GOVERNMENT OF MONGOLIA

MINISTRY OF FINANCE

Sixth Mongolia London Business Forum

GOVERNMENT OF MONGOLIA

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Recent Events

- **29 Jun 16**: New Parliament: Mongolian People's Party wins supermajority, 65/76 seats
- **16-19 Aug 16**: IMF team visit
- **9 Sep 16**: The Government Action Plan 2016-2020 ratified by the Parliament
- **1 Oct 16**: The Government of Mongolia, Bank of Mongolia and Financial Regulatory Commission drafted the "Economic Recovery Plan" (ERP), submitted to Parliament on 27 Oct
- **24 Nov 16**: Parliament approval of the ERP, 64 measures to be taken to recover from the economic downturn
- **24 Oct – 4 Nov 16**: IMF mission team visit, conducted initial assessment
- **19 Feb 17**: An initial agreement with the IMF for a 3-year EFF program, a **US$440 million** loan package as part of up to **US$5.5 billion** long-term loan support from multilateral/bilateral partners on concessional terms
- **2 March 17:** The Government of Mongolia offered to exchange new notes for DBM $580 bonds. A total of $3.3 billion in investor demand overwhelmed the $124 million new-money component of the eventual $600 million liability management exercise.

Key Policies of the Government

MACROECONOMIC ADJUSTMENT: Economic Recovery Plan approved by the Parliament

Strategy	Measures
Short Term: Stabilize macroeconomic conditions	• Reduce budget deficit and ensure sustainable funding
	• Reduce Balance of Payment pressure
	• Safeguard reserves, promote FDI and address short-term external repayments
Medium Term: Sustainable debt level and structural economic reforms	• Economic diversification and promotion of non-mining industries
	• Implementation of large-scale projects for economic growth
	• Good governance, legal and institutional reforms for sustainable, inclusive development

COMMITMENT FOR STRUCTURAL REFORMS

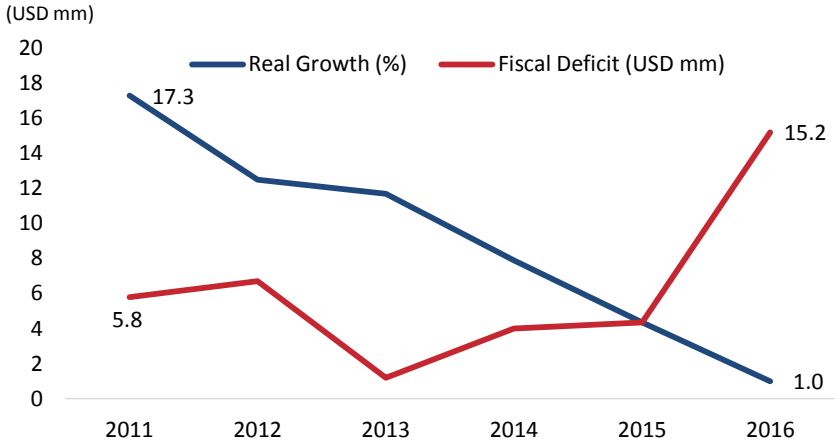
- Consolidate fiscal activities and regain debt sustainability
- Reform Bank of Mongolia by conducting prudent monetary policy and discontinuing quasi-fiscal activities of the Central Bank
- Development Bank of Mongolia to operate in independent and commercial manner
- Investor Protection to maintain investors' confidence and promote FDI

Mongolia's Road to Recovery

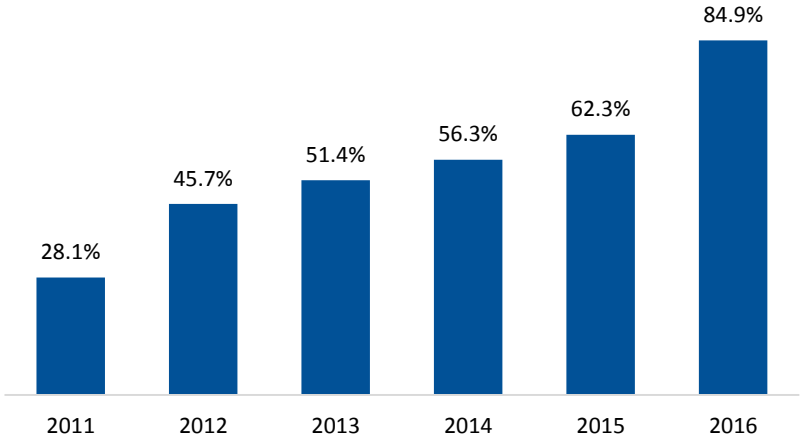
Strategy	Measures
Mongolia's Reform Agenda: the Economic Recovery Plan ("ERP")	• Fiscal consolidation • Pursue macro-prudent monetary policy and strengthen the financial sector • Promote FDI to unlock economic potential, regain growth momentum and achieve a sustainable growth path
IMF Program to support the Government's ERP: • Macro stabilization / crisis prevention • End to the boom-bust cycle and foundations for sustainable and inclusive growth	• Extended Fund Facility for approximately US$440 million • Up to US$5.5 billion budget and project support financing from the multilateral and bilateral partners • Public Investment Program will be rationalized and aligned with national development priorities • Strengthening of the banking system to ensure that the banks can support sustainable and inclusive economic growth • Boost economic activity by attracting new investments into major mines, implement structural reforms and promote economic diversification
Unlocking Mongolia's potential	• Mongolia is well endowed with world class mineral resources, strong potential in renewable energies, agriculture and tourism, as well as a young and dynamic population • Commodity prices have bottomed out, highlighting the strong upside potential of Mongolia's economy

Current Challenges

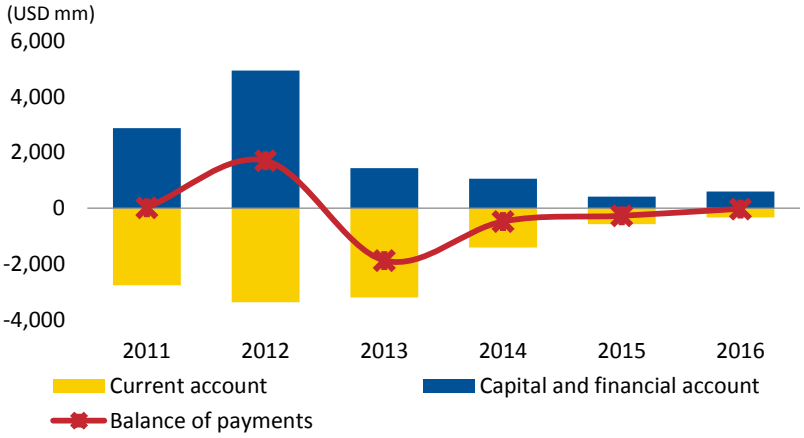
Persistent fiscal deficit during deteriorating growth…



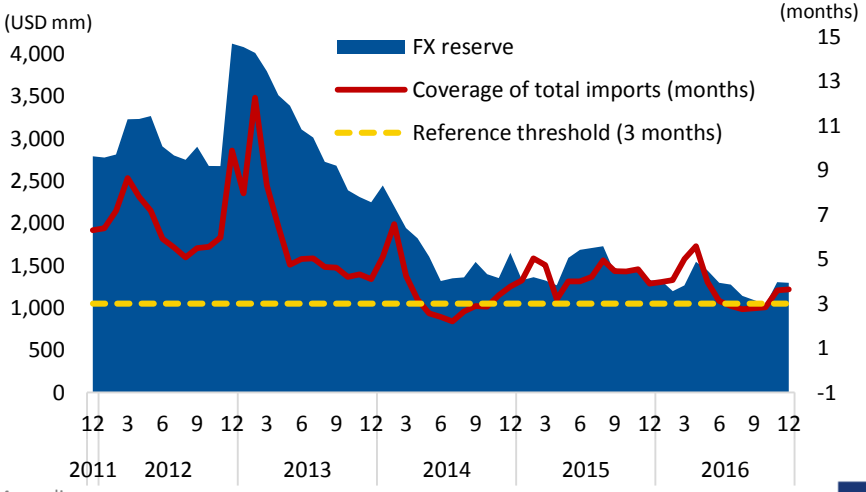
…led to unsustainable government debt-to-GDP ratio



Negative balance of payments and shrinking FDI…



…led to low FX reserves, USD 1.3bn at YE2016

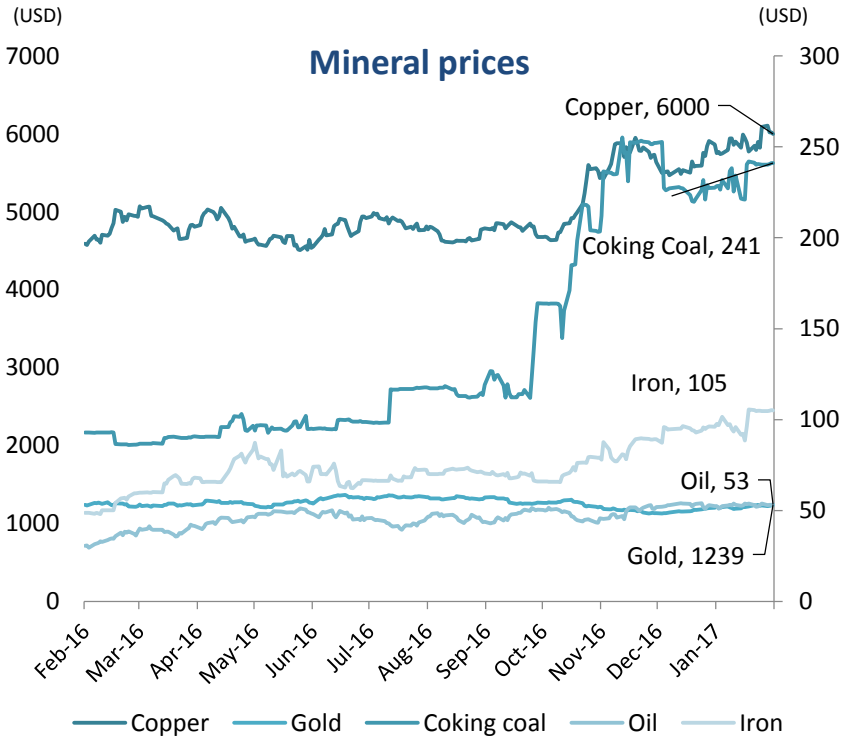


Source: Government of Mongolia, Ministry of Finance of Mongolia, National Statistics Office of Mongolia

Mineral Prices Outlook supports Recovery in Trade Balance & Fiscal Stance

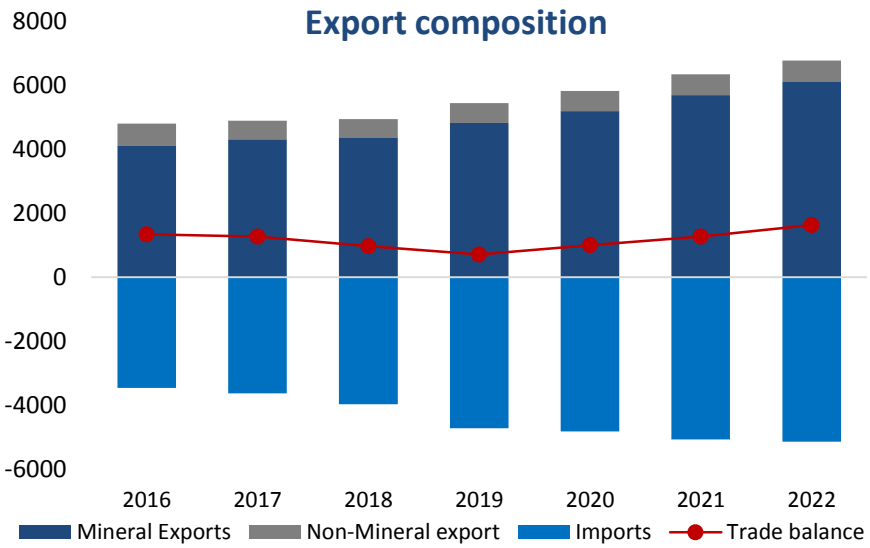
Mineral prices projected to increase globally

Global mineral prices increased with copper reaching $6106 per ton and coking coal reaching $255, which improved production in the mining sector. The production of copper concentrate, coal, gold, and iron ore grew 8.3%, 46.7%, 26.7% and 15.8% respectively according to preliminary estimates of 2016.



Positive effect on trade balance

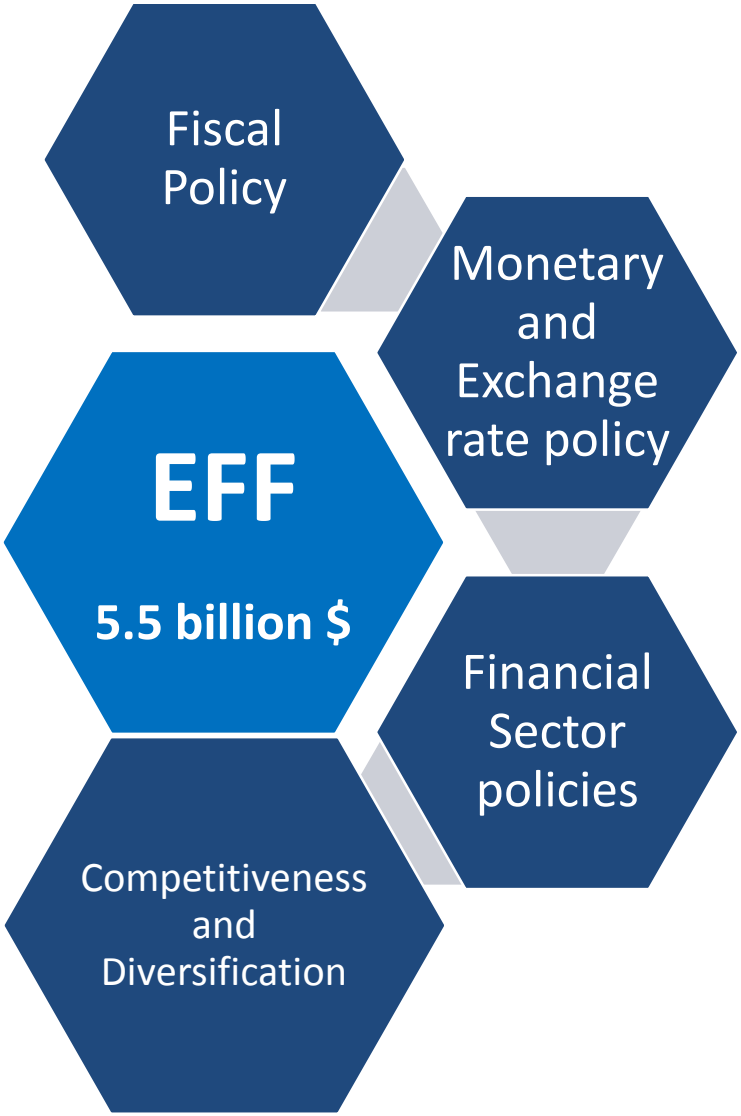
Around 40% to 60% of all extracted minerals are consumed by China, which also accounts for 50% of the world demand for coal. China's government released the framework for its 13th five-year plan (FYP) in March 2016. The FYP outlines the economic and social development goals for 2016-2020, which will drive China's copper demand over the period. This creates a steady and growing demand for the abundant supply of natural resources in Mongolia.



Export Projection	2016	2017	2018	2019	2020
Coal production (million tons)	33.7	31.2	37	41.1	44.2
Copper concentrate export (million tons)	1.5	1.3	1.2	1.2	1.1
Iron ore export (million tons)	6.1	11.2	14.6	17.3	16.5

Source: Government of Mongolia, Ministry of Finance of Mongolia, National Statistics Office of Mongolia

Extended Fund Facility (EFF) Program agreed on Feb ’17



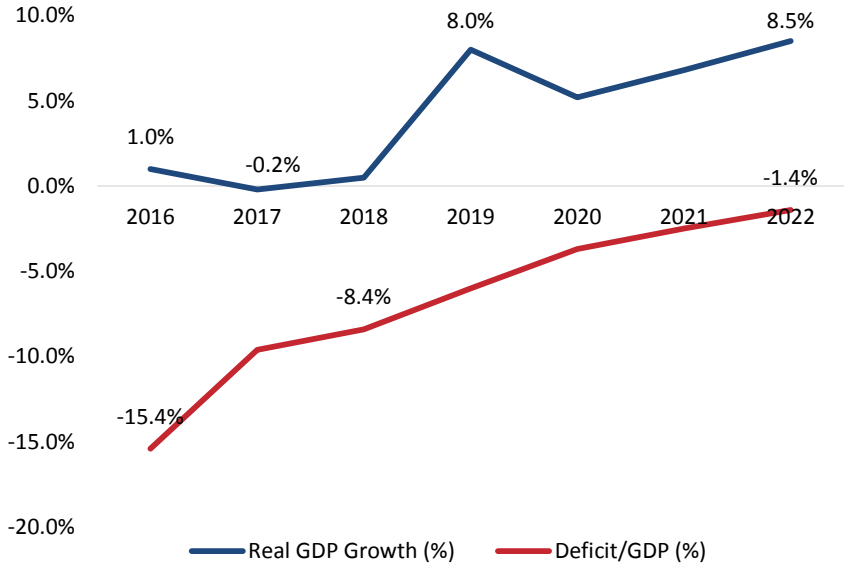
- **Prudent** macroeconomic and financial **policies**
- Wide range of **Structural Reforms**
- Overall **US$5.5 billion long-term loan support** from multilateral and bilateral partners with concessional terms.

Medium term objectives

Healthy FX Reserves → **Debt Sustainability** → **Long-run Growth**

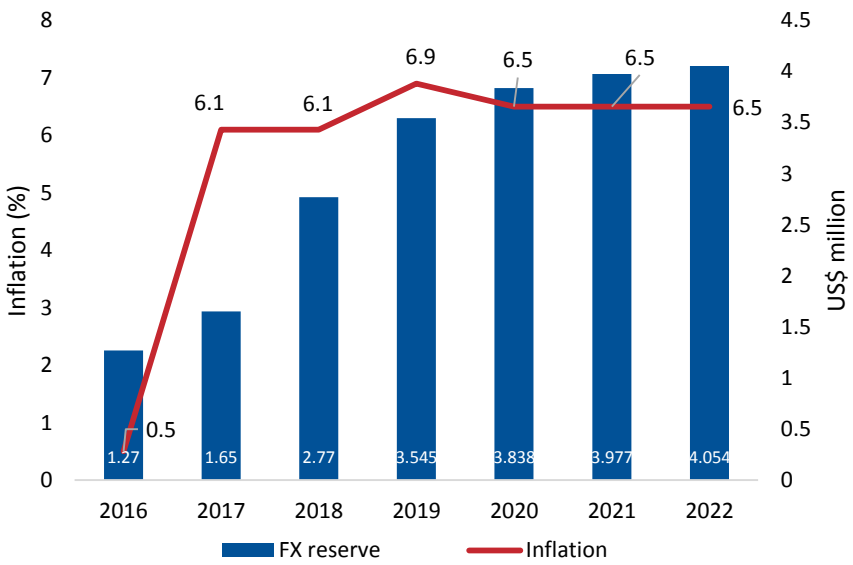
Improvement of GDP Growth and Financial Indicators

Real Growth



Economy will regain growth momentum starting from 2017 and with a commission of the TavanTolgoi mine in 2019, the economy will experience positive outcome

Financial indicators



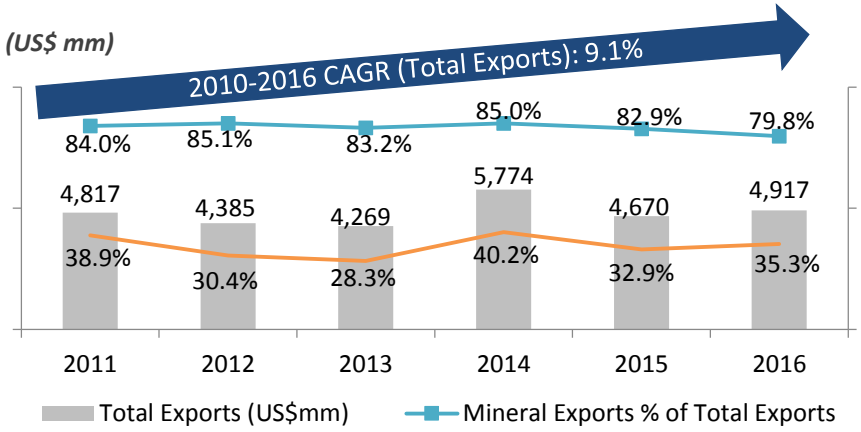
Year	2016	2017	2018	2019	2020	2021	2022
BOP	-3.0	-4.9	-9.4	-13.5	-10.5	-8.3	-6.1

In the medium term, a strong FX reserve position with sustainable fiscal balance is expected. The Fiscal deficit is expected to decline significantly. Inflation will be maintained at moderate levels.

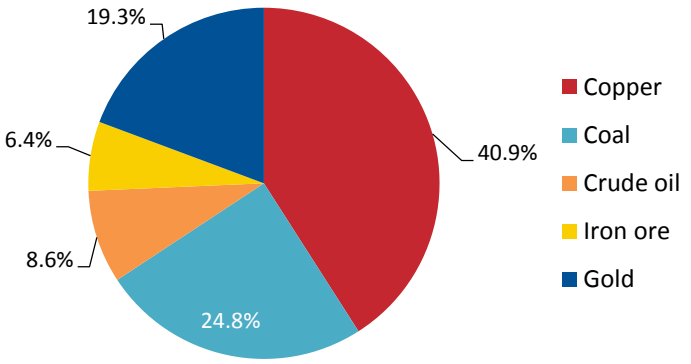
Source: Government of Mongolia, Ministry of Finance of Mongolia, National Statistics Office of Mongolia

Mineral Resources to drive strong Growth Prospects

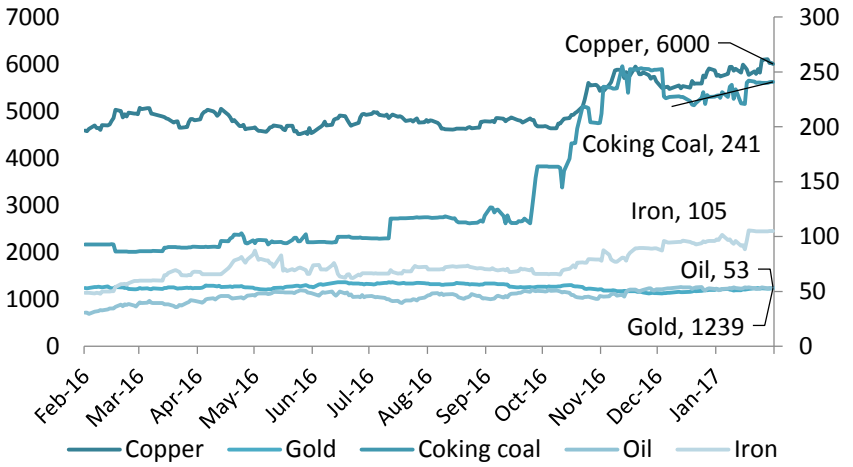
Importance of Mineral Sector in the Economy



Composition of Mineral Exports (2016)



Benefits from rising mineral prices



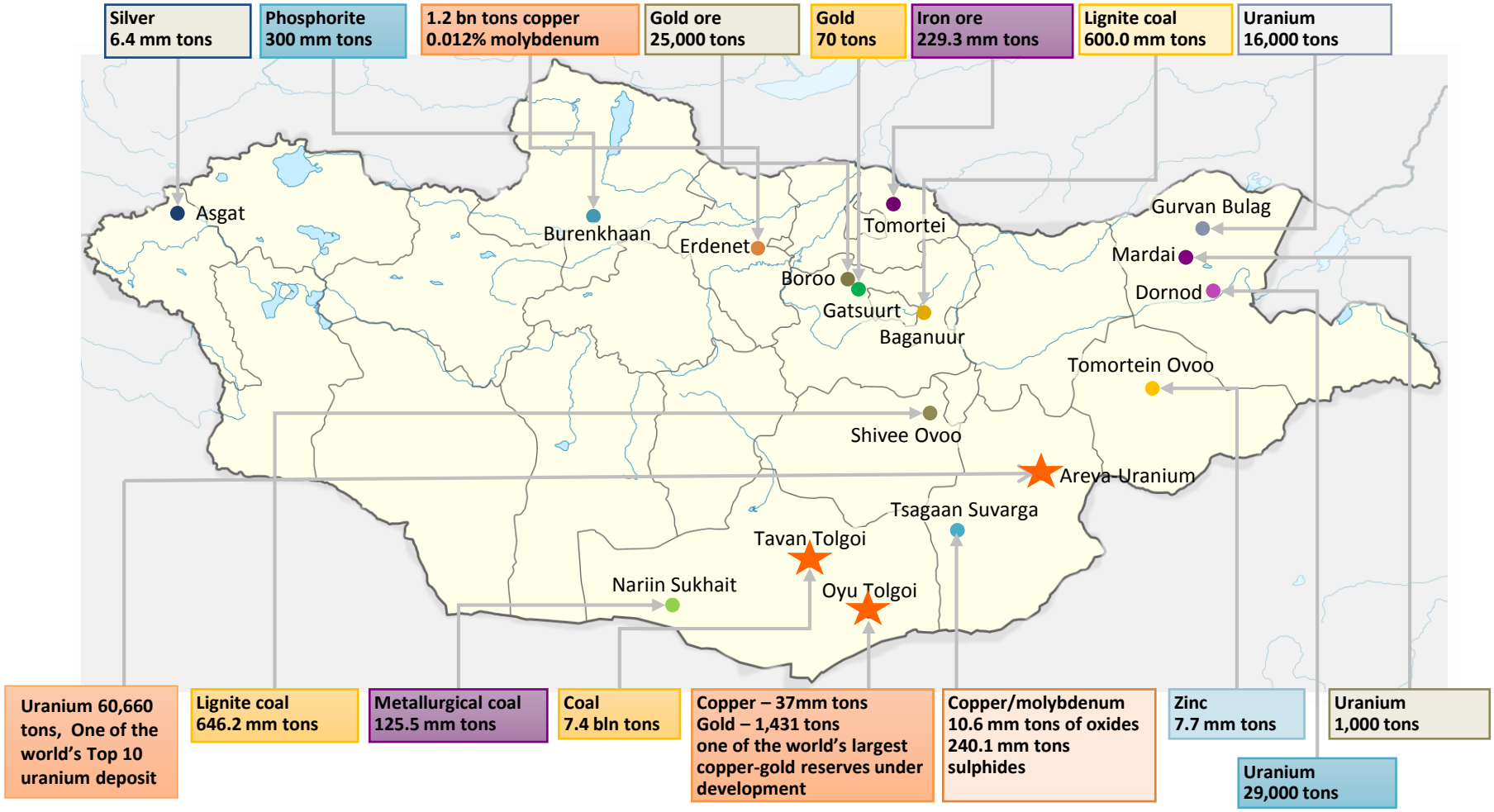
Mongolia's World Class Mineral Reserves

Main Mineral Resources	Estimated Reserves
Coal* (bn tons)	175.5
Copper** (mm tons)	57
Iron ore (bn tons)	1.2
Gold (tons)	2500
Zinc (mm tons)	1.7
Fluorspar (mm tons)	48.8
Uranium (thousand tons)	180
Oil (mm tons)	332.6

*10% of total World Reserve; ** 4 the largest in the World

Source: Government of Mongolia, Ministry of Finance of Mongolia, National Statistics Office of Mongolia

Mineral Resources Breakdown by Region



Source: Ministry of Mining and Heavy Industry

Key Growth-Driving Projects

Project	Highlights	Expected investment	Expected Completion Date
Oyu Tolgoi phase II	US$825-925 million investment in underground, US$100 million investment in open pit mining within 2017	US$6.4 billion	2020
Tavantolgoi railway	Commenced in May 2013 and 75% completed as of May 2014; US$200mm invested in the project	US$1.3 billion	2019-2020
Tavan Tolgoi mining	Shenhua-MMC- consortium continues negotiation with Government	US$1 billion	2019
Tavan Tolgoi power plant	Marubeni / MCS Power signed investment contract in June 2016	US$1 billion	2020
Gatsuurt gold mining	Government expected to grant permission by April/May 2017	US$600 million	2017

Source: Government of Mongolia, Ministry of Finance of Mongolia, National Statistics Office of Mongolia

Thank You!

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