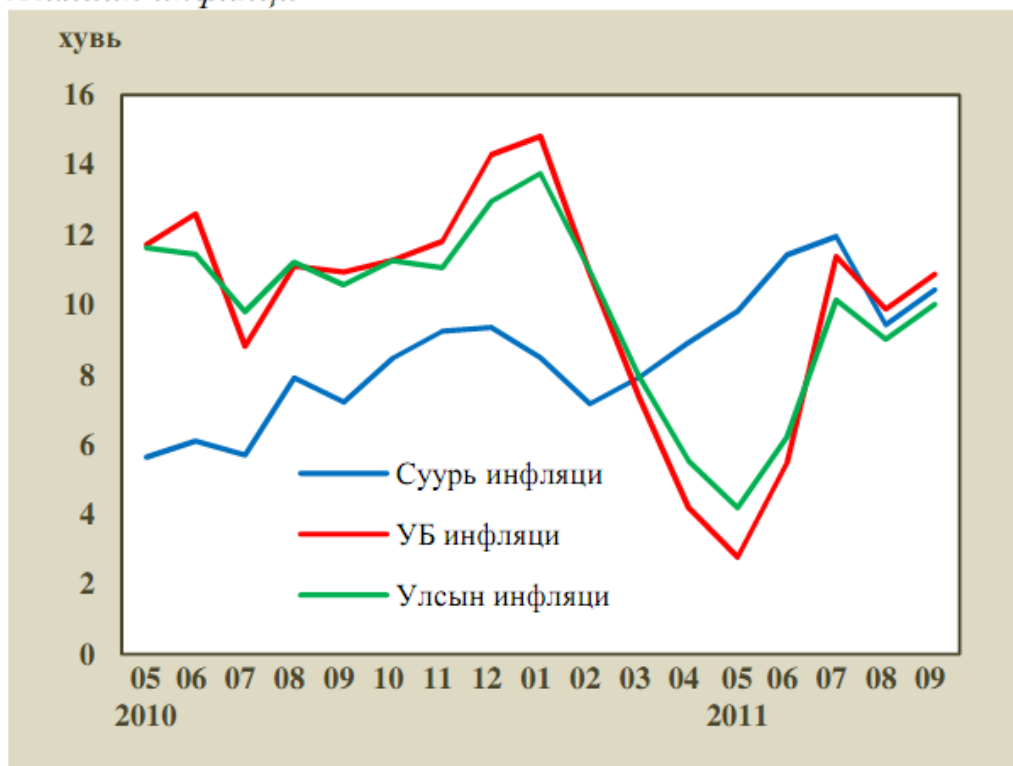


ACCORDING TO BANK OF MONGOLIA SEPTEMBER 2011 MONETARY BULLETIN,

## INFLATION

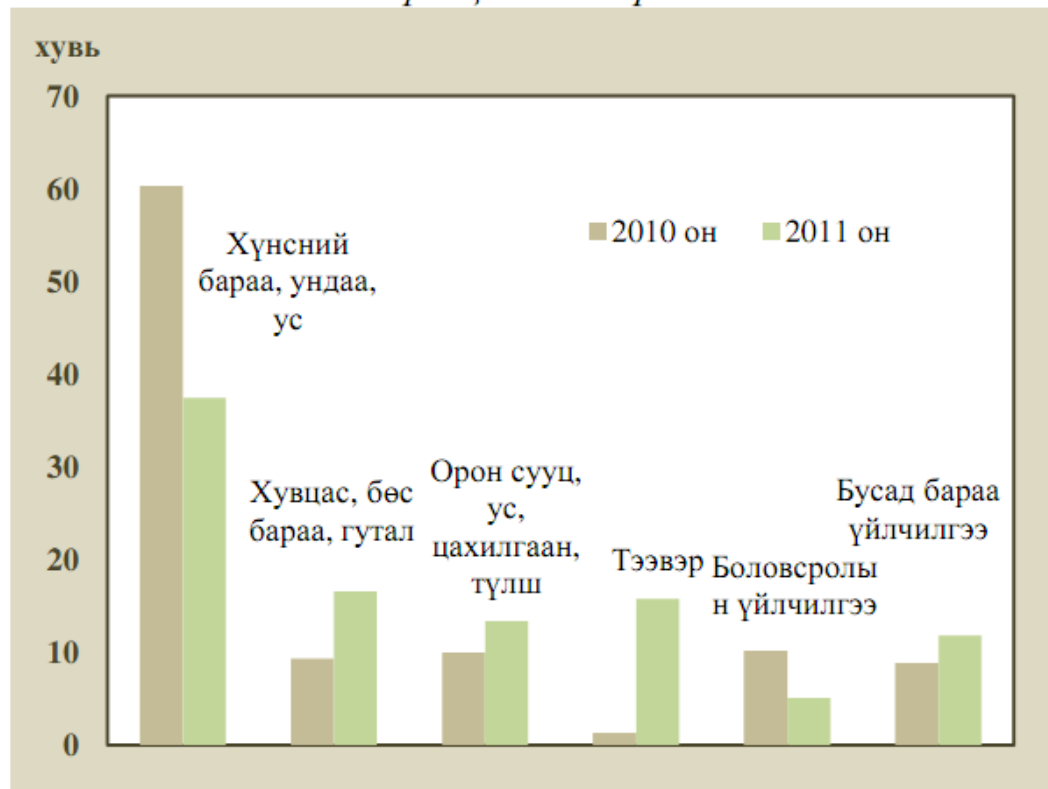
National CPI grew in September 2011 10.5%, UB CPI grew 11.9% yoy. Monthly national inflation was 0.6% and UB's was 0.4. Goods and products with high price volatility such as meat, milk and vegetables were deducted from basket and base inflation was calculated. Base inflation is monthly 1.4% and 10.5% yoy.

### Жилийн инфляци



Annual inflation chart legend:  
 Blue line – base inflation  
 Redline- UB inflation  
 Greenline- National Inflation

### УБ хотын жилийн инфляцийн задаргаа



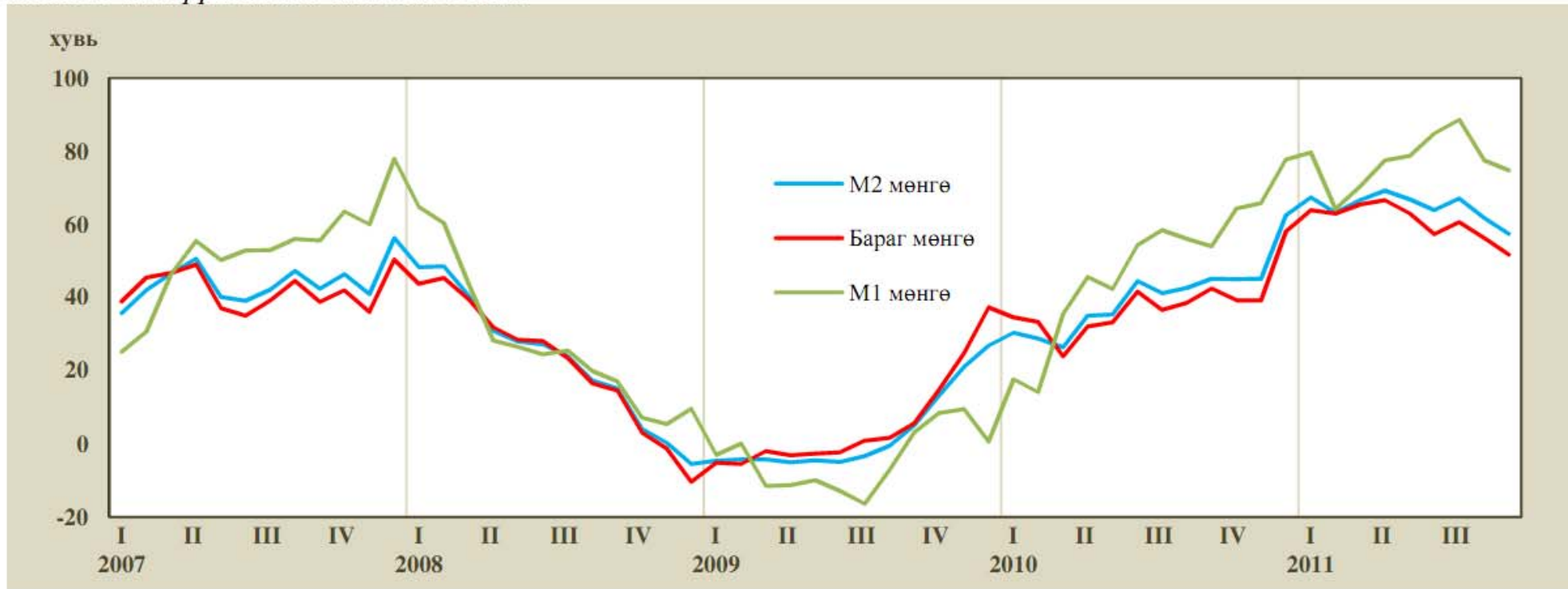
*Legend of breakdown of annual UB inflation*  
 (grey column – 2010, light green column – 2011, vertical axis – per cent  
 Columns from left to right,

- Food stuffs, beverages, water
- Clothes, textile goods, shoes
- Residences, water, electricity, fuel
- Transportation
- Tuition
- Other goods and services

## MONEY SUPPLY

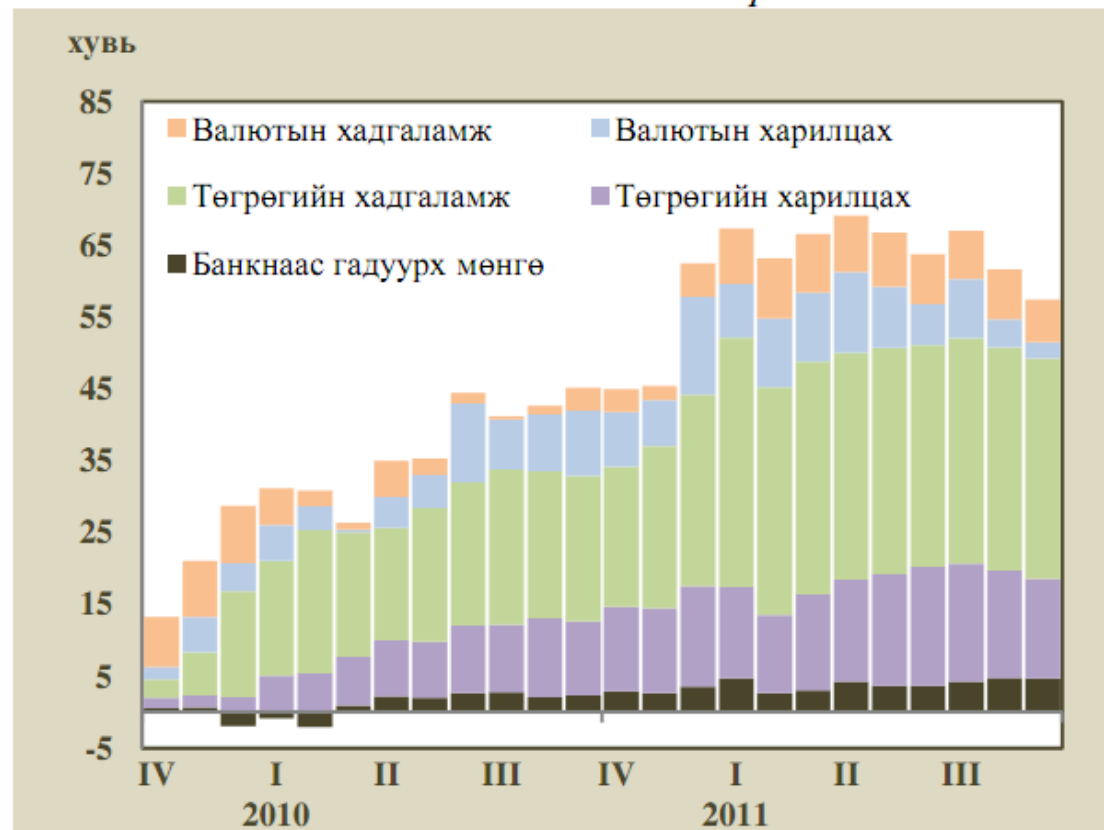
Money supply increased mom 2.5%, 29.6% YTD and 57.4% yoy and reached 6 trillion MNT (4.67B USD)

### *Мөнгөний нийлүүлэлтийн жилийн өсөлт*



*Legend of money supply annual growth*  
(vertical axis – per cent, blue line - M2, red line – quasi money, greenline – M1)

### Нийт мөнгөний жилийн өсөлтийн задаргаа



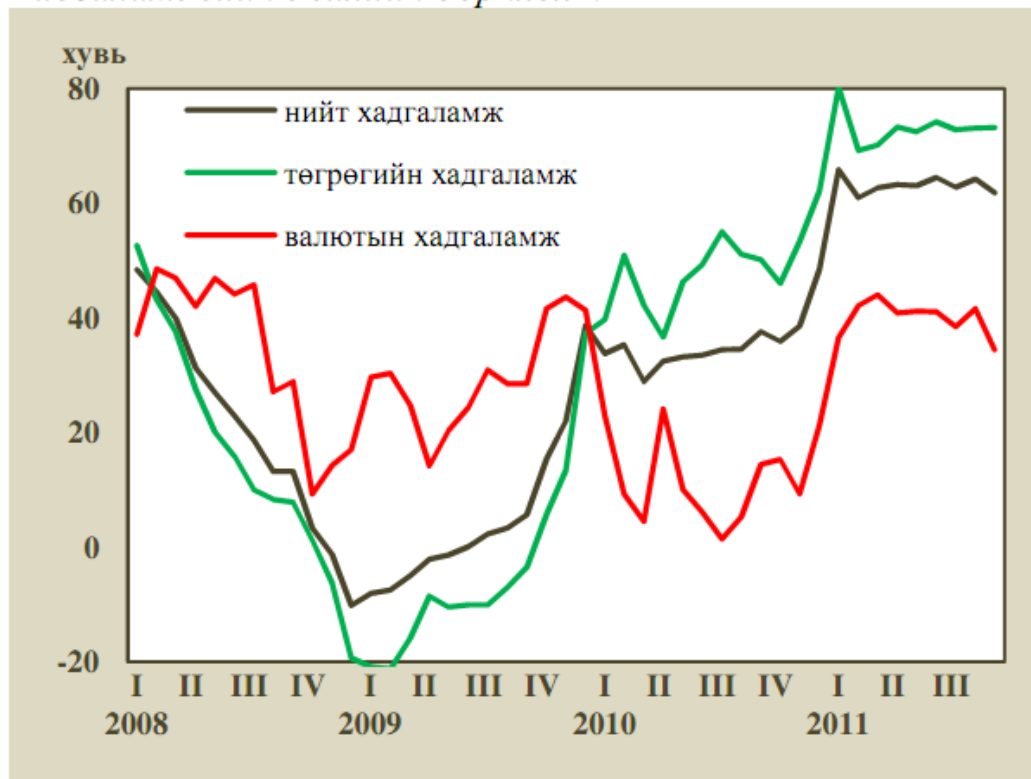
*Legend of chart of breakdown of total annual money growth  
(vertical axis – per cent,*

- Orange column – currency savings
- Blue column - currency current accounts
- Green column – MNT savings
- Violet column – MNT current accounts
- Black column – money outside the banks)

## SAVINGS

Total savings grew 3.6% mom and 61.9% yoy and reached 3.6 trillion MNT(2.8B USD) 75.7% of total savings are in MNT and 24.3% is in foreign currency.

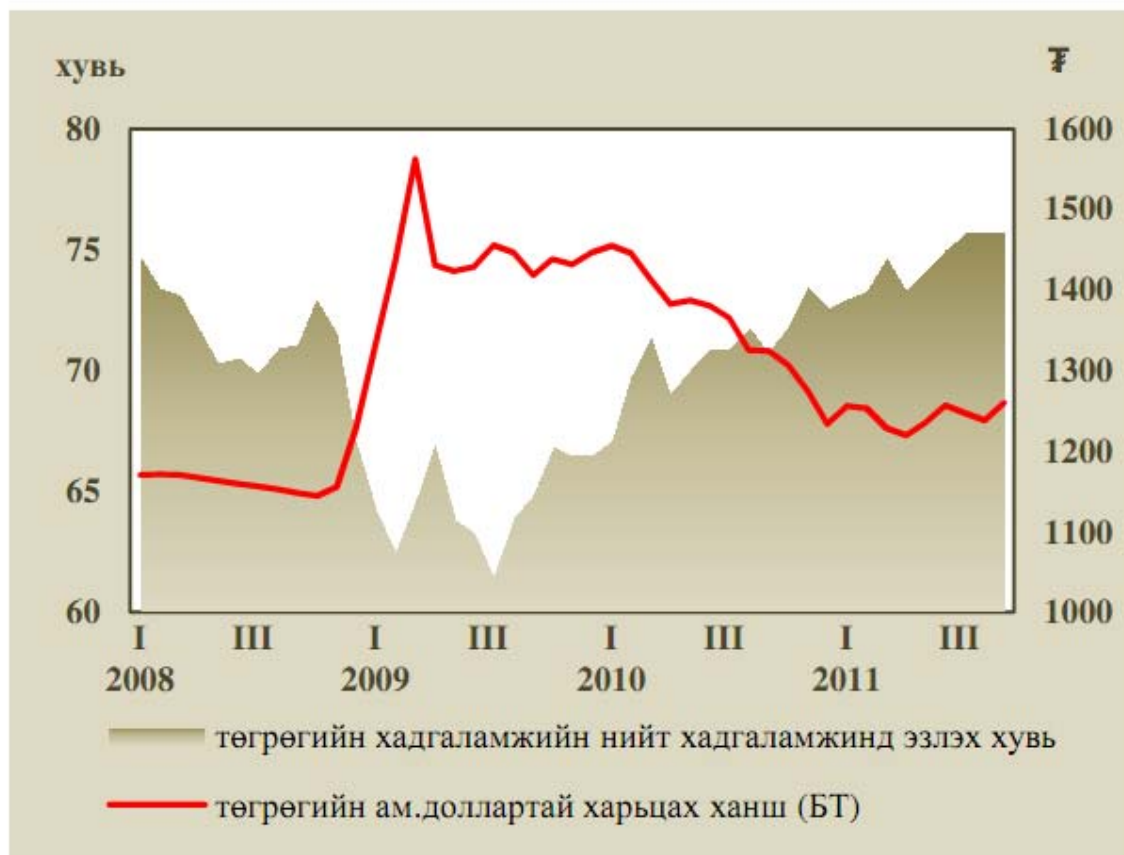
### Хадгаламжийн жилийн өөрчлөлт



*Legend of annual changes in savings chart*

(vertical axis – per cent)

- Black line – total savings
- Green line – MNT savings
- Red line- foreign currency savings)



*Chart legend*

(left vertical axis – per cent, red vertical axis – MNT

Grey area – percentage of MNT savings in total savings  
 Redline- MNT/USD exchange rate)

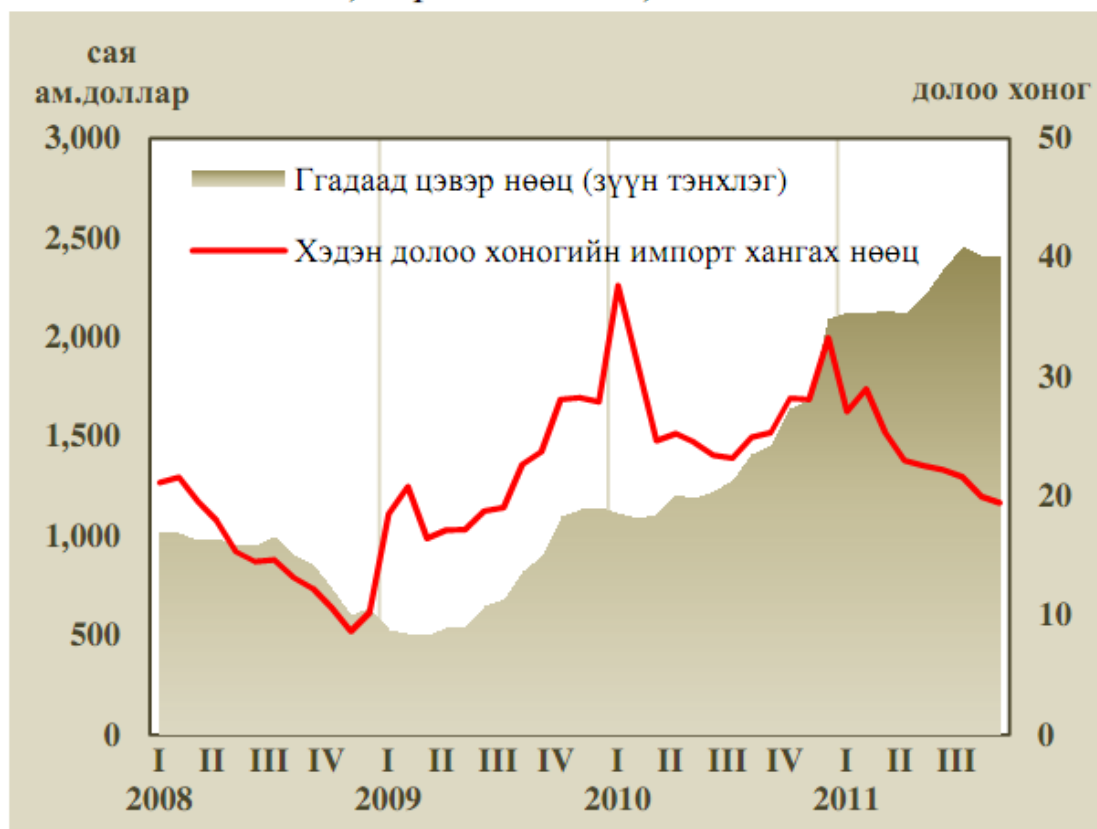
## RESERVE MONEY

Reserve money increased 8.5% mom and 79.7% yoy and reached 1.39 trillion MNT (1B USD)

## FOREIGN AND DOMESTIC NET ASSETS

Foreign net assets increased 44.8% yoy and reached 3 trillion MNT(2.34B USD), domestic net assets increased 72.5% yoy and reached 3 trillion MNT(2.32B USD) . Official foreign exchange reserves that constitute majority of foreign net assets increased 64.9% yoy and reached 2.4B USD. From viewpoint of location of money supply, 50.1% of total money is in foreign net assets, 49.9% is in domestic net assets.

### Гадаад валютын цэвэр албан нөөц



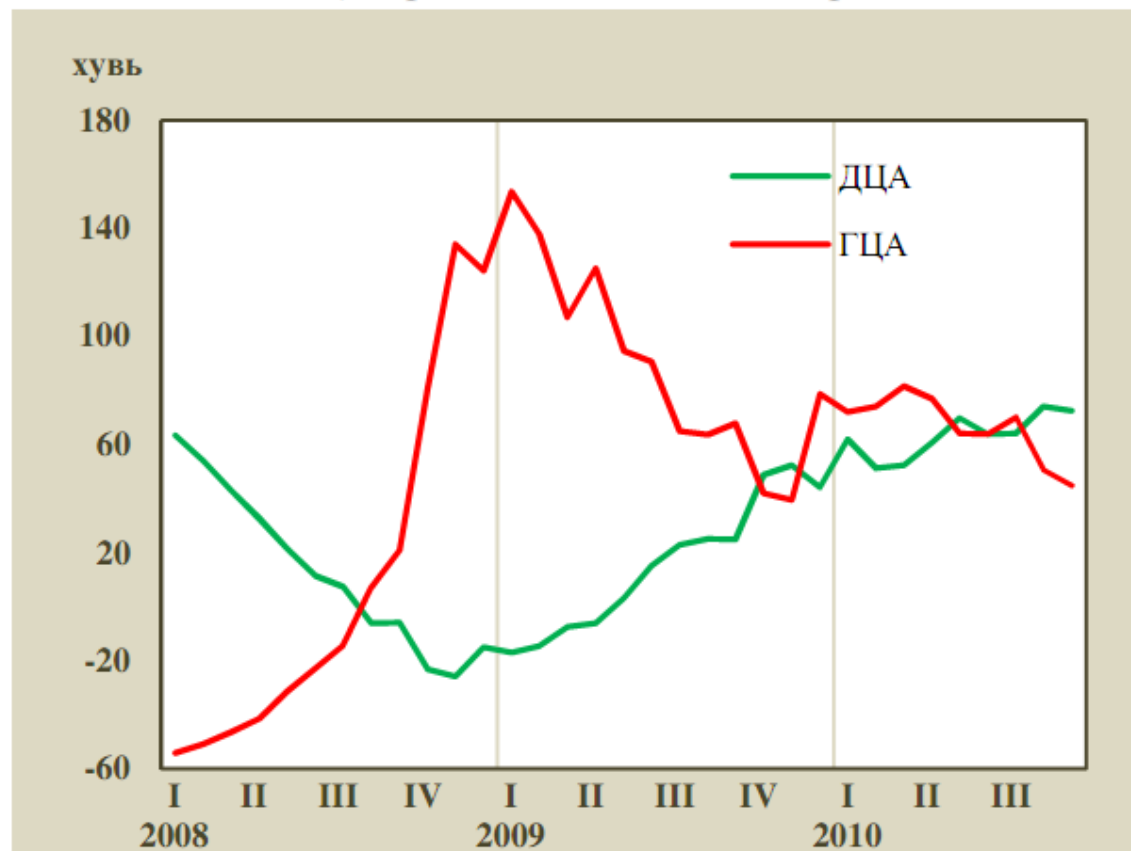
*Legend of official foreign currency reserves chart*

(left vertical axis, millions of dollars, right vertical axis- weeks)

Grey area – official net foreign reserves (left axis)

Redline – reserves to satisfy how many weeks of import)

*Гадаад, дотоод цэвэр активын жилийн өөрчлөлт*



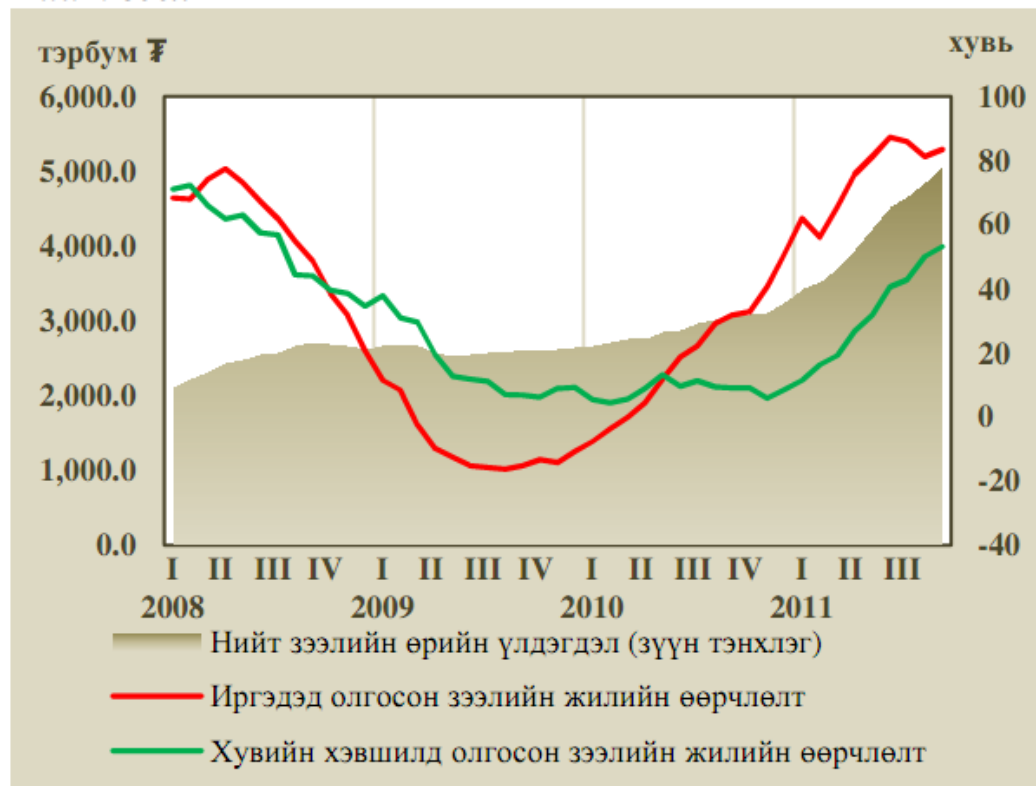
*Legend of chart of annual changes of foreign and domestic net assets  
(green line – domestic net assets, red line – foreign net assets,  
Vertical axis – per cent)*



## LOANS

Loans increased yoy 64% and reached 5 trillion MNT(3.89 billion USD). 91.7% of total loan balance are normal loans, 1.2% are past due loans, 7.1% is NPL.

### Нийт зээл

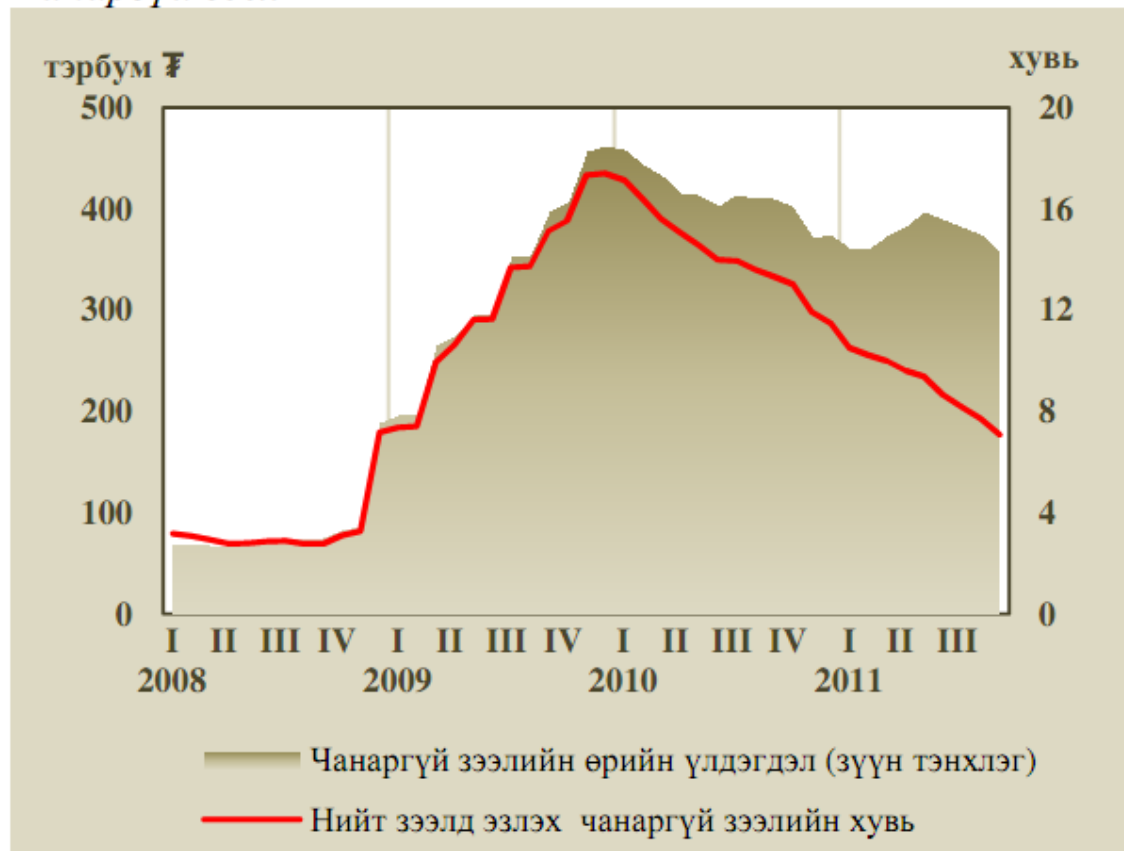


#### Legend of total loans chart

(Left axis – billions MNT, right axis- per cent

- Grey area- balance of total loans (left axis)
- Red line – annual changes in loans to citizens
- Green line – annual changes in loans to private sector

### Чанаргүй зээл



*Legend of chart on bad loans*  
 (left axis – billions of MNT, right axis – per cent)

- Grey area – balance of bad loans, left axis
- Red line – per cent of bad loans compared to total loans

## INTEREST

Weighted average interest of securities of Central Bank have increased in September 0.8% yoy and reached 11.77% . Weighted average interest for MNT loans declined 3.3 points and became 16.1%. Weighted average interest of foreign currency loans declined 2 points and became 12.1%. Weighted average interest on MNT savings declined by 1.6 points and became 10.2%. Weighted average interest of foreign currency savings declined by 1 point and become 4.7%.

### Conclusion:

- The economy is overheating. Inflation is already high and likely to rise further
- Inflation erodes the ability of Mongolia's private sector to operate effectively.
- monetary policy is not tightened
- The policy interest rate is close to the pace of increase of underlying inflation
- There is very rapid pace of credit growth
- Too fast rise of credit growth might bring future credit quality problems in the banking system
- since real interest rates on local currency deposits are currently closer to zero because of rising inflation, the attractiveness of local currency deposits must stem because it is the most accessible investment for public
- Nominal interest rates on US\$ deposits are high by international standards: for certain time deposits they are as high as 14 percent, for example, according to NSO, annual interest rate for Transport and Development Bank is 14.4% for USD term deposit. Such high rates are a cause for concern, as they may reflect liquidity problems rather than an unusually high profitability of project lending.

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### **About Frontier Securities**

Frontier Securities, based in Ulaanbaatar, Mongolia is a Mongolia's pioneer boutique international investment bank with a seat on Mongolian Stock Exchange working to provide clients with best of both worlds: investment bank with on-the-ground presence and expertise in frontier markets with full cross border service capabilities and international financial markets experience/know-how with particular strengths in Asian financial markets of Hong Kong, Tokyo and Singapore. Information about the firm is available at [www.frontier.mn](http://www.frontier.mn).

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