



Mongolia Quarterly Economic Update

World Bank

July 2010



The World Bank's *Mongolia Monthly Economic Update* provides an update on recent economic and social developments and policies in Mongolia. It also presents findings of ongoing World Bank activities in Mongolia. The *Mongolia Monthly* is produced by a team from the World Bank's Poverty Reduction and Economic Management (PREM) Sector Unit in the East Asia and Pacific Region Vice-Presidency, with key inputs from other members of the Mongolia country team. Questions and feedback can be addressed to Altantsetseg Shiilegmaa (ashiilegmaa@worldbank.org). Copies can be downloaded from <http://www.worldbank.org.mn>.

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Abbreviations and acronyms

bn	Billion
BoM	Bank of Mongolia
CPI	Consumer Price Index
FX	Foreign currency
GDP	Gross Domestic Product
HDF	Human Development Fund
LC	Local currency
LHS	Left hand side
MFA	Mongolian Financial Association
mn	Million
MNT	Mongolian togrog
MoF	Ministry of Finance
mom	Month-on-month
mt	Metric ton
NPL	Non-performing loan
NSO	National Statistics Office
OT	Oyu Tolgoi
RHS	Right hand side
USD	United States Dollar
WPT	Windfall Profit Tax
yoy	Year-on-year
ytd	Year-to-date

Executive Summary¹

The improvement in public finances since last year, coupled with buoyant revenue due to the commodity price recovery, has led to growing pressures for increased government spending. Recently approved budget amendments envisage a 4.5 percent of GDP increase in spending on the originally approved 2010 budget, while the Mid-Term Budget Framework (MTBF) for 2011-2013 projects another 12.1 percent of GDP increase in spending in 2011. The main driver for the increases is the execution of promises made by both coalition parties to distribute MNT 1.5million (around US\$1000) to each citizen in the form of cash and non-cash handouts and large public sector wage increases planned for October of this year. If these public spending plans materialize, they will set the stage for a renewed bout of high inflation and a possible return to the macroeconomic vulnerability characteristic of the boom-and-bust cycle of the recent past.

May data indicates inflation is on an upward trajectory, reaching 11.7 percent on an annual basis. This is up from around 2 percent in December. Supply side factors, notably rising meat prices due to the dzud and an increase in regulated electricity prices, have contributed to inflation. But demand pull factors have become important too, reflecting the closing of the output gap in the economy due to the rapid recovery and the February cash transfers. According to the government's own estimates, inflation is likely to reach over 20 percent by the end of the year.

Moreover, with uncertain domestic and foreign financing conditions, continued fiscal consolidation remains crucial for Mongolia. The adoption of, and adherence to, the Fiscal Stability Law – which was recently passed by the Parliament – will be key in Mongolia's efforts to constrain fiscal spending to prudent and sustainable levels. The new law will also manage the huge revenue inflows expected from the Oyu Tolgoi (OT) mine from 2016 onward.

Trade data show a sustained recovery in Mongolia's exports. This is supported by upward momentum in metal prices and increasing copper and coal imports by China, Mongolia's largest trading partner. The exchange rate against the US dollar has been stable, while foreign exchange reserves are near record levels.

In the banking sector, total lending growth increased as nominal lending and deposit rates remain high. On an aggregate level, the commercial banks contributed MNT 12.4 billion retained profits to their stock of capital in May. The ratio of non-performing loans to total loans stabilized in May but is still at 15 percent while principal in arrears is also very high. A bank restructuring strategy was recently drafted by the Bank of Mongolia, reflecting lessons from international experience. Endorsement of the plan by Parliament is crucial so as to prepare Mongolia's banking sector for the upcoming mining boom, while limiting the risks and fiscal costs of future bank failures, if any.

In the real sector, the impact of increasing inflation is evidenced through a decline in real wages. The latest informal wage survey indicates that on average, workers' nominal wages have increased by about 10 percent from January 2010 to June 2010; this is because of an increase in job opportunities in the construction sector. Real wages, however, have declined on average due to the significant increase in the consumer price index.

¹ The analysis is based on the most recent data (May 2010) from the Bank of Mongolia (monthly bulletin and monthly consolidated banking system balance sheet), the National Statistical Office, National Tax Authority and the Ministry of Finance.

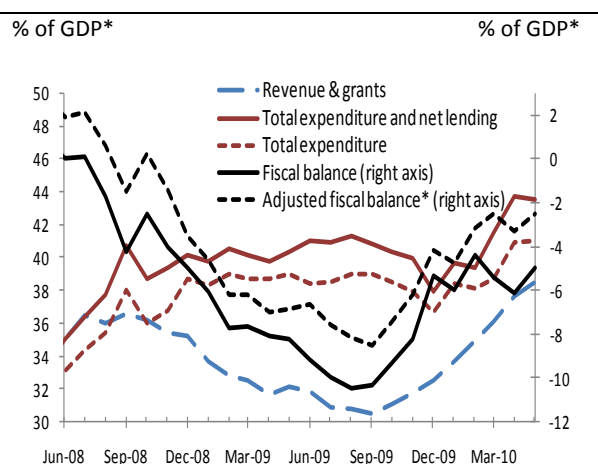
Fiscal developments

The trend improvement in the fiscal balance stalled as government expenditures increased in step with mineral-related revenues...

Mongolia's economy is currently rebounding strongly after experiencing a sudden and severe downturn in 2008 and 2009. After the large fiscal shock, caused by the collapse in commodity prices in July of 2008, fiscal balances had been on an improving trend since mid-2009. This improvement was supported mainly by efforts to contain fiscal spending and higher fiscal revenues, caused by rising copper prices and a wider economic recovery.

However, the trend improvement in the fiscal deficit, as measured by the 12 month rolling fiscal deficit stalled since December 2009, as government spending has picked up (Figure 1). Total expenditures on a cumulative year-to-date basis in May were up 42 percent on the similar period in the previous year. The bulk of the increase was accounted for by a rise in current government spending, notably transfers (Figure 2).

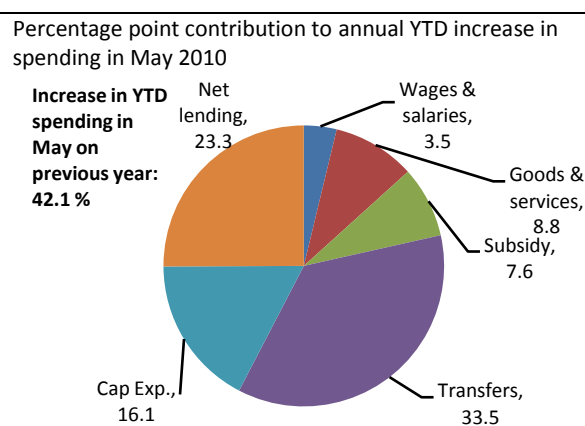
Figure 1 The trend improvement in fiscal balances stalled as expenditure picked up...



Note: *GDP interpolated using actual 2008 and 2009 GDP data and projections for 2010 data. ** Adjusted fiscal balance excludes net lending from expenditure, leaving current and capital expenditure only.

Source: Ministry of Finance, World Bank staff estimates.

Figure 2 ...with a third of the increased spending this year accounted for by transfers



Sources: Ministry of Finance, World Bank staff estimates.

...mainly reflecting pressures on the government to make good on promises to spend mineral sector revenue windfalls as cash transfers to the citizenry

The improvement in public finances compared to last year and the rise in revenues in line with commodity prices have led to growing pressures for increased government spending. One round of cash transfers has already taken place in February with MNT 70,000 distributed per person. This is to be followed by another round of MNT 50,000 per person to be distributed in the remaining five months of the year, alongside a 30 percent increase in government sector wages and pensions which will take effect from October 1st.

Meanwhile, in July, the parliament approved government proposed amendments to the original 2010 budget which envisaged a substantial increase in government expenditures. The amended budget proposal put forward a 4.5 percent of GDP increase in spending on top of the originally approved budget for 2010, on the back of a revised projected increase in revenues of 3.1 percent of GDP².

As part of the amendments, overall spending is set to increase by 11.6 percent relative to the amount originally budgeted. Spending on wages and salaries, goods and services and domestic investment spending rise by 7.7 percent, 13.9 percent and 17.8 percent respectively³. (Together, these three items amounted to about 60 percent of public spending in 2009). Overall, the fiscal deficit would deteriorate from 5 percent of GDP to 6.4 percent.

Table 1 2010 budget amendments compared to original 2010 budget and actual 2009 outturns

	2009 Outturn (as % of GDP)	Original 2010 Budget (as % of GDP)	Amended 2010 Budget (as % of GDP)	<i>Difference original and amended 2010 budgets (% of GDP)</i>	Increase on original 2010 budget (%)	Increase on actual 2009 outturn (%)
Total Revenue & Grants	32.9	33.8	36.9	3.1	9.0	32.7
Current Revenue	32.5	33.5	36.6	3.1	9.1	33.4
Tax Revenue	26.6	29.1	31.6	2.5	8.8	40.4
PIT	2.1	1.7	1.7	0.0	11.4	-6.9
CIT	3.4	3.7	4.3	0.6	15.1	50.6
WPT	3.1	4.3	4.9	0.6	12.5	87.4
Non Tax Revenue	5.8	4.5	4.9	0.4	10.8	1.1
Total Exp. & Net Lending	38.3	38.8	43.3	4.5	11.6	33.9
Current Exp	29.5	30.3	32.6	2.3	7.6	30.6
Wages & Salaries	9.6	8.4	9.0	0.6	7.7	11.6
Goods & Services	6.5	6.3	7.2	0.9	13.9	32.5
Subsidies & Transfers	13.1	15.0	15.6	0.6	4.1	41.3
Capital Exp	7.6	7.2	8.5	1.3	17.3	32.7
Domestic Investment	6.4	6.2	7.3	1.1	17.8	35.5
Capital Repairs	0.2	0.3	0.4	0.1	48.8	147.4
Overall Balance	-5.4	-5.0	-6.4	-1.4		
<i>Memo item</i>						
GDP actual/ assumption (MNT bn)	6055	7171	7171			

Source: Ministry of Finance, World Bank staff estimates.

As approved, the 2010 budget amendments, coupled with the expansionary fiscal stance in the Mid-Term Budget Framework (MTBF), would set the stage for a return to macroeconomic instability through pro-cyclical fiscal policy and to a fresh bout of extremely high inflation (see Box 1). There remain significant financing pressures in the near term, not least due to banking restructuring costs on the

² The original amendments proposed in April had projected a 6.5 percent increase in spending and were underpinned by an increase in the copper price projection from US\$5800/t to US\$7500/t. However, these were subsequently revised down with the copper price projection maintained at US\$5800/t.

³ Spending on capital repairs and maintenance is also projected to rise by 49 percent, but this accounts for a relatively small share of total spending (only 0.5 percent in 2009) and is a welcome development given that gross under-spending in recent years has led significant levels of disrepair in the energy and roads sectors.

expenditure side, and the expiration of the Windfall Profits Tax in 2011 on the revenue side. Donor funding is drying up too.

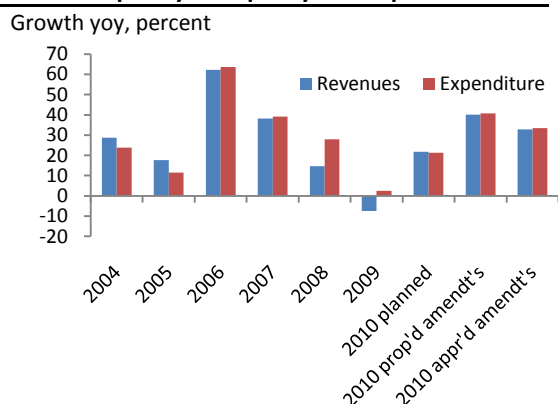
Under the MTBF for 2011-2013, the government plans to increase the stimulus to the economy with cash and non cash distribution to every citizen, supplying around MNT 4 trillion from the Human Development Fund for this purpose. To accommodate this and other expenditures, the MTBF also projects further expansion of fiscal expenditure to almost 51 percent of GDP in 2011. Although the government has announced that it intends to issue a substantial amount of debt later in the year on international capital markets, capital flows to emerging markets have dropped sharply amidst the financial market volatility arising from the Euro area's sovereign debt troubles. As a result debt financing on commercial terms may prove costly for a low-rated sovereign like Mongolia (Box 2).

Accordingly, the agenda for continued fiscal consolidation remains extremely important for Mongolia. The adoption of, and adherence to, the Fiscal Stability Law recently passed by the Parliament will be key in Mongolia's efforts to constrain fiscal spending to prudent and sustainable levels, and also for managing the huge revenue inflows expected from the Oyu Tolgoi mine from 2016 onwards. The law targets a structural budget deficit (along the lines of Chile's structural balance rule) of 4 percent of GDP in 2011, falling to 2 percent by 2013. It also restrains expenditure growth to not more than the rate at which the economy is growing. Through the creation of a fiscal stability fund, a portion of revenues expected from the OT project will be invested overseas, helping to mitigate the negative Dutch Disease effects that large inflows of foreign exchange can bring.

Box 1 Macroeconomic implications of 2010 and 2011 spending plans

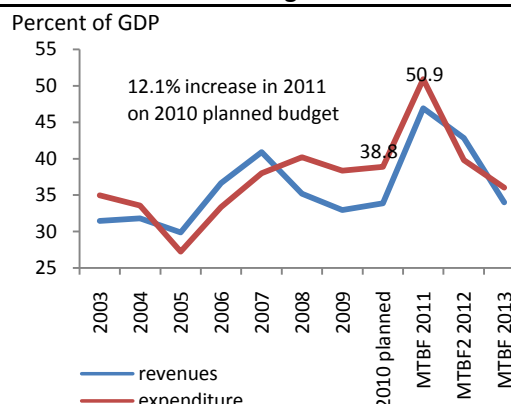
The increase in spending envisaged under the 2010 budget amendments and the 2011-2013 Mid-Term Fiscal Framework mark a rapid return to the pro-cyclical fiscal policy that was at heart of the 2008/09 crisis (Figure 3). A large increase in total expenditure had already been planned in 2010 relative to 2009 (of about 20 percent). Under the budget amendments spending increased further, rising by 34 percent over 2009 outturns (Table 1).

Figure 3 The 2010 budget amendments mark a return to pro-cyclical policy of the past



Source: National Statistical Office.

Figure 4 ... and fiscal expansion is set to continue under the mid-Term Budget Framework



Source: National Statistical Office, Mid-Term Budget Framework.

Moreover, this stimulus is set to continue in the next few years, with the Mid-Term Budget Framework (MTBF) for 2011-2013 projecting an extremely sharp 12.1 percent of GDP increase in total spending in 2011 (Figure 4). Of particular note is the MNT 1.5 million (around US\$ 1,000) to be distributed to each Mongolian citizen over the next few years in the form of cash and non-cash transfers such as tuition fees, health insurance, and pension

contributions, etc. This distribution will be through the Human Development Fund (HDF), which was set up in November 2009 and is funded by mineral sector revenues. It will cost approximately MNT 4 trillion to make good on promises by both political parties of large in-kind and cash transfers to the general population. Aside from this, there are also proposals to reintroduce the recently abolished Child Money Program which is set to be debated in the upcoming fall session of parliament.

Worryingly, these measures come at a time when donor financing is drying up and revenues will be squeezed by the expiration of the Windfall Profits Tax (in 2011) which is expected to entail net revenue losses of around 2 percent of GDP.⁴ The government is mainly relying on the OT prepayments (US\$100 mn in 2011 to be paid into the HDF) and on bond issuance to finance the increased expenditures under the MTBF. However, increased domestic debt financing could crowd out the private sector or add to inflationary pressures, while, with Mongolia rated as sub-investment grading, borrowing externally on commercial terms is likely to be costly.

Since the economy is already operating at close to capacity (Figure 5), the additional spending will likely fuel a bout of extremely high inflation⁵. Inflation is already in low double digit figures, with core inflation (which reflects demand-side pressures) accounting for roughly half of the headline figure on average since January.

According to the government's own estimates⁶, inflation is likely to reach over 20 percent by the end of the year after the 30 percent increase in state salaries in October and the MNT 120,000 cash distribution are factored in. In addition, there is a substantial risk of second-round effects in the form of a wage-price spiral as a direct consequence of the public sector salary increase and also if higher inflation expectations become entrenched. With the additional spending planned under the 2010 amended budget and the MTBF, then inflation may breach 20 percent by the end of the year.

Such high inflation will not only severely undermine purchasing power, with poor people and savers affected the most, but it also carries the risk of a return to macro-instability and the possibility of a replay of the 2008-09 boom and bust crisis. With nominal rates relatively sticky, rising expected and actual inflation are likely to lead to negative real ex ante and ex post economy-wide interest rates and, without an appropriate policy response, a potential loosening of the monetary policy stance in addition to an already expansive fiscal policy. If domestic capacity in the economy to meet rising domestic demand is limited, this will spill over into rising imports and a worsening of the current account deficit. The rise in prices may contribute to a real exchange rate appreciation which will likely hurt the non-mining tradable sector (manufacturing). This could culminate in a "bust" scenario if investors lose confidence in the currency (for instance if the government finds it hard to finance its spending), prompting a return to dollarization with a flight out of local currency deposits into FX accounts (as happened in the

Figure 5 With the economy operating at capacity, a large fiscal stimulus will further push up inflation

Output gap (as percent of potential output)



Note: The output gap is measured as the difference between actual and potential output as a share of potential output. Actual GDP was seasonally adjusted using X-12 ARIMA while potential output was calculated using a Hodrik-Prescott filter.

Source: NSO, WB staff estimates.

⁴ The revenue loss from elimination of the WPT in 2011 is estimated at around 5 percent of GDP, given projected copper prices. However the withdrawal of the WPT will mean that mining firms will have higher taxable profits which should lead to an increase of around 3 percent (of GDP) of corporate income tax receipts. This suggests that the 'true' cost of the withdrawal of the WPT will be around 2 percent of GDP per year.

⁵ To given an idea of the scale of the transfers, total average annual household consumption in 2009 for Mongolia is around MNT 3.2 trillion. If the government distributes a planned MNT 50 000 later in 2010 and MNT 1.5 million for every citizen between 2011 and 2013 (in cash and non-cash benefits), the total transfers would equal to around MNT 4.2 trillion .

⁶ NDIC and BoM estimates.

previous crisis) which in turn could undermine financial stability. Monetary and fiscal policies must be adjusted appropriately to reduce the risk of further over- overheating leading to such a scenario. For example, the BoM has started to tighten policy raising its benchmark rate by 100 basis points to 11 percent in May. The challenge is to ensure that the policy adjustment addresses the rise in inflation but at the same time does not choke off investment and near-term prospects for growth and employment.

Source: World Bank staff.

Box 2 Capital market flows to emerging economies

In recent months market concerns over the scale of public debt and fiscal deficits have heightened and spread from Greece to other countries in the Euro area, and beyond. The price of protection against the default of sovereign bonds of such countries, as measured by credit default swap (CDS) spread, has risen markedly and financial market uncertainty increased (Figure 6).⁷ However, the rise in the CDS spreads for major emerging market economies has been relatively limited, particularly compared with the market turmoil in late 2008 and early 2009. The average secondary market sovereign bond yield for emerging markets has also risen over the past few months. From 1 April to 29 June the yield on the overall Emerging Markets Bond Index Global (EMBIG) rose by 8 basis points, with a rise of 20 basis points for B rated credits and a fall of 2 basis points for investment grade credits (Figure 7).

As well as these price movements, capital flows to emerging markets dried up in May (

Table 2), particularly for bond issues (Figure 8) and equity placements, and remained subdued in early June. Moreover, there are growing fears of a looming liquidity crunch in international financial markets in the near term as banks facing funding pressures, notably in Europe and US, compete with sovereign borrowers for funds in international financial markets. According to the Bank for International Settlements (BIS), globally banks owe around \$5trillion to bondholders and other creditors, which will come due through 2012. The significant re-financing needs of these financial institutions will likely add to the difficulties that first time, sub-investment grade rated sovereigns such as Mongolia⁸ face in raising funds. Only Malaysia placed an international sovereign issue in May, a US\$ 1.25 billion Islamic dollar bond at a spread of 180 basis points over Treasuries which was rated A- by S&P. Many other developing countries have decided to delay their sovereign issuance plans. For example, Indonesia has reduced the amount of Islamic bonds it plans to offer to \$650 million from \$750 million, and has delayed the timing to October from July.

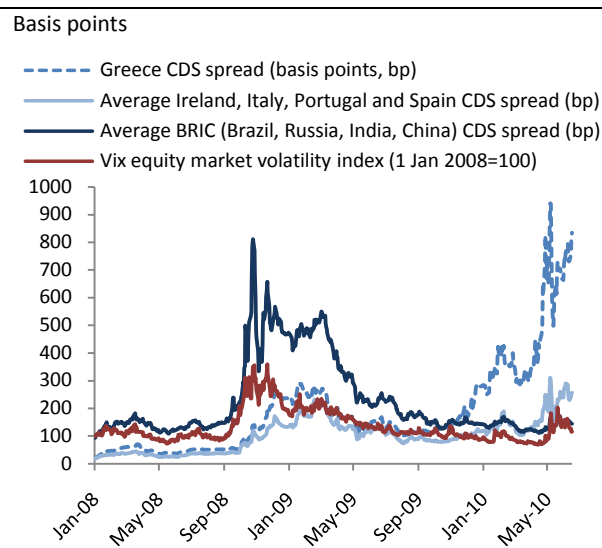
The experience of recent months has highlighted once again the sensitivity of capital flows to emerging markets to swings in risk aversion in global financial markets and also ongoing problems in the global financial system. If market appetite for emerging market assets particularly for more risky credits remains weak, then this will influence the likely demand for, and hence pricing of, the large-scale international sovereign bond that Mongolia's government has indicated it intends to issue. The pricing of any such issue would be at a yield well above that of recent concessional financing from bilateral and multilateral donors. Although Mongolia's fiscal revenues are set to be boosted by the mining revenues from OT from 2013 onwards, the scale and yield on any

⁷ A CDS can be viewed as a form of insurance - it is a financial derivative contract designed to transfer credit risk in a defined credit product, for example a sovereign bond, between two parties. Over the tenure of the contract, say five years, the purchaser of the CDS, i.e. the protection buyer, pays a spread, or premium, to the protection seller. For example, if the CDS spread is 500 basis points (i.e. 5 percent) then for a contract with principal of US\$1 million the buyer of the CDS contract pays US\$ 50,000 per period to the seller of the credit protection. In return for this payment, the buyer of the CDS receives a payment if there is a credit event for the referenced product, for example, if there is default on the sovereign bond. The payment compensates the CDS buyer up to the par value of the referenced credit. As markets perceive the risk of default to rise the premium charged by the seller of protection rises since the likelihood of paying out increases.

⁸ Mongolia is rated B1 by Moody's Investors Service, four levels below investment grade and on par with Fiji and Papua New Guinea while S&P rates the nation BB-, the third- highest non-investment ranking.

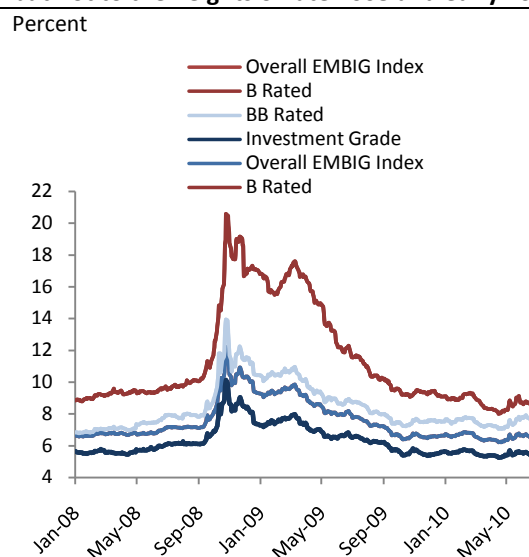
international bond would have important implications for the burden of interest payments and debt dynamics going forward.

Figure 6 Rise in credit default swaps in the Euro area



Source: Datastream, World Bank

Figure 7 Emerging market bond yields have risen, but not to the heights of late 2008 and early 2009



Source: Datastream, World Bank

Table 2 Capital flows to emerging economics fell sharply in May, particularly emerging market bond issuance

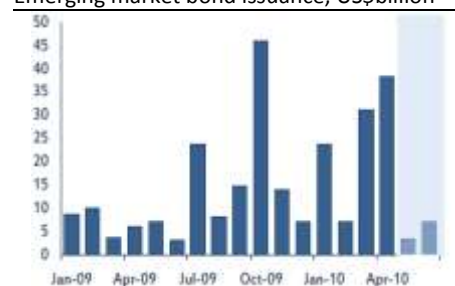
Capital flows to emerging economies, US\$ billion

	2008		2009		2010		
	Q1	Total	Q1	Total	Q1	Apr	May
Total	103	390	48	353	94	45	15
Bonds	12	65	18	115	48	26	3
Banks	71	257	22	129	19	8	6
Equity	20	68	8	109	27	11	6
Asia	38	98	18	122	33	11	10
Bonds	3	7	5	16	9	3	2

Source: Dealogic and World Bank DEC Development Prospects Group

Source: World Bank staff.

Emerging market bond issuance, US\$ billion



Source: Dealogic and World Bank DEC

Inflation

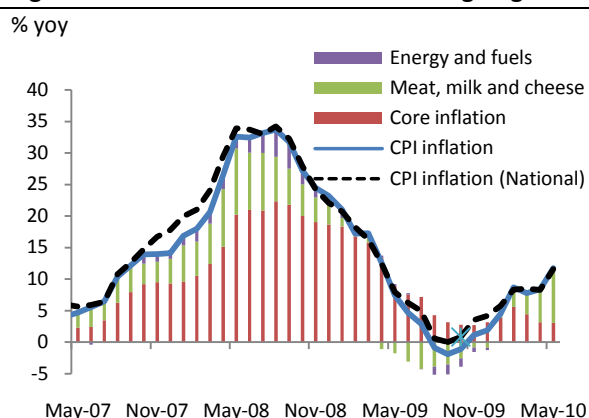
Inflation is on an upward trajectory

The strong economic rebound in Q1 2010 (during which real GDP grew by 7.6 percent yoy) and the prospects of continued strong growth in 2010 have contributed to a recent upturn in consumer prices. The seasonally-adjusted core and overall UB consumer price indices have showed monthly growth in the range of 2 to 3 percent since the fourth quarter of 2009. As discussed in Box 1 this rise in inflation is a strong warning signal of the risk of overheating and a return to the boom-bust cycles of recent years.

Annual CPI inflation reached 11.7 percent for UB and 11.6 percent for the country in May compared with less than 2 percent in December 2009 (Figure 8). In part this acceleration has been due to supply side factors. In particular the rise in meat prices, up by 36 percent yoy on average since the start of the year, reflects shortages of meat due to the impact of large livestock losses caused by the dzud at the start of the year. Energy tariffs have also been raised, and further increases are planned⁹. The price of rice has risen due to a Chinese government ban on rice exports (to tackle domestic shortages).

However, recent trends in inflation also reflect demand side factors arising from the underlying recovery (May imports were up by 45 percent yoy—see below), as well as policy stimulus in the form of the MNT 70,000 cash handout in February. Recent rises in food prices may also translate into increased inflation expectations, feeding into wages and pushing up core inflation (which was 4.3 percent yoy in May).¹⁰ As Figure 8 shows, during the previous boom period, rising core inflation accounted for the bulk of headline inflation causing it to remain high even after energy and food price inflation eased, mainly due to persistence or inertia effects.

Figure 8. Inflation has reached double digit figures



Source: NSO, NSO, WB staff estimates.

External sector

Mongolia's export sector continues to recover, supported by buoyant commodity prices

The 12-month rolling trade deficit has stabilized in recent months, narrowing to US\$221 million in May 2010, from US\$1082 million in March 2009 (Figure 9). The sustained recovery of Mongolia's exports has been supported by upward momentum in metal prices (Figure 10) and increasing copper and coal imports by China, Mongolia's largest trading partner (see below). Although Chinese metal imports are slowing, they have continued to rise at a robust pace in recent months, with copper imports in April the third largest on record.

Overall, the continued strength in metals prices this year has been due to the recovery of demand and restocking outside of China. Copper prices have recorded their highest average price (US\$ 7,745 /ton in April) since the commodity price collapse of mid-2008, although they have since decreased to US\$ 6,838/ton in May. There are concerns that prices decline further, as they are possibly overinflated relative to fundamentals, and particularly if the global recovery falters due to the ongoing sovereign debt crisis in Europe.

Mongolia's gold exports remain depressed compared to previous years (figure 11). This is despite gold prices touching record highs again in recent months, driven by investor concerns about financial

⁹ Power tariffs for industry were raised on January 15, 2010 and are to be increased for residents starting from June 15, 2010.

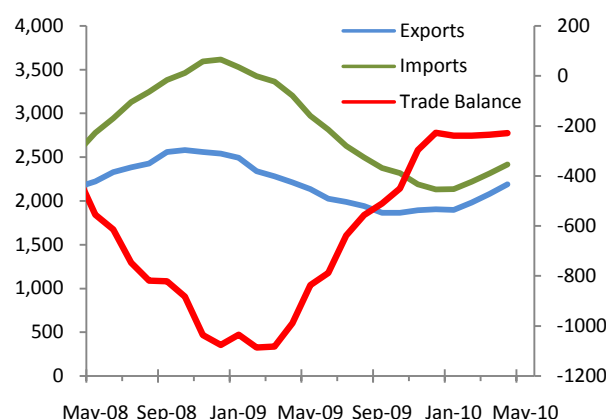
¹⁰ Core inflation is regarded as a more informative measure of persistent underlying inflation trends than headline inflation which includes the transitory influences on prices of supply shocks. That said, if increases in headline inflation are persistent enough, there can be significant second-round effects on core prices or on inflation expectations, which can in turn lead to the development of a wage price spiral.

stability about the EU sovereign debt crisis, and by the metal's continuing appeal as a currency and inflation hedge. Imports meanwhile continue to rise as the economy recovers, driven by rising demand for transport equipment and machinery.

In May the dollar value of goods imports was up by 45 percent year-on-year, compared with contractions of over 50 percent in the first half of 2009. The latest numbers also show a falling contribution of imports of minerals products (Figure 12). These are mostly diesel and petroleum that suggest a decrease in stockpiling as the operating season has already started for key sectors such as mining, construction and agriculture.

Figure 9 The trade deficit has stabilized and is much improved on 2009¹¹

\$ million, 12-month rolling sum

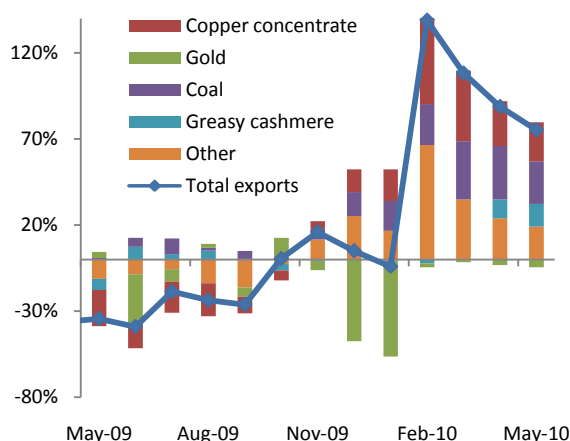


Source: National Statistical Office, Bank of Mongolia

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Figure 11 Coal and copper exports have performed strongly while gold exports remain downbeat

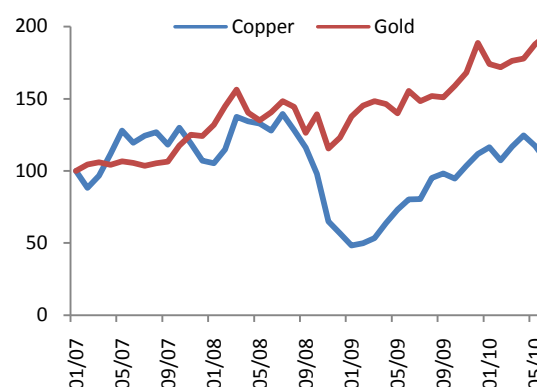
Percentage point contributions to year-on-year growth



Source: National Statistical Office, World Bank

Figure 10 Commodity price rises continue...

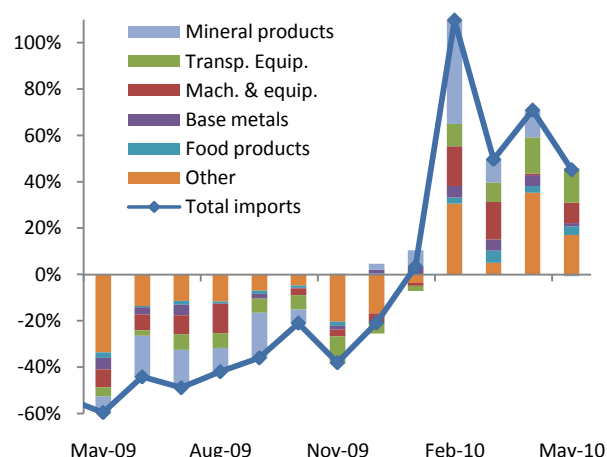
Index=100 in January 2007



Source: World Bank

Figure 12 Imports continue to grow at a healthy pace

Percentage point contributions to year-on-year growth



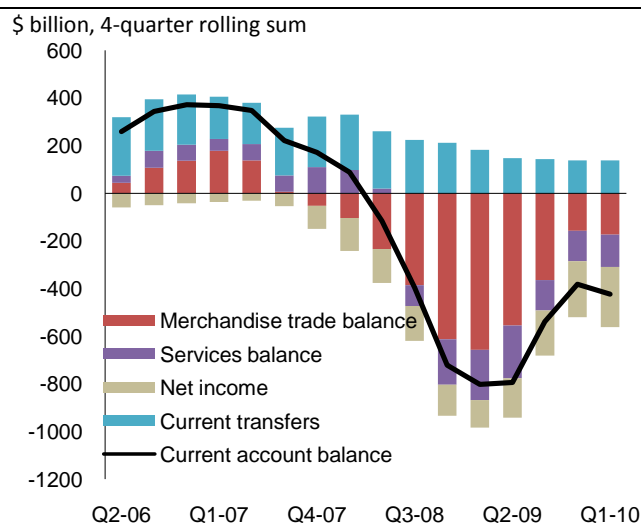
Source: National Statistical Office, World Bank

¹¹ Monthly trade data is strongly affected by the seasons in Mongolia, and has strong month-to-month fluctuations. For this reason, 12-month rolling sums are illustrated.

The export recovery has helped the current account balance improve following its sharp deterioration in late 2008 and early 2009

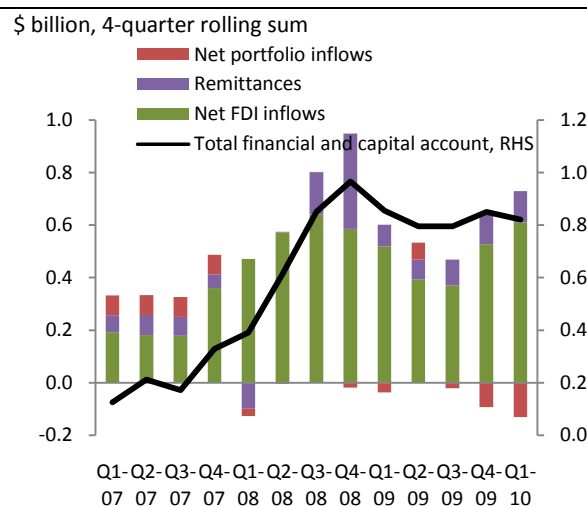
Due to the sharp fall in the value of exports the current account balance moved from a surplus of 6.7 percent of GDP in 2007 to a deficit of 14 percent in 2008 and climbing to over 15 percent in the first two quarters of 2009. However, as a result of the improved goods deficit, the current account deficit narrowed to 9 percent of GDP in the first quarter of 2010, after peaking at 16 percent in Q1 of 2009 (Figure 14).

Figure 13 Improvement in the current account balance stalls in the first quarter of 2010¹²



Source: Bank of Mongolia, National Statistical Office, World Bank.

Figure 14 FDI increases while net borrowing widens



Source: Bank of Mongolia, National Statistical Office, World Bank.

The deficit in services trade also improved but remains at 3 percent of GDP (compared with a high of around 4 percent in Q1 of 2009) as transport and tourism receipts remain depressed. Overall for the first quarter of 2010, the current account deficit increased to US\$ 424 million from US\$ 382 million in Q4 of 2009. It was primarily financed by net capital inflows in the financial account,¹³ which amounted to US\$ 821 million in the first quarter of 2010. Net foreign direct investments increased by about 16 percent in the first quarter compared to the previous quarter, mainly due to investment inflows into the mining sector. Net borrowing from abroad continued to increase, due to the donor disbursement and loans to the commercial banks. While net remittances stayed about the same on 4-quarter rolling sum basis, the actual inflow increased by about 43 percent in the first quarter of 2010 compared to the same period in 2009.

¹² Monthly trade data is strongly affected by the seasons in Mongolia, and has strong month-to-month fluctuations. For this reason, 4-quarter rolling sums are illustrated.

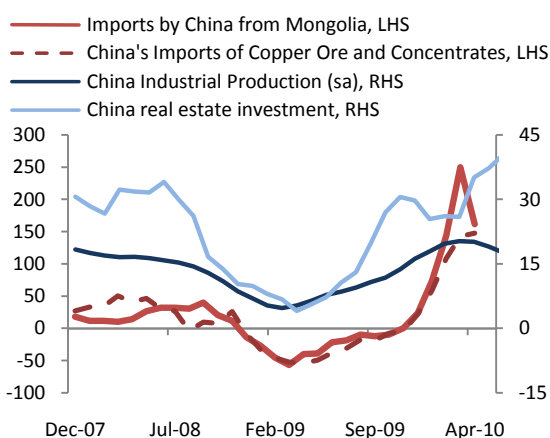
¹³ The financial account records all transactions between a domestic and foreign resident that involves a change of ownership of an asset. It is the net result of public and private international investment flowing in and out of a country, such as FDI, portfolio investment, and lending and borrowing.

Growth in China, a key driver of Mongolia's exports, has been robust and, although expected to moderate, will remain strong

The strength of construction and industrial production in China is a key determinant of global demand for commodities, including copper and coal, and hence for Mongolia's export products. The downturn and recovery in Mongolia's exports over 2008 to 2010 tracked developments movements in the Chinese economy (Figure 15) which has become an even more important export market for Mongolia over the past two years. The share of Mongolia's exports to China rose from around 65 percent in 2008 to 75 percent in 2009. In the first five months of 2010 it increased even further to around 86 percent.

Figure 15 Chinese imports from Mongolia have recovered sharply

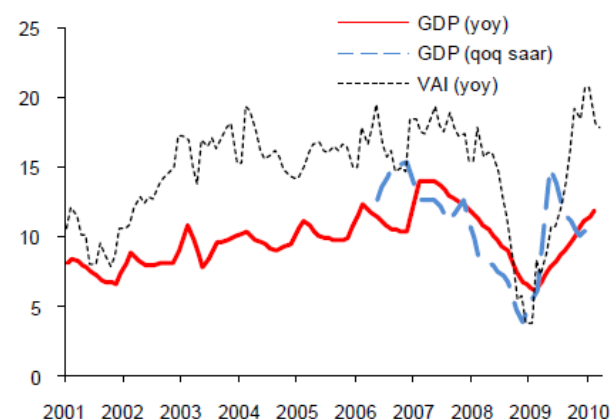
Year-on-year growth (3mma), percent



Source: Haver Analytics, CEIC, World Bank.

Figure 16 China's growth has remained strong

Growth, percent



Note: Saar: seasonally adjusted annualized rate. VAI: industrial value added.

Source: CEIC, World Bank China Quarterly June 2010.

With the strength of the global recovery clouded by concerns over the need for sharp fiscal adjustment in many developed economies, how has the economic outlook for China, and therefore Mongolia's exports, changed in recent months?

First, as discussed in the latest World Bank's China Quarterly Update, June 2010,¹⁴ economic growth in China continues to be robust (Figure 25), with real investment strong, although it is projected to soften slightly. Second, the measures taken by the Chinese government in mid-April to restrain housing price increases may lead to a lagged impact on construction activity, and hence demand for raw materials. Third, the overall economic outlook for China remains favorable. Growth is expected to ease somewhat due to moves towards normalization of the macro policy stance, the property-related measures and the potential drag on global growth from the problems in Europe. That said, GDP growth in 2010 is still projected at 9.5 percent and 8.5 percent in 2011.

¹⁴ For more details see the full report which is available at <http://go.worldbank.org/WRAOM3ZN10>.

But Mongolia's sensitivity to shocks has also increased substantially over the past decade, in part due to the growing importance of the mineral sector

However, the overall vulnerability of the Mongolian economy to external shocks has increased substantially over the last decade. And compared to other emerging economies in the region, currently its levels of net indebtedness are much higher¹⁵ which can leave it vulnerable in the near term to commodity price changes and or financing constraints (Box 3).

Box 3 Mongolia's exposure to the sovereign debt crisis in Europe

Mongolia (along with the rest of Asia) has limited direct financial exposure to EU sovereign debt. However, it remains vulnerable to external shocks, for example of the kind that occurred from mid-2008 onwards when global commodity prices plunged and global demand dropped as a result of the financial crisis.

A sovereign default in the Eurozone which could trigger a replay of the 2008 global crisis, is a low probability event. Nevertheless the current crisis in Europe has cast a long shadow over global growth prospects. How the crisis is eventually resolved and the longer-term challenge of returning fiscal policy of high-income countries (Europe, UK and the US) back to a sustainable footing will have considerable growth implications for developing countries.

What is worrying for Mongolia is that its sensitivity to external shocks has risen substantially over the past decade. The following figures compare changes in GDP and export growth across Asia during the dotcom recession of 2000-01 and the 2008-09 crisis. In 2000-01 Mongolia's economy continued to grow despite a 34 percentage point drop¹⁶ in the export growth rate in 2001. However, the economy was hit much harder in 2008-09, with GDP growth dropping by 10.5 percentage points. A broad index of an economy's export exposure indicates that Mongolia has shifted from being among countries "least sensitive" to sharp swings in exports (such as China, India and Indonesia) to those that are extremely vulnerable to shifts in external demand (such as Singapore, Malaysia and Hong Kong).

Figure 17 Export and GDP swings, 2000-01

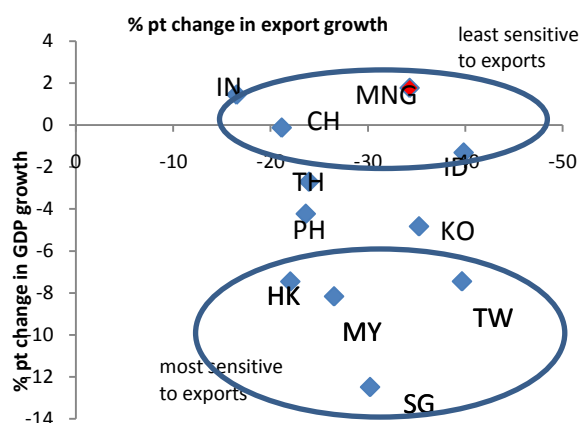
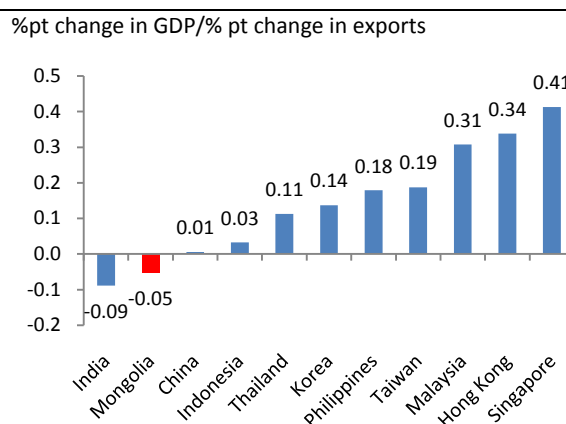


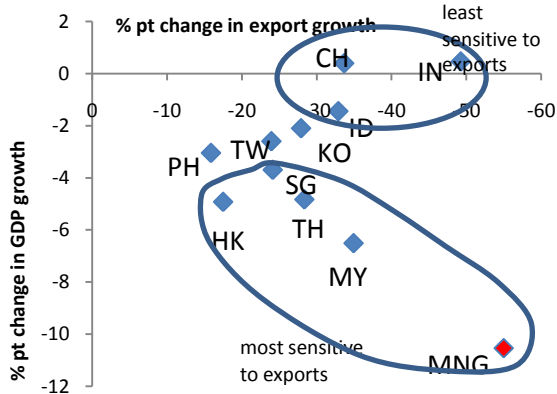
Figure 18 Sensitivity of GDP to export swings, 2000-01



¹⁵ The longer term debt outlook is positive due to enhanced outlook for growth and fiscal and export revenues from OT.

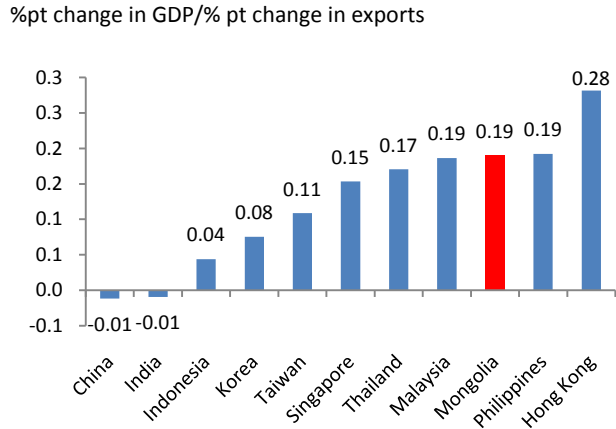
¹⁶ The annual rate of growth in exports fell from 18 percent in 2000 to minus 16 percent in 2001.

Figure 19 Export and GDP swings, 2008-09



Source: Datastream, World Bank

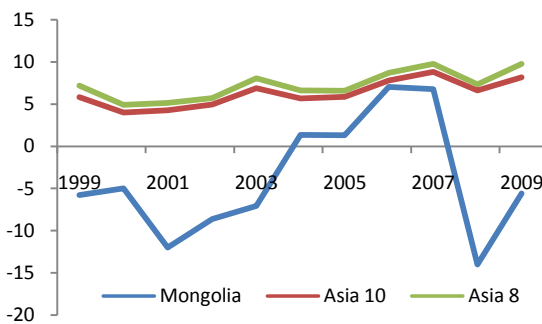
Figure 20 Sensitivity of GDP to export swings, 2008-09



Source: Datastream, World Bank

The second main source of contagion is market sentiment and risk of generalized sell-off in sovereign debt markets. In this respect, Mongolia contrast negatively to the rest of Asia which has built up large current account surpluses over the past decade. In addition, net foreign debt as a percentage of GDP of Mongolia is also much higher than in the rest of Asia. In Mongolia, public sector debt rose sharply during 2009 mainly due to front loaded balance of payments and budget support it received from its development partners for recovering from the terms of trade and budget shocks in 2008-09 when copper prices fell. The latest debt sustainability exercise for Mongolia projects external public and publicly guaranteed debt at 52 percent of GDP in 2010, up from 35 percent in 2008. This however excludes the potential US\$1bn of sovereign bonds expected to be issued end 2010 (equal to roughly 20 percent of GDP). While Mongolia is currently regarded as being at low risk of debt distress and most debt is concessional (and held by IFIs such as the IMF and WB), the issuance of large amounts of commercially financed external debt planned for later this year will likely have a serious impact on its debt outlook. With debt markets already jittery due to the sovereign debt crisis playing out in Europe, this should also likely affect the terms at which it issues debt.

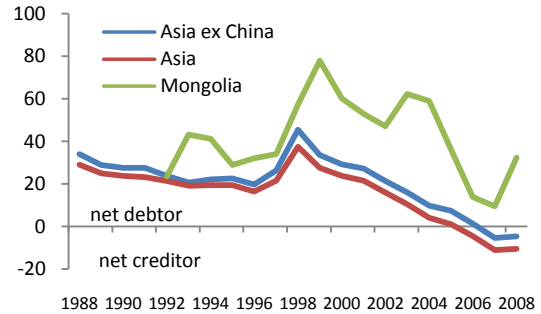
Figure 21 Current account balances (as % of GDP)
% of GDP



Source: WDI. Asia 10 comprises China, India, Philippines, Thailand, Malaysia, Indonesia, Singapore, Korea, Taiwan, Hong Kong. Asia 8 excludes India and China

Source: World Bank staff.

Figure 22 Net foreign debt* (as % of GDP)
Net foreign debt* (as % of GDP)



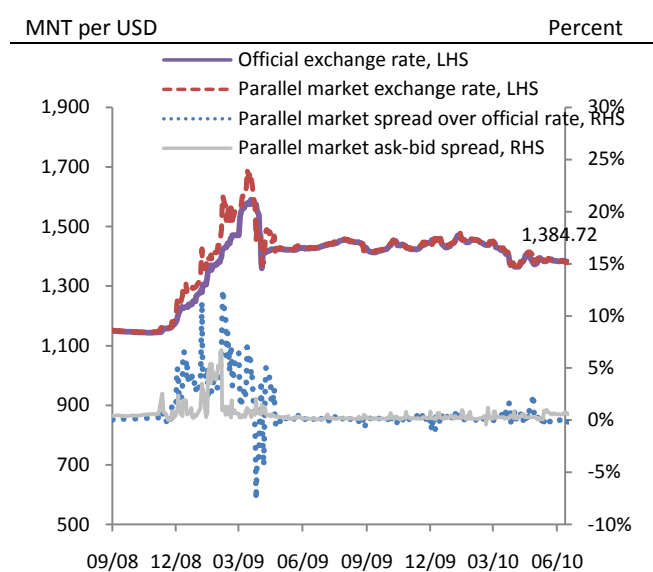
*public and private long term debt less international reserves. comprises China, India, Malaysia, Philippines, Thailand, Indonesia,

The exchange rate against the USD remains broadly stable

The exchange rate against the US dollar has been stable since April 2009 (Figure 23), when the Bank of Mongolia (BoM) raised its policy rate substantially and introduced an auction system for foreign exchange. In May 2010, the average monthly exchange rate against the USD appreciated by 0.3 percent, compared with April but depreciated by 2.6 percent compared to May 2009.

The stabilization of the exchange rate has been accompanied by a rise in international reserves of the Bank of Mongolia to a record high level of US\$1.2 trillion as of May. Since the start of the year, the BoM purchased US\$30.9 million from commercial banks through the exchange rate auctioning. Other sources for reserves increases are monetary gold, project funding from international institutions and deposits from commercial banks (Figure 24).

Figure 23 The exchange rate remains stable

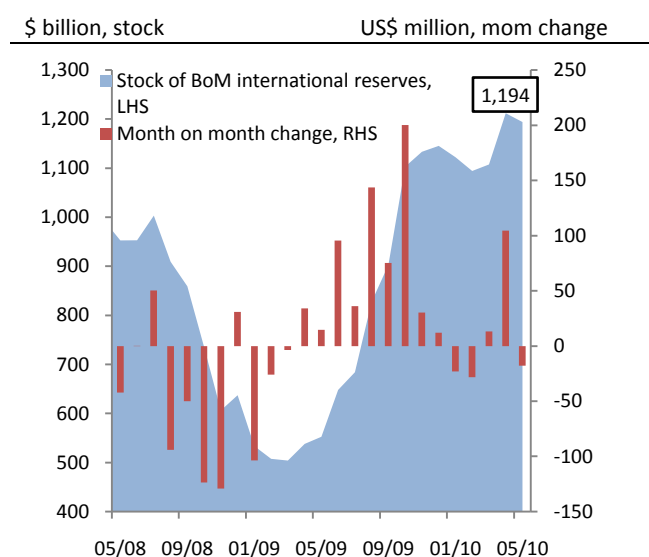


Note: Parallel market rate is mid-point of bid and ask rates. Positive spread over official rate indicates relative depreciation. Ask-bid spread measured as percentage of mid-point of the two.

Last observation: June 18, 2010.

Source: Mongolian Financial Association, World Bank.

Figure 24 BoM international reserves remain close to record levels



Note: Number in box is end-May stock of BoM international reserves in US\$ million.

Source: Bank of Mongolia, World Bank.

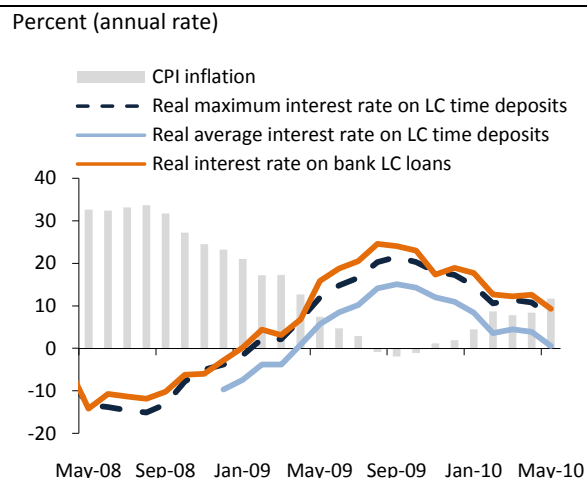
Banking sector

Although real interest rates on deposits are falling, MNT deposits continue to rise, fuelled by currency appreciation expectations and supported by the deposit guarantee law

Nominal interest rates on both lending and deposit rates remain high mainly due to the search for funds by banks facing liquidity difficulties. However, in real terms, interest rates are falling as a result of the acceleration in the inflation rate. If inflation continues on its upward trajectory, real deposit rates should soon turn to be negative (Figure 25).

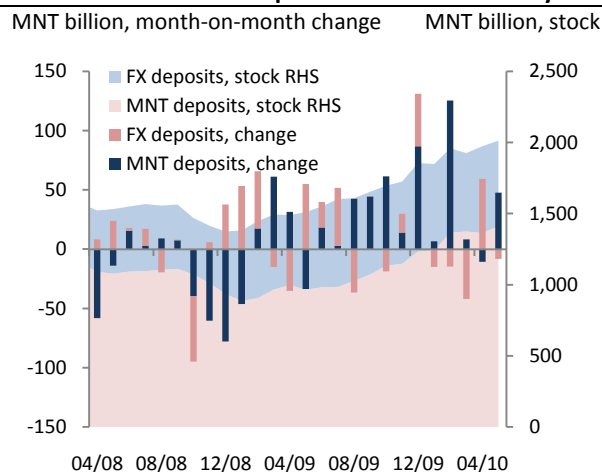
MNT deposits have continued to rise in recent months, hitting a new peak of MNT1.4trillion in May, up 47 percent from a year ago (Figure 26). This is mainly due to expectations of a currency appreciation and the “blanket guarantee law” covering bank deposits. This was introduced as an instrument for restoring confidence in the banking system in late 2008.

Figure 25 Real economy-wide interest rates continue to trend downwards as inflation rises



Source: Bank of Mongolia, National Statistical Office, World Bank.

Figure 26 MNT deposits reached a new peak in May while the stock of FX deposits has been relatively stable

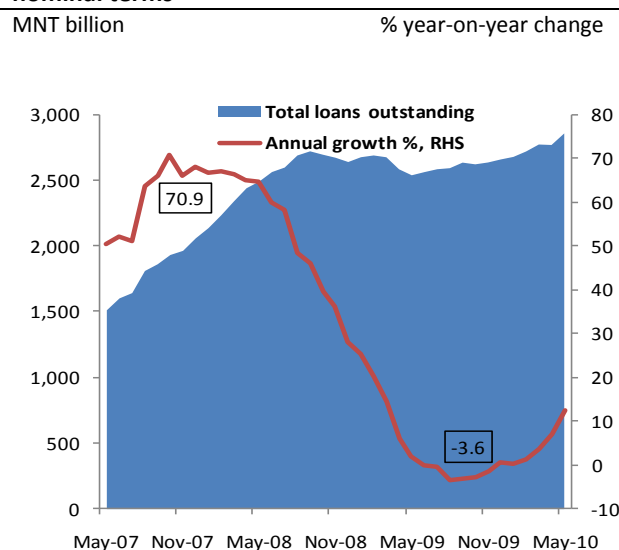


Source: Bank of Mongolia, World Bank

Depleted bank capital is constraining lending growth

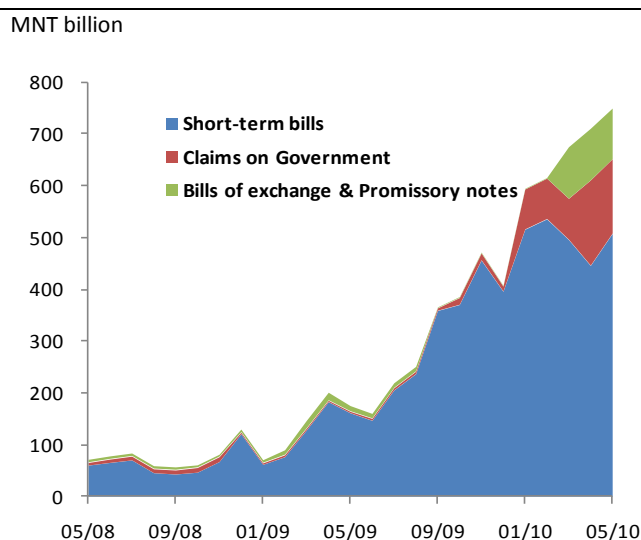
With the economy rebounding, the *nominal* stock of loans outstanding grew for the sixth consecutive month in May, rising by 12.5 percent yoy (Figure 27). However, with the annual rate of inflation in May at 11.6 percent yoy, *real* total lending growth is barely positive.

Figure 27 Total lending growth is picking up in nominal terms



Source: Bank of Mongolia, World Bank.

Figure 28 but purchases of Central Bank bills are still high



Source: Bank of Mongolia, World Bank

Banks remain cautious in lending in part due to uncertainties about the sustainability of the recovery and the weak quality of loan applications. The presence of large NPLs still on their books and depleted bank capital also constrain them from extending credit. Although the weighted average lending rate ranges between 18-20 percent, which is much higher than the central bank bill rate (11 percent), banks are still buying central bank bills (which are much less risky than private lending). Bank holdings of central bank bills reached over MNT 500 billion in May compared with MNT 150 billion a year ago (Figure 28). It is vital that bank restructuring reforms move forward in order to clean up bank balance sheets and improve credit availability within a banking system with improved credit risk management.

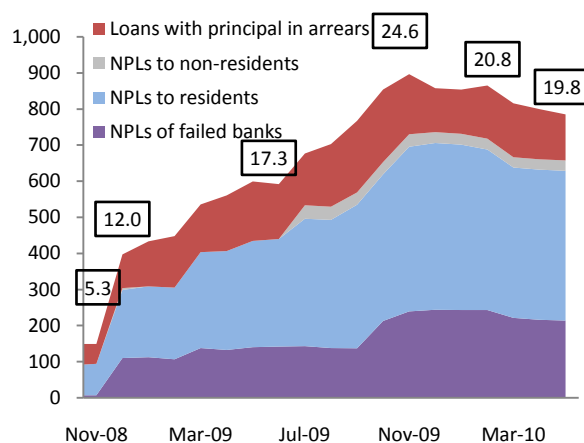
Banking sector reform remains a priority

Although the steady increase in recorded NPLs seen last year appears to have moderated, solvency concerns remain important. NPLs and loans in arrears stand at 20 percent of total outstanding loans, down from a peak of 24.6 percent in November 2009 (Figure 29). Excluding the two failed banks, NPLs and loans with principal in arrears as a percent of total loans outstanding amounted to 13.4 percent as of end-May, down from a peak of 19.7 percent in September 2009. Banks are starting to contribute more retained profits to their stock of capital: MNT 12.4 billion as of May compared with a contraction of MNT 143.4 billion for 2009 as a whole.¹⁷

The NPL ratios differ across sectors, reflecting the differential impact of the crisis and underlying credit quality. Solvency concerns remain significant in construction, agriculture and transportation sectors characterized by the highest NPL ratios (Figure 31). However, quarterly changes (2010 Q1 compared to 2009 Q4) show improvements in NPLs and loans in arrears in all of major sectors, particularly in construction and other sectors (Figure 32).

Figure 29 NPLs continue to decrease very slowly...

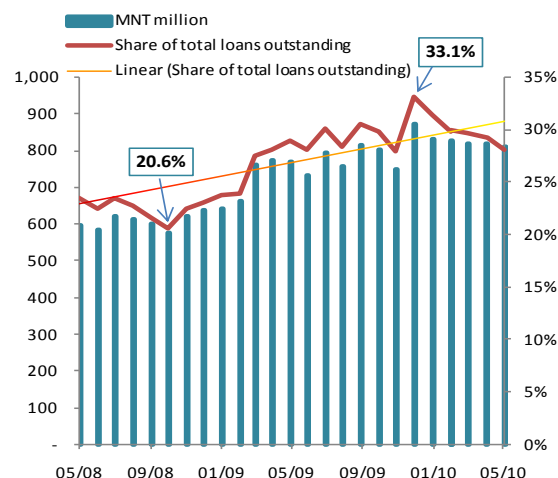
MNT billion, month-on-month change MNT billion, stock



Source: Bank of Mongolia, World Bank

Figure 30 ...yet loans to largest 50 borrowers account for roughly a third of total loans outstanding

MNT billion



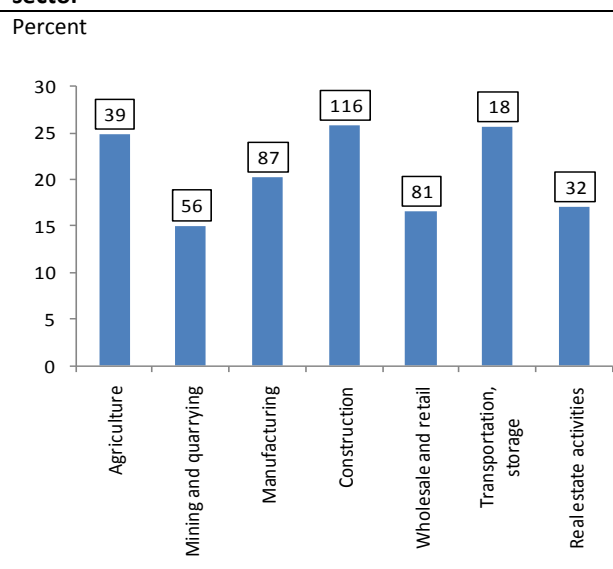
Source: Bank of Mongolia, National Statistical Office, World Bank.

¹⁷ Consolidated Loan Report, March, 2010, Bank of Mongolia

While NPLs are trending down, they may increase further due to a number of reasons. First, loans in arrears are still very high: MNT 130 billion (5 percent of the total loans). Second, according to the BoM,¹⁸ loans to related parties exceeded the regulated ceiling by MNT 93 billion and there are no loan loss provisions currently for such lending. Loans to single borrowers also exceeded the regulated ceiling by MNT 360 billion and only MNT 42.5 billion is available for provisions. In fact the concentration of bank lending has increased with the 50 largest borrowers accounting for slightly more than a quarter of total loans (roughly MNT 810 billion, **Error! Reference source not found.**). Third, commercial banks have already restructured 12 percent of the performing loans 1 to 2 times, suggesting that NPLs and loan in arrears could continue to rise without further restructuring.

Out of the total banking sector assets of MNT 4.5 trillion around MNT 3.1 trillion comprises deposits and current accounts for which the government has issued a blanket guarantee. These deposit guarantees have reduced the incentives of bank owners to inject much needed private capital into the banking system. Given the upcoming mining boom, when demand for credit will increase substantially, it is essential that banks are well-capitalized and able to extend credit. Financial and commercial transactions of larger mining companies are likely to be executed by foreign banks rather than local banks in the future if local banks are not deemed sound enough. Accordingly, bank restructuring – to the benefit of the economy – is imperative.

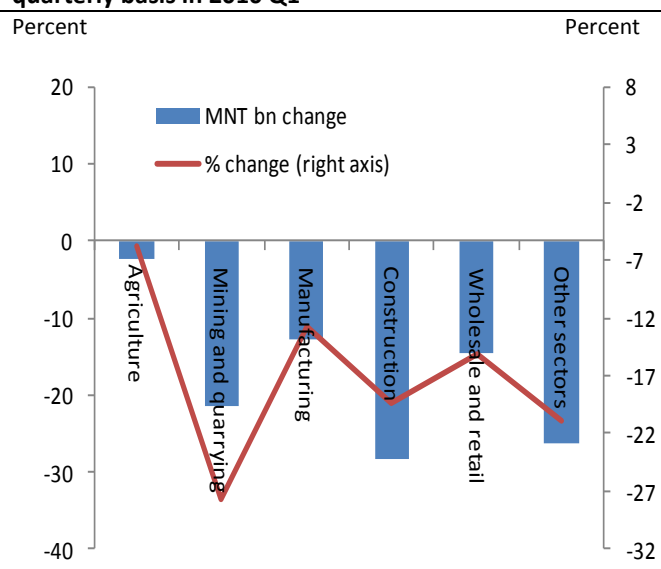
Figure 31 Highest NPL ratios are in the construction sector



Note: The numbers in boxes are NPLs and loans in arrears in billions of MNT in each sector.

Source: Bank of Mongolia, World Bank.

Figure 32 but the levels of sectoral NPLs improved on quarterly basis in 2010 Q1



Source: Bank of Mongolia, World Bank

A key issue in the blanket guarantee law is that it also covers interbank deposits. As a result, domestically stronger banks (including foreign banks) may lend to weaker financial institutions, attracted by the interest rates offered, but not bear the risk because of the state guarantees. This state of affairs has led the central bank to propose amendments to the law. These proposed amendments were discussed by the Cabinet which decided to urgently submit it to the parliament for review during

¹⁸ Technical Meeting: “External Partners Policy Dialogue on major reforms of Mongolia” June 8, 2010.

the spring session. Under these amendments the government is also planning to impose a fee for deposit guarantees equal to the CBB rate deposit rate, place a threshold on the size of the deposits that can be guaranteed, and exclude related-party and interbank deposits from the guarantee's coverage. The fee from deposit insurance will be collected from the banks, accumulated in a fund and used to repay depositors in case a bank goes bust, thereby limiting the fiscal cost of bailouts for taxpayers. In addition, the government and central bank have jointly drafted the Limited Deposit Insurance Scheme Law which aims to gradually replace existing blanket guarantee.

A wider bank restructuring strategy was recently drafted by the Bank of Mongolia, reflecting lessons from international experience. The draft was discussed with various stakeholders, including the banks and members of parliament. The plan will now be submitted to parliament for discussion and endorsement. The proposed strategy is founded on three principles. First, there should be well-capitalized, strong and effective banks with fit and proper private owners and managers who can enforce banking laws and regulations. The banking sector is only as strong as its weakest link. Second, if owners cannot inject the additional necessary capital to comply with the existing prudential regulations, public funds to support banks could be used, but only as a last resort, and under stringent conditions, in order to limit the fiscal cost. Lastly, the recapitalization process should be fully transparent in terms of objectives and rules to pursue, and all banks should be treated fairly and equally.

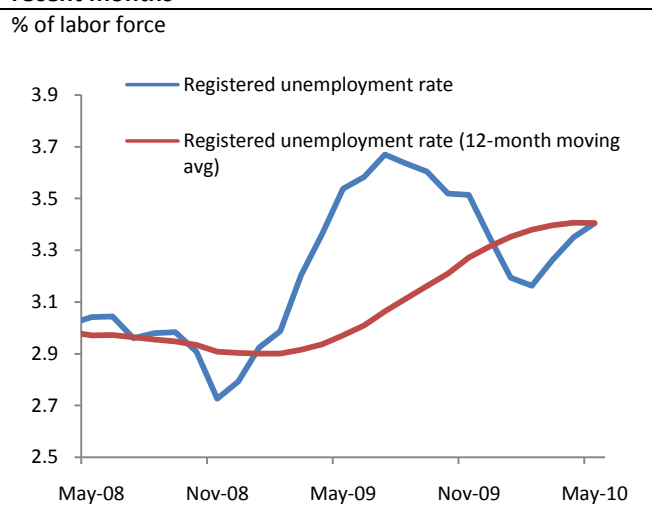
Labor Markets and Poverty

Unemployment, as measured by the labor force survey, has reached almost 13 percent

The official unemployment rate, which includes only those who are registered with the Labor and Social Welfare Service Center, has been trending downward since July 2009, falling to 3.4 percent in May (Figure 33). This is only slightly down on 3.5 percent in May 2009. However, the overall number of registered unemployed is 30 percent higher compared with December 2008.

Nevertheless, as explained in previous Updates, these numbers likely grossly underestimate the impact of the economic downturn on both the level of unemployment and real wages. According to the Fourth Quarter Labor Force Survey, which also takes into account those who are not officially registered as unemployed with the Labor and Social Welfare Service Centers, the unemployment rate stood at 12.8 percent, up from 10.5 percent in September 2009, with some 142,000 people unemployed from the total labor force of 1,120 thousand.

Figure 33 Registered unemployment* has decreased in recent months



Note: * Defined as working-age population currently not working in a paid job and not self-employed, actively looking for job and registered at the Employment Office.

Source: National Statistical Office, World Bank

The impact of increasing inflation is evidenced through a decline in real wages seen in informal markets

The World Bank has commissioned quarterly surveys to evaluate the changes in real income in Ulaanbaatar's informal labor markets during the recent years of crisis and recovery. These labor markets are an important source of income for migrants, unskilled, unemployed, students and the poor. The surveys have highlighted the substantial impact high inflation has had on real incomes. In mid-2008, when the consumer price index increased by over 32 percent yoy, the survey indicated that real effective incomes had fallen by about 60 percent in some informal urban labor markets. This was due to inflation eroding nominal wages as well as mounting job losses. Employment conditions also worsened for informal workers in rural regions. In particular, herders and informal mining workers were faced with decreasing job availability, falling wages and an increase in living expenses.

The latest survey was conducted in June 2010. In terms of the patterns of wages, workers' nominal wages on average increased by about 10 percent from January to June 2010. This was particularly due to an increase in job opportunities in the construction sector. Real wages, however, have declined on average due to the rise in inflation (Table 3). Consequently, the number of the workers surveyed who indicated that their earnings do not meet their basic needs increased by about 15 percent between January and June this year to reach over 35 percent of those surveyed.

Table 3 Daily wages of unskilled workers in selected informal labor markets in UB

Informal labor market	Total number of workers in the market (estimated)			Daily wages (MNT thous.)			Average real wage per hour (MNT thous.)		
	Apr-09	Nov-09	Jun-10	Apr-09	Nov-09	Jun-10	Apr-09	Nov-09	Jun-10
Railway cargo unloading in UB "44" area: Triangle bridge district	500	500	425	3.0-7.0	3.0-5.0	5.0-25.0	0.3	0.7	1.5
Container loading and unloading for freight companies	200	200	200	8	6.0-7.0	5.0-10.0	0.9	1.8	1.6
Supermarket shipments loading and unloading at "Bars" market	25	100	365	5.0-10.0	10.0-15.0	7.5-15.0	1.6	1.5	0.8
Merchandise carter Narantuul "Black market" in UB	400	300	325	5.0-6.0	8.0-10.0	4.0-15.0	1	1.2	0.9
Construction materials delivery "100 family" district	30	100	505	5.0-10.0	5.0-10.0	4.0-15.0	1.1	1.1	1.4
Total (estimated)	1255	1200	1820			Average	1	1.3	1.2

Source: Data from World Bank-commissioned special surveys conducted in April, September, November 2009, January and June 2010.

The latest survey also indicates a continued influx of workers into these informal markets. This reflects ongoing migration from the countryside due to the dzud (29 percent of survey participants were migrants from rural areas) and increased work opportunities offered by improved trade activities. Migrant inflows have resulted in a large expansion of *ger* areas, with infrastructure services failing to keep pace. Typically *ger* areas lack basic infrastructure services and are also characterized by high levels of environmental degradation. This in turn has raised important policy challenges of how best to sustainably develop these areas. A recent study by the World Bank has identified key priority areas that require attention by the government and considers different policy directions that could be adopted (Box 4).

Box 4 Managing Urban Expansion in Mongolia: Best Practices in Scenario-Based Urban Planning

The World Bank recently conducted a study of the key issues in ger area development in UB, conducting where possible, cost analyses and benefit analyses of basic infrastructure services in ger areas and consulting widely with a variety of stakeholders including ger area residents. The resulting report* aims to help policy makers and citizens of Ulaanbaatar improve their understanding of the implications of their policy choices and practices in “ger” area development.

The sustainable development of ger areas in UB is one of the critical development issues facing the country. The transition to a market economy and a series of severe winters have resulted in the large scale migration of low-income families into the ger areas of UB. The city represents 39 percent of the nation’s population and generates more than 60 percent of Mongolia’s gross domestic product.

This migration pattern has led to an unprecedented expansion of the “ger” areas. The traditional built up areas of the city center comprise some 130 km² but the total administrative area of UB, including ger areas, is now estimated at around 4,700 km². The population of the ger areas is now estimated to make up about 60 percent of the total population of UB. The city’s population has grown from some 600,000 in 1989 to more than 1 million in 2007 and is expected to reach 1.3 million in 2015.

Basic services are very limited or even non-existent in ger areas. Nearly 85 percent of ger residents use wood or coal-burning stoves for heating, in contrast to apartment buildings, which are connected to the central heating system. Ger residents must purchase water at public water kiosks, while apartment residents enjoy reliable supplies of piped-in drinking and hot water. The low density of ger areas, coupled with the extremely cold climate, makes the provision of these basic public services very costly. Poor urban services have also led to environmental degradation, including the pollution of air and soil, which poses such health risks as respiratory diseases and hepatitis.

Clearer policy directions, such as the “Compact City” concept of the UB Master Plan 2030, have emerged in recent years to control spatial expansion and promote high-density development for the ger areas. However, the government’s practices have been inconsistent. These practices are, in part, a result of limited awareness and understanding by the general public, as well as by policy makers, of the public costs of their actions on land management. Also, many supporting mechanisms, including land valuation and taxation, have not yet been properly developed.

The World Bank study’s intent is to clarify the costs and benefits of different development paths. These paths include:

1. conversion of ger areas into apartment building complexes;
2. gradual improvement of urban services for existing ger areas; and
3. further expansion of ger areas at the fringe of the city

Three ger areas were chosen for review as proxies of these paths. A khoroo (sub-district) in Naran Ger represents the first path (the “City Center” ger); another khoroo in the Bayankhoshuu Ger represents the second (the “Mid-tier” ger); and a third khoroo in Sharhad Ger (the “Fringe” ger) is the proxy for the last. Cost analyses—as well as some benefit analyses where possible and appropriate—were made for housing and land, water supply, municipal roads and public transport, heating, electricity, solid waste management, and other social services such as health and education.

The report concludes that the conversion of central gers to apartment complexes will take longer than the

government envisages, because of the high cost of apartments and the lack of supporting mechanisms, such as mortgage finance and real estate markets. The cost-benefit analysis also shows that it is extremely expensive to further improve the urban services of mid-tier gers to a full-fledged level equivalent to those of apartment areas. Taking into account that residents are relatively low income, gradual improvement of services, such as access roads within khoroos, heating, and solid waste management, within the affordability limit of residents and public financial resources, seem the most practical approaches for the majority of ger areas. Finally, investments in utility services at the fringe gers should be kept the minimum because it is very costly and the residents may not stay for a long period; they are very dissatisfied with the current living condition and are more willing to relocate, if they can find better residence and better opportunities elsewhere.

Findings of the report were shared in fourteen town meetings with about 1,000 ger area citizens, the government officials, NGOs, academia, professional associations and external donors early March 2010. Over 1,500 copies of the report in Mongolian language were distributed. The results of the survey with meeting participants showed that more than 80 percent of participants understood the cost-benefit implications well. The ger area residents also said they intended to use the information for community development discussions in the future. Ten Mongolian daily newspapers and an English news weekly, as well as most of TV stations, reported on the report and the town meetings, indicating Ulaanbaatar citizens' strong interest in ger area development.

Note: *"Enhancing Policies and Practices for Ger Area Development in Ulaanbaatar", World Bank (2010). See http://siteresources.worldbank.org/INTMONGOLIA/Resources/Full_report_in_Eng.pdf

Table 4 Mongolia: Key Indicators

	2003	2004	2005	2006	2007	2008	2009
Output, Employment and Prices							
Real GDP (% yoy change)	7	10.6	7.3	8.6	10.2	8.9	-1.6
Industrial production index	..	..	..	100	110.4	113.4	109.6
(% yoy change)	..	..	..	..	10.4	2.8	-3.3
Unemployment (%)	3.4	3.6	3.3	3.2	2.8	2.8	3.3
Consumer price index (% yoy change)	4.6	10.9	9.6	5.9	14.1	23.2	1.9
Public Sector							
Government balance (% of GDP)	-3.7	-1.8	2.6	3.3	2.8	-5	-5.4
Non-mining balance (% of GDP)(1)	-5.9	-5.8	-1.3	-7.3	-13.4	-15.1	-12.9
Domestic public sector debt (% of GDP)	3.1	1.4	0.1	1	0.5	0	6.3
Foreign Trade, BOP and External Debt(2)							
Trade balance (\$ mn)	-199.6	-99.2	-99.5	136.2	-52.4	-612.6	-157.9
Exports of goods (\$ mn)	627.3	872.1	1066.1	1542.8	1889	2539.3	1902.6
(% yoy change)	19.7	39	22.2	44.8	22.4	34.4	-25.1
Copper exports (% yoy change)	..	..	14.7	94.8	27.7	12.1	39.9
Imports of goods (\$ mn)	826.9	971.3	1021.1	1485.6	2117.3	3615.8	2131.3
(% yoy change)	21.6	17.5	16	25.4	42.5	70.8	-41.1
Current account balance (\$ mn)	-102.4	24.1	29.7	221.6	264.8	-721.9	-235.1
(% of GDP)	-7.1	1.3	1.3	7	6.7	-13.9	-5.6
Foreign direct investment (\$ mn)	131.5	128.9	257.6	289.6	360	836	426
External debt (% of GDP)	92.6	76	61.2	45.1	40.1	34.6	50
of which public & publicly guaranteed (% of GDP)	87.3	73.7	59.7	44.3	38.9	33.7	47.1
of which private (% of GDP)	5.4	2.4	1.5	0.7	1.2	0.8	2.9
Debt service ratio (% of exports of g&s)(3)	35.1	7.5	2.7	2.3	2	2	3.7
Foreign exchange reserves, gross (\$ mn)	203.5	207.8	333.1	718	1000.6	656.9	1327
(month of imports of g&s)	2.4	2	2.6	4.3	3.8	3	4.9
Financial Markets							
Domestic credit (% yoy change)	157.3	25.8	18.8	-3.1	78.4	52.5	-7.5
Short-term interest rate (% per annum)(4)	..	15.8	3.7	5.1	8.4	9.8	..
Exchange rate (MNT/USD, eop)	1168	1209	1221	1165	1170	1267.5	1442.8
Real effective exchange rate (2006=100)(5)	94.2	93.9	99.6	102.8	104.8	127.4	102.9
(% yoy change)	-4.8	-0.4	6.1	3.2	1.9	21.5	-19.2
Stock market index (2000=100)(6)	151.5	120.8	203.6	382	2048	1181.6	..
Memo:							
Nominal GDP (MNT bn)	1660	2152	2780	3715	4600	6020	6055
Nominal GDP (\$ mn)	1448	1814	2307	3156	3930	5258	4203
GDP per capita (\$)	583	722	900	1214	1491	1980	1600

(1) Non-mining balance excludes revenues from corporate income tax and dividends from mining companies, the Windfall Profits Tax and royalties. (2) The 2008 data for the balance of payments are based on the final revision. (3) On public and publicly guaranteed debt. (4) Yield of 14-day bills until 2006 and of 7-day bills for 2007. (5) Increase is appreciation. (6) Top-20 index, end of year, index=100 in Dec-2000.

Source: Bank of Mongolia, National Statistical Office, Ministry of Finance, IMF and World Bank staff estimates