



*Bank of Mongolia*



**THE BANK  
OF MONGOLIA**

**INFLATION REPORT**

**2021  
MAR**

## CONTENTS

MONETARY POLICY STRATEGY .....	3
MONETARY POLICY DECISION .....	3
I. INFLATION .....	6
Inflation outlook.....	7
II. ECONOMIC GROWTH.....	9
<i>Economic outlook</i> .....	12
III. DOMESTIC ECONOMIC CONDITIONS .....	14
III.1. Labor market.....	14
III.2 Money and financial market .....	17
<i>III.2.1 Monetary and credit indicators</i> .....	17
<i>III.2.2 Interest rate</i> .....	19
<i>III.2.3 Exchange rate</i> .....	20
<i>III.2.4 Capital market</i> .....	22
III.3 The consolidated budget and sovereign debt .....	24
IV. EXTERNAL CONDITIONS OF THE ECONOMY .....	26
IV.1 Assumptions regarding the external conditions.....	26
IV.2 Commodity prices at the global market .....	29
IV.3 Balance of payments.....	31

## 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 2021-2023 shall be at around 6 percent per annum, in the range of +/-2 percentage points.**

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

At the scheduled meeting held on March 24, 2021, the MPC decided to:

1. Keep the policy rate unchanged at 6 percent;
2. Provide up to MNT 350 billion under the long-term repo financing instrument in the second quarter of 2021. The scope of this funding instrument is expanded to include businesses in the manufacturing and services sectors, as well as entities with more than 200 employees operating in the trade sector.

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

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

## EXECUTIVE SUMMARY

The domestic economic activities are expected to recover moderately in 2021 despite the improved external conditions of the economy and a set of fiscal and monetary policy measures implemented by the government and central bank to support the demand. Inflation is projected to increase gradually as the global oil prices rise and the impact of deflationary supply-side factors fade.

**Both demand and supply-driven pressures on inflation are expected to pick up in the coming months.** Annual inflation has reached 2.6 percent nationwide and 2.0 percent in Ulaanbaatar city as of February 2021. The contribution of supply-side factors on inflation remains subdued in the 1<sup>st</sup> quarter of the year. While prices of meat rose higher than their seasonal patterns in February 2021, the government's decision to cut the price of refined fuel by 75 percent has offset the former. However, from the second quarter onwards, supply-driven pressure on inflation is expected to increase as 1) the base effect of gasoline prices, which reduces inflation by about 1 percentage point, dissipates, and 2) the government's decision to sell refined fuel at a discounted price expires on April 1, 2021. Demand-driven pressure on inflation is projected to increase gradually in line with the economic recovery. Under the conditions that supply-driven sudden price fluctuations do not take place, inflation is expected to stabilize around the central bank's target range of 6 percent $\pm$ 2 percent in 2021.

**As local spread of COVID-19 weighs on the economic recovery, the non-mining activities are expected to moderate in the first half of 2021.** The economy performed in line with expectations in 2020. In 2021, the mining sector growth is expected to accelerate in line with the increasing mineral exports, however, the adverse impact of the COVID-19 on the non-mining sector has been severe than anticipated. Increased local spread of COVID-19 in Ulaanbaatar city and the subsequent enforcement of a state emergency of public preparedness from February 11 to 23, 2021 have dragged the growth of the non-mining sector in the first quarter. Consequently, the non-mining sector is unlikely to recover to the pre-pandemic levels by the second quarter of this year as previously expected since the spread of COVID-19 has increased, requiring more time to contain the pandemic. As for the mining sector, it is expected to grow robustly in 2021 provided that the COVID-19 infection does not spread to the border areas and exports resume normally. The changes in the economic outlook prominently depend on how long it takes to contain the local spread of COVID-19.

**Annual growth of money supply has gradually increased since the second half of 2020, reaching 18 percent in January 2021.** This was primarily due to the widening of the budget deficit and thus the increase in required funding in the previous year. Amid the COVID-19 pandemic, weak economic activity and high market risk have constrained the credit growth of the banking system, and the growth remained modest throughout 2020. The credit issuance is expected to pick up in the coming quarters following the recovery in economic activities.

**Covid-19 vaccination has started worldwide, and positive developments are taking place in the external environment of the economy.** In the fourth quarter of 2020, the economic growth of the large economies exceeded expectations, and the growth forecasts for China and the United States are revised up for 2021. Despite the emergence of new waves of the pandemic and its adverse impact on global economic activity, the capacity to effectively contain the spread of the pandemic has improved, therefore, expectations for economic recovery remain optimistic. Over the forecast period, the external

demand outlook highly depends on the availability and production capacity of the vaccines and the COVID-19 vaccination rates.

**In the fourth quarter of 2020, the balance of payments of Mongolia was in a surplus of 1259 million USD or 9.6 percent of GDP<sup>1</sup>**, which is an improvement of 1071 million USD year-on-year. Consequently, the annual balance of payments was in a surplus of 787 million USD in 2020. The current account surplus reached 165.4 million USD as exports have recovered, imports have contracted, and the income account deficit has narrowed. Despite the decline in FDI inflow, increased external borrowing and a larger inflow of other investments have contributed to the financial account surplus, reinforcing the balance of payments. While high commodity prices support the balance of payments for this year, the increasing local spread of the pandemic raises the risk of restricted trade flow and a slowdown in exports.

Terms of trade has improved by 23.1 percent year-on-year as of January 2021. Export prices grew by 19.4 percent and import prices fell by 3.1 percent, year-on-year. Terms of trade is revised up for 2021 primarily due to upward revision in export price forecasts of copper, coal, and iron ore.

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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 6 percent during 2021-2023, in the range of +/-2 percentage points.

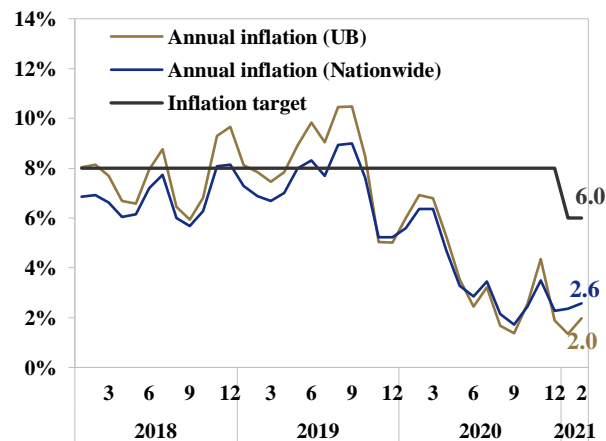
### Inflation dynamics

In the fourth quarter of 2020, inflation decelerated due to a tightening of the curfew, a slowdown in demand, as well as a downward movement in supply factors (Figure I.2).

Headline inflation was at 2.3 percent nationwide and 1.9 percent in Ulaanbaatar city at the end of 2020, stands at 2.6 percent and 2.0 percent, respectively, as of February 2021 (Figure I.1).

Figure I.1

#### Inflation



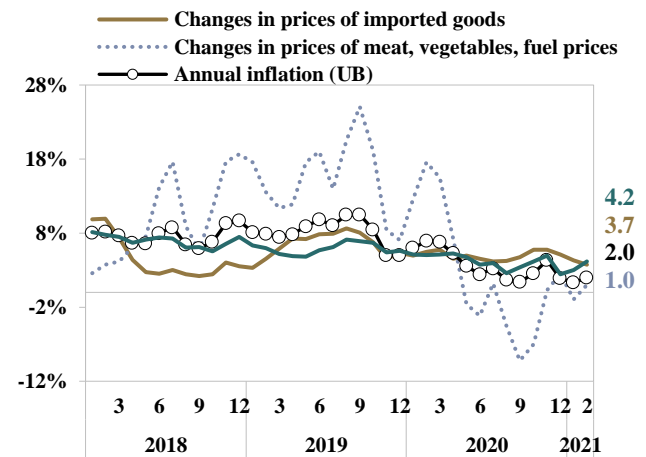
Source: NSO

**In the reporting quarter, the demand-driven pressure on prices remained subdued as consumption and investments contracted and credit growth slowed.** While policy supports have partially mitigated the impacts of COVID-19, the economic consequences of the pandemic on the non-mining sector have been severe than expected. In particular, the nationwide lockdown in November to curb domestic outbreaks has restrained both consumption and production. During the lockdown, economic activities in some sectors stagnated, leading to declining household incomes, and decelerating demand-side inflation.

**Declining prices for some goods, such as solid fuels and gasoline, attributable to one-off and supply factors, have kept inflation low** (Figure I.2, Figure I.3).

Figure I.2

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



Source: NSO, Bank of Mongolia

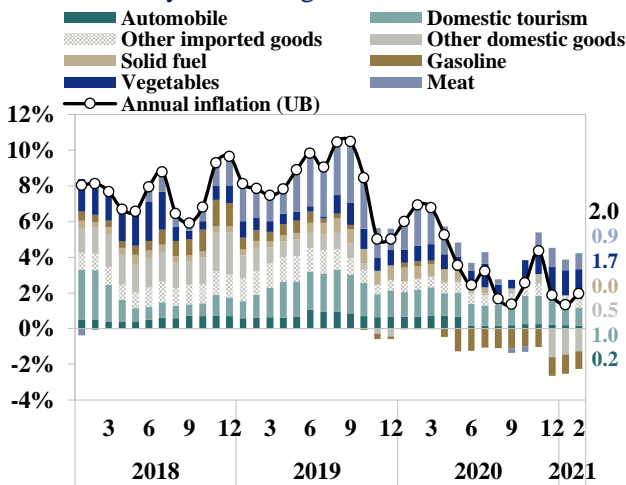
Goods that have a major impact on inflation dynamics:

- **The prices of meat** increased in February, higher than its seasonal patterns, contributing 0.9 percentage points to inflation (Figure I.3).
- **Fuel prices** contributed to -1.0 percentage point of inflation. Custom's prices of fuels are rising in line with rising oil prices at the global markets. In particular, diesel fuel price rose by about 80 MNT per liter in the reporting month, reducing the deflationary impact of domestic fuel price on headline inflation (Figure I.3).
- **Solid fuel prices** contributed to -1.3 percentage points of inflation. The government cut the price of refined fuel by 75 percent to support the citizens' livelihood amid the pandemic and consequently, it has reduced inflation significantly (The government's decision remains effective until April 1, 2021) (Figure I.3).

- Demand-driven inflation continued to decelerate as domestic demand remained weak owing to the strict curfew during the traditional Lunar New Year holidays.

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 fourth quarter of 2020, quarterly average inflation reached 2.9 percent, a 0.3 percentage point below expected.

The government's earlier decision to cut the price of refined fuel by 50 percent was revised to 75 percent on December 14, explaining the 0.2 percentage point difference. In line with expectations, food prices rose by 6.8 percent year-on-year. Non-food prices, especially prices of imported goods, rose by 5.5 percent year-on-year, below expectations.

Table I.1 Changes in the inflation outlook

Assumptions on Near-term forecast of inflation	
Previous forecast 2020Q4-2021Q3	Current forecast 2021Q1-2021Q4
<b>Prices of Meat</b>	<b>Projection revised up</b>
Prices of meat dropped more than expected in the third quarter but have increased in November. Hence, price forecasts are revised up.	Prices of meat rose as expected in the fourth quarter but have increased above expectations in February 2021. Hence, price forecasts are revised up.
<b>Prices of imported goods</b>	<b>Projection revised down</b>
Although price projection of imported goods was in line with expectations, its forecast is revised up due to the restrictions on activities and purchases due to the curfew.	Expectations slowed further as import prices rose below expectations in the fourth quarter and in January due to a stable MNT rate and a weaker-than-expected economic outlook due to the curfew.
<b>Prices of domestic goods</b>	<b>Projection unchanged</b>
Projection of prices of domestic goods has been in line with expectations in the third quarter and the government's decision to discount refined coal by 75 percent as a response to the local COVID-19 outbreaks has been reflected in the projection.	Projection of prices of domestic goods has been in line with expectations in the fourth quarter and projection remains unchanged. The government's decision to discount refined coal by 75 percent is expected to expire on April 1st 2021.
<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 up</b>
The projection is revised down as the MNT rate has been relatively stable and oil prices at the international market have slightly declined.	The price pressure has increased projection is revised up as oil prices at the international market have increased.

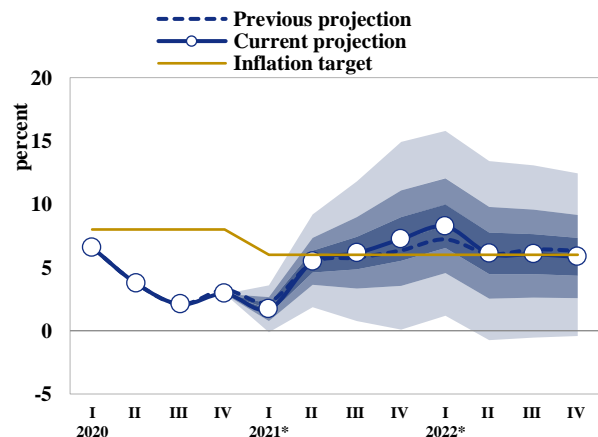
Source: Bank of Mongolia

Inflation outlook

Supply-driven inflation is expected to pick up in the coming quarters. From the second quarter of this year, the base effect of fuel prices, which currently contributes about -1 percentage point to inflation, will dissipate, and 2) the government decision to sell refined fuel at a discounted price<sup>2</sup> will expire on April 1, 2021. In addition, domestic fuel prices are expected to rise as world oil prices rise.

Figure I.4

Inflation forecast



Source: Bank of Mongolia

<sup>2</sup> Which currently contributes -2.1 percentage points to inflation.

Demand-side inflation is expected to rise gradually as the economic recovery is expected to be supported by the start of vaccinations, the easing of restrictive measures, as well as the government and the central bank policies to mitigate the economic consequences of the pandemic. Next year, domestic demand is expected to recover, and inflation is expected to stabilize around the Central bank target.

Table I.2

Inflation forecast<sup>3</sup>

	2020 <i>actual</i>	2021* <i>projection</i>	2022* <i>projection</i>
CPI inflation <sup>4</sup>	2.9	7.2 [5.5-9.0]	5.8 [4.3-7.3]

Source: Bank of Mongolia

**Uncertainties that could change inflation outlook**

Risks and uncertainties	Probability	Impact
Potential shortages or oversupply of goods and services could alter inflation projections. For instance, depending on weather conditions, prices of meat and vegetables may be subject to sudden fluctuations, prices of administered items may exceed the projections.	Low	High (upward)
Potential surge in local spread of COVID-19 pandemic, thereby extension or tightening of restrictive measures could weigh on economic activities and inflation outlook.	Medium	Medium (downward)
If the curfew lasts for too long, a shortage of some food resources could lead to a supply-driven price hike.	Low	Low (upward)
If the spread of the pandemic expands globally and uncertainty increases in the external environment, the price of commodities at the global market and the capital flow to our country will be affected adversely and the pressure on the togrog exchange rate will push inflation up.	Low-Medium	Medium (upward)
In case the impact of policy measures by the government and the Bank of Mongolia, and government megaprojects on the economy are larger than expected, they could push inflation up.	Medium	Medium (upward)

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

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



## II. ECONOMIC GROWTH

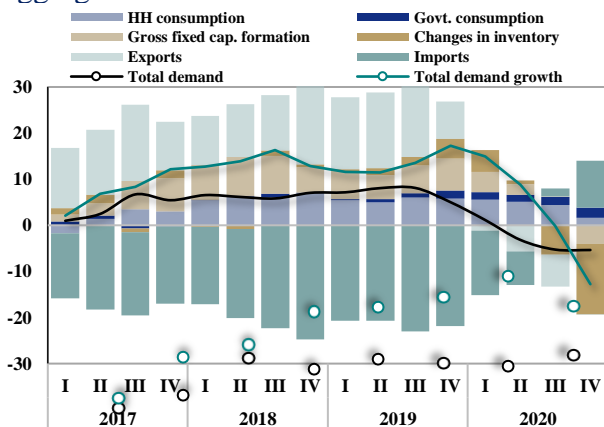
The economy contracted by 5.3 percent in 2020 and by 0.3 percent in the fourth quarter of the year, improving from previous quarters. Due to the COVID-19 pandemic, the country has been either in the state of enhanced readiness or public emergency readiness throughout 2020 and the lockdown and restrictions harmed household consumption and investment.

The investment declined in all sectors as economic uncertainties have increased and businesses have stagnated. Households increased food consumption slightly but cut non-food consumption drastically. On the other hand, increased government consumption has supported aggregate demand throughout 2020 while exports have supported the aggregate demand in the second half of the year (Figure II.1).

Consumption and investment are expected to recover in the second half of 2021 as the lockdown restrictions loosens with the start of vaccinations across the country as well as policy measures continue to support the economy.

Figure II.1

Decline in consumption and investment have mainly contributed to a contraction in the aggregate demand<sup>5</sup>



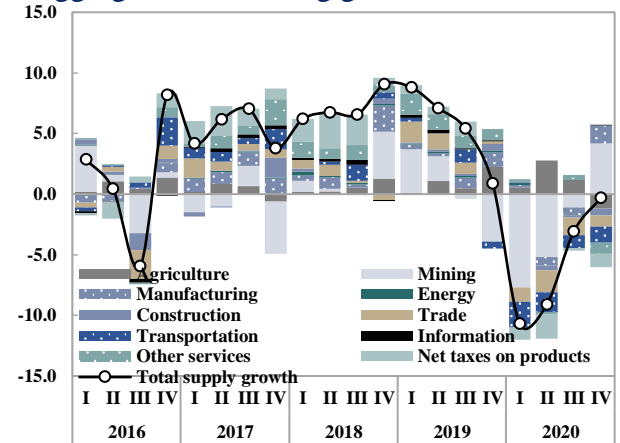
Source: NSO

The mining sector, which contracted in the first three quarters of 2020, grew by 20.8 percent in the fourth quarter, while the non-mining sectors continued to contract. During the lockdown to curb the local spread of the COVID-19, most

businesses ceased operations. Therefore, the strict lockdown restrictions had a significant adverse impact on non-mining sectors, especially in the services, trade, and construction (Figure II.2).

Figure II.2

Measures to prevent COVID-19 continue dragging the non-mining growths.



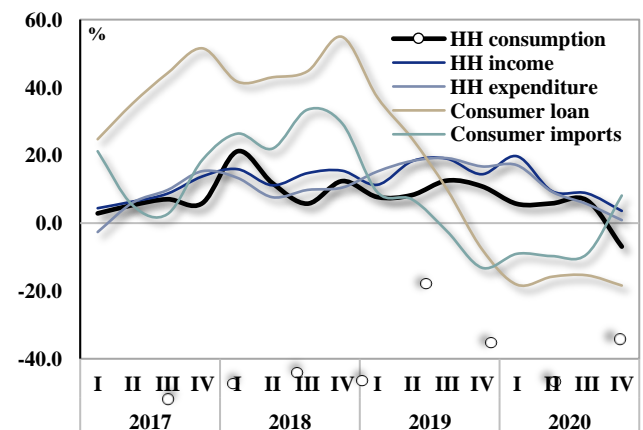
Source: NSO

### Consumption

In the fourth quarter, **household consumption** contracted by 6.9 percent from that of previous year, hampering the aggregate demand by 4.0 percentage points. Despite the policy measures implemented by the government and central bank to support domestic demand amid the pandemic, households began to cut back on non-food consumption during the lockdown.

Figure II.3

Household consumption has declined sharply



Source: NSO, Bank of Mongolia

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

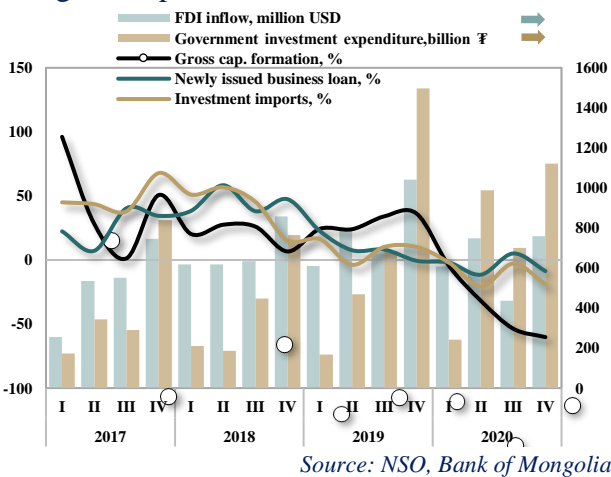
### Government consumption

Public expenditure on goods and services grew by 26.1 percent in real terms from that of previous year and contributed to aggregate demand by 3.7 percentage points as wages and bonuses of public sector employees increased.

### Investment

In the fourth quarter, **gross capital formation** plummeted by 60.2 percent year-on-year, hampering the aggregate demand by 31.8 percentage points. The investment contracted in all areas amid the pandemic, business lending slowed due to the shift to the state of public emergency readiness, the public investment was underperformed, and FDI inflows continued to decline.

**Figure II.4**  
The gross capital formation continued to contract



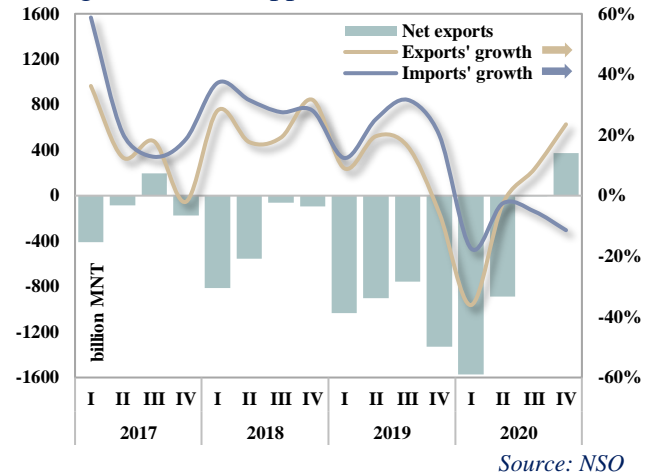
### Net exports

Net exports contributed to total demand growth by 31.1 percentage points. In the reporting quarter, exports increased by 23.5 percent while imports declined by 11.4 percent, year-on-year, in real terms (Figure II.5).

As copper prices climbed to record highs since 2013 and gold exports remained strong for three consecutive quarters, exports contributed to aggregate demand by 23.5 percentage points.

The imports decreased due to a lower import demand for fuel products and a decline in imports of investment items, such as vehicles, machinery, parts, and construction materials.

**Figure II.5**  
Foreign trade has supported the demand.



### Economic sectors

While the mining sector rebounded rapidly in the reporting quarter, the non-mining sector contracted by 4.5 percent. Production in non-mining sectors other than manufacturing, energy, and telecommunications have contracted.

The mining sector contributed to the economic growth by 4.2 percentage points thanks to the continuation of the “Green Gateway” regulation and the increase in Oyu Tolgoi copper concentrate and its gold content.

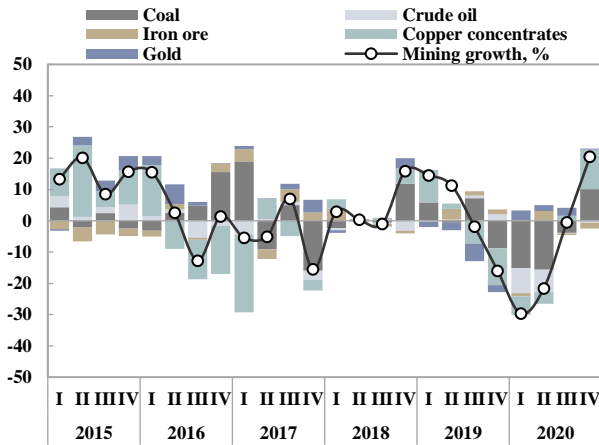
Accordingly, the mining sector growth was induced by the increase in the extraction of coal, copper concentrate, and gold. Particularly, coal production has recovered and increased by 39 percent year-on-year in the reporting quarter, exceeding expectations. In addition, Oyu Tolgoi’s copper concentrate increased by 23.3 percent, and its gold content increased by 57.6 percent. The gold content of Oyu Tolgoi copper concentrate increased 2.6 times from that of previous year. Excluding Oyu Tolgoi, copper concentrate production increased by 1 percent and gold production by 2.3 percent year on year, reaching 5.3 tons.

Decreases in the production of crude oil and iron ore have weighed down the mining sector’s growth. In particular, iron ore and crude oil production diminished by 19.7 percent and 5.2 percent, respectively.

The value-added in the transportation sector declined by 12.7 percent in the reporting quarter primarily due to the drop in rail freight driven by a decline in iron ore exports and a decrease in all types of passenger transports despite increased coal exports and its road freight.

Figure II.6

The mining sector grew by 20.8 percent due to increased production of mining products except for crude oil and iron ore.



Source: NSO, Bank of Mongolia

The trade sector performed below expectations, contracting 6.9 percent. This was mainly due to a slowdown in fuel sales in line with a contracting transportation sector, and a decline in trade of investment-related machinery and equipment. Only trade in medicines and food increased in the reporting quarter.

Construction sector value-added contracted by 8.5 percent reflecting a slowdown in major construction works amid the COVID-19 pandemic and decline in production of all residential and non-residential buildings. On the contrary, construction works of Tavan Tolgoi-Zuun Bayan and Tavan Tolgoi-Gashuun Sukhait railways have advanced.

Despite the increase in public services such as health and education, the value-added of the service sector declined by 5.3 percent as other services ceased operations during most of the reporting quarter.

According to the 2020 livestock census, the loss of large livestock (or bod) was higher than expected, resulting in a downward revision to

agricultural sector output. The agricultural sector contracted by 10.4 percent in the reporting quarter. On the other hand, the manufacturing sector production increased by 14 percent from that of previous year, as the number of livestock used for food increased.

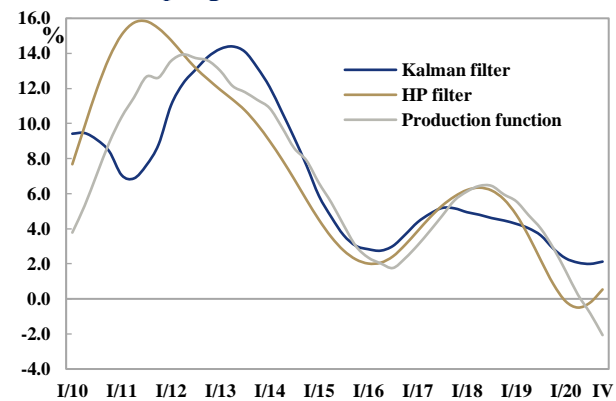
Revenue from net taxes on products declined by 15.1 percent in the reporting quarter due to weakening economic activities and a decline in imports of automobiles.

**Potential output**

Increased investment for the development of the mining sector and its indirect impact have spurred non-mining sector growth and thus, supporting potential output growth throughout 2017-2019. However, due to the COVID-19 pandemic, domestic economic activity has slowed down, and potential output growth has decelerated in 2020 (Figure II.7).

Figure II.7

**Potential output growth**



Source: BOM estimate

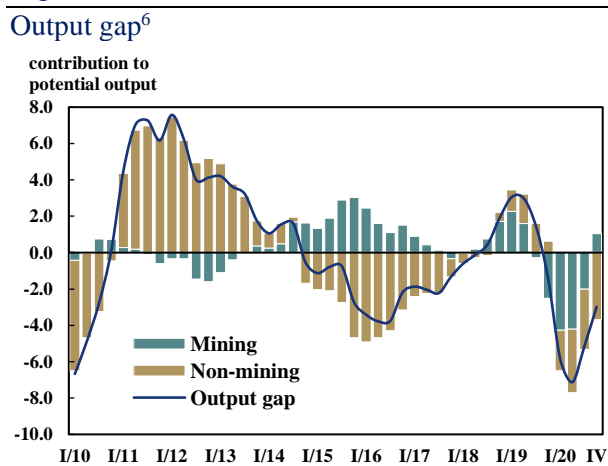
The estimate of the Kalman filter, a multi-variate estimation that uses information on key macroeconomic indicators and their relations, suggests that potential output growth dropped to 2 percent at the end of 2020. The potential output growth estimated by single-variate HP filter and production function suggest a sharper decline.

**Output gap**

Output gap that remained positive throughout 2019 turned negative in 2020 due to the COVID-19 pandemic. In particular, economic

activity has contracted due to the pandemic, and the non-mining output gap was in negative territory throughout the year. The mining output gap was also negative in the first half of 2020 due to a sharp decline in mining production, while it narrowed in the second half as exports rebounded and mining production increased (Figure II.8). In the fourth quarter of 2020, the output gap narrowed by about two percentage points from the previous quarter as the recovery in mining production preceded the positive mining output gap.

Figure II.8



Source: BOM estimate

### Economic outlook

The economy performed in line with expectations in the fourth quarter of 2020.

The economic growth for this year is revised down slightly from previous forecast as the adverse impact of COVID-19 on some non-mining sectors has been severe than expected and Erdenet's copper production forecast is revised down for this year.

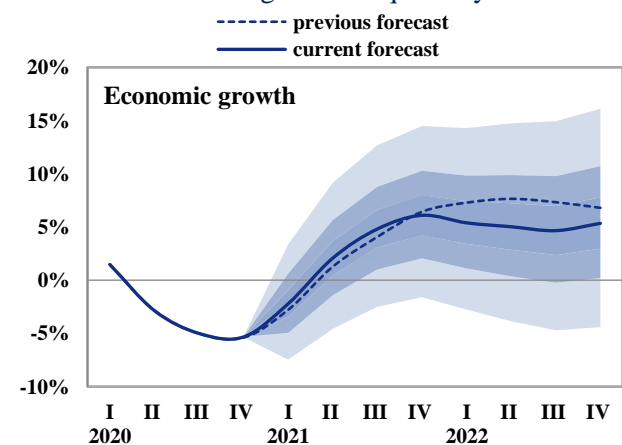
In the coming year, the non-mining sector is expected to recover following the strengthening of domestic demand while mining sector production is expected to contract due to the decline in Oyu Tolgoi copper concentrate and its gold content (Figure II.9, Table II.1.1).

**Mining:** Mining sector growth for 2021 is expected to be primarily supported by a

recovery in external demand, an increase in coal production, and an upswing in the metal content of Oyu Tolgoi copper concentrates. However, the growth of the mining sector is revised down marginally due to the downward revision of Erdenet's copper production forecast. The mining sector is expected to contract next year as export prices drop and the production of Oyu Tolgoi copper concentrate and its metal content decline.

Figure II.9

Forecasts for annual growth of quarterly GDP



Source: Bank of Mongolia

**Non-mining:** The growth outlook of the non-mining sector is revised down for this year primarily due to the larger-than-expected adverse impact of the pandemic on services sectors and net taxes on products. On the other hand, the electricity sector growth is revised up for this year as a result of the government measure to pay for utility bills such as electricity, heating, and water of households and some enterprises. The growth of manufacturing is also revised up as the sector performed robustly in previous months. The growth forecasts for economic sectors such as agriculture, communication, transportation, and storage, in which the impact of the pandemic is benign, remain around the previous forecast. In the coming year, the non-mining sector is expected to recover following the increase in

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

investment, domestic demand, and the level of economic activity.

Table II.1.1

Economic growth forecast<sup>7</sup>

	2020 <i>actual</i>	2021* <i>projections</i>	2022*
GDO growth, %	-5.3	4.5 – 7.7	3.1 – 7.5
Mining, %	-9.4	14.4 – 17.6	(-10.1) – (-5.7)
Non mining, %	-4.3	2.0 – 5.2	6.8 – 11.2

Source: Bank of Mongolia

Table II.1.2

## Changes in the economic growth outlook

## Changes in economic growth outlook (2021)

AGGREGATE DEMAND	Expectations improved
<b>Consumption</b>	Expectations unchanged
<ul style="list-style-type: none"> <li>Despite the policy measures by the government and the central bank to support the demand, households are cutting back on consumption amid the state of public preparedness.</li> <li>Economic activity is expected to improve in the second half of the year as vaccinations take place nationwide and the lockdown measures loosen.</li> </ul>	
<b>Investment</b>	Expectations improved
<ul style="list-style-type: none"> <li>Investment is expected to continue to decline as the investment climate didn't improve as expected in the first quarter of the year and public sector has less room to boost the investment.</li> <li>Investment growth is expected to pick up by the end of 2021 due to the base year effect of sharp contraction in fixed assets in the fourth quarter of last year.</li> </ul>	
AGGREGATE SUPPLY	Expectations weakened
<b>Mining</b>	Expectations weakened marginally
Non-Oyu Tolgoi copper concentrate production forecast has been revised down marginally.	
<b>Non-mining</b>	Expectations weakened
<ul style="list-style-type: none"> <li>In the first half of 2021, the impact of pandemic measures is expected to be relatively high in the non-mining sector.</li> <li>Manufacturing, construction, trade, services sector, and net tax on products are unlikely to increase in the first half of 2021 owing to the pandemic measures.</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

## Uncertainties that may affect the economic outlook

Risks and uncertainties	Probability	Impact
The primary forecast uncertainties are 1) the local spread of the COVID-19 pandemic and 2) the required time to contain the local spread. If the outbreaks transmit among substantial masses and the curfew continues for an extended period, it could precede a risk of a deeper economic crisis, with economic stagnation, rising unemployment, stagnant foreign trade, disrupted budget revenues, and increased deficits.	Medium	Medium (negative)
The global economy has recovered, and the growth forecasts of the main trade partners' are revised up. Yet, it remains uncertain when countries would contain the spread of the pandemic. In particular, a potential hike in infections in countries where the vaccines are insufficient, and the variability of vaccine effectiveness create uncertainty regarding the containment period of the local spread. The worsening of the pandemic situation could hurt the global economic outlook and lead to a decline in external demand.	Low-Medium	Low (negative)
In the case that the current social and economic situation has changed the behavior of consumers and investors, there is a risk that the economy will not recover as quickly as expected even after the spread of the virus is fully contained.	Low-Medium	Low-Medium (negative)

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

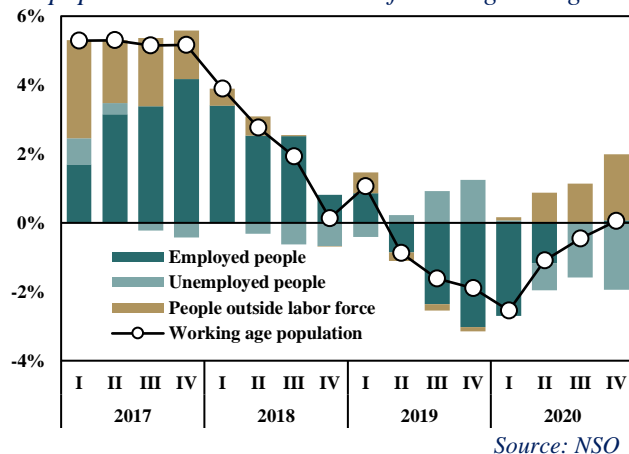
### III. DOMESTIC ECONOMIC CONDITIONS

#### III.1. Labor market

In the fourth quarter of 2020, the working-age population reached 2134700, increasing 0.1 percent from that of previous year. However, labor force participation rate has declined due to the decrease in economically active population. In particular, the population outside the labor force increased by 9.5 percent year-on-year, and the labor force participation rate decreased by 3.7 percentage points to 57.0 percent.

Figure III.1.1

While working-age population has not grown much, the population outside the labor force is growing<sup>8</sup>



Source: NSO

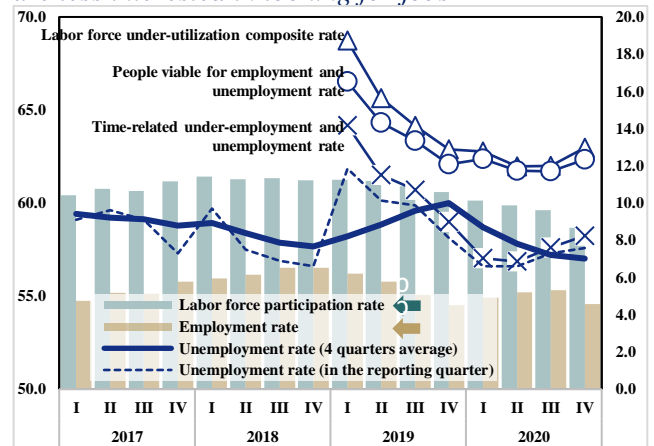
The number of employed people decreased by 51.4 thousand (-4.4%) from previous quarter and by 63.8 thousand (-5.4%) from that of previous year. The unemployment rate increased by 0.3 percentage points from previous quarter to 7.6 percent. The marginal increase in the unemployment rate is due to the shift of workers to the economically inactive population or an increase in unregistered unemployment.

While the number of working-age population remained stable in the reporting quarter, the number of employed people decreased and the employment rate<sup>9</sup> decreased by 3.0 percentage points from that of previous year and by 2.0

percentage points from previous quarter to 52.7 percent.

Figure III.1.2

Unemployment has increased gradually, and people are less interested in looking for jobs



Source: NSO

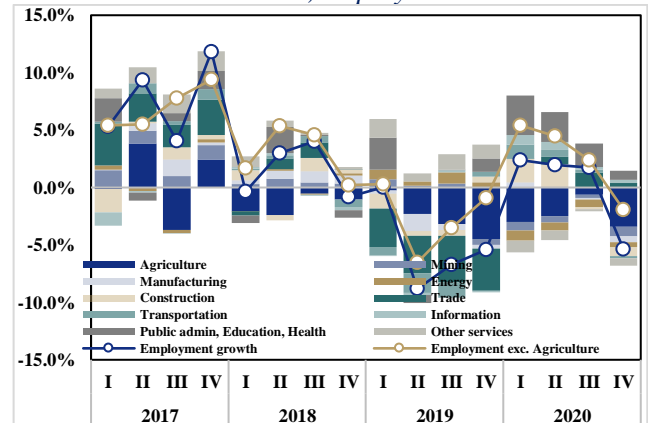
In addition, the labor force under-utilization composite rate increased by 1.0 percentage point from that of previous year to 13.0 percent. The increase in the level of under-utilization is mainly because the unemployed people are shifting to an economically inactive population (Figure III.1.2).

#### Employment and social insurance

In the reporting quarter, employment declined in all economic sectors except for trade, public services, and communication. As a result, the total number of employed people decreased by 4.4 percent in the fourth quarter of 2020 from the previous quarter and by 5.4 percent from that of previous year.

Figure III.1.3

In most economic sectors, employment has declined.



Source: NSO

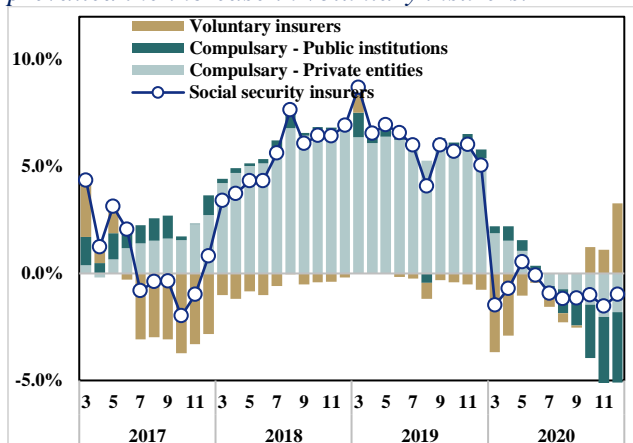
<sup>8</sup> Average growth for the past four quarters

<sup>9</sup> Employment rate = Employed people/Working age population

The number of social insurers continued to decline in the fourth quarter of 2020 despite the increased number of voluntary insurers. This is mainly due to the decrease in the number of employed people in the reporting quarter. In December 2020, the number of compulsory social insurers decreased by 1.8 percent and the number of voluntary social insurers increased by 3.3 percent. Compulsory social insurers employed in private institutions declined by 3.3 percent year-on-year while compulsory social insurers employed in the public sector increased by 1.9 percent year-on-year.

Figure III.1.4

The decline in the number of compulsory insurers prevailed the increase in voluntary insurers.



Source: Social insurance general office

### Unemployment

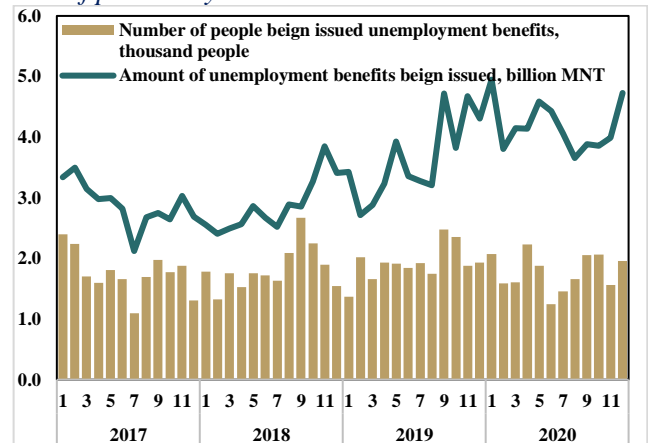
Unemployment benefits amounting to 50.2 billion MNT (15.3 percent growth from previous year) were issued to 21.4 thousand people (1.7 thousand percent less from previous year) from the social security fund in 2020.

The measure has been taken to provide financial support of 200 thousand MNT monthly from the unemployment insurance fund to insurers employed in private entities subject to having their operations ceased due to the pandemic for reasons beyond its control, by a decision of a state authority and insurers employed in businesses other than state or locally owned entity in which revenue reduced by more than 50 percent in February and March 2020 but has maintained the jobs. In 2020, 44.1 billion MNT

was provided to 220.8 thousand insurers in double counting<sup>10</sup>.

Figure III.1.5

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

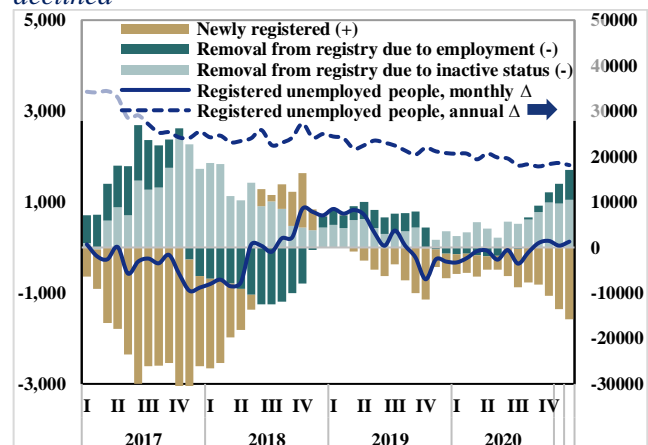


Source: Social insurance general office

People have been less active in looking for jobs and the unemployed people are shifting to an economically inactive population or people outside the labor force. For instance, the number of people deregistered due to inactive job search increased by 12.6 thousand (19.6%) from the previous year.

Figure III.1.6

People's participation in the labor market has declined



Source: General Office for Labor and Welfare Services

Moreover, the number of newly registered unemployed people decreased by 18.9 thousand (21.8 percent), and registered unemployed people who are newly employed

<sup>10</sup> Source: NSO

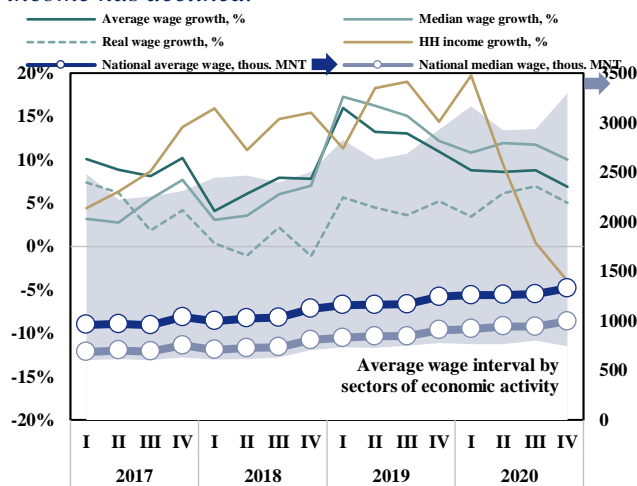
decreased by 7.9 thousand (29.2 percent) from that of previous year.

**Wages and household income**

The national average wage reached 1328.1 thousand MNT (6.9 percent growth year-on-year), and the median wage arrived at 996 thousand MNT (10 percent growth year-on-year) in the reporting quarter. Real wage, the indicator of the purchasing power of citizens, increased by 5.1 percent year-on-year.

Figure III.1.7

While wage growth has decelerated, household income has declined.



Source: NSO

Wages increased in sectors of the economy other than construction, accommodations, food service activities, electricity, gas, air conditioning supply, and activities of extraterritorial organizations and bodies. Wages increased by more than 10 percent year-on-year in the sectors of health, agriculture, arts, entertainment and recreation, water supply, real estate, and education. Wages in the manufacturing sector remained the same, while those in construction, accommodations, food service activities, and activities of extraterritorial organizations decreased by 3-4 percent.

With regards to the legal status of establishments, average wages of employees working at partnership (33-39 percent),

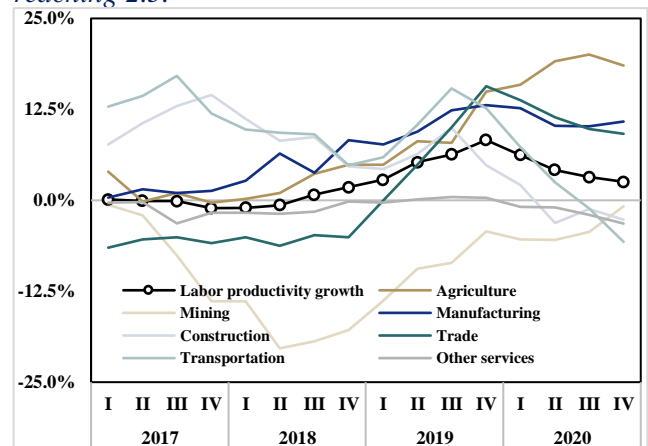
cooperatives, public institutions (16.6 percent), state-owned enterprises (10.9 percent), and that of limited liability private companies (2.5 percent) increased.

**Labor productivity and unit labor cost**

Labor productivity growth<sup>11</sup> has been decelerating due to the COVID-19 pandemic. Productivity declined in sectors other than agriculture, manufacturing, and trade.

Figure III.1.8

Labor productivity growth has decelerated, reaching 2.5.<sup>12</sup>

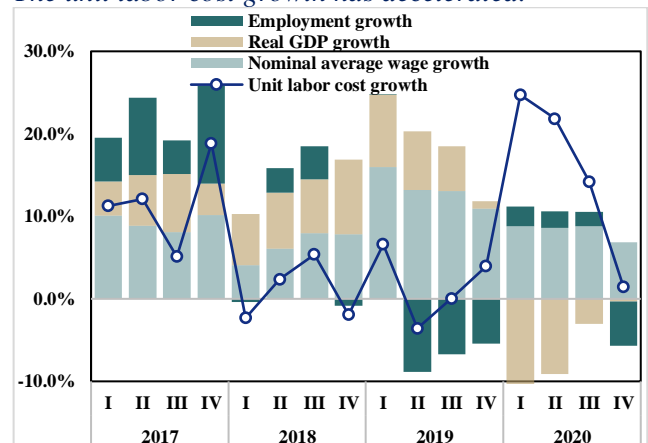


Source: NSO, BOM estimate

The growth of unit labor cost<sup>13</sup>, which had been high in previous quarters, slowed down to 1.4 percent in the reporting quarter. The slowdown in wage growth in the reporting period contributed to the deceleration of unit labor cost growth.

Figure III.1.9

The unit labor cost growth has decelerated.



Source: NSO, BOM estimate

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

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

<sup>13</sup> Average labor cost or wage cost per unit of GDP.



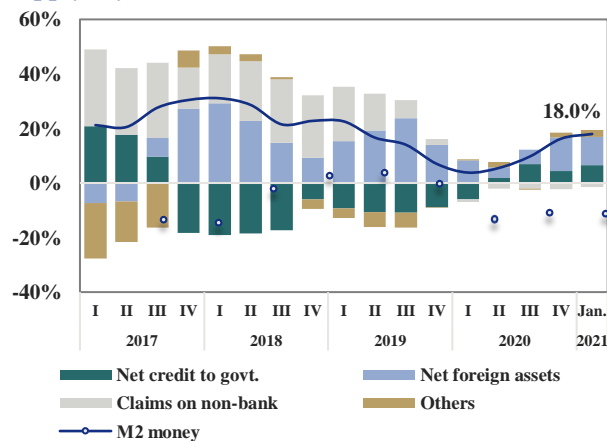
### III.2 Money and financial market

#### III.2.1 Monetary and credit indicators

Annual growth of M2 money supply has been gradually increasing from the second half of 2020.

The amount of budget funding required increased in 2020 and expenditures were financed by the government liabilities at the domestic banking system and foreign loans, contributing to the increase in government net lending and net foreign assets. The M2 money growth reached 18 percent in January 2021, to which the government net lending contributed 6 percentage points and net foreign assets 10 percentage points. As of January 2021, the outstanding loans of the banking system reached 17.1 trillion MNT, an annual decrease of 4.8 percent, or about 1 percent when adjusted with the effect of pension loan write-off.

Figure III.2.1.1  
Contributions to annual growth of M2 money supply, by assets



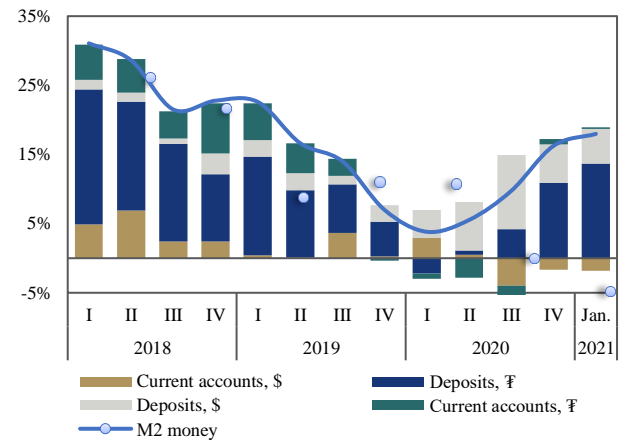
Source: Bank of Mongolia

The budget funding required has reached 5.7 trillion MNT in 2020<sup>14</sup>. Of which about 2.1 trillion MNT was financed from the reserves accumulated in the treasury fund and 3.4 trillion MNT was financed by external borrowing, increasing the government's net lending and net foreign assets (Figure III.2.1.1).

<sup>14</sup> Of which, 4 trillion 539 billion MNT is spent on financing the budget deficit, while the 140 billion MNT is spent on the

Moreover, the credit supply of the banking system is restricted as the domestic activities weakened and market risks are elevated due to the spread of COVID-19.

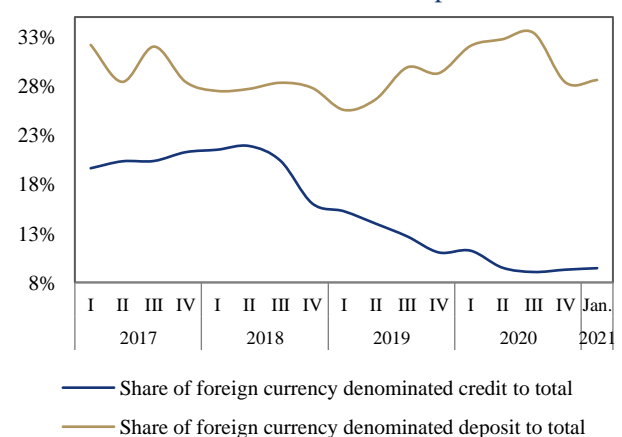
Figure III.2.1.2  
Contributions to annual growth of M2 money supply, by liabilities



Source: Bank of Mongolia

Money supply growth, from the liabilities side, was mainly supported by the expansion of deposit accounts in local currencies. In particular, the growth of local currency deposits contributed 13.7 percentage points and the growth of foreign currency deposits contributed 5 percentage points to the money supply growth. 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.

Figure III.2.1.3  
Dollarization of bank credits and deposits



Source: Bank of Mongolia

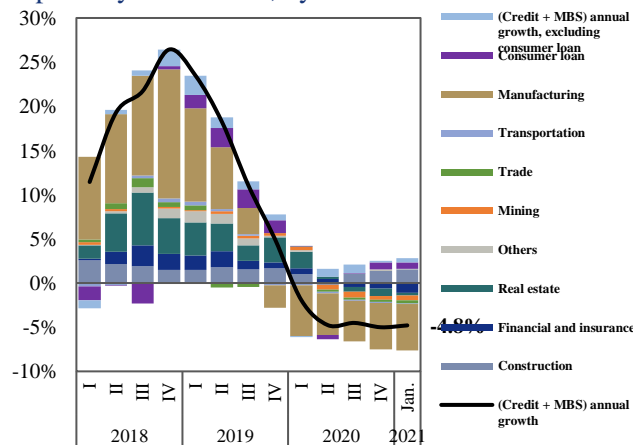
repayments of foreign and domestic loans. The amount does not include bond refinancing.

Specifically, the dollarization of the banking system's liabilities declined by 4.8 percentage points to 28.6 percent in January 2021 (Figure III.2.1.3). On the other hand, current accounts in foreign currency decreased from that of previous year while current accounts in local currency remained unchanged.

Outstanding amount of total credit<sup>15</sup> issued by depository institutions decreased by 4.8 percent<sup>16</sup> and outstanding amount of consumer loans declined by 18.1 percent. Adjusting the impact of pension loan repayments write-off, outstanding amount of consumer loans declined by 5.8 percent year-on-year.

Figure III.2.1.4

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



Source: Bank of Mongolia

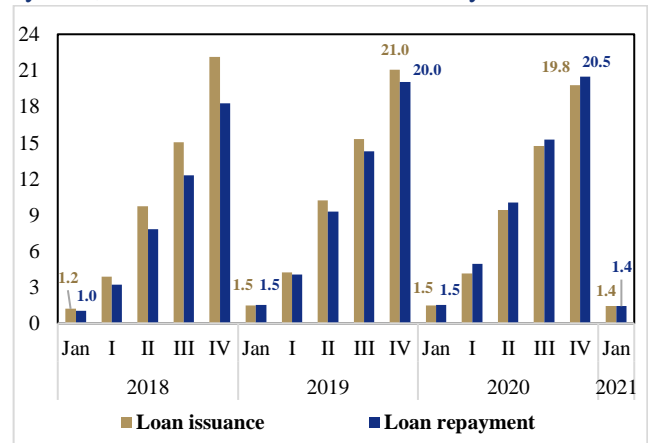
As of January 2021, business loan outstanding increased by 0.6 percent year-on-year. In terms of economic sectors, the outstanding loans to the mining and real estate sectors increased, while the outstanding loans to other key sectors, such as trade, construction, and manufacturing, decreased from that of previous year. In terms of currency type, local currency and foreign currency loans declined by 3.3 and 16.8 percent year-on-year, respectively.

Considering the criteria and conditions of bank lending and loan demand, in the fourth quarter of the previous year, large banks reduced their

total lending criteria and conditions. Small and medium-sized banks have barely changed the criteria but loosened the credit conditions. However, in the fourth quarter of 2020, the demand for bank loans decreased marginally owing to the local outbreaks of the COVID-19.<sup>17</sup>

Figure III.2.1.5

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



Source: Bank of Mongolia

In 2020, a total of 19.8 trillion MNT loan was disbursed by the banking system, a decrease of 6 percent from the previous year. This is mainly due to the decline in the issuance of business loans. Total loan repayments reached 20.5 trillion MNT or a 19.8 trillion MNT excluding the effect of pension loan repayment write-off. In January of 2021, 1.4 trillion MNT was disbursed from the banking system, and a 1.4 trillion MNT loan was repaid.

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 3.7 percentage points year-on-year, reaching 21 percent, and the share of construction loans to total credit fell by 0.7 percentage points reaching 7 percent in January 2021. On the other hand, combined shares of loans issued to real estate, mining, trade, and other services sectors

<sup>15</sup> Excluding the securitized mortgage loans

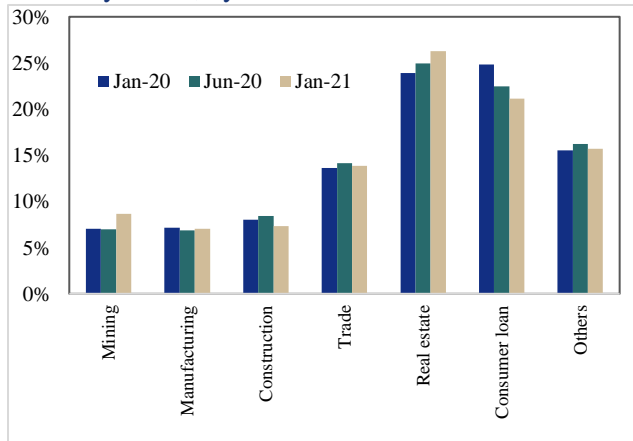
<sup>16</sup> It is -1.1 percent annual growth adjusting the impact of pension loan repayments write-off.

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

to total credit increased by about 4.4 percentage points from that of previous year.

Figure III.2.1.6

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

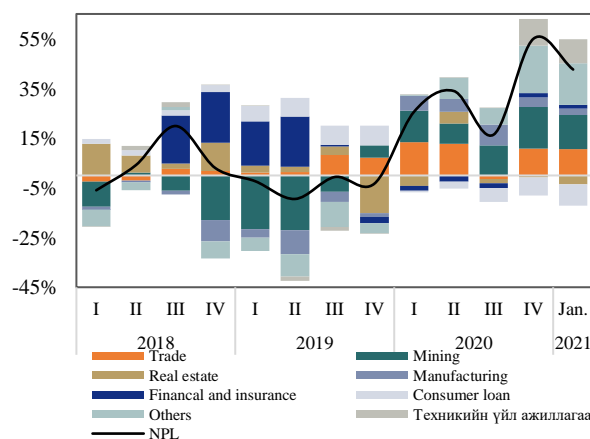


Source: Bank of Mongolia

Annual growth in past-due loans reached 42.6 percentage points in January 2021 (Figure III.2.1.6). The outstanding amount of non-performing loans increased by 391 billion MNT from that of previous year, most of which were related to mining, trade, and other services.

Figure III.2.1.7

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



Source: Bank of Mongolia

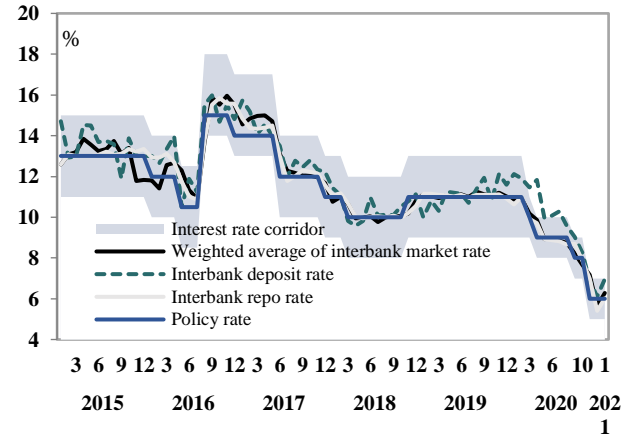
Consequently, the share of past-due loans in total loans increased by 2.6 percentage points from that of previous year, reaching 7.7 percent, and share of non-performing loans in the total loan portfolio increased by 1.5 percentage points to 11.8 percent in January 2021.

### III.2.2 Interest rate

The Monetary Policy Committee of the Bank of Mongolia decided to keep the policy rate at 6 percent during its scheduled meeting in March 2021.

Figure III.2.2.1

Interbank market rates



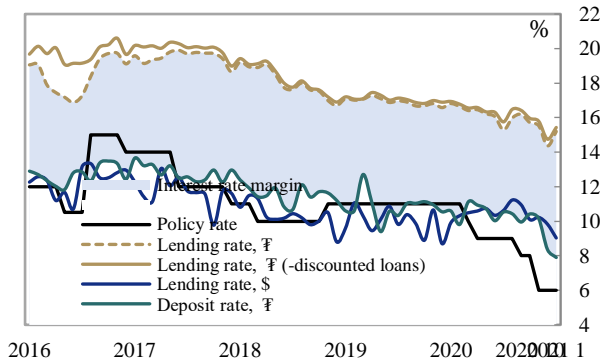
Source: Bank of Mongolia

In January 2021, the weighted average of interbank market interest rate increased by 0.63 percentage points from the previous month, reaching 6.28 percent. In particular, interest rate on repo transactions secured by the central bank bills increased by 0.62 percentage points to 6.02 percent, interest rate on interbank deposits increased by 0.85 percentage points to 6.96 percent, interest rates on direct trading of central bank bills increased by 0.17 percentage points to 6.0 percent, and interest rate on interbank overnight loans increased by 0.05 percentage points to 6.43 percent. Interbank deposit rates remained relatively high throughout 2020 as banks sought higher returns on unsecured loans in the interbank market.

In January 2021, interest rate on MNT deposits decreased by 2.69 percentage points year-on-year to 7.9 percent, and interest rate on credits issued in MNT decreased by 1.61 percentage points to 15.2<sup>18</sup> percent. Consequently, interest rate margin widened by 1.08 percentage points from that of previous year to 7.3 percent (Figure III.2.2.2).

<sup>18</sup> Lending rate is 15.4 percent, excluding the interest rate on discounted loans as of January 2021.

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 decreased by 0.91 percentage points from that of previous year to 9.0 percent while the interest rate on new foreign currency deposits decreased by 1.57 percentage points in January 2021. Consequently, the interest rate margin of foreign currency loans and deposits widened by 0.65 percentage points from that of previous year to 7.0 percent.

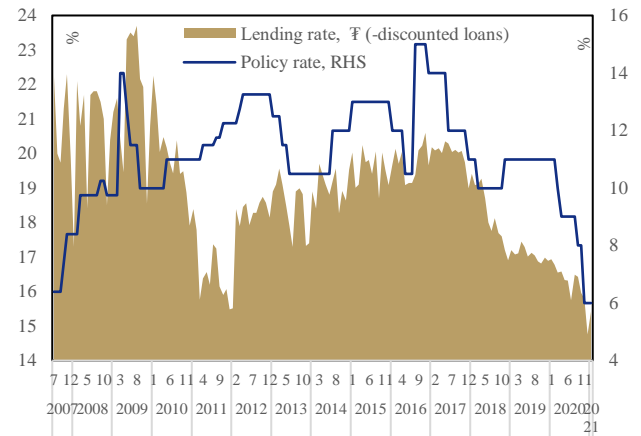
Table III.2.2.1  
The average interest rate on newly issued loans (₮), by borrowers (excluding discounted loans)

percent	Jan 2020	Jan 2021
<b>Lending rate</b>	16.9	15.4
i. Public institutions	2.7	3.5
ii. Private institutions	16.3	15.3
iii. Financial institutions	18	15.7
iv. Individuals	17.8	16.1
v. Others	-	15.3

Source: Bank of Mongolia

<sup>19</sup> As of the first 2 months of 2021, the average amount of bids to be purchased from banks at foreign exchange auctions decreased by 2.1 times from that of the previous year and net

Figure III.2.2.3  
Policy rate and lending rate on newly issued loans



Source: Bank of Mongolia

### II.2.3 Exchange rate

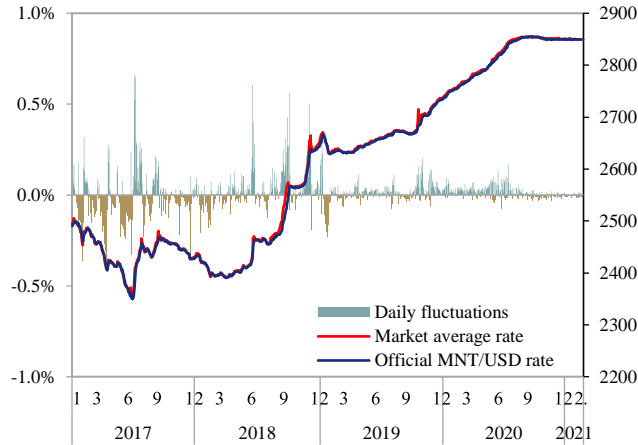
The MNT/USD rate, which has been stable at around 2850 in the past 4 months, reached MNT 2,849.27 at the end of February 2021 (Figure III.2.3.1).

In recent months, market expectations have been stable, and there has been little pressure on the MNT to depreciate as foreign currency inflows have improved in line with growing export prices and demand. In the first two months, foreign currency inflow increased by 21 percent year-on-year as revenues from main export commodities such as coal and iron ore increased and foreign currency outflow decreased by 3.5 percent year-on-year, resulting in a 173.2 million USD surplus of foreign currency net flows. Moreover, the contraction in economic activity due to curfew has reduced the demand for foreign currencies.<sup>19</sup>

purchase of foreign currency by banks through spot trading with the Bank of Mongolia decreased by 13 percent from that of the previous years.

Figure III.2.3.1

Cross rate of MNT to USD

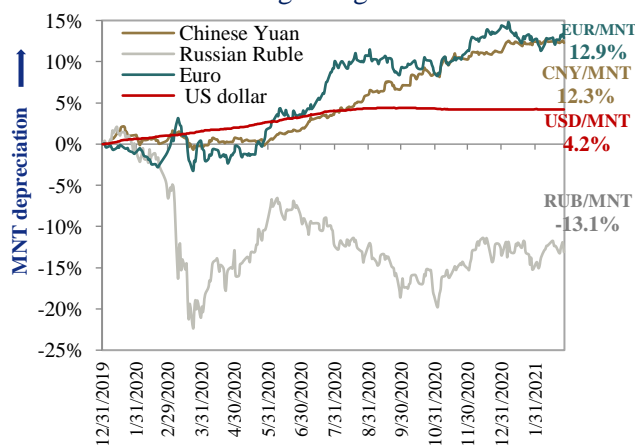


Source: Bank of Mongolia

The nominal effective exchange rate (NEER), weighted by trade turnover, has depreciated by 2.8 percent year-on-year in January 2021. The MNT appreciated by 13.5 percent year-on-year against RUB but depreciated by 11.1 percent and 13.9 percent, against EUR and RMB, respectively (Figure III.2.3.2). However, since the beginning of the year, the MNT has gradually appreciated against the euro but continued to weaken against the yuan. In addition to the persistent recovery in China's industrial sector and rising exports, relatively higher interest rates compared to other countries have increased capital inflows to China, primarily resulting in the appreciation of the yuan at the global markets.

Figure III.2.3.2

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

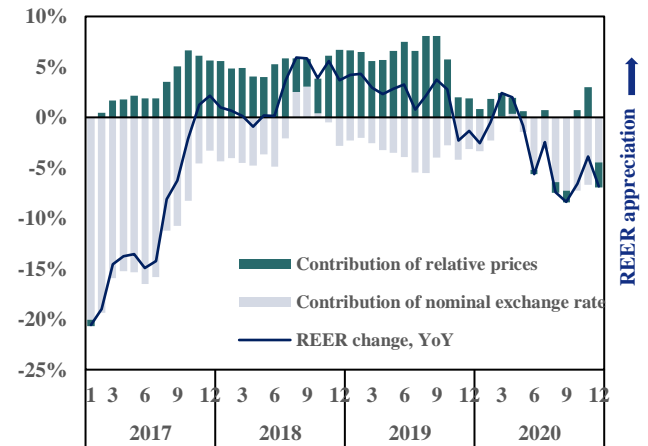


Source: Bank of Mongolia

Real effective exchange rate (REER) depreciated by 3.4 percent year-on-year in January 2021 as the nominal exchange rate depreciated and the domestic price declined by 0.7 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

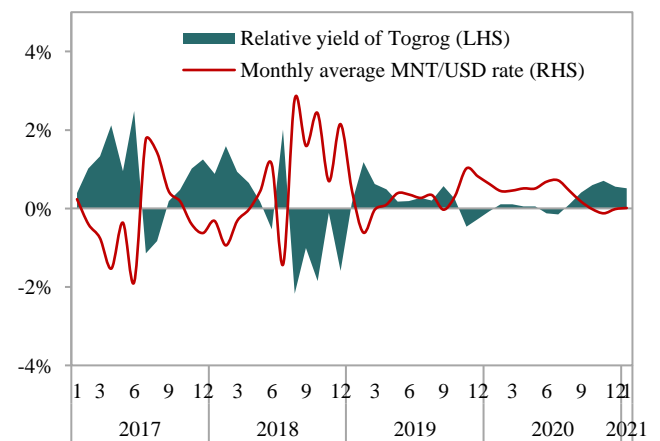


Source: Bank of Mongolia

The relative yield on MNT, which has been positive for the past 6 months, reached 0.56 percent at the end of 2020 and slightly declined to 0.51 percent in January 2021 (Figure III.2.3.4). While the MNT rate has been stable, a decrease in the local currency deposit rate, thus narrowing of interest margin has primarily resulted in the decrease in relative yield on the MNT from the previous month.

Figure III.2.3.4

The relative yield on MNT



Source: Bank of Mongolia

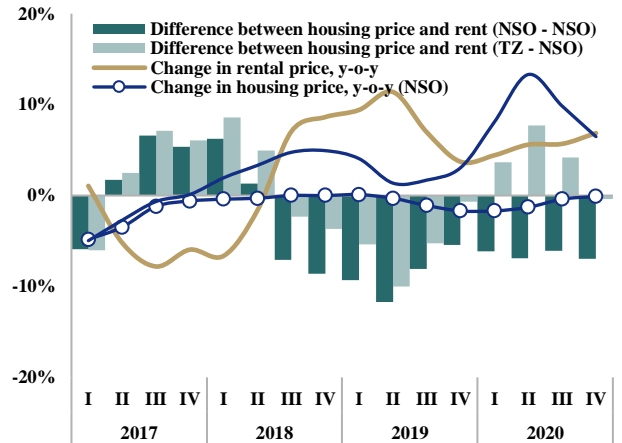
### III.2.4 Capital market

While the housing market activity has remained relatively weak, the key stock market indicators have recovered. In particular, the stock market's TOP-20 index continued to grow and market capitalization reached a record high.

#### Housing market

Figure III.2.4.1

##### Growths in housing prices and rents



Source: NSO, Tenkhleg Zuuch

The housing prices in Ulaanbaatar city, estimated by the NSO, have slightly declined in the fourth quarter of 2020, the housing price decreased by 0.3 percent from previous quarter and by 0.1 percent annually (Figure III.2.4.1). Rental prices of apartments increased by 1.7 percent from previous quarter and 6.9 percent annually (Figure III.2.4.1).

According to the Tenkhleg Zuuch LLC reports, in the fourth quarter of 2020, the housing price index declined by 1.3 percent from previous quarter but increased by 6.5 percent annually. The quarterly decline was mainly attributable to the decline in new housing prices by 4.6 percent (Table III.2.4.1).

The price-to-rent ratios were estimated by the housing prices of both the NSO and the Tenkhleg Zuuch LLC. According to the estimate, the price-to-rent ratio continued to decline in the reporting quarter as housing prices

declined from previous quarters and rental prices rose.

Table III.2.4.1

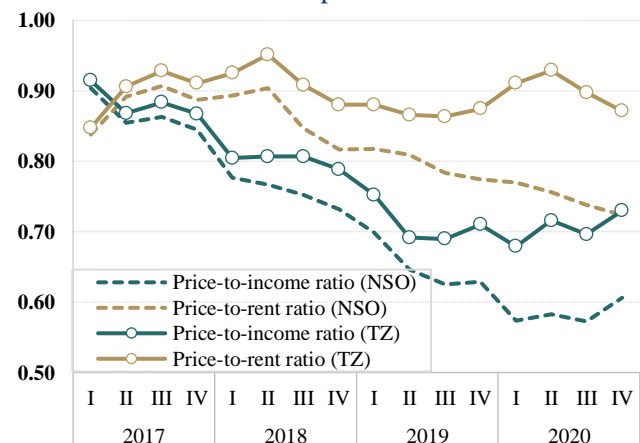
##### Real estate sector indicators

		2020-Q3	2020-Q4
<b>Change in housing price, %</b>			
<i>NSO</i>	q-o-q	0.1	-0.3
	y-o-y	-0.4	-0.1
<i>Tenkhleg Zuuch</i>	q-o-q	-0.9	-1.3
	y-o-y	9.8	6.5
<b>Change in rental price, %</b>			
	q-o-q	2.5	1.7
	y-o-y	5.7	6.9

Source: NSO, Tenkhleg Zuuch

Figure III.2.4.2

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



Source: NSO, Bank of Mongolia

The housing price-to-income ratio increased as average household income decreased by 5.8 percent in the reporting quarter, exceeding the decline in housing prices (Figure III.2.4.2). Moreover, in the fourth quarter of 2020, the number of new mortgage borrowers decreased by 11.0 percent from the previous quarter and by 8.3 percent from that of previous year<sup>20</sup>. These indicators indicate that housing demand was relatively weak in the reporting period.

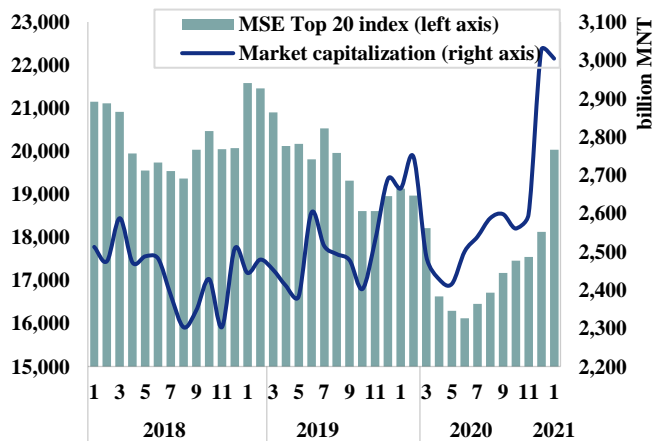
<sup>20</sup> Source: Bank of Mongolia. Including the loans from banks' funds and loans from the program to build a sustainable mortgage financing system

**Stock market**

The stock market has been active in the fourth quarter of 2020, with the TOP-20 index reaching an average of 18,126 points in December, an increase of 12.4 percent from the June 2020 low. The TOP-20 index has continued rising at the beginning of 2021, and as of January, it has increased by 10.5 percent from the previous month's average (Figure III.2.4.3).

Figure III.2.4.3

**Main indicators of the stock market**



Source: Монголын хэрэngийн бирж

The market capitalization in December 2020 increased by 13.6 percent on average from the beginning of the year to MNT 3,027 billion, a record high. In January 2021, the market capitalization decreased slightly to MNT 3,004 billion.

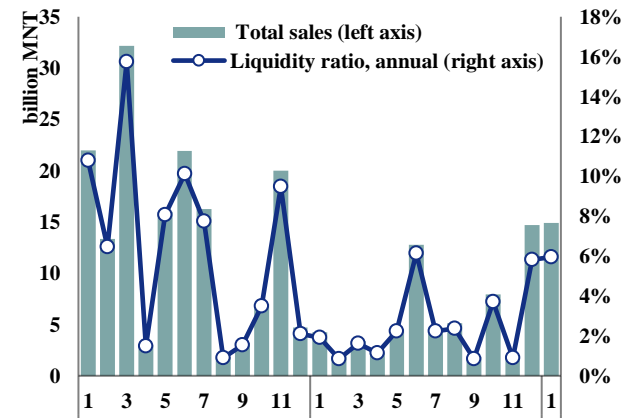
Following reasons have created positive expectations at the stock market and contributed to a boost in market activities. In particular, 1) Newly publicly-traded companies on the MSE presented their annual reports, 2) a total of 25 companies, including “Tumen Shuvuut”, “Lend MN” and “Talkh Chikher”, announced to

distribute dividends in 2021, 3) the amendment to the Banking Law provides the regulatory approval for banks to issue IPOs.

As of January 2021, companies such as “Bulgan Undarga”, “Mongol Alt”, and “Ard Financial Group” led the rise in share prices, while “Olloo” and “Global Mongolia Holding” experienced the biggest declines<sup>21</sup>.

Figure III.2.4.4

**Liquidity ratio**



Source: NSO, Bank of Mongolia

The number of securities traded increased sharply in December 2020, reaching 14.7 billion MNT, with the majority of shares traded on the secondary market. In January 2021, a total of 14.9 billion MNT was traded, with “Bodi Daatgal”, “Ard Credit” and “Lend MN” have led the way in terms of trade value, and “Ard Financial Group”, “Bodi Daatgal” and “Erdene Resources” have led the way in terms of trade volume. With the upturn in stock market activity, the liquidity ratio reached about 6.0 percent, three times higher than the average of the last three months (Figure III.2.4.4).

<sup>21</sup> Source: Market info, www.marketinfo.mn

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

**The consolidated budget in 2020:** According to the preliminary estimates of 2020, the equilibrated budget balance was in a deficit of MNT 4.5 trillion or 12.2 percent of GDP. Compared to the budget amendment, the equilibrated budget revenue fell short by 300 billion MNT, and the total expenditure was under-executed by 600 billion MNT (Table III.3.1).

Table III.3.1

#### Fiscal indicators

billion MNT	2020		2021		2021.01	
	Amend.	Prelim.act.	App.	Act.	%	
<b>Total revenue</b>	<b>10729</b>	<b>10402</b>	<b>13134</b>	<b>711</b>	<b>90.6</b>	
Future heritage fund	943	914	1180	23	47.4	
Stabilization fund	55	66	156	22	208.1	
<b>Equilibrated revenue</b>	<b>9731</b>	<b>9422</b>	<b>11798</b>	<b>666</b>	<b>91.8</b>	
Tax revenue	8847	8502	10754	604	93.7	
Non-tax revenue	884	920	1043	62	77.1	
<b>Total expenditure</b>	<b>14577</b>	<b>13961</b>	<b>13952</b>	<b>785</b>	<b>71.6</b>	
Primary expenditure	13605	13001	12992	752	71.0	
Current expenditure/-interest paym	10178	9912	10052	660	71.3	
Capital expenditure	3408	3052	3498	94	58.0	
Net credit	19	38	-559	-2	5.8	
Interest expenditure	973	959	1138	32	89.2	
<b>Total balance</b>	<b>-3848</b>	<b>-3559</b>	<b>-818</b>	<b>-73</b>		
in percent of GDP	-9.9%	-9.2%	-1.9%	-0.2%		
Total equilibrated balance	-4847	-4539	-2154	-118		
in percent of GDP	-12.5%	-11.7%	-5.1%	-0.3%		
Primary balance	-3874	-3580	-1016	-86		
in percent of GDP	-10.0%	-9.3%	-2.4%	-0.2%		

Source: Ministry of Finance

#### The consolidated budget in January 2021:

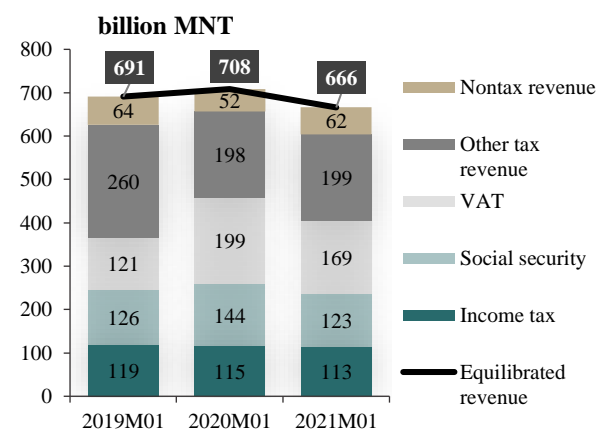
Tax revenue was collected at a rate of 93.7 percent than planned due to the strict curfews continued in the first 10 days of January 2021 and limited economic activity. Expenditures on subsidies and transfers increased by 46 percent year-on-year due to additional government spending on pensions and benefits.

**Total equilibrated revenue:** The total **equilibrated revenue contracted by 1.5 trillion MNT** in 2020 from the previous year due to the nationwide lockdown in most months of the year and subsequent economic slowdown amid the Covid-19 pandemic. Comparing the revenue components to that of previous year:

- Social insurance revenue – **442 billion MNT** ↓
- Income tax – **335 billion MNT** ↓
- Import-related tax revenue – **236 billion MNT** ↓
- Non-tax revenue – **172 billion MNT** ↓

Figure III.3.1

#### Structure of budget revenue



Source: Ministry of Finance

Equilibrated revenue in the first month of 2021 decreased by 6 percent or 42 billion MNT from that of previous year. Revenues from social insurance contributions and VAT revenue decreased by 15 and 15 percent, respectively, while revenues from other groups remained at the same level as in the previous year (Figure III.3.1).

**Total expenditure and net credits:** Total expenditure and net credits **increased by 19.7 percent year-on-year or 2.3 trillion MNT** in 2020 due to the package of fiscal policy measures amid the pandemic. Comparing the expenditure components to that of previous year:

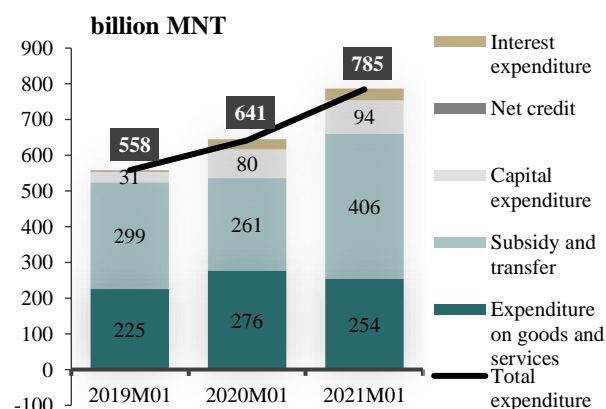
- Subsidies and transfers – **1'670 billion MNT** ↑
- Expenditure on goods and services – **875 billion MNT** ↑
- Capital expenditures – **35 billion MNT** ↑.

Measures to increase social welfare and insurance transfers, such as child benefits, old-age pensions, and welfare pensions, are expected to continue in the first half of 2021.



Figure III.3.2

## Structure of budget expenditure



Source: Ministry of Finance

**Present value of government debt:** The present value of the total government debt to GDP ratio was stated to be at 61.9 percent, which is within the legal limit, for 2021 (Table III.3.2).

Due to the pandemic, the “Law on Suspension and Postponement of Certain Special Budget Requirements” was approved, postponing the debt ceiling special requirement for one year to 70 percent in 2021.

Table III.3.2

## Present value of government debt and debt services

	2018		2019		2020*		2021*	
	Act.	Act.	Act.	Act.	Amend.	Approved	Approved	Approved
Government debt	18956	20526	24064	26141				
in % of GDP	58.9	55.6	62.2	61.9				
<b>Debt limit/GDP</b>	<b>80.0</b>	<b>75.0</b>	<b>70.0</b>	<b>70.0</b>				
Debt service payments	1046	861	973	1138				
in % of budget revenue	11.3	8.0	10.0	9.6				
Budget balance	12	-628	-4847	-2154				
in % of GDP	0.0	-1.7	-12.5	-5.1				

Source: Ministry of Finance, Bank of Mongolia

**Government supports amid pandemic:** In order to reduce the financial burden on citizens during the pandemic, the government is offering the following price reductions and exemptions,

- From December 1, 2020, to July 1, 2021, the government decided to pay utility costs such as electricity, heating, water, and garbage fees for all households and some business entities nationwide to buffer

Covid-19 impact. Related 650 billion MNT is financed by the state-owned Erdenet Mining Corporation.

- The price of processed fuel was discounted by 75 percent to 37.5 thousand MNT per ton and 937 MNT per bag of processed fuel. Related 69 billion MNT is financed by the state-owned Erdenes Tavan Tolgoi.

## IV. EXTERNAL CONDITIONS OF THE ECONOMY

### IV.1 Assumptions regarding the external conditions<sup>22</sup>

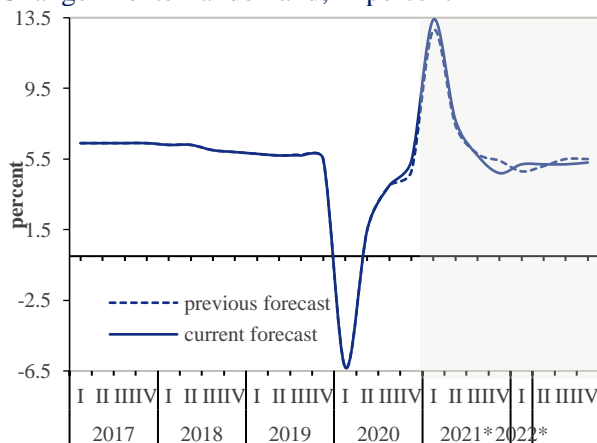
The growth forecast of China is now revised up for 2021 but revised down for 2022 compared to previous forecast. The growth forecasts of the Euro Area and Russia are revised down for 2021 and revised up for 2022 compared to previous forecast.

#### External demand<sup>23</sup>

China's economic growth forecasts range from 7.7 to 8.7 percent for 2021 with an average of 8.3 percent<sup>24</sup>, 0.1 percentage points higher than previous projection. China's economic performance in the fourth quarter of 2020 exceeded expectations growing by 6.5 percent year-on-year, driven by growths in the industry, total investment, and retail trade. China's industrial recovery continued in February 2021, with the manufacturing PMI index reaching 50.9.

Figure IV.1.1

Change in external demand, in percent



Source: Bloomberg, The EIU, Roubini Global Economics

China's service sector recovery continued in February 2021, for the 11<sup>th</sup> consecutive quarters, with the non-manufacturing PMI

<sup>22</sup>Forecasts of economic growth and inflation in main trading partner countries were compiled from external outlook as of February 17, 2020, February 2020 edition of EIU Global Forecasting Report, February 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.

reaching 51.4. Domestic demand and growth are expected to be supported by fiscal and monetary policies since the uncertainties regarding the pandemic linger due to the risk of multiple waves of the Covid-19.

The growth forecast for 2022 is revised down by 0.1 percentage points to an average of 5.4 percent. This is mainly because household consumption growth has not reached pre-pandemic levels and the marginal downward revisions in growths of retail trade and industrial production. Nevertheless, the government's "dual circulation" growth policy over the next five years is expected to support consumption and growth.

Table IV.1.1

Changes in key judgments in the external environment

Changes in key judgments of External environment	
Previous forecast (2021)	Current forecast (2021)
<b>External demand</b>	<b>Projection revised up</b>
The growth forecasts of China and the Euro Area are revised up while the growth forecast of Russia is revised down.	The growth forecasts of China is revised up while the growth forecast of the Euro Area and Russia are revised down.
<b>Terms of Trade</b>	<b>Projection revised up</b>
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.	China's economic activity has improved from previous forecasts, and the COVID-19 vaccination have continued successfully, boosting demand and prices for commodities. Gold price projection, however, is revised down as the the vaccination continues, reducing 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 November 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 March 2021. The Fed funds rate is expected to be kept at around zero until the end of 2022.
<b>Foreign inflation</b>	<b>Projection revised up</b>
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	The global inflation projection is revised up as the outlook of external demand improved due to upward revision in growths of trading partners, and oil price forecast is revised up.

Source: Assumptions from external sources

Russia's economic growth forecasts range from 2.9 to 3.1 percent for 2021 with an

<sup>23</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>24</sup>The average of the forecasts from the IMF, the EIU, the Roubini Global Economics, and Bloomberg as of February 17, 2020.

average of 3.0 percent<sup>25</sup>, 0.1 percentage points lower than previous projection. Despite tightened curfew due to the increasing spread of COVID-19 in Russia in the fourth quarter, the economy contracted by 2.6 percent, above expectations, mainly due to a slowdown in the contraction of industrial production, exports, and imports. Postponement of the implementation of the Russian National infrastructure programs and the fact that despite increasing oil demand, it is still far from arriving at pre-epidemic levels were the main reasons to revise the growth down forecast for 2021. The Bank of Russia decided to keep its key rate at 4.25 percent at its February meeting and is expected to keep it unchanged throughout the year. As the government continues to implement a package of 6.4 trillion rubles approved in 2020 and 2021 to mitigate the adverse impact of the pandemic on the economy, the budget deficit is expected to reach approximately 2.4 percent of GDP<sup>26</sup> this year.

Russia's economic growth for 2022 is forecasted to be within the interval of 2.1 to 2.5 percent, revised up by 0.2 percentage points from previous projection to an average of 2.3 percent. Household consumption forecast is revised up from 2.8 percent to 3.1 percent and total investment forecast is revised up from 4.5 percent to 4.6 percent in the current forecast of 2022. Russia's budget deficit is expected to narrow down to 1.2 percent of GDP in 2022, as some of the tax discounts<sup>27</sup>, which were effective in 2020, expired in January 2021 and budget expenditure is projected to contract by 10 percent in 2021-23. Over the forecast period, crude oil extraction and oil production are expected to continue declining under the OPEC + agreement. The main risk to the

forecast is unfavorable conditions of trade sanctions by the western countries.

The **Euro area's economic growth** for 2021 is forecasted to be within the interval of 4.2 to 4.7 percent, revised down by 1.0 percentage points from previous projection to an average of 4.4 percent. The Euro Area's household income and total investment rose sharply to the positive territory in the last quarter of 2020 and the contraction of industrial production has slowed down, resulting in better-than-expected growth performance in the fourth quarter of 2020. Although vaccinations have begun, and fourth-quarter performance has been better than expected, the growth forecast for 2021 is revised down. The economic recovery is now expected to be sluggish than previously expected due to the persisting risks and uncertainties of multiple waves of the COVID-19 and downward revisions in the growth forecasts of regional industrial production, household consumption, and government consumption.

The growth forecasts for 2022 are within the interval of 3.6 to 4.4 percent, revised up by 0.8 percentage points from previous projection to an average of 4.0 percent. The ECB's negative interest rate policy, unconventional monetary policy and expansionary fiscal policy in key regional economies, the vaccination efforts, and increasing external demand are expected to support the domestic demand and the growth outlook. Moreover, the household consumption forecast is revised up from 3.2 percent to 4.0 percent and the total investment forecast is revised up from 5.0 percent to 5.1 percent in the current forecast of 2022.

<sup>25</sup> The average of the forecasts from the IMF, the EIU, the Roubini Global Economics, and Bloomberg as of February 17, 2020.

<sup>26</sup> While the Russian government estimates the budget deficit to be 2.4 percent of GDP, the EIU expects the budget deficit to be 2.0 percent of GDP.

<sup>27</sup> The tax exemptions in the extractive industries have expired. The income tax rate for individuals earning more than 68,000 USD has been increased from 13 percent to 15 percent.

**Terms of Trade**

Terms of trade, estimated by NSO, has improved by 23.1 percent year-on-year as of January 2021. Export prices grew by 19.4 percent year-on-year while import prices fell by 3.1 percent year-on-year.

The custom prices of copper concentrate, iron ore, and coal increased by 57.9 percent, 66.7 percent, and 5.4 percent, respectively, year-on-year, contributing to the increase in the export price. Conversely, the custom prices of crude oil and cashmere declined by 16.6 percent and 37.6 percent, respectively, year-on-year, dragging the export price down.

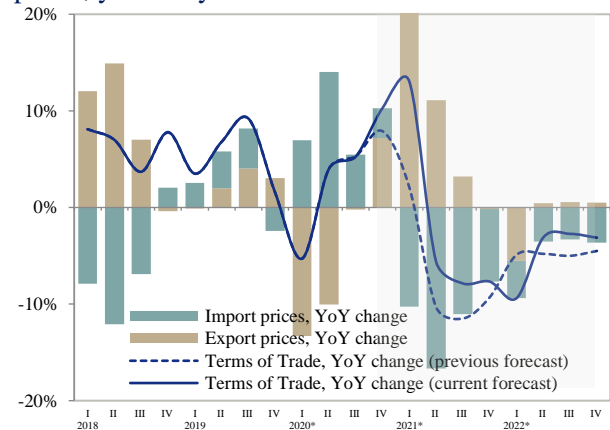
Consumer import price rose 2.6 percent, capital goods import price rose 7.9 percent, and industrial input import price rose 5.1 percent in January 2021 from that of previous year. However, these increases in import prices were prevailed by a decrease of 26.1 percent in import oil price, and consequently, total import prices decreased by 3.1 percent.

**Terms of trade is expected to improve for 2021 than previously forecasted** (Figure IV.1.2). This is mainly driven by upward revisions in export price forecasts of copper, coal, and iron ore. Increasing the demand for commodities in line with the COVID-19 vaccination efforts and the economic recoveries around the world as well as a low supply of copper and iron ore have had a positive effect on prices. The demand and price of coking coal in China have risen as demand for steel and iron ore is increased with the government's strong support for the construction sector. However, the continuation of the vaccination has had a positive effect on market confidence, leading to a decline in gold prices.

In 2022, prices of copper, coal, iron ore, and oil are expected to increase while gold price is expected to decline. The terms of trade is revised up for 2022 as a result of a rise in export prices.

Figure IV.1.2

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

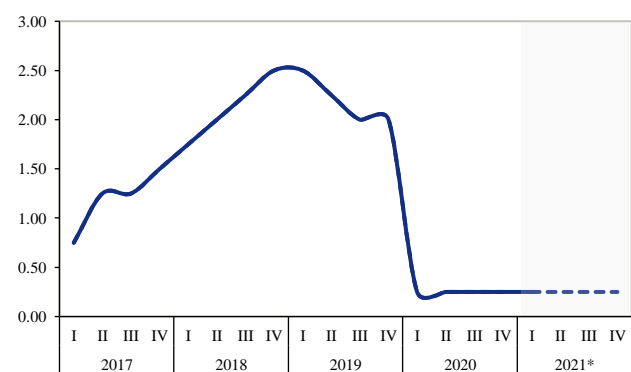


Source: BOM estimate

**Foreign interest rate:** In March 2021, the Fed's FOMC decided to keep the Fed funds rate on 0.0-0.25 percent while continuing an asset purchase program in which the central bank buys at least 120 billion USD of bonds a month. The Fed forecasts the economy to grow by 6.5 percent this year.

Figure IV.3.5

The Federal funds rate, percent



Source: Bloomberg

The Fed intends to keep the policy rate at near zero percent until long-term full employment and the inflation target of 2 percent are met and economic activity reaches pre-crisis levels. The government support package of 1.9 trillion USD to mitigate the adverse impact of the COVID-19, approved in March 2021, is expected to support economic growth.

**Global inflation** outlook is revised down. Inflation forecast in China is revised down from 2.5 percent to 1.6 percent for 2021

according to a forecast average of Bloomberg and the EIU. This is mainly attributable to domestic demand remaining below the normal levels and the recovery of pork supply, which had declined due to swine flu.

Inflation forecast in Russia is revised up marginally from 3.9 to 4.0 percent for 2021 according to a forecast average of Bloomberg and the EIU. The contributors are the expansionary monetary policy and recovery in domestic demand. Inflation rose to 5.7 percent in February 2021 from a year earlier, induced by increased domestic economic activity. However, inflation is expected to ease from the February level as the sharp economic recovery observed at the beginning of the year has gradually stabilized and the ruble appreciates above the 2020 level.

Inflation outlook in the United States is revised up from 1.8 percent to 2.0 percent for 2021 according to a forecast average of Bloomberg, and the EIU. This is attributable to an unemployment rate that is projected to decrease to 6.0 percent in 2021, an expected increase in oil prices, a recovery in domestic demand, the expansionary monetary policy of the Fed, and the approval of government package to support the economy.

Inflation outlook in the Euro Area is revised up from 0.8 percent to 1.1 percent for 2021 according to a forecast average of Bloomberg, and the Roubini Global Economics. This is primarily caused by increased oil price forecasts, offset in part by the downward revision of the forecasts of regional economic activity and domestic demand.

### Uncertainties in the external conditions

The emergence of 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 variations of the virus and the responses of

reimposing strict curfews could drag the prospects of global economic activity down. Moreover, the geopolitical risks of escalating trade disputes and unfavorable relations between the United States and China remain uncertain.

### IV.2 Commodity prices at the global market

*Demand and prices for commodities are revised up as the COVID-19 vaccination has continued worldwide and the global economic recovery has been faster than expected. However, the gold price forecast is revised down due to less uncertainty.*

**Copper price:** The average price of copper per ton was 7972 USD at the London Metal Exchange in January 2021 and rose to 8436 USD in February 2021. The continued recovery in China's industrial production and economic activity, the US government approval of the additional USD 1.9 trillion budget to support the economy, and the continued COVID-19 vaccination worldwide followed by economic recoveries have improved the market sentiment, pushing the copper price up. Moreover, the spread of COVID-19 has persisted in major copper producers such as Peru and Chile, and the possibility of the next wave leading to a supply shortfall in 2021 has contributed to the price increase. Copper prices are revised up to 7702 USD per ton (annual average) in 2021 and 7923 USD per ton in 2022, according to forecasts by Bloomberg, the Roubini Global Economics, and the BREE. Some risks could cut down the metal demand such as further escalation of trade disputes between the United States and China, the increasing outbreaks of COVID-19 rendering more waves of the pandemic.

**Gold price:** Gold price averaged 1847 USD per ounce in January 2021 and fell to an average of 1734 USD per ounce in February 2021. The gold price has dropped as COVID-19 vaccination has speeded up and uncertainties have eased. Nevertheless, the gold price, considered a risk-free investment,

remains elevated with the lingering uncertainty in the global economy, increasing spread of the pandemic, risk of further waves of the pandemic, and risk of escalating trade disputes. The gold price is revised down to 1737 USD per ounce in 2021 (annual average) and 1666 USD per ounce in 2022, according to forecasts by Bloomberg, the Roubini Global Economics, and the BREE.

**Coking coal price:** The price of coking coal reached 130 USD per ton in February 2021. The price increase was induced by the increase in China's domestic coal production, especially the Inner Mongolia production rose by 25 percent year-on-year to 95.3 million tons in January 2021, and an increase in reserves at major power plants. Both demand and production of coking coal are expected to increase in the near term as demand for steel and iron ore is expected to increase with the Chinese government's intensive support for the construction sector. As coking coal is mainly used in the manufacturing sector, the risk of escalating trade disputes between the United States and China and the uncertainty in the global economy could drag the growth forecasts of China's real sector and steel industry for 2021, steering the coking coal demand down. The coking coal price is revised up to 141 USD per ton on average in 2021 and 148 USD per ton in 2022, according to forecasts by the BREE, KPMG, and Bloomberg.

**Iron ore price:** The price of iron ore averaged 159 USD per ton in February 2021. As a result of the Chinese government's intensive support for the construction sector, steel production in major cities has increased and demand and price for iron ore have increased substantially. On the supply side, due to the spread of COVID-19 in Brazil, the Vale mine has been operating below its capacity, contributing to the increase in price for iron ore. The price forecast is revised up for 2021-22 due to the possibility of a supply shortage and a relatively stable

demand outlook for iron ore. The Iron ore price forecast is expected to an average of 126 USD per ton in 2021 and 87 USD per ton in 2022, according to forecasts by Bloomberg and the BREE.

**Crude oil price:** A barrel of Brent oil was sold at an average of 56 USD in January 2021 and rose to 66 USD in February 2021. Oil prices rose as the COVID-19 vaccination has continued globally, the US oil reserves have declined, and the OPEC+ is expected to keep the oil production low. Oil prices are expected not to hike drastically since global oil demand is expected to gradually arrive at its pre-pandemic levels by 2023, according to the International Energy Agency. The oil price forecast is revised up to an average of 54 USD per barrel in 2021 and 56 USD per barrel in 2022, according to forecasts by Bloomberg, the EIU, and the BREE.

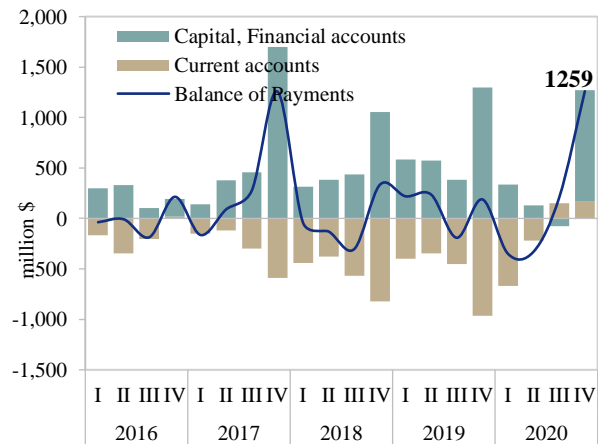
### IV.3 Balance of payments

In the fourth quarter of 2020, the balance of payments of Mongolia was in a surplus of 1259 million USD or 9.6 percent of GDP<sup>28</sup>, which is an improvement of 1071 million USD year-on-year. Consequently, the annual balance of payments was in a surplus of 787 million USD in 2020.

The current account surplus reached 165.4 million USD as exports have recovered, imports have contracted, and the income account deficit has narrowed. Despite the decline in FDI inflow, increased foreign loan disbursement and inflow of other investments have rendered the financial account surplus of 1070 million USD, reinforcing the balance of payments.

Figure IV.3.1

The balance of payments was in a surplus in the fourth quarter as financial account surplus increased.



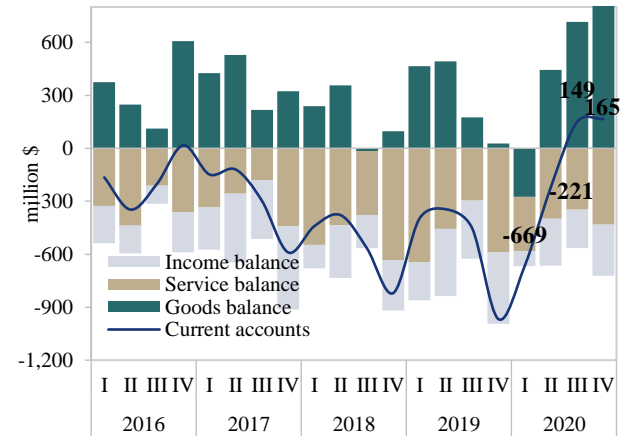
Source: Bank of Mongolia

**The current account balance** was in a surplus for the past 2 quarters. In the reporting quarter, the current account surplus was 165.4 million USD (1.3% of GDP), an improvement of 1132 million USD year-on-year. This was primarily induced by an increase in export revenue of 756 million USD from that of previous year, a decrease in imports of 163 million USD driven by weak economic activity, and narrowing of services account deficit by 157 million USD

and income account deficit by 116 million USD. The current account deficit was equivalent to 15.4 percent of GDP in 2019 and declined to 4.4 percent in 2020 (Figure IV.3.3).

Figure IV.3.2

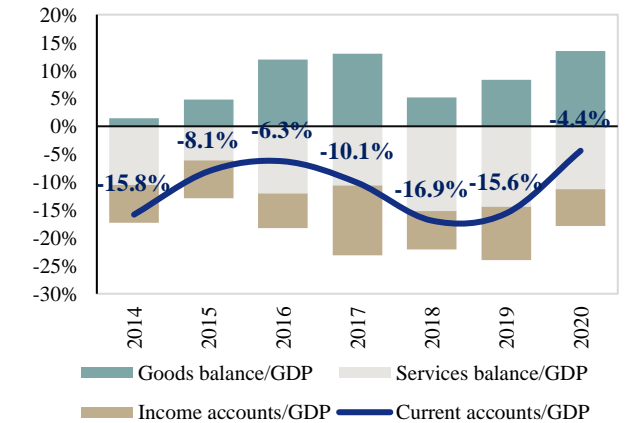
Exports have increased, imports have contracted, and deficits in the services and income account have narrowed.



Source: Bank of Mongolia

Figure IV.3.3

The current account deficit has narrowed.



Source: Bank of Mongolia

**Goods' balance** was in a surplus of 886.4 million USD in the fourth quarter of 2020. Export revenue increased by 756 million USD or 4515 percent year-on-year (Table IV.3.2). Gold and copper concentrate exports mainly contributed to the increase in exports in the reporting quarter.

<sup>28</sup> 4-quarter cumulative nominal GDP.

Table IV.3.2

Non-monetarized gold and copper concentrate exports mainly contributed to the increase in exports.

	2019 IV	2020 IV	YoY change	Contri- bution %
<b>Total exports</b>	<b>1,674</b>	<b>2,429</b>	<b>45.1%</b>	<b>45.1%</b>
Non-monetarized gold	74	622	738.5%	32.7%
Copper concentrate	375	612	63.2%	14.2%
Silver	-	25	-	1.5%
Cashmere	17	40	134.0%	1.4%
Iron ore	154	176	14.4%	1.3%
Coal	640	648	1.3%	0.5%
Zinc ores and concentrates	44	43	-1.0%	0.0%
Fluorspar, leucite, nepheline	50	41	-18.6%	-0.6%
Meat, meat products	63	53	-15.8%	-0.6%
Machinery, equipment	32	13	-59.7%	-1.1%
Crude oil	95	65	-31.6%	-1.8%
Others <sup>29</sup>	131	93	-36.6%	-2.3%

Source: Mongolian customs, Bank of Mongolia

As the gold prices remained elevated at the global market, the Bank of Mongolia exported 10.2 tons of gold from the gold it purchased this year and a portion of monetized gold, accumulated in previous two years, contributing 32.7 percentage points to total exports. The increase in the gold content of Oyu Tolgoi copper concentrate by 2.6 times from that of previous year and the increase in the volume and price of copper concentrate exports have resulted in higher copper export revenue. Cashmere exports, which declined sharply in the third quarter of 2020, increased 2.3 times in the fourth quarter from that of previous year, increasing total exports by 1.4 percentage points. Iron ore prices remained elevated and export transportation resumed normally, increasing total exports by 1.3 percentage points. Although coal exports increased in October and November thanks to the “Green Gateway” arrangement, China has reduced its coal imports in December, fourth-quarter coal exports remained at the same level as in the previous year.

**Imports** contracted by 163 million USD or 10.7 percent year-on-year in the fourth quarter of 2020. In November 2020, all import components, except for consumer import, contracted from that of the previous year due to

a sharp decline in domestic demand and economic activity induced by the local outbreaks of COVID-19 and the tight curfew. In particular, imports of investment products decreased by 18.9 percent, contributing to -8.2 percentage points of import decline in the reporting quarter. As world oil prices remained low, import payments of petroleum products fell.

Table IV.3.3

Imports of fuels and capital goods declined sharply.

	2019 IV	2020 IV	YoY change	Contri- bution%
<b>Total imports</b>	<b>1,529</b>	<b>1,366</b>	<b>-10.7%</b>	<b>-10.7%</b>
Consumer goods	400	433	8.1%	2.1%
Of which: Non-durables	238	249	4.5%	0.7%
Durables	162	184	13.4%	1.4%
Capital goods	662	537	-18.9%	-8.2%
Fuels	308	234	-24.1%	-4.8%
Of which: Diesel	162	128	-21.0%	-2.2%
Other fuels	146	106	-27.5%	-2.6%
Industrial inputs	158	151	-4.0%	-0.4%
Others	1	11	882%	0.7%

Source: Mongolian customs, Bank of Mongolia

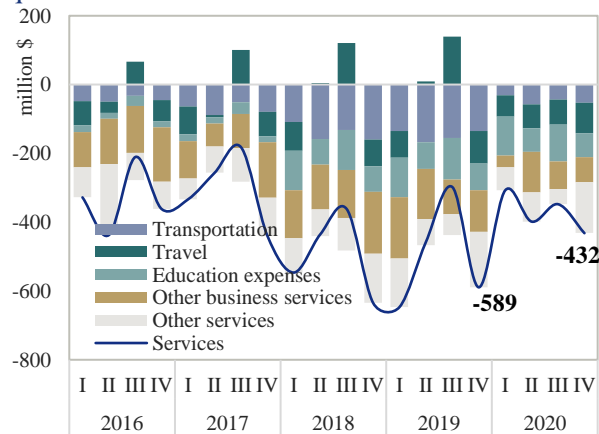
In the fourth quarter, **services account** deficit narrowed by 157 million USD or 26.7 percent year-on-year, reaching -432 million USD. Tightening of the curfew and weakening of economic activity have reduced the cost of all types of services, including transportation, travel, business, and other services. However, the country's borders remained closed in the reporting quarter, and the decrease in travel revenue has primarily contributed to a widening of the service account deficit.

<sup>29</sup> Other export changes are mainly explained by declining exports of livestock and other mining exports.



Figure IV.3.4

Services account deficit has narrowed in the fourth quarter of 2020.

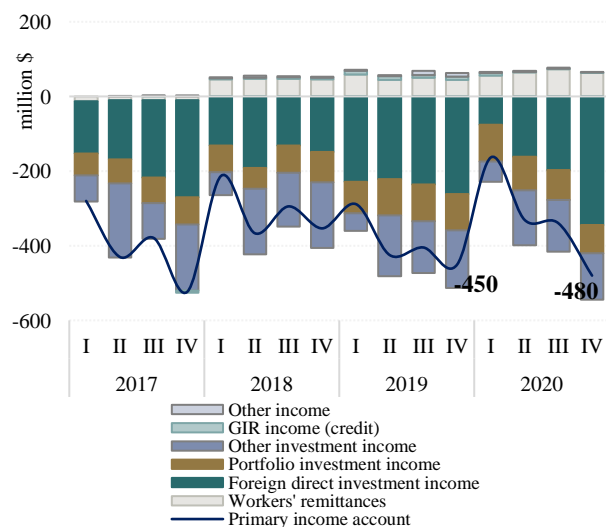


Source: Bank of Mongolia

The income account was in a deficit of 480 million USD in the fourth quarter of 2020, an increase of 30 million USD or 6.6 percent year-on-year. This was mainly driven by the increased outflow of FDI income by 38.5 million USD or 7.6 percent year-on-year. In particular, because of increased profitability of Oyu Tolgoi LLC, the outflow of reinvestment earnings increased by 52.7 million USD from that of previous year, reaching 116.8 million USD. Moreover, the net outflow of dividends increased by 26.5 million USD.

Figure IV.3.5

The income account deficit has widened.



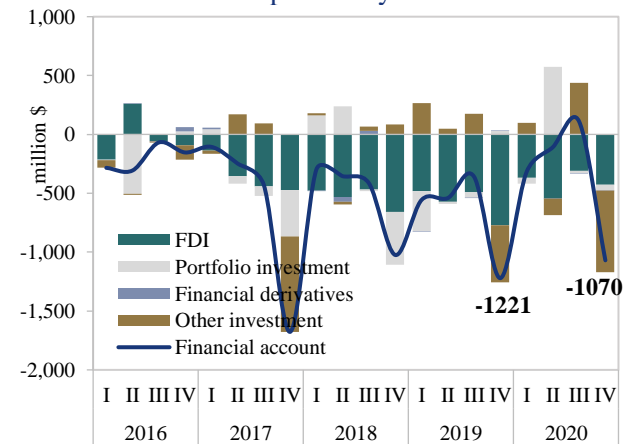
Source: Bank of Mongolia

The financial account was in a surplus of 1070 million USD in the fourth quarter of 2020, a decrease of USD 151.3 million USD or 12.4

percent year-on-year. This In particular, FDI flows declined by 343.2 million USD and net portfolio investment inflows declined by 20.3 million USD. On the other hand, net other investment inflows increased by 206 million USD from that of previous year.

Figure IV.3.6

In the fourth quarter, the financial account surplus declined from that of previous year.



Source: Bank of Mongolia

In the reporting period, the net inflow of FDI of Oyu Tolgoi and other enterprises declined by 458.2 million USD or 2.5 times year-on-year, reaching 296 million USD while principal payments of enterprises increased by about 27 million USD or 48.4 percent year-on-year, reaching 82.5 million USD. Moreover, net inflow of the reinvestment earnings increased by 52.7 million USD or 82 percent year-on-year, reaching 116.8 million USD due to the increased profitability of Oyu Tolgoi LLC in the reporting quarter.

The portfolio investment net outflow increased by 20.3 million USD from that of previous year, reaching 50.4 million USD due to the change in accrual interest rate on private sector bonds.

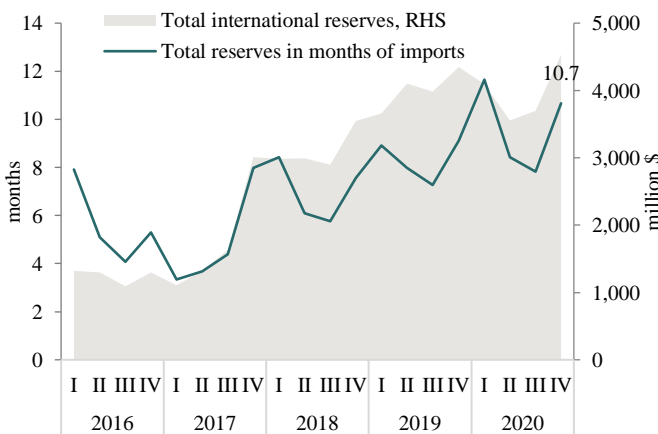
The other investment net inflow increased by 206.4 from that of previous year, reaching 691.8 in the reporting quarter. Net long-term external borrowing of the government increased by 234 million USD or 80 percent from that of previous year to 526.4 million USD. Moreover, the net outflow of external

borrowing of other sectors decreased by 35.4 million USD or 40 percent from that of previous year to 52.5 million USD.

**Gross international reserves** increased by 185.6 million USD from the beginning of the year, reaching 4534.2 million USD at the end of 2020. This is an adequate level to cover 10.7 months of imports, calculated as an average of the last three months' import payment made in hard currency (Figure IV.3.7). An increase of 185.6 million USD of gross international reserves was induced by the balance of payments surplus of 787 million USD in 2020, offset in part by a decline in monetized gold reserves by 624 million USD due to gold exports. The gross international reserves stand at 4412.5 million USD at the end of February 2021.

Figure IV.3.7

Gross international reserve stands at a level to cover 10.7 months of imports.



Source: Bank of Mongolia

Table IV.3.1

Changes in Key assumptions of BOP projection for 2021

Previous forecast (2021)	Current forecast (2021)
<b>Exports</b>	<b>Projection revised up.</b>
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↓.	Oyu Tolgoi's gold concentrate in the copper ore is expected to increase further. Coal export is expected to reach 36 million tonnes. This year, the BoM will keep the gold reserves unchanged and export all the gold purchased. <b>Price projections</b> ↑: Copper, coal, crude oil, iron ore price↑, Gold price↓.
<b>Imports</b>	<b>Projection revised up.</b>
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↑	Oyu Tolgoi FDI projection ↓ → Imports of investment goods↓, Despite the local spread of Covid-19, due to the loosening of curfew, Economic activity ↑ → consumer imports ↑, Coal production, export ↑, oil price ↑ → fuel imports ↑
<b>Services</b>	<b>Projection unchanged</b>
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 ↓	Ковид-19 → Улсын хил хаасан → аяллын орлого энэ онд орж ирэхгүй гэж үзэв. Нүүрсний экспорт, импорт ↑ → тээврийн зардал ↑. Эдийн засгийн идэвхжил ↑ → бусад үйлчилгээний зардал↑, ОТ-н ГШХО↓ → тээвэр, бизнесийн үйлчилгээний зардал ↓
<b>FDI</b>	<b>Projection revised down.</b>
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.	Oyu Tolgoi FDI is expected to decline by 370 million USD from previously expected. FDI related to the oil processing plant is expected to increase. Covid-19 → With the exception of OT, private direct foreign investment will not recover much.
<b>Portfolio investments</b>	<b>Projection revised up marginally.</b>
The Mongolian government will pay the remaining Mazaalai bond principal of about 140 million USD.	The Mongolian government will pay the remaining Mazaalai bond principal of about 140 million USD. In February 2021, MIK HFC raised 250 million USD in bonds on the international market and refinanced part of the principal amount of the Oelun bond, which is scheduled to be repaid in 2022.
<b>Other investments</b>	<b>Projection revised down.</b>
The planned amount of government donor funding has increased from previous forecast. Outflows of currency and deposit accounts increased in Q3.	The planned amount of government donor funding ↓, External borrowing plans by the government, banks, and private sector are revised down.

Source: Bank of Mongolia



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