December 18, 2020, the Monetary Policy Committee (MPC) of the Bank of Mongolia took into consideration the current state and outlook of the economy and financial markets, as well as the uncertainties and risks inherent in the domestic and external environments, and reached a decision to:

1. Keep the policy rate unchanged,
2. Issue up to 250.0 billion MNT under the long-term repo financing to support SMEs and non-mining exports in the first quarter of 2021.

Please read the monetary policy statement [here](#).

The data, figures and tables included in the inflation report can be downloaded [here](#).

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## EXECUTIVE SUMMARY

While a set of fiscal and monetary policy measures have supported consumption and financial stability, the domestic economic activities are expected to contract sharply in 2020 due to COVID-19 pandemic. 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 are expected to remain subdued.** Annual inflation has been stable in recent months and has reached 2.4 percent nationwide and 2.6 percent in Ulaanbaatar city as of October 2020. The contribution of supply-side factors on inflation is expected not to increase. While prices of meat rose earlier than its seasonal patterns owing to the local outbreaks of COVID-19 in November 2020, the government's decision to cut the price of refined coal by 75 percent has offset the former. Due to COVID-19 outbreaks, domestic demand is expected to weaken, and thus demand-driven inflation is projected to remain subdued. Under the conditions that sudden price fluctuations driven by supply factors do not take place, inflation is expected to remain low until the end of 2020 and gradually pick up and stabilize around the central bank's target of 6 percent in 2021.

**As a result of local spread of COVID-19 and dramatic changes in the economic conditions within a short period of time, the economic growth is expected to contract sharply in 2020, followed by a gradual recovery in 2021.** Although the economy has shown signs of recovery in the third quarter of 2020, the growth performed below expectations. The recovery in the production in construction, manufacturing, trade, transportation, and mining sectors has been slower than expected largely reflecting the adverse impact of the pandemic and the under-utilization of public capital expenditures. In addition, the local outbreak of COVID-19 in November and the subsequent enforcement of a high level of public preparedness have affected the economic sectors other than mining, agriculture, and communications, rendering the economic activity to deteriorate back in the fourth quarter of 2020. The economic recovery is revised to be more gradual next year owing to the spread of the pandemic and the curfew even though the external demand and investments pick up and the mining production intensifies. The changes in the economic outlook are prominently dependent on how long it takes to contain the local outbreaks of COVID-19.

**Annual growth of money supply tends to increase gradually in the second half of the year mainly driven by the budget expenditures.** Annual growth of M2 money supply reached 10.1 percent as of October 2020 mainly contributed by the increase in government expenditures on goods and services, social welfare transfers, and government financing funded to the enterprises in the forms of the budget capital expenditures. However, weaker domestic activities and persistent market risks amid COVID-19 has weighed down the credit growth.

**Despite positive changes observed in the external environment, uncertainties remain elevated.** The initial trials of vaccines, such as Pfizer and Moderna, have been more than 90 percent effective, sent a positive signal to the external environment. Economic growth in the third quarter of 2020 exceeded expectations in major economies such as China, the United States, the Eurozone, and Russia. Despite the emergence of new waves of the pandemic that has an adverse impact on economic activities, the expectation of economic recovery remains relatively optimistic with the increased capacity to contain the spreads effectively. Over the forecast period, the external demand outlook

highly depends on the roll-out timeframe of the COVID-19 vaccines to consumers and the availability and production capacity of the vaccines.

**The balance of payments is expected to be in surplus in 2020.** In the third quarter of 2020, the balance of payments of Mongolia was in a surplus of 207 million USD or 1.6 percent of GDP<sup>1</sup>, which is an improvement of 398.4 million USD from that of previous year. This was mainly due to a surplus of 148.7 million USD of the current account balance as exports have recovered, imports have contracted, and the deficit in the income accounts has narrowed. The local spread of COVID-19 in November poses risks of disrupting international freights, thus reducing exports and increases uncertainty in the balance of payments.

Terms of trade has improved by 14.8 percent year-on-year as of October 2020. In particular, export prices grew by 2.4 percent while import prices fell by 10.8 percent year-on-year. While projection for gold price has been revised down, prices of copper, iron ore have been revised upwards, facilitating improvement in terms of trade in the last quarter of 2020.

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<sup>1</sup> 4-quarter cumulative nominal GDP.

## I. INFLATION

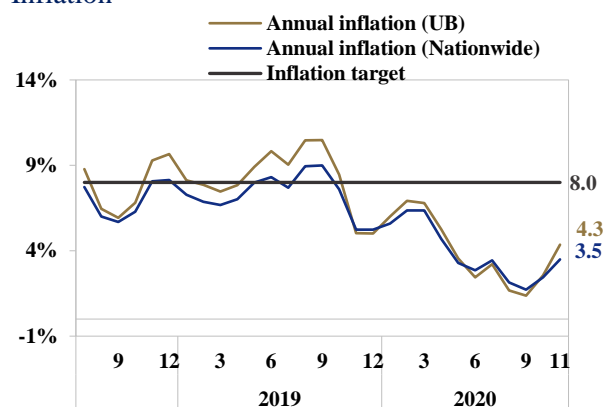
The Bank of Mongolia's monetary policy aims at stabilizing inflation, measured by a consumer price index, at around 8 percent during 2019-2020 and around 6 percent in the medium term.

### Inflation dynamics

Inflation continued to decelerate, averaging 2.1 percent in the third quarter, as **demand-driven** price growths have stabilized in line with a gradual recovery of economic activity and **supply-driven** prices has mostly exhibited a downward movements (Figure I.2). Headline inflation reached 3.5 percent nationwide and 4.3 percent in Ulaanbaatar city as of November 2020 mainly due to a base year effect and increased food inflation (Figure I.1).

Figure I.1

### Inflation



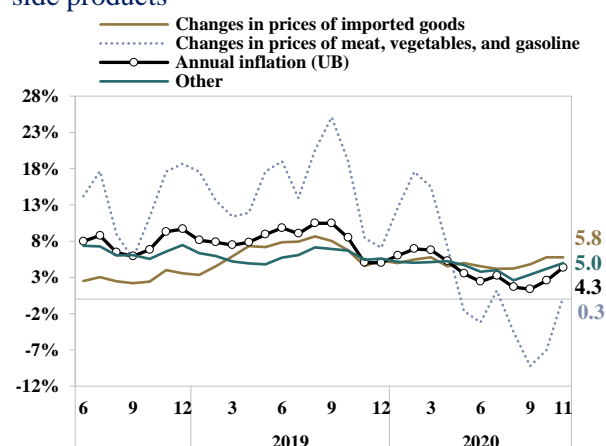
Source: NSO

In the reporting quarter, the demand-driven pressure on prices has been subdued due to the negative consequences of the pandemic, such as uncertainties affecting market participants adversely, contraction in investments, and dampening of credit growth and domestic demand. Demand-driven inflation shows a stabilizing trend with a gradual recovery in economic activity following the easing of domestic restrictions and robust consumption supported by the monetary, fiscal, macroprudential policies and regulations.

Price increases associated with the supply-factors have been stable throughout 2020 while prices of fuel have contributed to inflation reduction (Figure I.2, Figure I.3).

Figure I.2

### Annual growth of headline inflation and supply-side products

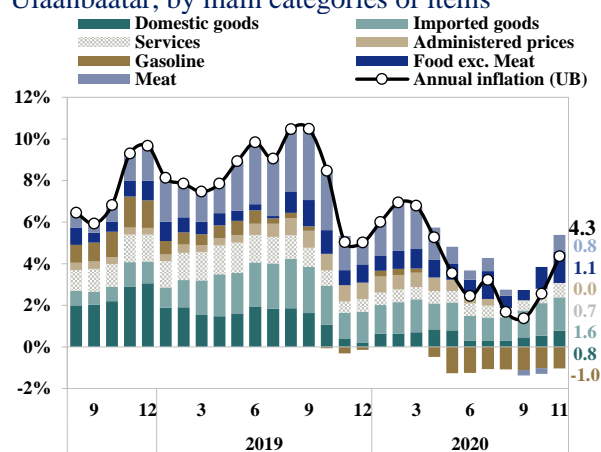


Source: NSO, Bank of Mongolia

- **Domestic fuel prices** contributed to -1.0 percentage point of inflation (Figure I.3).
- **The prices of meat** increased in November, in contrast to its seasonal patterns, contributing 0.8 percentage points to inflation. In the first days of lockdown, amid the state of public preparedness, the demand for stocking of food has increased, rendering higher prices of meat and higher contribution to inflation (Figure I.2, Figure I.3).
- Rising **food prices other than meat** contributed 1.5 percentage points to inflation. In particular, the milk and dairy products prices grew relatively higher than that of previous year while the contribution of vegetable prices to inflation increased due to the base-year effect (Figure I.3).
- A lockdown has been enforced under the state of public preparedness after the first locally transmitted COVID-19 case was confirmed on November 11, 2020. This has caused limitations to access to non-food products and services other than solid fuels and pharmaceuticals. As a result, demand-driven inflation remained around previous month's level (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 third quarter of 2020, quarterly-average inflation reached 2.1 percent, 0.3 percentage points lower than expected.

Table I.1 Changes in the inflation outlook

Assumptions on near-term forecast of inflation	
Previous forecast 2020Q3-2021Q2	Current forecast 2020Q4-2021Q3
<b>Prices of Meat</b>	<b>Projection revised up</b>
Prices of meat rose at a slower rate than its seasonal patterns in July. Hence, price forecasts are revised up.	Prices of meat dropped more than expected in the third quarter but has increased in November. Hence, price forecasts are revised up.
<b>Prices of imported goods</b>	<b>Projection revised down</b>
Prices of domestic goods rose below expectations in the second quarter and July.	Although price projection of imported goods has been in line with expectations, its forecast is revised up due to the curfew.
<b>Prices of domestic goods</b>	<b>Projection revised down</b>
Prices of domestic goods rose at a slower rate than expected in July. Hence, price forecasts are revised down.	Projection of prices of domestic goods has been in line with expectations in the third quarter and the government's decision to sell refined coal at half price as a response to the local COVID-19 outbreaks has been reflected in the projection.
<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>
Although domestic fuel prices rose slightly in July and August, it fell short of expectations in the second quarter.	The projection is revised down as the MNT rate has been relatively stable and oil prices at the international market have slightly declined.

Source: Bank of Mongolia

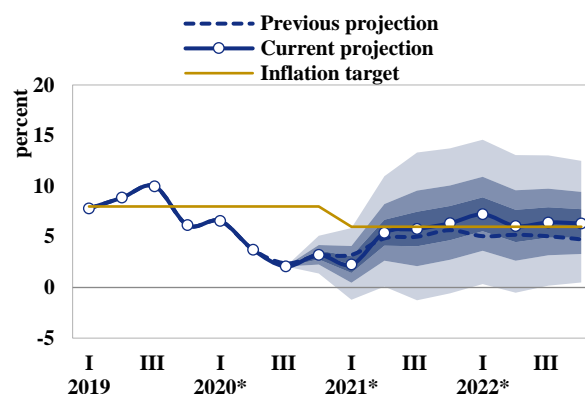
Food prices rose by 3.7 percent year-on-year in the third quarter of 2020, lower than expected, as meat prices dropped below expectations. In addition, an increase in non-food prices, particularly, a 2.8 percent year-on-year growth in the price of services was below expectations.

## Inflation outlook

Inflation is projected to be around previous forecast by the end of this year. Despite the rising prices of some food products associated with the local spread of COVID-19 and enforcement of a public preparedness, the government cut the price of refined coal by 75 percent (Figure I.4).

Figure I.4

## Inflation forecast



Source: Bank of Mongolia

The inflation is expected to remain subdued over the coming months as the domestic activity weakens reflecting the curfew and supply-driven prices are not likely to fluctuate drastically. In particular, stocks of key food items are at a normal level<sup>2</sup> and the authorities are taking appropriate measures to ensure that the supply is not disrupted amid the curfew.

In addition, domestic gasoline prices are expected not to fluctuate much as global oil prices remain stable.

Table I.2

## Inflation forecast

	2019 actual	2020* projection	2021* projection
Inflation, CPI <sup>3</sup>	6.1	3.2	6.3
Confidence band <sup>4</sup>		[2.8-3.7]	[4.7-8.0]

Source: Bank of Mongolia

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.

<sup>2</sup> Source: Ministry of Food, Agriculture and Light Industry of Mongolia

<sup>3</sup> The fourth-quarter average inflation of each year

<sup>4</sup> A confidence interval of 30 percent



### Uncertainties that could change inflation outlook

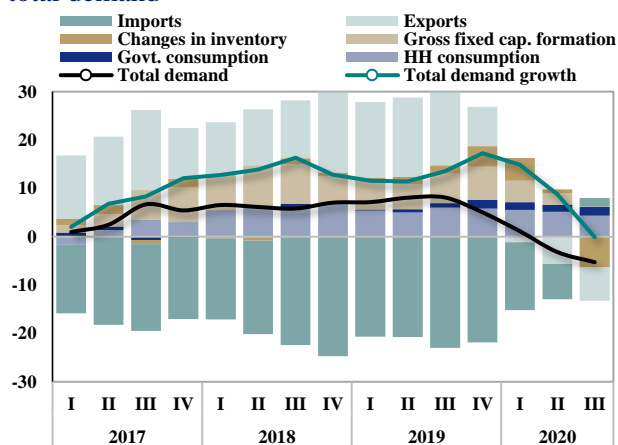
- Potential shortages or oversupply of goods and services have significant implications on inflation projections. For instance, depending on the weather conditions and the curfew, prices of meat and vegetables may be subject to sudden fluctuations, prices of administered items may exceed the projections, and these factors could alter inflation forecasts.
- The potential surge in local spread of COVID-19 pandemic, thereby extension or tightening of restrictive measures could weigh on economic activities and inflation outlook. On the other hand, supply-driven price increases may take place if the curfew lasts for too long.
- Emergence of the pandemic spread, and geopolitical risks could fuel uncertainties in the external environment and bear negative consequences for commodity prices in the international market and capital inflows to the economy, pushing MNT to depreciate further, having an inflationary impact.

## II. ECONOMIC GROWTH

The economy contracted by 3.1 percent in the third quarter of 2020 and by 7.3 percent in the first three quarters of the year, according to the preliminary estimates. From the demand side, the economic growth was supported by household and government consumption while it was dragged down by a decline in investment in the reporting quarter. Exports, particularly commodity exports, exceeded their production in the reporting quarter, while imports have declined for the third consecutive quarter (Figure II.1).

Figure II.1

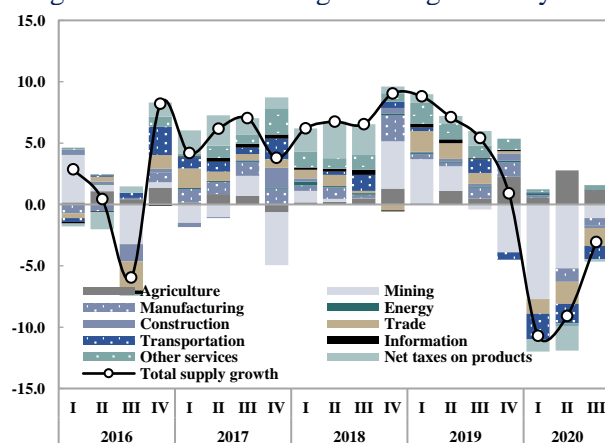
Decline in gross capital formation and exports' revenue mainly contributed to the contraction of total demand<sup>5</sup>



Source: NSO

Figure II.2

Restrictive measures related to COVID-19 have weighed on the economic growth significantly



Source: NSO

Despite a tendency of recovery in economic activities thanks to the implementation of the “Green Gateway” temporary regulation and the easing of pandemic preventive measures in the

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

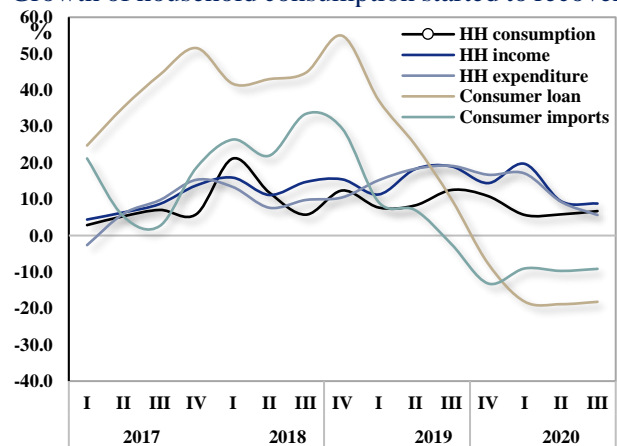
reporting period, the mining and non-mining sectors continued contracting. Revenue from net tax declined in real terms due to slowing domestic economic activity and sluggish imports (Figure II.2).

### Consumption

In the third quarter, **household consumption** expanded by 6.7 percent from that of previous year and contributed 4.0 percentage points to total demand growth. Implementation of measures namely, increasing wages for public sector employees and pensions and delaying loan repayments have supported the consumption amid the pandemic.

Figure II.3

Growth of household consumption started to recover



Source: NSO, Bank of Mongolia

### Public consumption

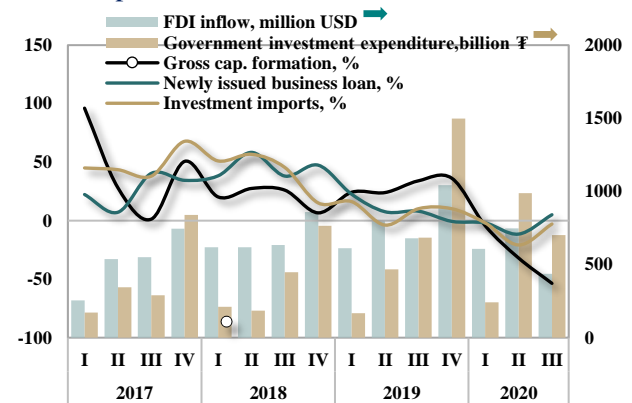
Public expenditure on goods and services grew by 20.0 percent in real terms from that of previous year and contributed 2.2 percentage points to total demand growth in line with the increase in wages and bonuses of public sector employees.

### Investment

Although the curfew has eased since the middle of the third quarter, investment, in particular, the capital formation of construction and machinery, has been slow to recover. Though business loan issuance has been growing gradually and public investment expenditures remained at the same level as previous year, the incoming flow of FDI, especially expenditures related to Oyu Tolgoi underground mine development decreased from previous year, preceding the investments by other private entities to decline.

Figure II.4

Gross capital formation declined



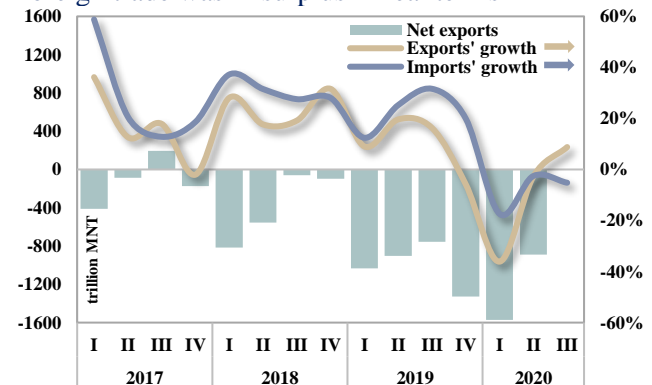
Source: NSO, Bank of Mongolia

### Net exports

Net exports contributed 14.8 percentage points to total demand growth. In the reporting quarter, exports increased by 8.8 percent while imports declined by 5.2 percent, in real terms, year-on-year (Figure II.5).

Figure II.5

Foreign trade was in surplus in real terms



Source: NSO

Exports have rebounded in the reporting quarter as restrictions have eased, coal transports have returned to normal, copper prices have rebounded, and gold exports have been strong for the second consecutive quarter.

Decrease in imports was driven by reduced expenditure on passenger cars and investment items such as vehicles, machinery, parts, and construction materials as well as a lower volume of fuel products.

### Economic sectors

In the reporting quarter, increased gold production and Oyu Tolgoi copper concentrate as well as increased coal exports thanks to the implementation of the “Green Gateway” temporary regulation have induced the mining sector contraction to narrow down to -5.2

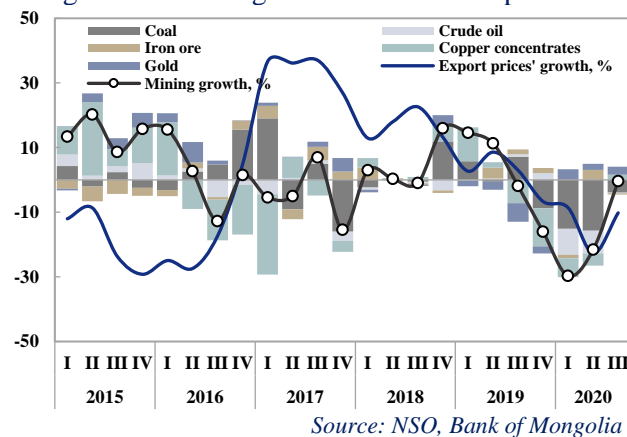
percent<sup>6</sup>, contributing -1.1 percentage points to economic growth.

Coal production increased from previous quarters but was lower than expected. In the reporting quarter, coal production increased by 147.6 percent from previous quarter, but a 13.4 percent decline year-on-year.

For other mining products, production of oil (-2.2%), iron ore (-3.6%), and copper concentrate other than Oyu Tolgoi (-12.8%) decreased while production of gold (+16%) and Oyu Tolgoi copper concentrate (+28.3%) increased. The gold content of Oyu Tolgoi copper concentrate increased by 11.7 percent compared to that of previous year.

Figure II.6

The growth in mining sector reached -5.2 percent



Transportation sector value-added shrank by 14.6 percent in the reporting quarter as road freight decreased from that of previous year despite the rebound in coal transportations since mid-August. The trade sector contracted by 12.5 percent, below expectations, as the sales of gasoline and fuel products dropped in line with reduced activities in the transportation sector as well as sales of heavy machinery and equipment for investments fell.

Construction sector value-added contracted by 6.4 percent reflecting a slowdown in major construction works amid COVID-19 pandemic.

With the increase in public services such as health and education, the value-added of the service sector increased by 2 percent year-on-year.

Agriculture sector growth reached 8.1 percent, in line with expectations, as the harvesting and calving resumed as normal.

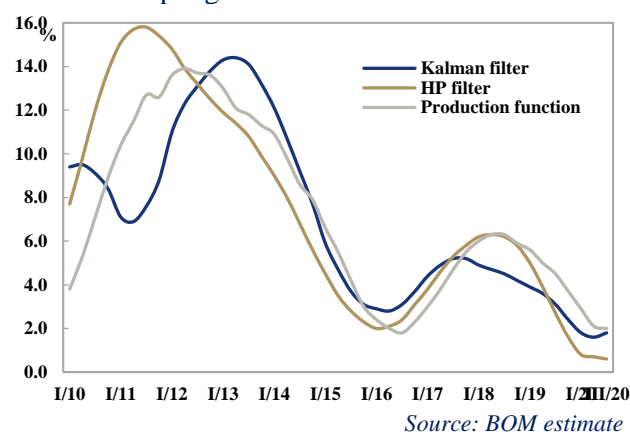
Revenue from net taxes on products declined by 1.8 percent in the reporting quarter with weakening economic activities and a decline in imports of automobiles.

### 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, COVID-19 pandemic has harmed the economy, dampening domestic economic activity, and decelerating potential output growth (Figure II.7).

Figure II.7

Potential output growth



The estimate of the Kalman filter, a multi-variate estimation that uses information on key macroeconomic indicators and their relations, suggests that potential output growth is reduced to 2 percent. The Kalman filter estimate is consistent with the estimate of a production function. However, the potential output growth estimated by single-variate HP filter suggests a sharper decline for this year.

### Output gap

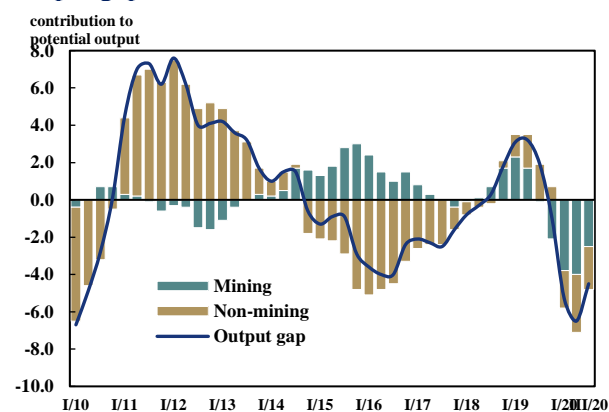
Thanks to the growths in mining production and investment the negative output gap closed in 2018 and remained positive throughout 2019. However, the economy contracted sharply in the first half of the year and the output gap turned negative due to COVID-19 pandemic. In the third quarter of 2020, the gradual easing of the

<sup>6</sup> The mining sector contracted by 29.4 percent in the first half of the year.

restrictions rendered the narrowing of the negative output gap, indicating a sign of recovery. Nevertheless, the enforcement of a high level of public preparedness in November 2020 poses risks of economic activity to fall abruptly and negative output gap to widen once again. (Figure II.8).

Figure II.8

Output gap<sup>7</sup>



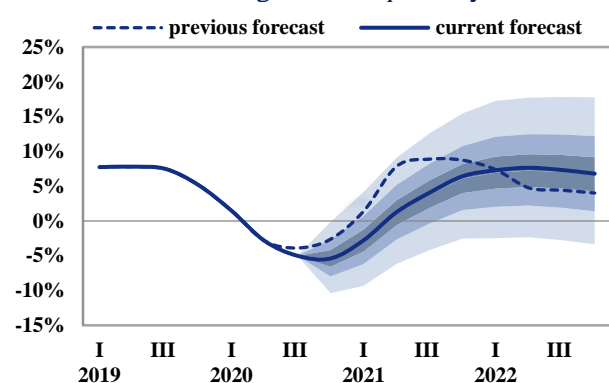
Source: BoM estimate

## Economic outlook

The economy performed below expectations in the third quarter of 2020. It was mainly due to 1) the adverse impact of COVID-19 on the domestic economy was larger than expected, public investment expenditures were underutilized, and growth in the construction, manufacturing, trade, and transportation sectors fell below expectations 2) mining sector production did not increase as projected.

Figure II.9

Forecasts for annual growth of quarterly GDP



Source: Bank of Mongolia

Economic growth is revised down significantly this year due to the local outbreaks of COVID-19 in November and imposing a strict curfew. The economic growth projection is revised

down for next year as well. While the mining sector is expected to be revitalized with the recovery of external demand and the improvement of the metal content of copper concentrate, the domestic demand is expected to recover gradually than previously expected owing to the restrictions to contract the local spread of the virus (Figure II.9, Table II.1.1).

**Mining:** This year's growth projection in the mining sector has been revised down, as performance in the third quarter fell short of expectations. Mining sector growth in 2021 is expected to be supported by a recovery in the external demand, increase in coal production, rise in prices of key export commodities including, copper and iron ore, and an expected upswing in the metal content of Oyu Tolgoi copper concentrates.

**Non-mining:** Non-mining sector indicators have been recovering in the third quarter of 2020. However, the transition to a high level of public preparedness following the local outbreak of COVID-19 in the fourth quarter is likely to weigh on the growth of most non-mining sectors. In particular, manufacturing, electricity, construction, trade, services, and net taxes on products are expected to fall sharply due to the strict curfew. The agricultural production is expected to remain stable with good harvests and calving rates at the same level as in previous year. Transportation sector value-added could be solid as long as mining exports continue uninterrupted in the last quarter of the year. In the coming year, the growth projection of the non-mining sector is revised down as the economy is likely to recover more gradually than previously expected depending on the spread of the virus and the stringency of the curfew.

Table II.1.1

Economic growth forecasts<sup>8</sup>

	2019	2020*	2021*
	actual	projections	
GDP growth, %	5.1	(-4.2) – (-6.6)	4.5 – 8.3
Mining, %	-0.6	(-10.8) – (-13.2)	17.8 – 21.6
Non mining, %	6.7	(-2.4) – (-4.8)	1.3 – 5.1

Source: Bank of Mongolia

<sup>7</sup> Estimated by Kalman filter.

<sup>8</sup> A confidence interval of 30 percent

### *Uncertainties that may affect the economic outlook*

The local spread of COVID-19 has elevated the domestic risks and uncertainties that could affect the economic outlook. If the outbreaks transmit among substantial masses and the curfew continues for an extended amount of time, it could precede a risk of a deeper economic crisis, with economic stagnation, rising unemployment, stagnant foreign trade, disrupted budget revenues, and increased deficits.

Despite the better-than-expected economic performances in China, the United States, the Euro area, and Russia in the third quarter of 2020, the spread of the virus has climbed globally, risking subsequent waves of the pandemic. The worsening of the pandemic situation could hurt the global economic outlook and lead to a decline in external demand.

The announcements of some COVID-19 vaccine trials, which are more than 90 percent effective, have sent a positive signal to commodity market participants and improved the price outlooks for some minerals, such as copper and iron ore. However, in the current context of inherent uncertainty regarding the pandemic, mineral prices could fluctuate.

Table II.1.2

### Changes in the economic growth outlook

Changes in economic growth outlook (2021)	
AGGREGATE DEMAND	Expectations weakened
<b>Consumption</b>	<b>Expectations weakened</b>
<ul style="list-style-type: none"> <li>Household consumption, particularly non-food consumption is expected to contract owing to declaration of the state of public preparedness in response to the local outbreaks of the COVID-19.</li> <li>The contraction in household consumption is expected to be partially mitigated by the implementation of measures to increase child benefits and pensions until the end of the first half of 2021 and to postpone mortgage loan repayments until July 1, 2021.</li> <li>Government consumption growth is expected to pick up due to additional salaries and bonuses for civil servants working amid the pandemic.</li> </ul>	
<b>Investment</b>	<b>Expectations improved</b>
<ul style="list-style-type: none"> <li>Growth in construction and machinery investments and changes in working capital are expected to pick up in the 2nd-4th quarters of 2021 due to the base-year effect.</li> <li>Uncertainties in the investment environment persist amid the COVID-19 pandemic.</li> <li>Business loan issuance continues to stagnate.</li> </ul>	
<b>Net exports</b>	<b>Expectations deteriorated</b>
<ul style="list-style-type: none"> <li>Loosening of quarantine measures will allow coal transportation to reach full capacity, increasing export revenue while the volume of gold exports is expected to decline from that of 2020.</li> <li>Imports of investment goods and construction materials are expected to pick up in line with mining sector developments and an increase in investments in the construction sector.</li> </ul>	
AGGREGATE SUPPLY	
<b>Mining</b>	<b>Expectation unchanged</b>
<p>The recovery of coal exports from 2021 and the increase in the volume of copper concentrate and gold content are expected to have a significant positive impact on the growth of the mining sector.</p>	
<b>Non-mining</b>	<b>Expectations weakened</b>
<ul style="list-style-type: none"> <li>The non-mining sector is expected to recover very gradually in the first half of 2021 and growth is expected to pick up in the second half.</li> <li>Tax revenues from manufacturing, construction, trade, services and net tax on products are unlikely to increase significantly in the first half of 2021 due to preventive measures of the pandemic.</li> <li>The growth of the transportation sector is expected to have a significant positive impact on economic growth due to the recovery of freight transportations following the pickup of coal exports.</li> </ul>	

Source: Bank of Mongolia



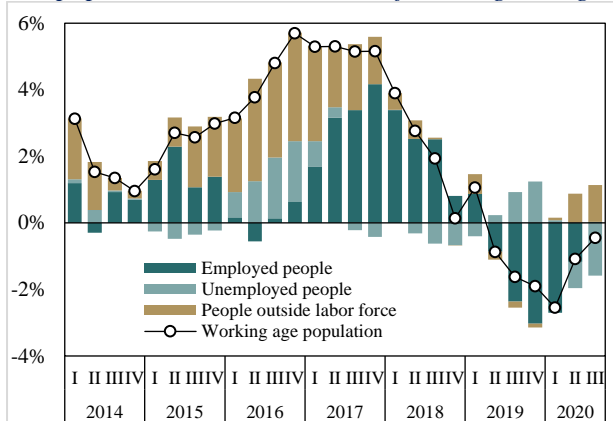
### III. DOMESTIC ECONOMIC CONDITIONS

#### III.1. Labor market

In the reporting quarter, the working-age population remained around previous year's level (decreased by -0.4% y-o-y). However, due to the decrease in economically active population (labor force) and increase in economically inactive population, labor force participation rate decreased by 1.3 percentage points year-on-year to 59.6 percent.

Figure III.1.2

*The population outside the labor force is growing<sup>9</sup>*

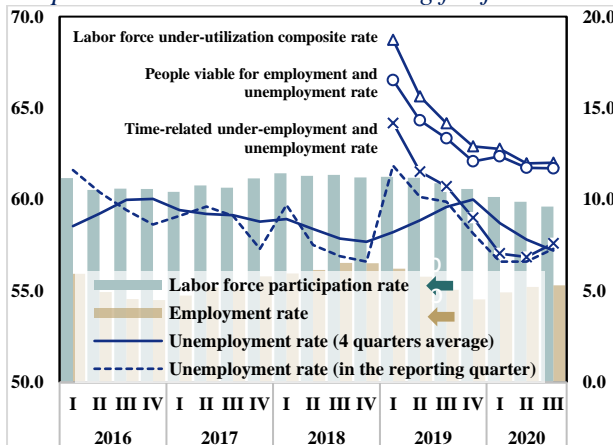


Source: NSO

It appears that unemployed people are less interested in looking for jobs in the current condition of weak economic activity. For instance, the unemployment rate decreased by 2.6 percentage points year-on-year to 7.3 percent due to a decrease in the number of unemployed people while the number of employed people remained unchanged.

Figure III.1.2

*People are less interested in looking for jobs*



Source: NSO

<sup>9</sup> Average growth of last 4 quarters.

<sup>10</sup> People who are interested in working for a salary or earning income but not employed at that time due to certain

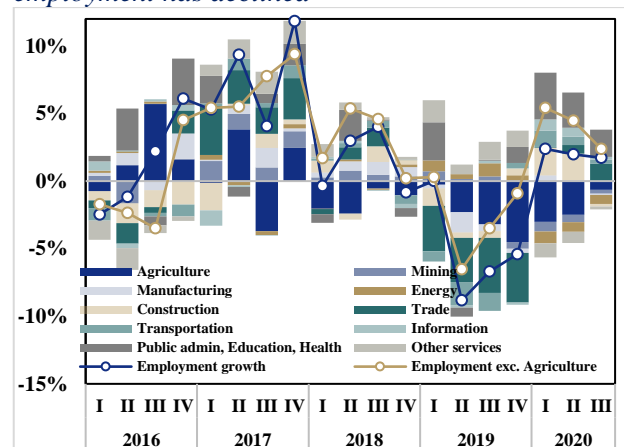
Looking at the main indicators of labor market activity in four-quarter average, the employment rate reached 55.3 percent, lower than that of previous years with robust economic activity. The labor force under-utilization composite rate has declined to 12 percent due to a decrease in the number of people viable for employment and unemployment<sup>10</sup> and time-related under-employment. The decrease in economically active population indicates that employed people are becoming economically inactive and their ability to work part-time has declined.

#### Employment and social security

In most sectors where growth has slowed, employment has declined. In particular, the number of people employed in mining, manufacturing, electricity, construction, and services other than public services decreased from that of previous year. Despite strong growth in the agricultural sector, the number of people employed in the sector declined. On the other hand, people employed in public services, information and communication, transportation, and trade sectors have increased.

Figure III.1.3

*In most sectors where growth has slowed, employment has declined*



Source: NSO

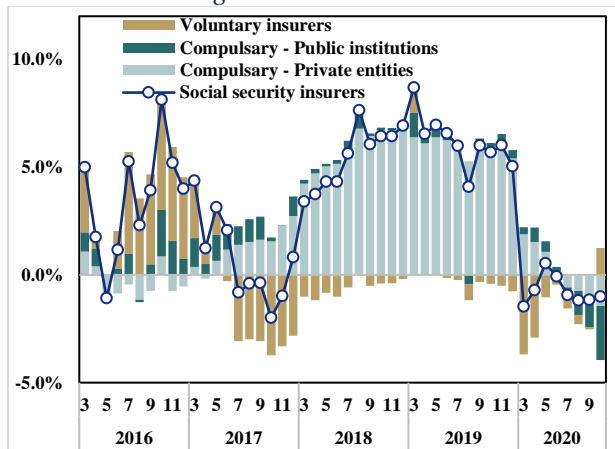
As of the first 10 months of 2020, compulsory social security insurers employed in public and private institutions declined by 1.4 percent year-on-year. However, the number of voluntary insurers, which had declined in previous months due to the measure of exempting voluntary insurers from social insurance contributions

circumstances their attempts to find jobs are limited or they are not able to work directly.

until October 1, increased by 1.2 percent year-on-year in October 2020.

Figure III.1.4

The number of people insured in social insurance has been declining



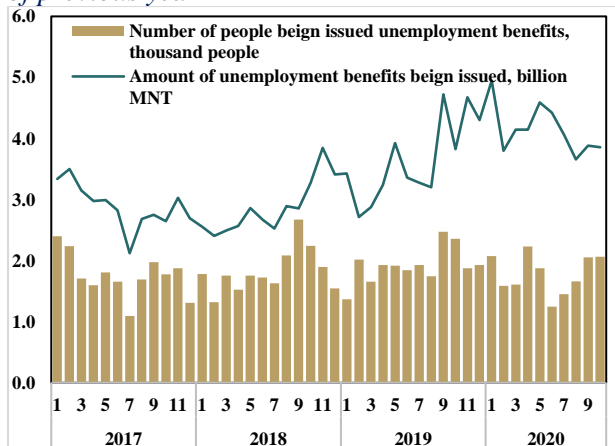
Source: Social insurance general office

### Unemployment

As of the first 10 months of 2020, unemployment benefits amounting to 41.5 billion MNT (20.1 percent growth from previous year) were issued to 17.9 thousand people (-1.4 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.

Figure III.1.5

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



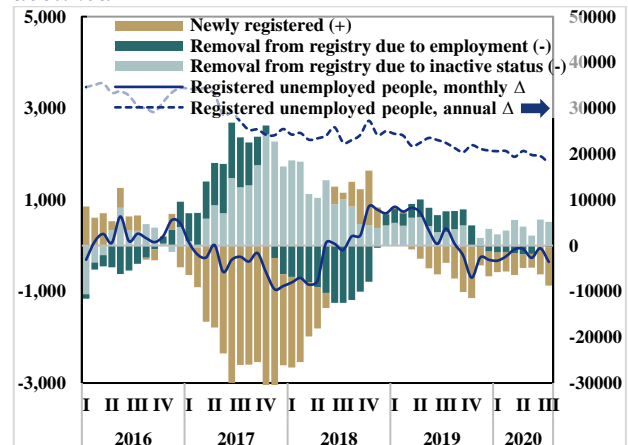
Source: Social insurance general office

In the first 10 months of the year, 43.6 billion MNT was provided to 218.1 thousand insurers in double counting.

Following the weakening of the economic activity, the labor market participation has decreased. As of September 2020, there were around 18.3 thousand registered unemployed people (a 16.4 percent decline year-on-year). In the first 9 months, the cumulative number of newly registered unemployed people decreased by 9.4 thousand (16 percent), deregistered people due to inactive job search by 8.4 thousand (17.5 percent), and registered unemployed people who are employed by 2.6 thousand (17 percent) from that of previous year.

Figure III.1.6

People's participation in the labor market has declined



Source: General Office for Labor and Welfare Services

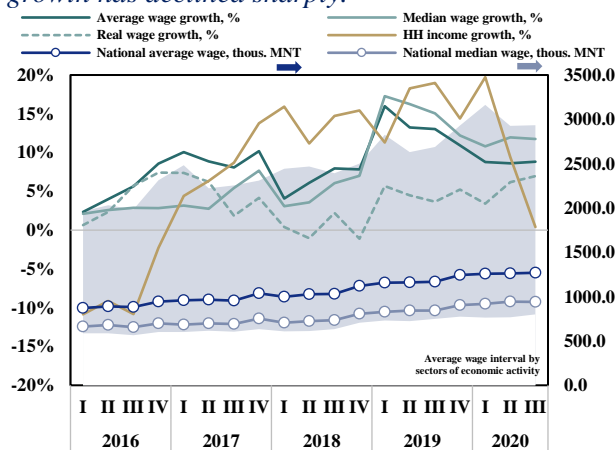
### Wages and household income

The national average wage reached 1269.1 thousand MNT (8.8 percent growth year-on-year), and the median wage amounted to 942 thousand MNT (11.7 percent growth year-on-year) in the reporting quarter, according to the report of the National Statistics Office. Real wage, the indicator of the purchasing power of citizens, adjusted by inflation, increased by 7.0 percent.

Wages have risen in most sectors of the economy, but wages in less active sectors increased by less. Wages increased by more than 10 percent in the sectors of health, water supply, trade, agriculture, finance and insurance, and other services while wages increased relatively modest in sectors such as manufacturing (+4.2 percent), construction (+2.4 percent), and transportation (+3.4 percent).

Figure III.1.7

While wages have increased, household income growth has declined sharply.



Source: NSO

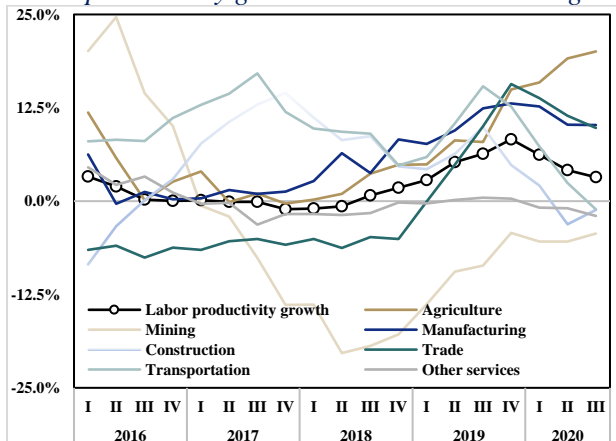
With regards to the legal status of establishments, average wages of employees working at partnership (28-30 percent), cooperatives, public institutions (15 percent), and state-owned enterprises (15 percent) increased considerably, while that of limited liability private companies grew by the least proportion of 5.6 percent.

**Labor productivity and unit labor cost**

Labor productivity<sup>11</sup> growth has been decelerating. Among sectors, productivity in the mining, construction, transportation, and services sectors has declined while productivity growths in manufacturing and trade sectors have declined. An increase in labor productivity in the agriculture sector was driven by an increase in production coupled with a decrease in employment.

Figure III.1.8

Labor productivity growth has been decelerating<sup>12</sup>



Source: NSO, BOM estimate

<sup>11</sup> Average of GDP per employed person.

<sup>12</sup> Average growth of the past 8 quarters.

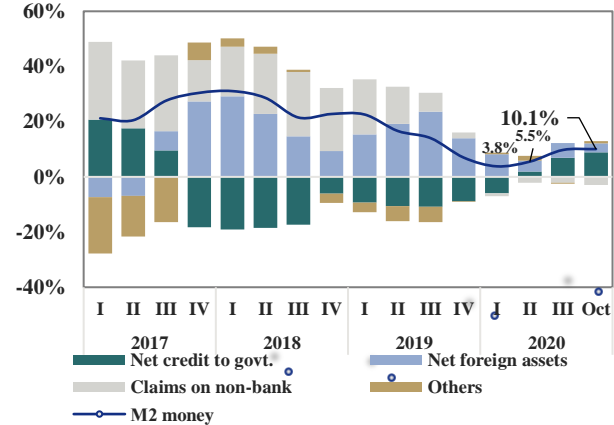
**III.2 Money and financial market**

**III.2.1 Monetary and credit indicators**

Annual growth of M2 money supply has been gradually increasing from the beginning of 2020 and reached 10.1 percent as of October 2020. The increase in government expenditures and the amount of funding required have mainly contributed positively to the money supply growth. On the contrary, a decline in the loan outstanding in the banking system and a 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 10 months of 2020, the required budget funding has reached 4.2 trillion MNT<sup>13</sup>. Of which about 2.3 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 294 million USD in the first ten months of 2020, and the growth of net foreign assets and its contribution to M2 growth declined.

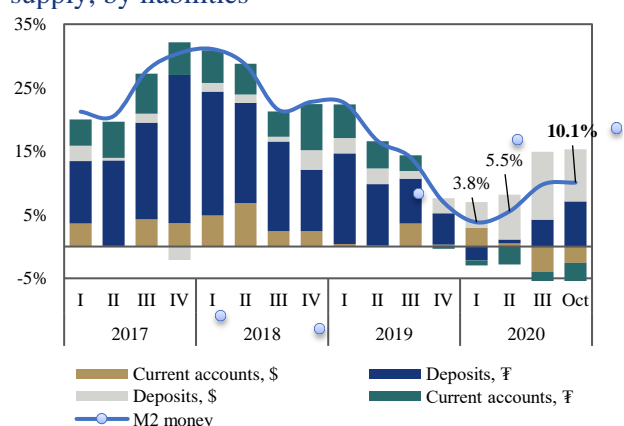
Moreover, the credit growth decelerated as the domestic activities weakened and market risks elevated due to the outbreak of COVID-19.

<sup>13</sup> Of which, 3 trillion 259 billion MNT is spent on financing the budget deficit, while the remaining 943 billion MNT is spent on the repayments of debts.



Figure III.2.1.2

Contributions to annual growth of M2 money supply, by liabilities

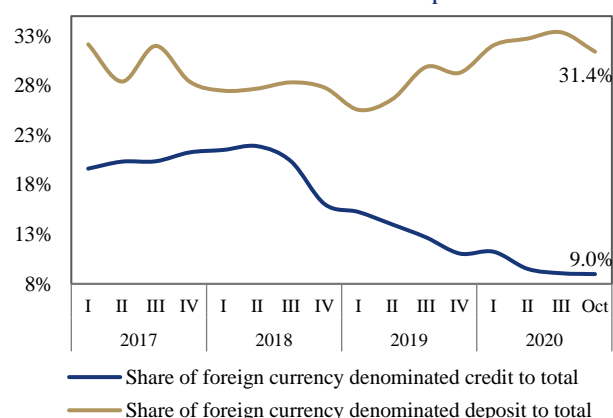


Source: Bank of Mongolia

Money supply growth, from the liabilities side, was mainly supported by the expansion of deposit accounts in local and foreign currencies. In addition, the increase in local currency liabilities in the banking system has contributed to the decline in dollarization of the banking system's liabilities in September and October 2020. Specifically, the dollarization of the banking system's liabilities declined to 31.4 percent in October 2020.

Figure III.2.1.3

Dollarization of bank credits and deposits

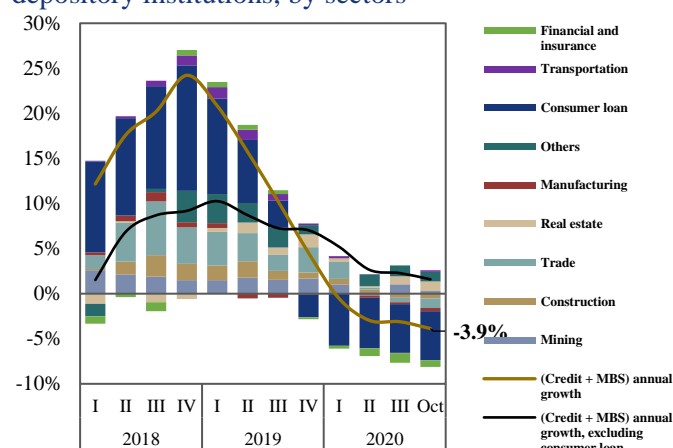


Source: Bank of Mongolia

On the other hand, current accounts in local and foreign currency decreased from that of previous year.

Figure III.2.1.4

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



Source: Bank of Mongolia

Combined outstanding level of total credit issued by depository institutions and mortgage loans converted to mortgage-backed securities (MBS<sup>14</sup>) decreased by 3.9 percent<sup>15</sup> as of October 2020. Moreover, an outstanding amount of consumer loans declined by 4.1 percent<sup>16</sup> mainly driven by the decline in outstanding consumer loans other than herders' loans.

As of October 2020, business loan outstanding decreased by 1.0 percent year-on-year. This is mainly due to the decline in outstanding loans of SMEs. For instance, outstanding loans to SMEs declined by 24 percent year-on-year, as of October 2020. The decline was mainly in the trade, manufacturing, construction, and services sectors. The business loan outstanding other than SME loans decreased by 1 percent year-on-year. SME loans to individuals grew by 7.3 percent year-on-year.

In the first half of this year, most banks in the banking system have tightened their lending criteria to some extent, at the same time demand for corporate loans declined slightly. While large and small banks have tightened the lending criteria marginally, medium-sized banks have barely changed the criteria. On the other hand, bank lending conditions have hardly changed. Over the past three months, systemic lending conditions have improved only slightly as large banks have started to ease lending criteria, interest rates have been lowered, medium-sized

<sup>14</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.

<sup>15</sup> It is -0.1 percent annual growth adjusting the impact of pension loan repayments write-offs.

<sup>16</sup> The estimation is adjusted by the impact of pension loan repayments write-offs.

banks have increased lending and eased their collateral requirements.<sup>17</sup>

In terms of currency type, domestic and foreign currency loans declined by 2 and 30 percent year-on-year, respectively.

Figure III.2.1.5

Total loan issuance and repayments of the banking system, in cumulative amounts for the year



\*Adjusted by pension loan repayment write-off  
Source: Bank of Mongolia

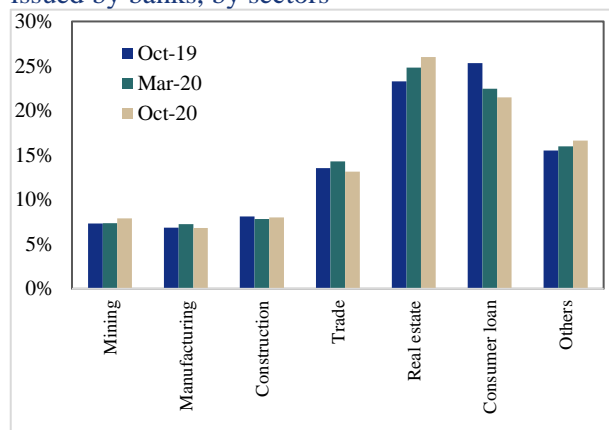
In the first 10 months of 2020, a total of 16.5 trillion MNT loan was disbursed by the banking system, a decrease of 4.6 percent from that of previous year. This is mainly due to the decline in the issuance of business loans.

In the first 10 months of 2020, loan repayments reached 17.2 trillion MNT or a 16.5 trillion MNT excluding the effect of pension loans repayment write-off.

The continued decline in the share of consumer loans has preceded a change in the composition of the outstanding amount of total credit. The share of consumer loans to total credit fell by 4 percentage points year-on-year, reaching 21 percent, and the share of trade loans to total credit fell by 1 percentage point reaching 13 percent. On the other hand, combined shares of loans issued to real estate, mining, and other services sectors to total credit increased by 5 percentage points compared to that of previous year.

Figure III.2.1.6

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

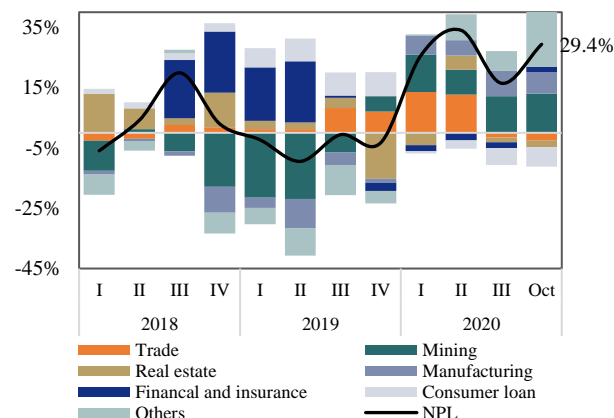


Source: Bank of Mongolia

Annual growth in past-due loans reached 29.4 percentage points in October 2020 (Figure III.2.1.6). In particular, total past-due loans increased by 280 billion MNT from that of previous year, most of which were in the manufacturing, mining, 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 7.2 percent in October 2020. Non-performing loans in the total loan portfolio increased by 1.6 percentage points to 11.7 percent.

Figure III.2.1.7

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



Source: Bank of Mongolia

<sup>17</sup> Bank loan outlook survey report

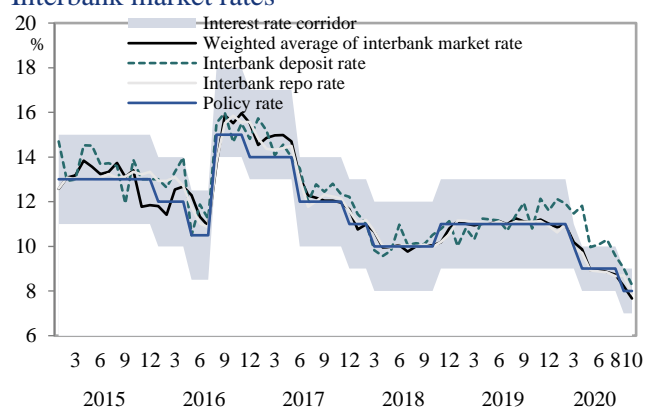
### III.2.2 Interest rate

The Monetary Policy Committee of the Bank of Mongolia decided to lower the policy rate by 1 percentage points during its scheduled meeting in September, by further 2 percentage points during its unscheduled meeting in November, and to keep it at 6 percent during its scheduled meeting in December 2020.

In October 2020, the weighted average of interbank market interest rate decreased by 0.55 percentage points from previous month, reaching 7.67 percent. In particular, interest rate on repo transactions secured by the central bank bills decreased by 0.83 percentage points to 7.88 percent, interest rate on interbank deposits decreased by 0.75 percentage points to 8.27 percent, interest rate on interbank overnight loans decreased by 0.64 percentage points to 8 percent, and interest rates on direct trading of central bank bills decreased by 0.44 percentage points to 7.51 percent.

Figure III.2.2.1

#### Interbank market rates

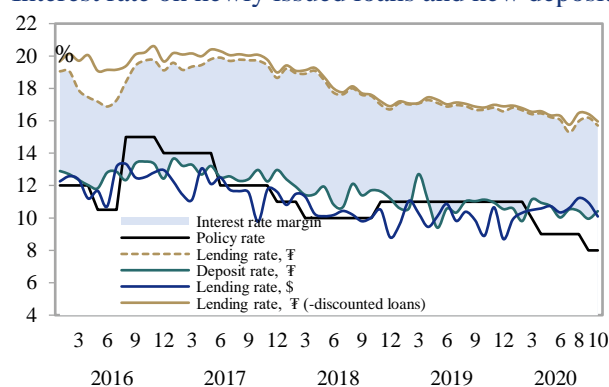


Source: Bank of Mongolia

Compared to previous year, the interest rate on newly issued loans in local currency declined faster than the interest rate on new deposits in local currency, resulting in a narrower interest rate margin. In October 2020, interest rate on credits issued in MNT decreased by 0.95 percentage points year-on-year to 15.71<sup>18</sup> percent, and interest rate on MNT deposits decreased by 0.71 percentage points to 10.42 percent. Consequently, interest rate margin narrowed by 0.27 percentage points from that of previous year to 5.29 percent (Figure III.2.2.2).

Figure III.2.2.2

#### Interest rate on newly issued loans and new deposits



Source: Bank of Mongolia

The interest rate margin of foreign currency loans and deposits has widened. The interest rate on newly issued foreign currency loans increased by 1.19 percentage points from that of previous year to 10.09 percent in October 2020. At the same time, the interest rate on new foreign currency deposits decreased by 0.81 percentage points. Consequently, interest rate margin of foreign currency loans and deposits widened by 2 percentage points from that of previous year to 6.71 percent.

Table III.2.2.1

Average interest rate on newly issued loans (₮), by borrowers (excluding discounted loans)

	2019.10 cap	2020.10 cap
<b>Lending rate, %</b>	16.8	16.0
i. Public institutions	24.4	4.7
ii. Private institutions	16.5	15.8
iii. Financial institutions	18.3	17.4
iv. Individuals	17.0	16.4
v. Others	14.0	9.7

Source: Bank of Mongolia

<sup>18</sup> As of October 2020, the interest rate is 16 percent excluding the interest rate on discounted loans.

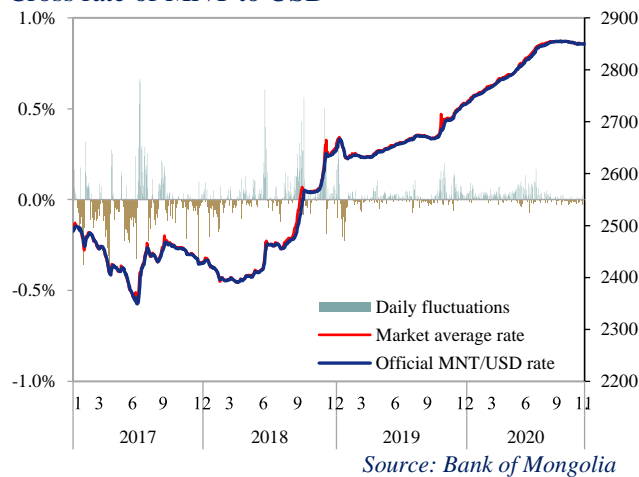
### II.2.3 Exchange rate

The MNT against the USD rate, which has been weakening since the beginning of the year, has strengthened since mid-October and reached MNT 2,849.7 at the end of November 2020. It depreciated by 115.3 MNT or 4.2 percent year-to-date and by 134.4 MNT or 5.0 percent year-on-year (Figure III.2.3.1).

News that the Government of Mongolia successfully issued a low-interest bond at the international market and the country was removed from the “Grey List” had a positive impact on expectations. Moreover, foreign currency net flows, which were negative in the first 8 months of the year, remained unchanged in October, and turned positive of 134.4 million USD in November 2020, easing the pressure on the MNT.

Figure III.2.3.1

Cross rate of MNT to USD

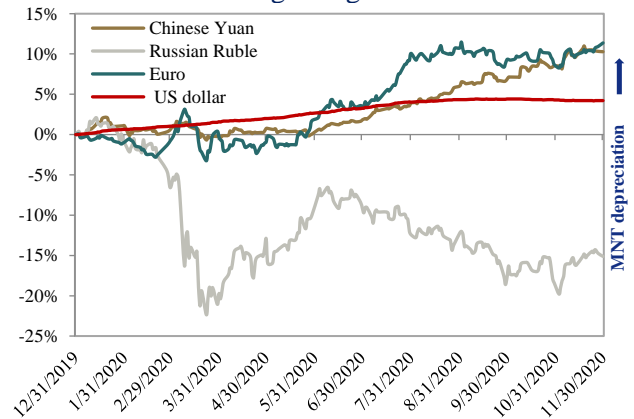


The nominal effective exchange rate (NEER), weighted by trade turnover, depreciated by 7.3 percent year-on-year in September 2020. The MNT appreciated by 8.6 percent year-on-year against RUB and depreciated by 11.6 percent and 14.5 percent, respectively, against EUR and RMB (Figure III.2.3.2)

The RMB and EUR have appreciated sharply against the US dollar since July 2020, rendering the MNT rate to depreciate against these currencies. This was mainly due to recovery in China's industrial and economic activity and increase in capital inflows, the Federal Reserve policy rate kept close to zero, reducing the USD return, and the agreement of the European Union to establish a fund for economic recovery.

Figure III.2.3.2

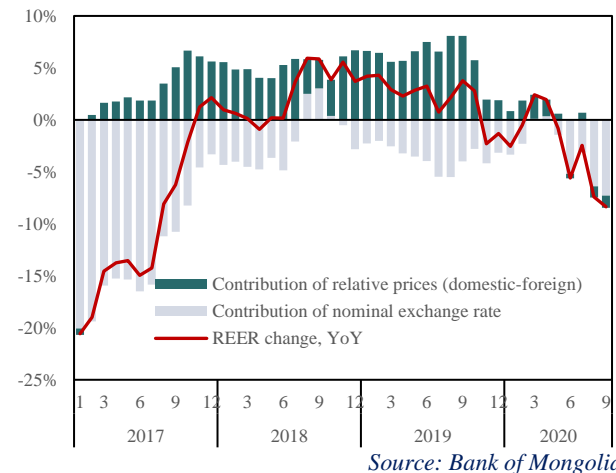
Change in MNT rate against major currencies /from the beginning of 2020/



Real effective exchange rate (REER) depreciated by 8.4 percent year-on-year in September 2020. This was induced by the depreciation of the nominal exchange rate and the decline in domestic price by 1.2 percent compared to the foreign price (Figure III.2.3.3).

Figure III.2.3.3

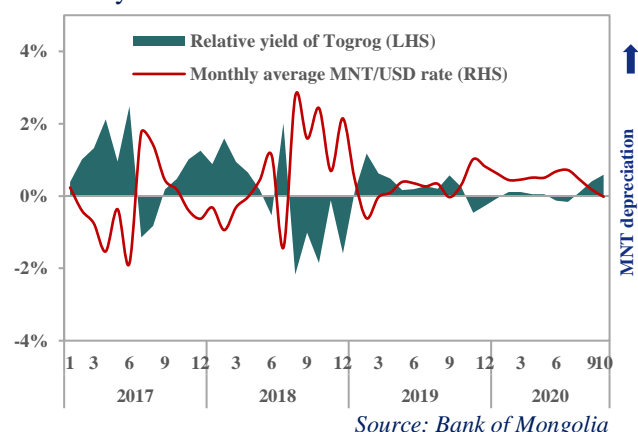
Annual change of real effective exchange rate of MNT



The relative yield on MNT, which has remained around zero since the beginning of the year, increased in the past 3 months, reaching 0.59 percent in October 2020 (Figure III.2.3.4). This is an increase of 0.34 percentage points from the that of previous year. Although the difference between the local and foreign currency deposit rates has been relatively stable, the appreciation of the MNT against the US dollar has mainly resulted the increase in relative yield on the MNT.

Figure III.2.3.4

## Relative yield on MNT



## III.2.4 Capital market

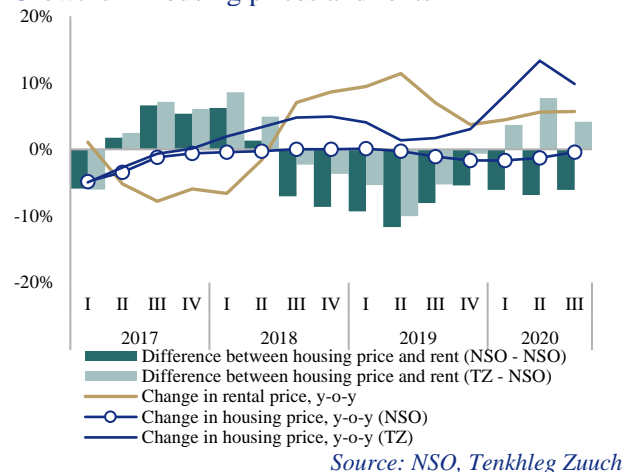
While the housing market indicators have been relatively stable in the third quarter, key stock market indicators are in tendency of recovery in recent months.

## Housing market

The housing price index, estimated by the NSO, have been stable in recent quarters. In the third quarter of 2020, the housing price increased by 0.1 percent from previous quarter but declined by 0.4 percent annually (Figure III.2.4.1). Rental prices of apartments increased by 2.5 percent from previous quarter and 5.7 percent annually.

Figure III.2.4.1

## Growths in housing prices and rents



According to the Tenkhleg Zuuch LLC reports, new housing prices increased by 0.4 percent and old housing prices declined by 1.3 percent from previous quarter in the third quarter of 2020.

Overall, the housing price index declined by 0.9 percent from previous quarter, a 9.8 percent annual increase (Table III.2.4.1).

Table III.2.4.1

## Real estate sector indicators

		2020-Q2	2020-Q3
<b>Change in housing price, %</b>			
<i>NSO</i>	q-o-q	0.0	0.1
	y-o-y	-1.3	-0.4
<i>Tenkhleg Zuuch</i>	q-o-q	3.8	-0.9
	y-o-y	13.3	9.8
<b>Price-to-rent ratio, %</b>	q-o-q	1.8	2.5
	y-o-y	5.6	5.7

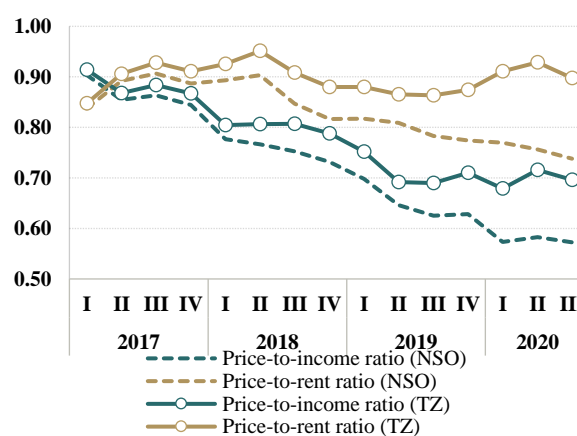
Source: NSO, Tenkhleg Zuuch

The price ratios, which are the key indicators of the housing market outlook, declined marginally in the reporting period, indicating a lower risk of price bubbles.

In particular, the price-to-rent ratios estimated by the housing prices of both the NSO and the Tenkhleg Zuuch LLC, have declined (Figure III.2.4.2). In addition, household average income increased by 1.9 percent in nominal terms in the third quarter, exceeding the increase in housing prices and contributing to the decline in the housing price-to-income ratio (Figure III.2.4.2).

Figure III.2.4.2

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



## Stock market

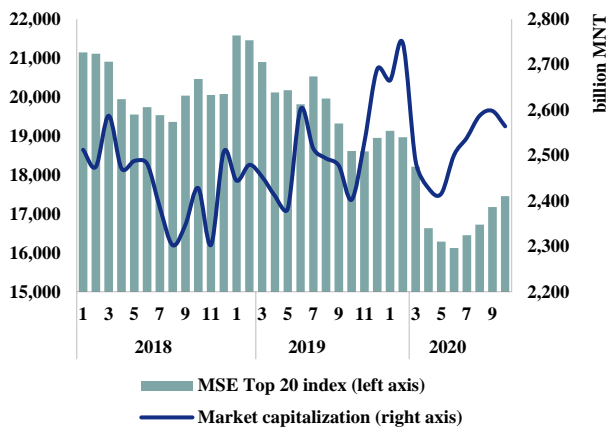
The TOP-20 index, decreased throughout the first half of the year due to the adverse impact of COVID-19 pandemic, rebounded in the third quarter of 2020. As of October 2020, the TOP-20 index reached an average of 17,458.06 points, an 8.3 percent higher than the average of June 2020<sup>19</sup> (Figure III.2.4.3).

<sup>19</sup> The TOP-20 index reached an average of 16,120.30 points in June 2020, the lowest level this year.

The stock market capitalization, which has exhibited a sign of recovery since June 2020, reached 2.56 trillion MNT in October 2020. This is a 4.7 percent increase from the second-quarter average. In the past 3 months, “Standard Agriculture Group”, “Teever Darkhan”, and “Talkh Chikher” have led the way in terms of growth in stock prices<sup>20</sup>.

Figure III.2.4.3

Main indicators of the stock market



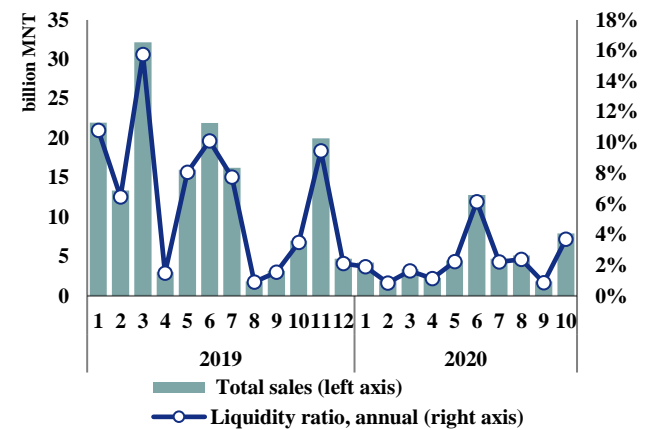
Source: Mongolian Stock Exchange

In the first 10 months of 2020, a total of 48.7 billion MNT worth of securities were traded at the stock market, which is a decrease of 64.3 percent compared to that of previous year. In the

third quarter of 2020, “Invescore”, “Ard Financial Group”, and “APU” have led the way in terms of trade value, while “Lendmn NBF”, “Mandal Daatgal” and “Monos Foods” have led the way in terms of trade volume. With the opening of the first investment fund, “The National Privatization Fund”, the trading volume of securities has increased and the liquidity ratio, which had declined in previous months, rose to 3.7 percent in October 2020 (Figure III.2.4.4).

Figure III.2.4.4

Liquidity ratio



Source: NSO, Bank of Mongolia

<sup>20</sup> Source: Market info, www.marketinfo.mn



### 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 1.2 trillion MNT (-10.8 percent) and expenditure by 2.9 trillion MNT (+ 25.0 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		2020.10	
	Act.	App.	Amend.	Act.	%
<b>Total revenue</b>	<b>12040</b>	<b>12900</b>	<b>10729</b>	<b>8257</b>	<b>94.7</b>
Future heritage fund	1040	977	943	663	100.8
Stabilization fund	95	125	55	37	70.5
<b>Equilibrated revenue</b>	<b>10906</b>	<b>11798</b>	<b>9731</b>	<b>7556</b>	<b>94.4</b>
Tax revenue	9813	10656	8847	6865	95.4
Non-tax revenue	1092	1142	884	691	85.3
<b>Total expenditure</b>	<b>11662</b>	<b>13873</b>	<b>14577</b>	<b>10815</b>	<b>83.1</b>
Primary expenditure	10801	12913	13605	10012	82.5
Current expenditure/-interest paym	7368	9060	10178	7832	89.8
Capital expenditure	3017	3806	3408	2150	63.7
Net credit	416	47	19	30	36.0
Interest expenditure	861	960	973	803	95.7
<b>Overall balance</b>	<b>379</b>	<b>-973</b>	<b>-3848</b>	<b>-2558</b>	
in percent of GDP	1.0%	-2.4%	-9.9%		
Total equilibrated balance	-756	-2075	-4847	-3259	
in percent of GDP	-2.0%	-5.1%	-12.5%		
Primary balance	105	-1115	-3874	-2456	
in percent of GDP	0.3%	-2.7%	-10.0%		

Source: Ministry of Finance

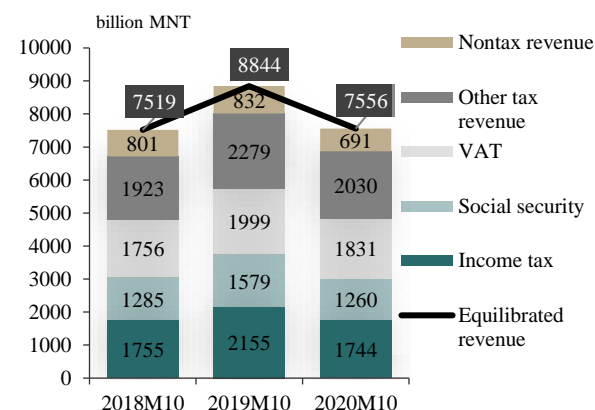
As of October 2020, both the budget revenue and expenditure were under-performed, resulting in a deficit of 3.3 trillion MNT in total balance. Provided that budget expenditures are spent as planned for the rest of the year, the total budget deficit is expected to increase by an additional 1.6 trillion MNT.

As of October 2020, **total equilibrated revenue declined by 1.3 trillion MNT (-14.6 percent)** from that of previous year and 90.9 percent of the equilibrated budget revenue was made up of tax revenue. With the recovery in the mining sector in the third quarter and the easing of the preventive measures from the pandemic, economic activity had improved, and balanced income gradually shifted to the seasonal trend of previous years. Comparing the revenue components to that of previous year:

- **Income tax - 410.4 billion MNT↓**
- **Social insurance revenue - 318.4 billion MNT↓**
- **Other tax revenue - 249.4 billion MNT↓**
- **Import-related tax revenue - 190.5 billion MNT↓**
- **Non-tax revenue - 141.0 billion MNT↓**

Figure III.3.1

#### Structure of budget revenue



Source: Ministry of Finance

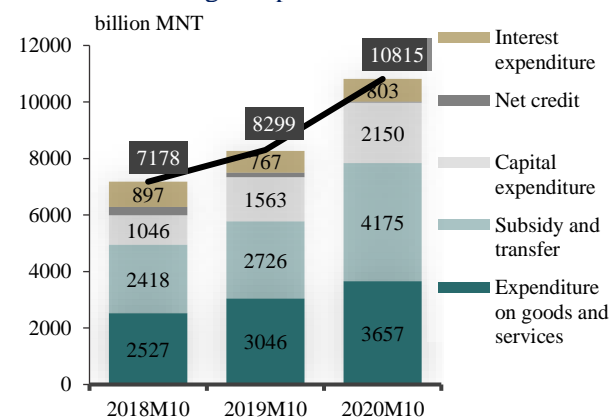
**Total expenditure and net credits:** As of October 2020, total expenditure and net credits increased by 30.3 percent year-on-year (2'516.8 billion MNT), reaching 10'815 billion MNT (with a utilization rate of 83.1 percent). The budget expenditure underperformed as a result of current expenditures' utilization of 85.9 percent (600.0 billion MNT short) and capital expenditures utilization of 63.7 percent (1227.1 billion MNT short). Comparing the expenditure components to that of previous year:

- **Subsidies and transfers - 1,448.5 billion MNT↑**
- **Expenditure on goods and services - 610.9 billion MNT↑**
- **Capital expenditures - 587.7 billion MNT↑**
- **Loan service payments - 36.0 billion MNT↑**
- **Net loans repayments - 137.3 billion MNT↓**

Capital expenditures are currently 36 percent lower than the planned amount, and to reach the plan, an additional 1 trillion 58 billion MNT will need to be spent for the remaining 2 months of the year.

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 2020. 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, an 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*	
	billion MNT		Act.	Act.	Act.	App.	App.	Amend.	Amend.	
Government debt	20212	18956	20526	22089	24064					
in % of GDP	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					
in % of budget revenue	16.0	11.3	8.0	8.1	10.0					
Budget balance	-1742	12	-628	-2075	-4847					
in % of GDP	-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>

The growth forecasts of China and the Euro area are now revised up for 2020 but revised downwards for 2021 compared to previous forecast. The growth forecast of Russia is revised down for 2020 and revised up for 2021 compared to previous forecast.

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

China's economic growth forecasts range from 1.8 to 1.9 percent in 2020 with an average of 1.8 percent<sup>23</sup>, 0.2 percentage points higher than previous projection as the domestic economy has resumed its recovery in the third quarter of 2020. As the second-quarter GDP overperformed the expectations and industrial production and investment have intensified, The IMF economists revised up China's growth forecast from 1 percent to 1.9 percent in 2020. In addition, the third-quarter economic growth performance was better than expected due to increased industrial growth as well as improved

total investment and retail sales that were declining in previous forecast period. China's industrial recovery continued in October, with the manufacturing PMI index reaching 51.4. The recovery in the service sector, which was slower in previous projection, increased during the reporting period, with the non-manufacturing PMI reaching 56.2 in October, 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 with the second wave happening all around the world.

Table IV.1.1

Changes in key judgments of External environment	
Previous outlook (2020)	Current outlook (2020)
<b>External demand</b>	<b>Revised up</b>
"Phase 2" of the trade deal is expected. China's growth remains around the previous forecast. The growth forecasts of Russia and the Euro Area are revised down.	The growth forecasts of China and the Euro Area are revised up while the growth forecast of Russia is revised down.
<b>Terms of Trade</b>	<b>Revised up</b>
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 commodities.	Economic activities in China and the Euro Area have improved from previous forecasts, and initial trials of the COVID-19 vaccine have been successful, boosting demand and prices for commodities. Gold price projection is revised down as the success of the initial trials of the COVID-19 vaccine reduced uncertainty in the global market.
<b>Foreign interest rate</b>	<b>Projection unchanged</b>
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.	The Fed kept the Fed funds rate at 0.0-0.25 percent in November 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 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 flu on Chinese inflation.	Despite the improved outlook of external demand due to upward revision in growths of trading partners, the global inflation outlook is revised down as the uncertainties in the world economy persists, recoveries have been slow and below normal levels, and oil prices have been stable as previously forecasted

Source: Assumptions from external sources

The growth forecast is revised down by 0.1 percentage points from previous forecast to 8.1 percent for 2021. This is mainly due to the fact that household consumption growth has not reached pre-pandemic levels, and the base-year effect and the impact of the government's "dual circulation" growth policy over the next five

<sup>21</sup>Forecasts of economic growth and inflation in main trading partner countries were compiled from external outlook as of November 17, 2020, November 2020 edition of EIU Global Forecasting Report, November 2020 edition of Roubini Global Economics, and the median of forecasts conducted by Bloomberg analysts. The outlook 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 November 17, 2020.

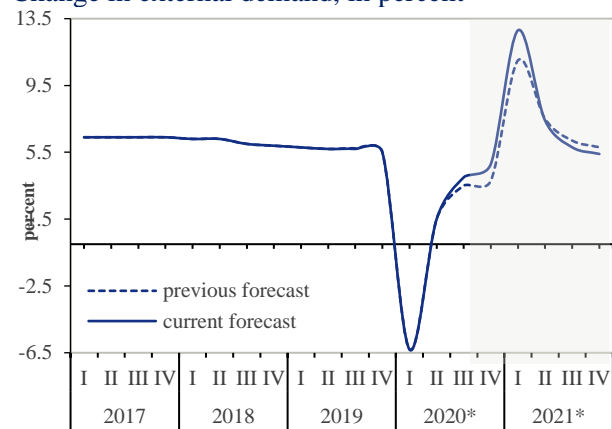


years is expected to support the growth from 2022.

Analysts forecast Russia's economic growth in 2020 to be within the interval of -3.5 to -4.4 percent and an average growth forecast of -3.6 percent<sup>24</sup> is 1.5 percentage points up from previous forecast. According to a preliminary estimate of the third quarter of 2020, the economy contracted by 3.6 percent, above expectations, mainly due to a slowdown in the contraction of household consumption, industrial production, and imports. Despite tightened curfew due to the increasing spread of COVID-19, Russia's growth forecast for this year is revised up as Russia's economic performance in the second quarter and preliminary performance of the third quarter was better than expected, the contractions in total investment, household consumption, and industrial production were smaller than expected, the construction sector activities strengthened with the government stimulus programs, vaccine trials resulted to be effective, and oil demand is expected to improve.

Figure IV.1.1

Change in external demand, in percent



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

The Bank of Russia decided to keep its key rate at 4.25 percent at its October meeting and is expected to keep it unchanged throughout the year. With the implementation of a package of government programs to mitigate the negative impact of the pandemic on the economy, the budget deficit is expected to reach 4.4 percent of GDP<sup>25</sup> this year. Moreover, budget programs

within the National Infrastructure Project amounting to 83 billion USD or 7 percent of GDP in 2020-2021 is expected to support the growth.

The growth for 2021 is forecasted to be within the interval of 2.8 to 3.9 percent, revised up by 0.3 percentage points from previous projection to an average of 3.2 percent. Household consumption is expected to contract by 6.5 percent in 2020 and expand by 4.4 percent in 2021, supporting the growth. The abolition of some of the current tax discounts (especially in the extractive industries) in 2021 will increase budget revenues by an average of 3.8 billion USD, reducing the budget deficit. In addition, a partial increase in the income tax rate from 13 percent to 15 percent is expected to collect additional 60 billion rubles to the government budget, reducing the budget deficit to 2.2 percent of GDP in 2021 and 1.2 percent in 2022. Over the forecast period, crude oil and oil production is expected to continue to decline under the OPEC + agreement, and the trade sanctions by the western countries are unlikely to ease, carrying on risks.

Analysts forecast the **Euro Area's** growth in 2020 to be within the interval of -7.1 to -8.0 percent and an average growth forecast of -7.6 percent is 1.1 percentage points down from previous forecast. The economy performed better than expected in the third quarter as quarantine measures were eased in many European countries and contractions in household income, total investment, and industrial production have narrowed. In the last quarter of the year, however, a second wave of the pandemic hit Europe, and curfews and restrictions were imposed in countries such as Germany and France. Although the risk of COVID-19 remains, the growth projection in 2020 is revised up, reflecting the economic recovery to be stronger than previously anticipated, as the containment period has been shortened in the countries, initial vaccine trials have been successful, and the economic performance has been better than expected in the third quarter. Moreover, the economic growth forecast for this year is revised up as the

<sup>24</sup> The average of the forecasts from the IMF, the EIU, the Roubini Global Economics, and Bloomberg as of November 17, 2020.

<sup>25</sup> While the Russian government estimates the budget deficit to be 4.4 percent of GDP, the EIU expects the budget deficit to be 4.3 percent of GDP.

contractions in the Euro area's household consumption, industrial production, and total investment have narrowed and improved from that of previous forecast.

The growth for 2021 is forecasted to be within the interval of 4.8 to 6.0 percent, revised down by 0.5 percentage points from previous projection to an average of 5.4 percent. Although ECB's negative interest rate policy, unconventional monetary policy and expansionary fiscal policy in key regional economies are still expected to support the domestic demand, the growth forecast for 2021 is revised down. The economic recovery has been uneven all around the world, foreign demand is unlikely to increase from previous projection for 2021, uncertainty lingers around coverage of the vaccination, and the potential delay in the rate at which low-cost and effective vaccines will be produced and delivered were the reasons for the downward revision.

### Terms of trade

Terms of trade has improved by 14.8 percent year-on-year as of October 2020. Export prices grew by 2.4 percent year-on-year while import prices fell by 10.8 percent year-on-year.

The custom's prices of copper concentrate, iron ore, and gold increased by 35.7, 40.8, and 27 percent, respectively, year-on-year, contributing to the increase in the export price. Conversely, the custom's prices of coal, crude oil, and cashmere declined by 12.9, 34, 11 percent, respectively, year-on-year, dragging the export price down.

The import prices declined by 10.8 percent mainly attributable to a decline in foreign inflation, oil prices remained low at the global market, as well as lower prices of imported consumer goods, industrial inputs, and petroleum products.

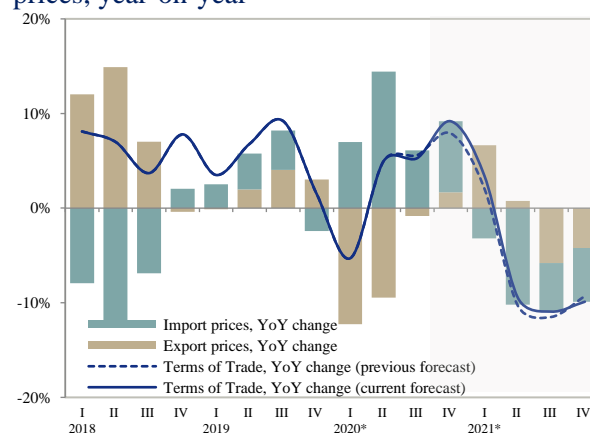
**Terms of trade is expected to improve in 2020 than previously forecasted** (Figure IV.1.2). This is mainly driven by higher-than-expected performance of coal price and upward revisions in export price forecasts of copper and iron ore. The low supply of copper and iron ore and successful initial vaccine trials have had a positive effect on prices. The demand and price of coking coal in China have risen with

strong winter demand. The demand and price of gold have dropped with a surge in vaccine optimism.

For 2021, copper and iron ore price projections are revised up from previous forecast while coal and gold price projections are revised down, and oil price projection remains unchanged. As a result of a decline in export prices and a rise in import prices, terms of trade is revised up marginally in 2021.

Figure IV.1.2

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

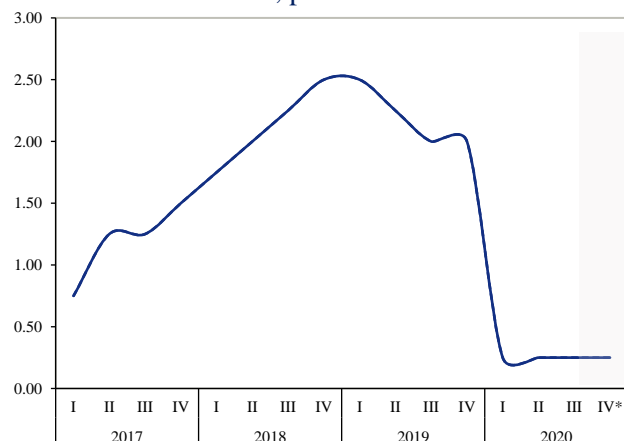


Source: Bank of Mongolia

**Foreign interest rate:** The Fed's FOMC decided to keep the Fed funds rate on 0.0-0.25 percent in September and November 2020. The Fed foresees the economy contracting by 3.7 percent this year due to the pandemic. Despite the better-than-expected performance in the third quarter induced by the expansionary fiscal and monetary policy and the easing of curfews and restrictions after a sharp decline in economic activity and employment, the Fed intends to keep the policy rate at near zero percent until 2022-2023 since the economic activity is unlikely to arrive at pre-crisis levels. Moreover, within the strategy of keeping inflation at an average of 2 percent, the Fed has been utilizing tools to support the financial market liquidity and financing of enterprises and small and medium-sized businesses in the real sector. The government support package that was expected to be approved in October, to mitigate the negative effects of COVID-19 and support economic growth has been postponed.

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 3.2 percent to 2.9 percent for 2020 according to a forecast average of Bloomberg, and the EIU. This is mainly attributable to a gradual recovery in domestic demand that has not reached normal levels and relatively stable and low oil prices. However, food prices are expected to rise due to tightened food import requirements amid pandemic and a lasting impact of swine flu on inflation. The supply shortage of pork due to swine flu is expected to persist until 2022.

Inflation outlook in Russia remains unchanged at 3.3 percent for 2020 according to a forecast average of Bloomberg, and the EIU. While the expansionary monetary policy and recovery in domestic demand push inflation up, weaker ruble and geopolitical issues put downward pressure on inflation, resulting in the inflation outlook to remain unchanged at the rate of previous projection. As of October 2020, inflation rose by 3.1 percent year to date reflecting better-than-expected domestic economic performance.

Inflation outlook in the United States is revised up from 0.9 percent to 1.2 percent for 2020 according to a forecast average of Bloomberg, and the EIU. This is attributable to an unemployment rate that is projected to rise to 8.5 percent in 2020, stable oil prices in the reporting quarter, continued recovery in domestic demand, unfavorable foreign relations between the United States and China, and the risk of disruptions to the transportation network amid the pandemic that is likely to

increase the prices of goods such as food and electronics.

Inflation outlook in the Euro Area is revised down from 0.5 percent to 0.3 percent for 2020 according to a forecast average of Bloomberg, and the EIU. This is caused by the regional economic activity and domestic demand that are unlikely to recover to normal levels due to the pandemic and oil prices that remain around previous projections. Inflation is unlikely to increase, as people tend to save rather than increase consumption.

### Uncertainties in the external conditions

The second and third waves of the pandemic and the potential vaccination rate of COVID-19 are the main uncertainties in the external economic environment. Risks regarding the emerging spread of the pandemic and the responses of reimposing strict curfews loom on the prospects of global economic activity. Moreover, the geopolitical risks of escalating trade disputes and unfavorable relations between the United States and China, as well as the US sanctions against Belarus and Russia remain uncertain.

### IV.2 Prices of commodities at the global market

*Prices of copper and iron ore projections are revised up with the expectation of supply shortage with increased COVID-19 cases in major commodity suppliers and the success of the initial trials of COVID-19 vaccine. Gold price projection is revised down as the success of the initial trials of COVID-19 vaccine reduced uncertainty, while oil price projection remains around previous projection as the second wave of the pandemic weighs on the prospects of global economic activity.*

**Copper:** The average price of copper per ton at the London Metal Exchange was 6713 USD in October 2020 and rose to 7069 USD in November 2020. The continued recovery in China's industrial production and economic activity, which accounts for 50 percent of the global copper demand, Chinese manufacturing PMI that rose to 51.4 in October, and the successful initial trials of COVID-19 vaccine

that are effective over 90 percent have improved the market sentiment, pushing the copper price up. Moreover, the spread of COVID-19 has not yet diminished in major copper producers such as Peru and Chile, and the possibility of the second wave leading to supply shortfalls in 2020 has contributed to the price increase. Copper prices are expected to average 5980 USD per ton in 2020 and rise to 6653 USD per ton in 2021, according to forecasts by Bloomberg, the Roubini Global Economics, the IMF, World bank, 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. These include further escalation of trade disputes between the United States and China, the increasing outbreaks of COVID-19 rendering more waves of the pandemic.

**Gold:** Gold price averaged 1878 USD per ounce in October 2020 and fell to an average of 1866 USD per ounce in November 2020. The gold price has dropped as COVID-19 vaccine trials have been effective more than 90 percent. Nevertheless, the price and demand for gold, considered a risk-free investment, remains elevated with the persistent uncertainty in the global economy, continued spread of the second wave of the pandemic and risk of escalating trade disputes, and the prospect of weakening currencies due to the expansionary fiscal and monetary policy of developed countries. The gold price is marginally revised down to average 1773 USD per ounce in 2020 and 1809 USD per ounce in 2021, according to forecasts by Bloomberg, the Roubini Global Economics, the IMF, World bank, and the BREE.

**Coking coal:** The price of coking coal traded at the Australian market averaged 105 USD per ton in October 2020 and slightly rose to 108 USD per ton in November 2020. The price increase was induced by higher demand for coking coal due to a slight decrease in domestic coal production in China, a decline in reserves at warehouses, and winter stockpiles of manufacturers. However, coal demand and price are likely to fall as the external demand outlook remains gloomy with the second wave of COVID-19, and the trade disputes are at risk of escalating. The coking coal price is revised

down to 120 USD per ton on average in 2020 and 126 USD per ton in 2021, according to forecasts by the BREE and Bloomberg. The coking coal price is expected to decline as coal demand is revised down in line with a downward revision in China's economic growth in 2021 and domestic coking coal supply is expected to increase in the medium term.

**Iron ore:** The price of iron ore averaged 118 USD per ton in October 2020 and slightly rose to 120 USD per ton in November 2020. As a result of the Chinese government's heavy support for the construction sector, steel production in major cities has resumed their operations at normal level and demand and price for iron ore have increased. On the supply side, due to the spread of COVID-19 in Brazil, the Vale mine has been operating with underutilized capacity, contributing to the increase in price for iron ore. Iron ore price forecast is revised up to an average of 98 USD per ton in 2020 and 92 USD per ton in 2021, according to forecasts by Bloomberg, the Roubini, the IMF, World bank, and the BREE. The price forecast is revised up in 2020-21 due to the possibility of a supply shortage in the main iron ore supplier countries amid the second wave of COVID-19 and a relatively stable demand outlook for iron ore.

**Crude oil:** A barrel of Brent oil was sold at an average of 42 USD in October 2020 and marginally rose to 44 USD in November 2020. Oil prices rose in November as the initial trials of COVID-19 vaccines have proven to be effective and OPEC+ continued to cut production. Oil prices are expected to remain low in 2020 as global oil demand is likely to linger until mid-2021 reliant on global economic activity, according to the International Energy Agency. The oil price forecast remains at an average of 40 USD per barrel in 2020 and 45 USD per barrel in 2021, according to forecasts by Bloomberg, the Roubini, the IMF, and the World bank.

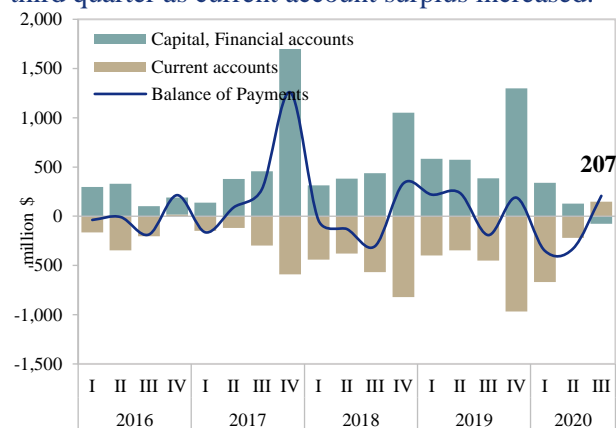


### IV.3 Balance of Payments

In the third quarter of 2020, the balance of payments of Mongolia was in a surplus of 207 million USD or 1.6 percent of GDP<sup>26</sup>, which is an improvement of 398.4 million USD year-on-year. The current account balance was in a surplus of 148.7 million USD as exports have recovered, imports have contracted, and the deficit in the income accounts has narrowed. On the other hand, the decline in FDI inflow and increased outflow of other investments have rendered the financial accounts to diminish by 469 million USD, worsening the balance of payments. The errors and omissions<sup>27</sup> of the balance of payments increased by 258 million USD from that of previous year.

Figure IV.3.1

The balance of payments was in a surplus in the third quarter as current account surplus increased.

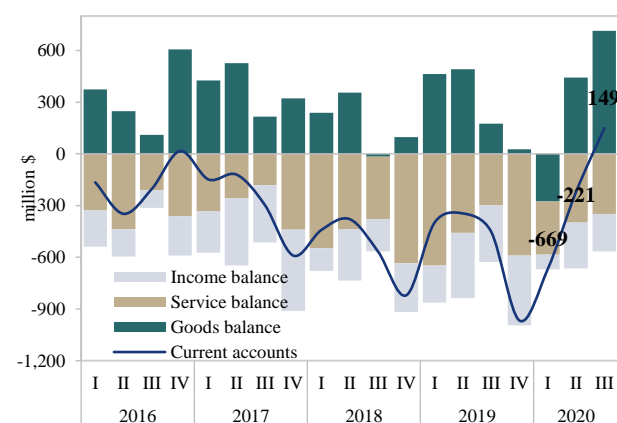


Source: Bank of Mongolia

The current account balance was in a surplus for the first time in the past 15 quarters. In the reporting quarter, the current account surplus was 148.7 million USD (1.1% of GDP), an improvement of 600 million USD year-on-year. This was mainly driven by an increase in export revenue of 312 million USD from that of previous year, a decrease in imports of 237 million USD induced by weak economic activity and narrowing of income account deficit by 110 million USD. On the other hand, the services deficit widened by 50 million USD as revenue from travel services declined amid COVID-19.

Figure IV.3.2

Increase in exports, shrink in imports, and income accounts deficit resulted in a surplus in the current account balance.



Source: Bank of Mongolia

Goods' balance was in a surplus of 714.9 million USD in the third quarter of 2020. Export revenue increased by 312 million USD or 15.5 percent year-on-year (Table IV.3.2).

Table IV.3.2

The export revenues of gold, silver, and copper concentrate increased while export revenues of coal and crude oil decreased.

	2019 III	2020 III	YoY change	Contri- bution %
Total exports	2,007	2,319	15.5%	15.5%
Coal	894	786	-12%	-5.4%
Non-monetarized gold	148	560	277%	20.5%
Copper concentrate	359	425	19%	3.3%
Iron ore	171	180	6%	0.5%
Cashmere	83	79	-5%	-0.2%
Crude oil	92	52	-44%	-2.0%
Zinc ores and concentrates	38	44	16%	0.3%
Fluorspar, leucite, nepheline	62	40	-36%	-1.1%
Silver	-	40		2.0%
Meat, meat products	24	36	51%	0.6%
Machinery, equipment	32	11	-65%	-1.0%
Other	104	66	-37%	-1.9%

Source: Mongolian customs, Bank of Mongolia

Gold and copper exports mainly contributed to the increase in exports in the reporting quarter. As the gold prices remained elevated at the global market, the Bank of Mongolia exported 9.3 tons of gold from the gold it purchased this year and a portion of monetized gold that were accumulated in previous 2 years, contributing 20.5 percentage points to total exports. While the gold content of Oyu Tolgoi copper concentrate remained at the same level as previous year, the increase in the volume and price of copper concentrate exports have

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

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

resulted in higher copper export revenue. Iron ore export transportation resumed normally, and export revenue increased by 5.6 percent year-on-year. With the introduction of the “Green Gateway” arrangement in August 2020, coal export transportation accelerated from previous two quarters but was lower than that of previous year.

**Imports** contracted by 237 million USD or 13.9 percent year-on-year in the third quarter of 2020. World oil prices remained low and import payments of petroleum products fell. Moreover, the main components of imports declined as a result of weaker domestic demand and declining economic activity.

Table IV.3.3

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

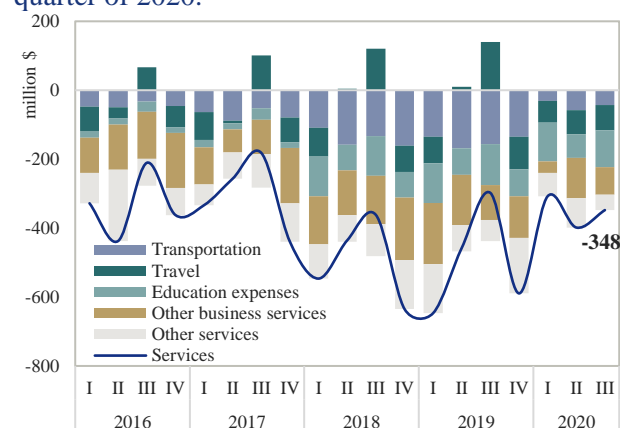
	2019 III	2020 III	YoY change	Contri- bution %
<b>Imports</b>	<b>1,705</b>	<b>1,468</b>	<b>-13.9%</b>	<b>-13.9%</b>
Consumer goods	426	387	-9.2%	-2.3%
Of which: Passenger cars	134	93	-30.4%	-2.4%
Capital goods	754	732	-2.9%	-1.3%
Fuels	335	190	-43.3%	-8.5%
Of which: Diesel	192	99	-48.2%	-5.4%
Other fuels	143	90	-36.8%	-3.1%
Industrial inputs	190	159	-16.5%	-1.8%
Others	1	1	3%	0.0%

Source: Mongolian customs, Bank of Mongolia

In the third quarter, **services account** deficit widened by 50 million USD or by 17 percent year-on-year reaching -348 million USD. Decreased revenue from travel services has contributed to widening the deficit, while reduced costs of transportation and other services contributed to narrow it. In previous years, according to the seasonal pattern, revenue from travel services had been positive in the third quarter. However, this year, owing to border restrictions and a sharp decline in global tourism amid COVID-19, travel revenue was halted by 100 percent (or 253 million USD) and travel expenses by 44 percent (or 55 million USD). The decline in foreign trade turnover has reduced the deficit in freight services. A weak economic activity has reduced the costs of business services.

Figure IV.3.3

Services account deficit has widened in the 3<sup>rd</sup> quarter of 2020.

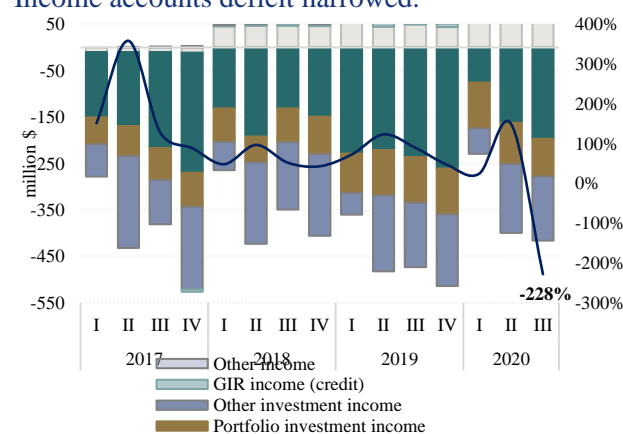


Source: Bank of Mongolia

**The income account** was in a deficit of 339.7 million USD in the third quarter of 2020, a decrease of 65 million USD or 16 percent year-on-year. This was mainly driven by the decreased outflow of FDI income by 50.6 million USD or 11 percent year-on-year. In particular, as a result of the low profitability of banks and enterprises, the outflow of reinvestment earnings decreased by 20 million USD from that of previous year, reaching 47 million USD. Moreover, the outflow of dividends under oil product sharing agreements declined by 83 percent to 5.5 million USD. The deficit in primary income accounts for 228 percent of current account deficits in the reporting period.

Figure IV.3.4

Income accounts deficit narrowed.



Source: Bank of Mongolia

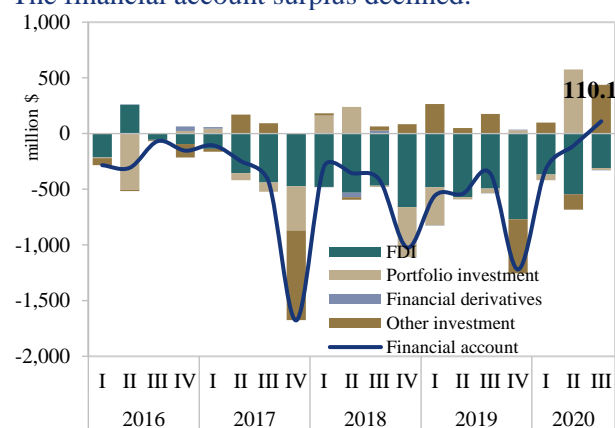
**The financial account** was in a deficit of 110 million USD in the third quarter of 2020, a decrease of USD 468.6 million USD or 131 percent year-on-year. Of which, net FDI inflows declined by 182 million USD, net

portfolio investment inflows by 26.2 million USD, and net other investment inflows by 261.8 million USD from that of previous year.

In the reporting period, the net inflow of FDI of Oyu Tolgoi and other enterprises declined by 197.9 million USD or 51 percent year-on-year, reaching 190.6 million USD while principal payments of enterprises decreased by about 21 million USD or 70 percent year-on-year, reaching 8.9 million USD. Moreover, net inflow of the reinvestment earnings declined by 24.3 million USD or 36 percent year-on-year, reaching 42.8 million USD due to the low profitability of enterprises in the reporting quarter.

Figure IV.3.5

The financial account surplus declined.



Source: Bank of Mongolia

The portfolio investment decreased by 26.2 million USD from that of previous year to a net inflow of 15.8 million USD due to the change in accrual interest rate on 500 million USD bond in repaid by TDB in May 2020.

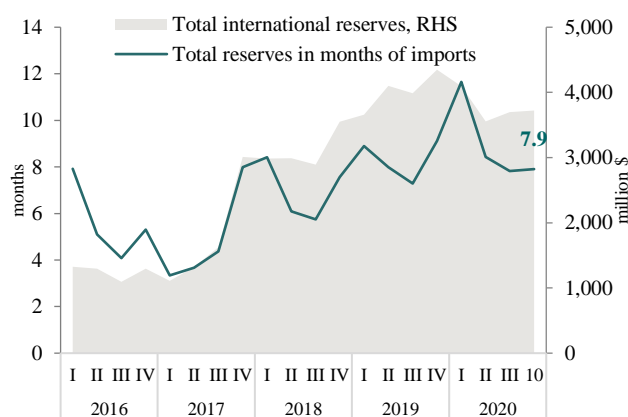
The other investment account, which was in a net outflow of 176.7 million USD in the third quarter of previous year, was in a net outflow of 438.5 million USD in the reporting quarter. The increased outflow was mainly driven by the net outflow of 222 million USD in trade loans, an increase of 269 million USD from that of previous year, as large enterprises repaid their export-related liabilities. Moreover, the government's long-term external borrowing, which was in a net inflow of 52.9 million USD in the third quarter of previous year, decreased by 73 million USD or 138 percent to net outflow of 20.2 million USD

in the third quarter of 2020. Other sectors' long-term external borrowing, which was in a net inflow of 32.7 million USD in the third quarter of previous year, decreased by 78 million USD or 239 percent to a net outflow of 45.4 million USD.

**Gross international reserves** decreased by 625.8 million USD from the beginning of the year, reaching 3723.0 million USD at the end of October 2020<sup>28</sup>.

Figure IV.3.6

Gross international reserve stands at a level to cover 7.9 months of imports.



Source: Bank of Mongolia

This is an adequate level to cover 7.9 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 was in a deficit of 294 million USD as of the first 10 months of the year, up by 385 million USD from the first half of the year. The improvement was mainly due to an increase in gold exports and a recovery of coal exports.

The gross international reserves increased by 25 million USD in October 2020 from previous month as the monetized gold reserves declined due to the export of gold from monetized gold reserves. The gross international reserve is expected to reach 4.0 billion USD by the end of this year, and the balance of payments is expected to have a surplus of over 500 million USD next year.

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

Table IV.3.1

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

Changes in key assumptions of BOP projection	
Previous projection (2020)	Current projection (2020)
<b>Exports</b>	
<b>Revised up</b>	
Gold purchase+Part of monetized 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. Prices ↑: Coal price performance, copper, gold, crude oil, iron ore price forecasts↑.	Gold purchase+Part of monetized gold will be exported → gold export is same as previously forecasted. Oyu Tolgoi's gold concentrate in the copper ore has increased gradually. Coal performance ↑ → coal exports ↑, <b>Price projections</b> ↑: Copper price, iron ore price↑, Coal price, crude oil price~, gold price↓.
<b>Imports</b>	
<b>Revised up marginally</b>	
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 ↑	Oyu Tolgoi FDI is same as previously forecasted, Import performance of investment goods ↑, Curfew (in Nov-Dec)→ food imports ↑, durable goods' imports↓, fuel imports ↓. Coal production, exports↑ → fuel imports↑
<b>Services</b>	
<b>Revised up marginally</b>	
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 ↑	COVID-19 → Border lockdown →Tourism revenues are not expected to come in this year, and travel costs to shrink as well. Exports of coal and iron ore ↑ → transportation service income ↑, Curfew, economic activity ↓ → costs of business services ↓
<b>FDI</b>	
<b>Projection unchanged</b>	
FDI inflow for the oil refinery is expected to be delayed until next year. Amid COVID-19, external financing has slowed and the outlook for foreign direct investment of enterprises has declined.	Oyu Tolgoi FDI is same as previously forecasted. FDI inflow for the oil refinery is expected to be delayed until 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 down</b>	
The planned amount of government donor funding has increased, and the private sector's long-term foreign loan disbursement plans have increased slightly. Outflows of currency and deposit accounts increased in Q2.	The planned amount of government donor funding has increased from previous forecast. Outflows of currency and deposit accounts increased in Q3.

Source: Bank of Mongolia





# THE BANK OF MONGOLIA