



OVERVIEW OF MONGOLIAN ECONOMY IMPACT OF THE GLOBAL ECONOMIC CRISIS

G.Jargalsaikhan

Director

**Foreign Trade and Economic Cooperation Department
Ministry of Foreign Affairs and Trade**

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Mongolia at glance



Territory	18th largest country in the world 1,565,000 km²
Population and population density	135th in the world -2.7 million 1.7 people/km² on average 180 people/km² in Ulaanbaatar
Political structure	Parliamentary democracy from 1991 Multi-party system, /2 large parties MPRP and Democratic Party/
Current Prime Minister	Sukhbaatar Batbold /MPRP/
Climate	Continental (large daily and seasonal temperature ranges)
Current President	Tsahia Elbegdorj /nominated by the Democratic Party/

- Started transition to market economy in 1991 under extremely difficult conditions
- In 1990-1992 transition crisis, GDP was falling at 9-10% annually
- In 2004-2008, Mongolia was one of the fastest growing countries
- Between 2004 and 2007 GDP per capita increased from 720 USD to 1971 USD or 2.7 times.

Major industries



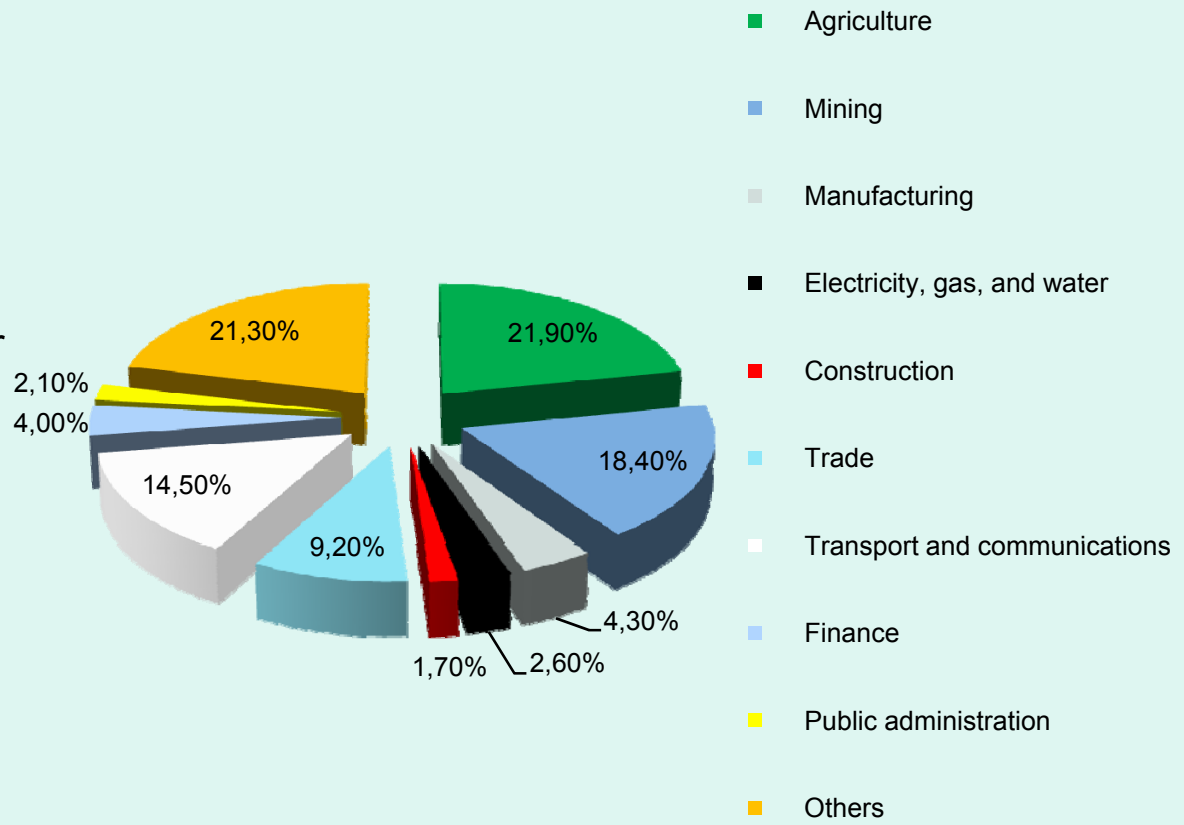
Mining: 18.4% of GDP
58% of industrial output

Agriculture: 22% of GDP
43 million heads of livestock: a potential “eco” export products for investment

Transport and Communications:
14.5% of GDP

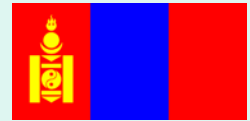
Manufacturing: 4.5% of GDP
30% of industrial output

Financial Services and other Services
Industry have been developing gradually.



Source: Country Profile 2009, ADB

A fast-growing market economy



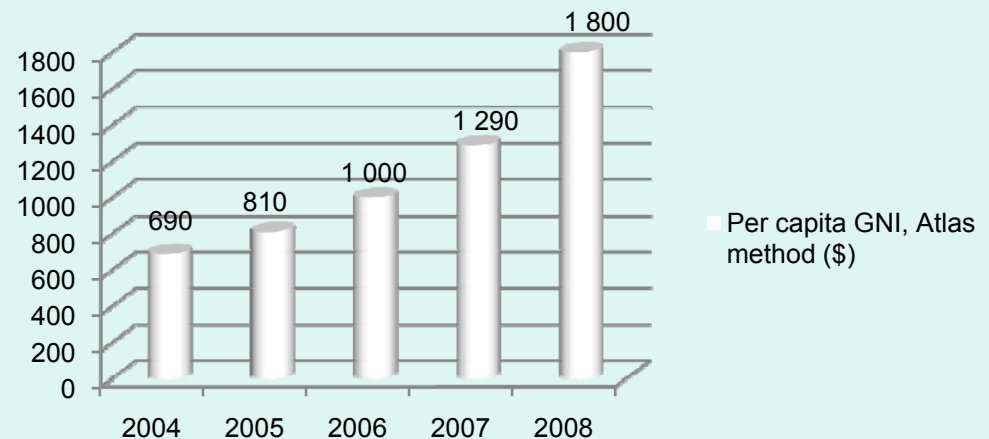
- Mongolia has experienced high GDP growth rate averaging over 9 % per annum for the past 5 years.

High GDP growth

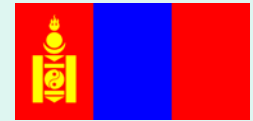


- GDP per capita has doubled in last 4 years.

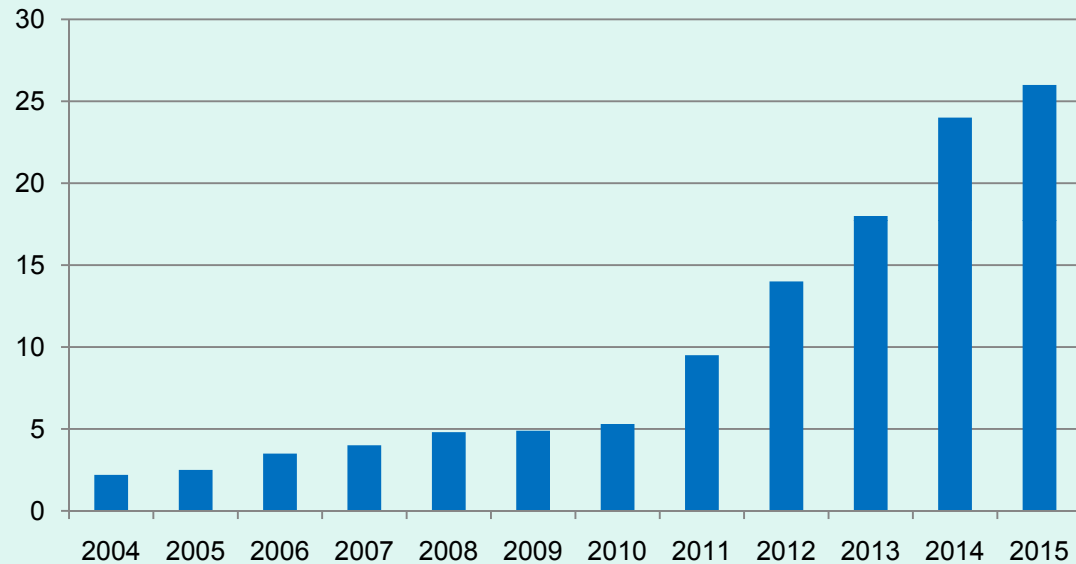
Growing Purchasing Power



A fast-growing market economy



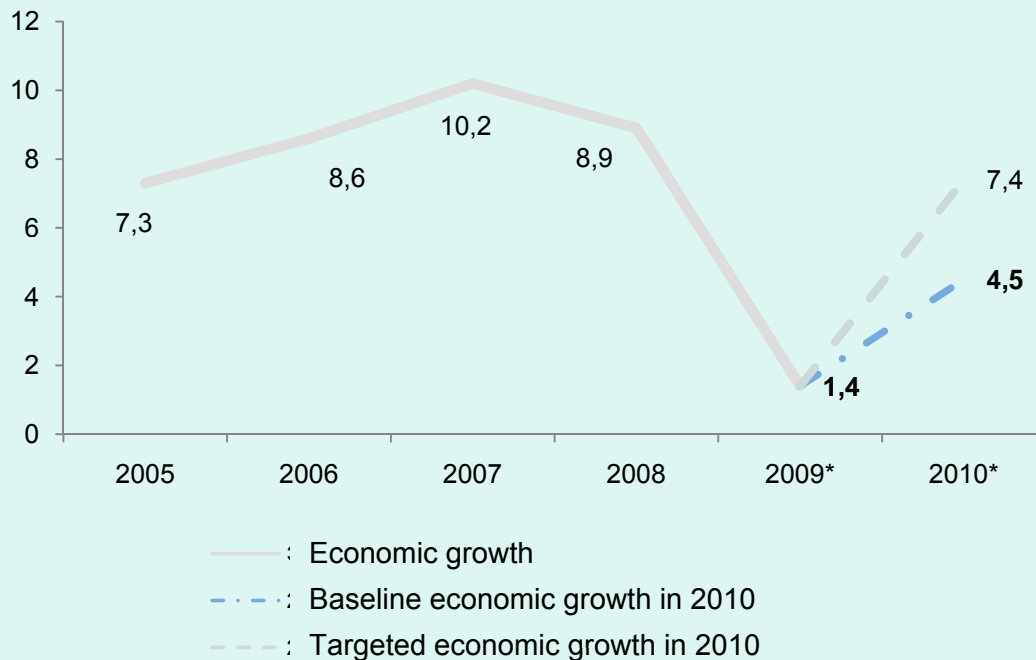
Nominal GDP Forecast, USD bln



- Mongolia is expected to experience solid economic growth over the next few years from stronger mineral production and other industries as well.

Impact of the economic crisis

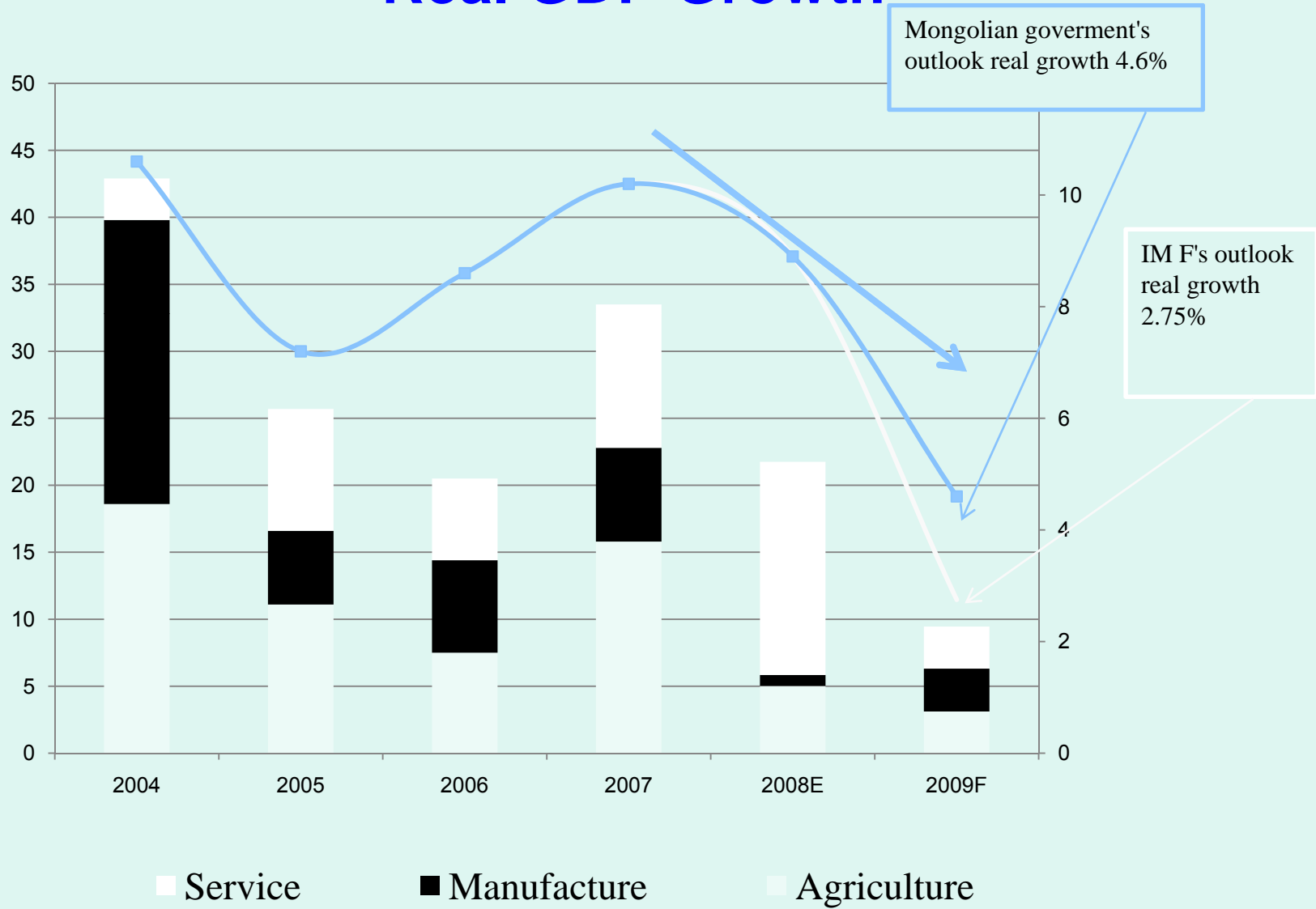
Economic growth of Mongolia, and its projection



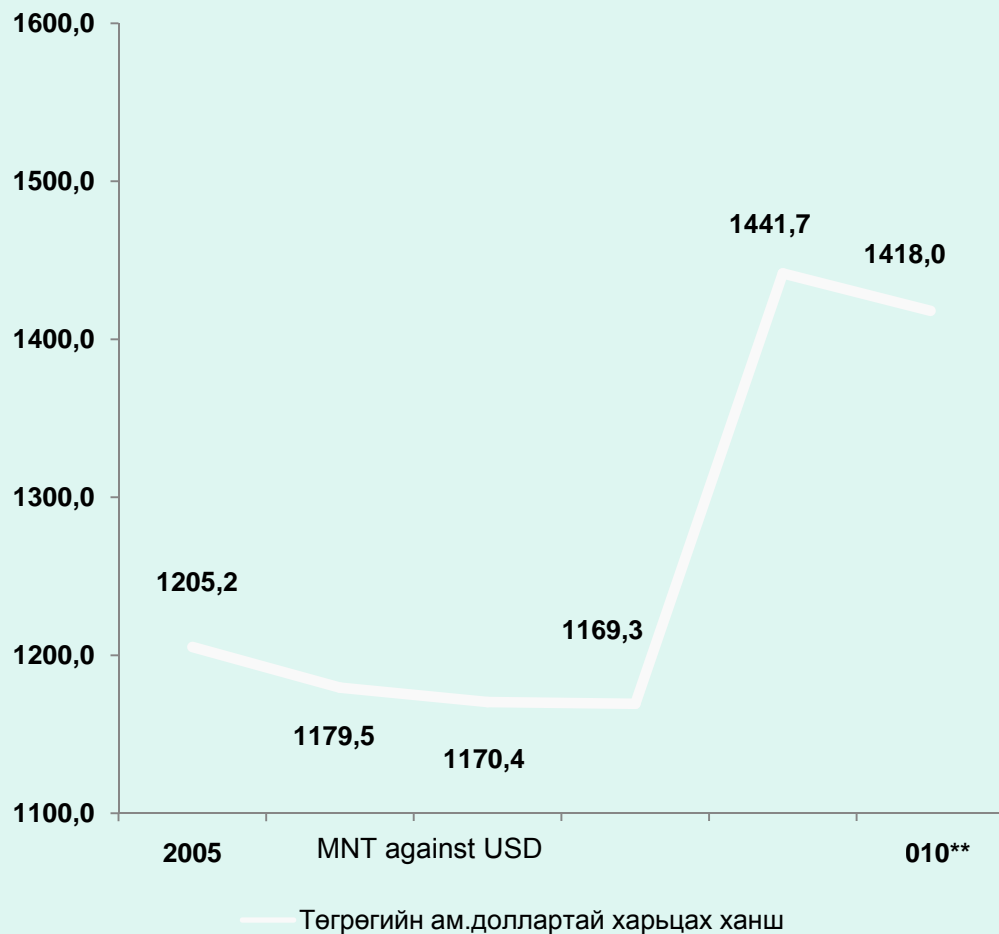
In 2008, the nominal GDP of Mongolia reached to 6.1 trillions MNT and increased by 8.9 percent. GDP growth is expected to be 1.4 percent in 2009.



Real GDP Growth



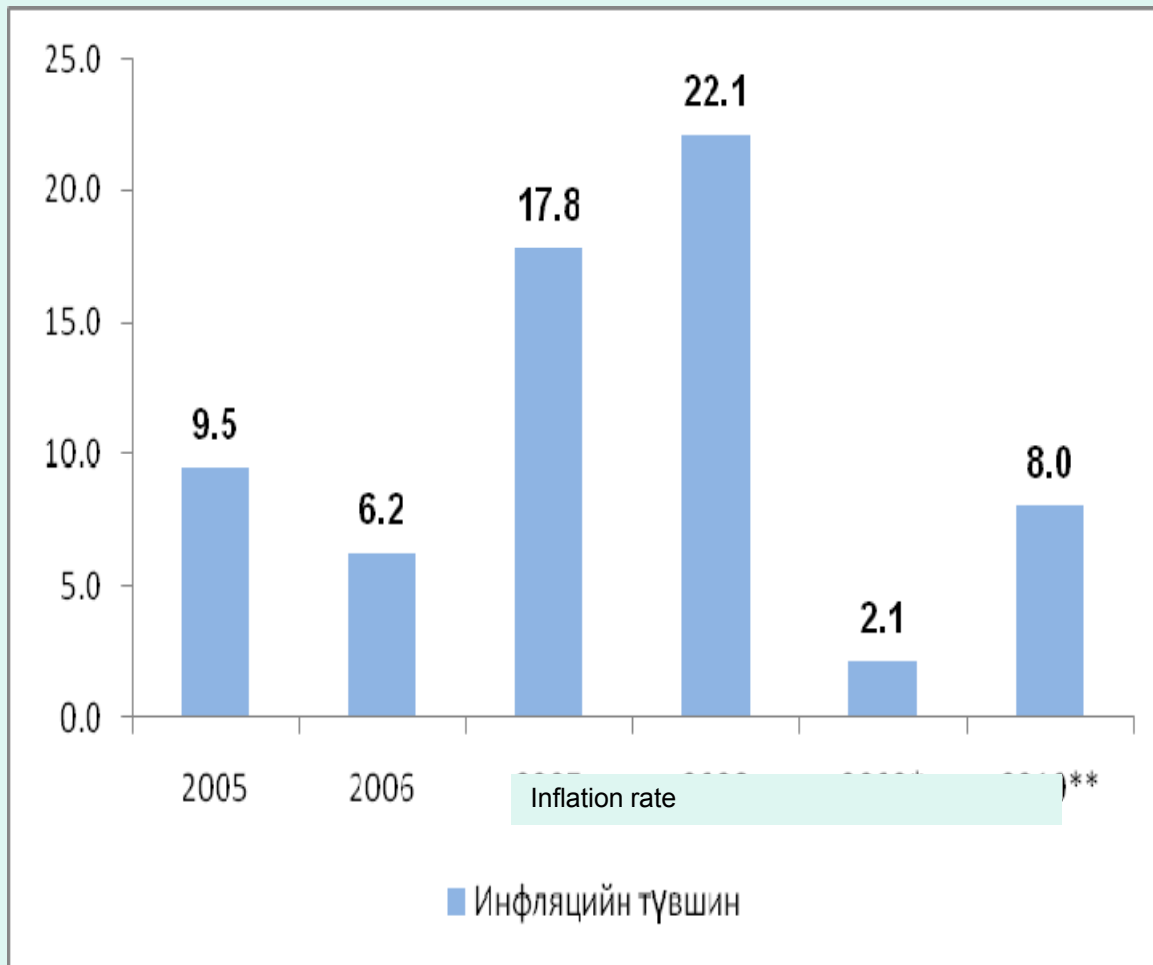
Annual average exchange rate of MNT vs. USD



- Exchange rate of MNT against USD remained relatively stable until 2008.
- From the beginning of 2009, the exchange rate declined sharply.
- The first nine month average exchange rate of MNT vs. USD is 1441.7
- The exchange rate is forecasted to appreciate in 2010, reaching annual average of 1418.0

Inflation rate

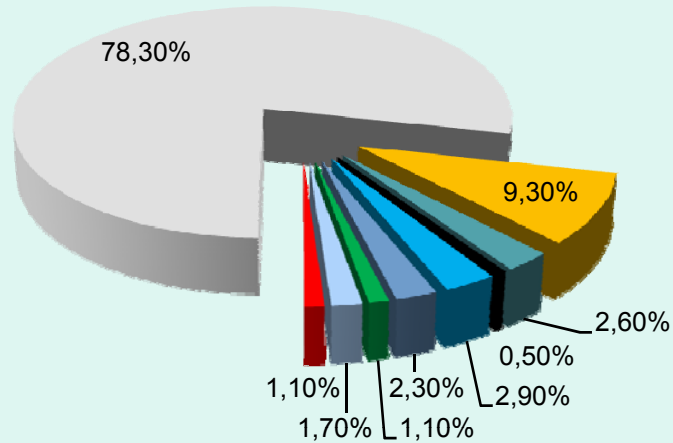
/by year-on-year, percentage/



- As a consequences of an expansion in the economy over the period of 2007-2008, the inflation rate raised to 22.1 percent.
- The inflation rate has been gradually declining. 2.1 percent in September 2009.
- Targeted inflation rate in 2010 - not higher than 8 percent

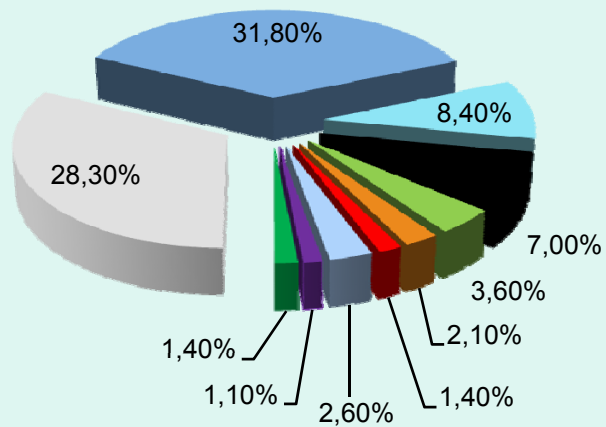
Exports & Imports

Major Exporting Partners , 2008



- China, People's Republic of
- Canada
- United States
- United Kingdom
- Russian Federation
- Italy
- Korea, Republic of

Major Importing Partners, 2008

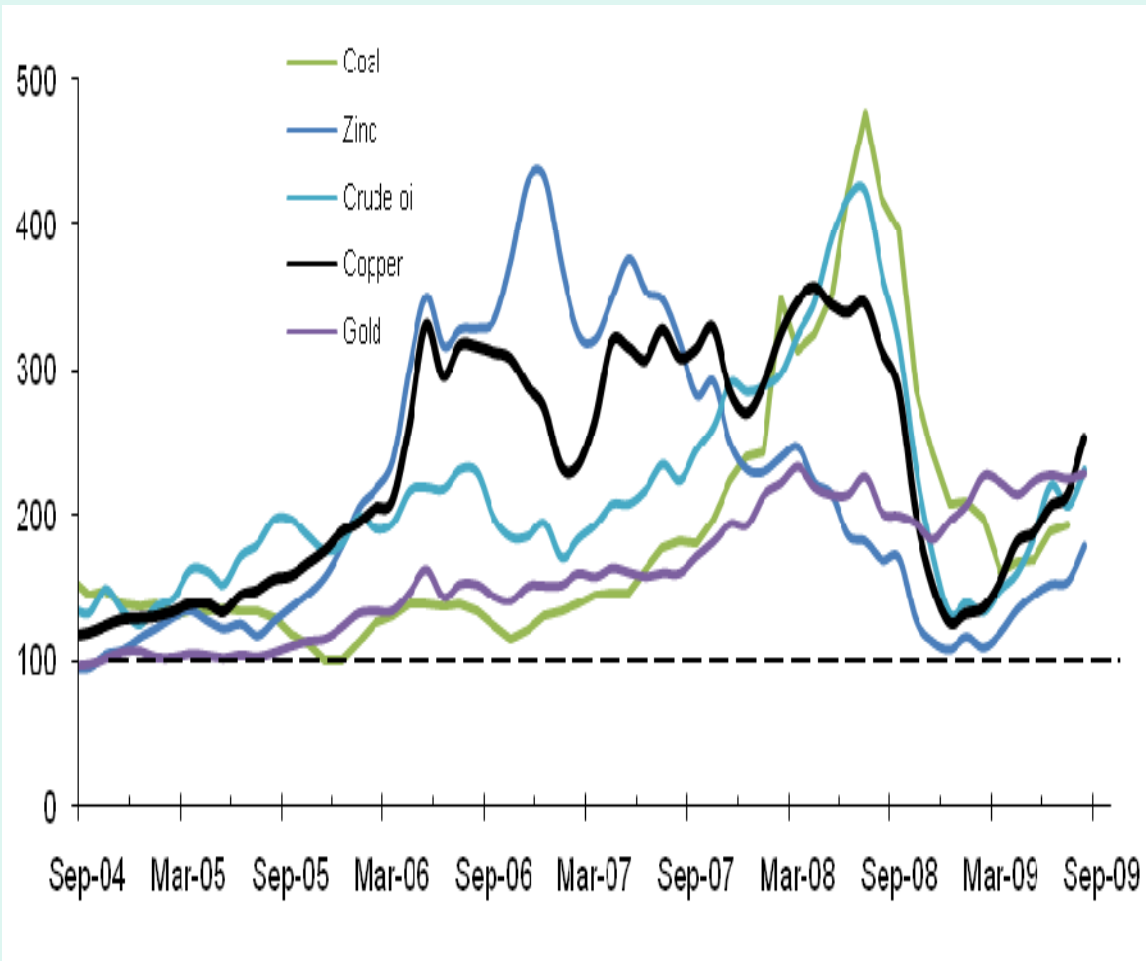


- Russian Federation
- China, People's Republic of
- Japan
- Korea, Republic of
- Germany
- United States
- Kazakhstan
- Singapore
- Ukraine
- Korea, Democratic Republic

Source: Country Profile 2009, ADB

Foreign trade

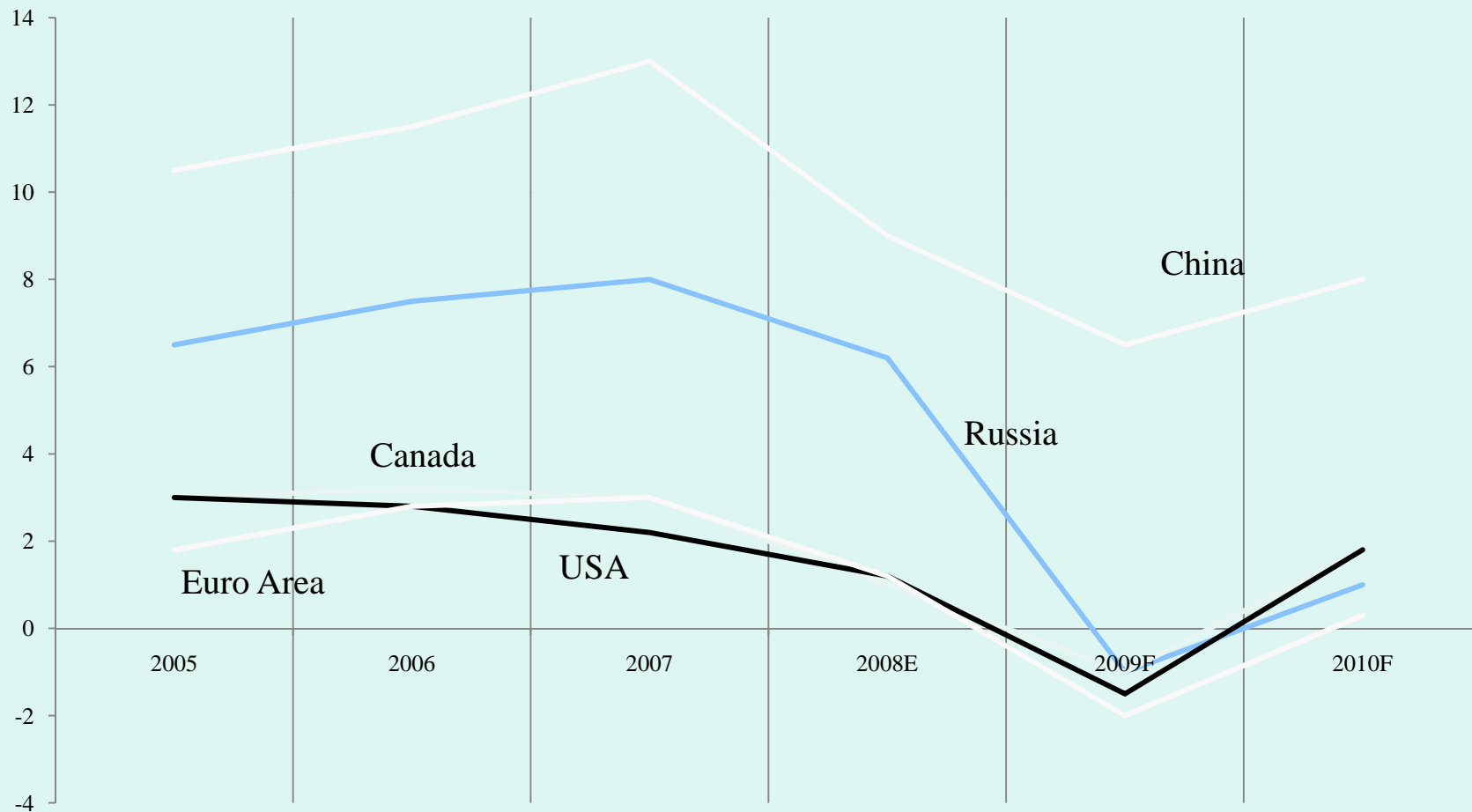
Price indices of the main commodities:



Since 2008, the price of main export commodity of our country, namely copper, has been collapsed that led to a dramatic decline in tax revenue as well as an increase in trade balance's deficit.

Demand is falling in Mongolia's main trading partners

% real growth



FOREIGN TRADE

- In 2008 foreign trade turnover amounted to US\$ 6.1 bln. and in comparison with 2000 the volume went up four-fold.
- In 2009 due to global financial crisis and recession the volume of foreign trade dropped by approximately 35%
- As the statistics for the first ten months display, the foreign trade turnover amounted to US\$ 3.2 bln. which means decrease by 34.5% against the same period of the last year
- Import amounts to US\$1.7 bln. /decrease 30.9%/
- Export US\$ 1.5 bln. /37 %/
- Reasons of decrease: prices of main export items such as copper concentrate, molybdenum concentrate, unprocessed gold, zinc concentrate dropped by 34.8 – 49.2%

“GSP+” Scheme



- EU “GSP+” incentive is aimed at encouraging sustainable development and good governance of developing countries. “GSP+” scheme allows Mongolia to export around 7200 products duty free to the EU market.

For instance:

- copper and copper products, iron and iron products, aluminum, lead and lead products, iron and iron products
- meat, meat offal or blood products, prepared or preserved meat
- textile, knitted or crocheted articles
- wool, cashmere, cashmere products
- wool, fine or coarse animal hair etc.

Crisis-response measures

The Temporary Committee led by the Prime Minister of Mongolia for the Implementation of Crisis response plan has been established on 9 March 2009.

The Government approved Crisis-response programme in order to:

- (i) improve capital budget planning and execution, and protect the maintenance of basic infrastructure;
- (ii) protect the poor during the downturn by retargeting existing social policies to the poor;
- (iii) strengthen confidence in the financial sector by preparing an action plan for the resolution of the failed bank, and enhancing contingency planning and systemic risk monitoring;
- (iv) clarify the mining policy framework by adopting draft model investment agreements, which incorporate responsible mining practices.

Cooperation with Development Partners

The World Bank's Board has endorsed a new strategy of support for Mongolia in May 2009.

An interim strategy provides a framework of support for the 18 months while economic conditions in Mongolia stabilize. Its goal is to support the Government of Mongolia to address urgent crisis needs while also addressing longer term reforms needed to reduce the impact of future shocks.

Stabilization Program

To ensure fiscal stability and ease the balance of payment deficit, the Government of Mongolia agreed to implement Stand-by program with the IMF in March, 2009. The program was approved by the IMF Board of Directors on April 1, 2009.

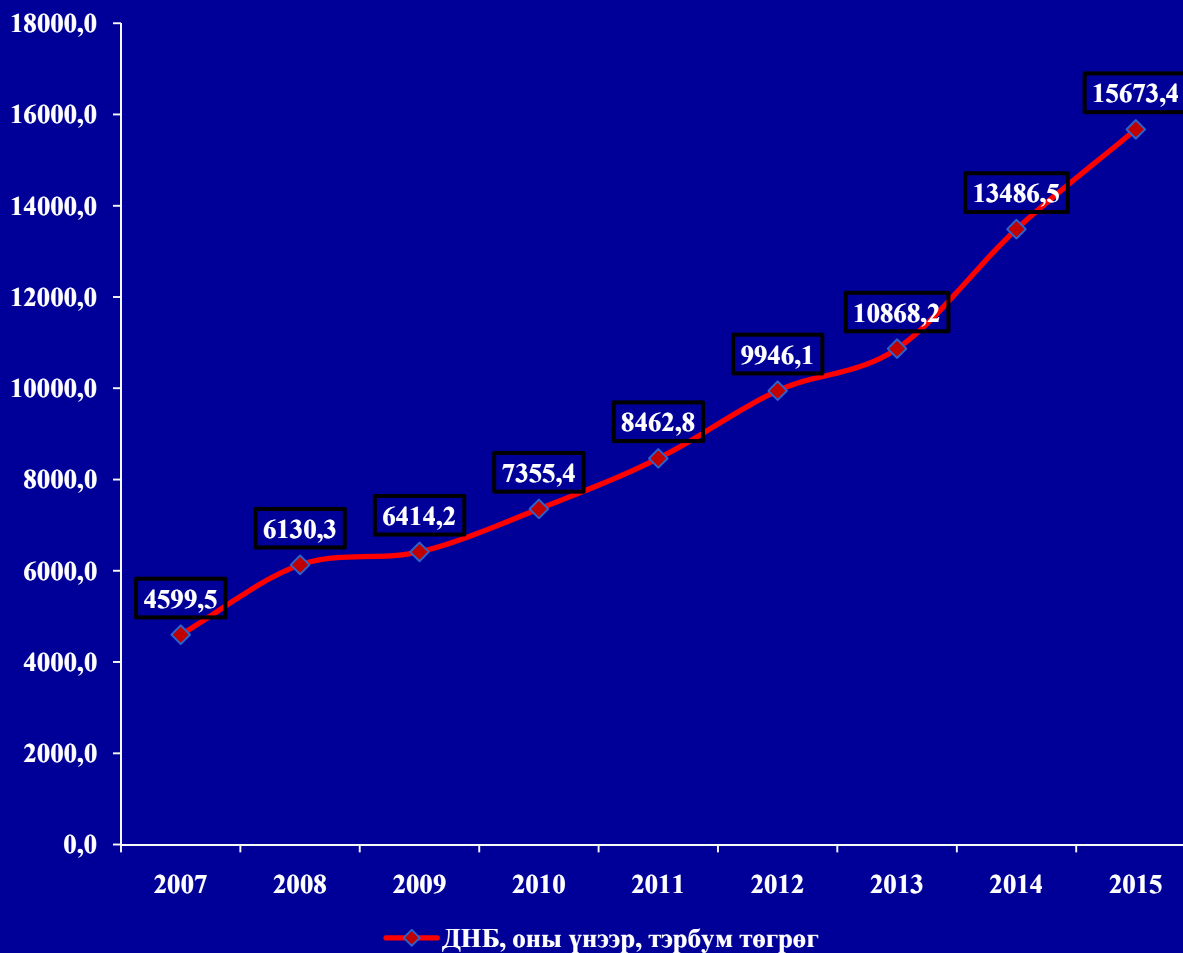
- In the scope of Stand-by program:
IMF provide funding of 230 million USD for 18 months to ease the balance of payment deficit**

World Bank, ADB, and the Government of Japan committed to finance 62.9, 90 and 45 billion MNT to cover the budget deficit

Impact of selected projects such as Oyutolgoi (copper, gold) and Tavantolgoi (coal)

GDP in current prices

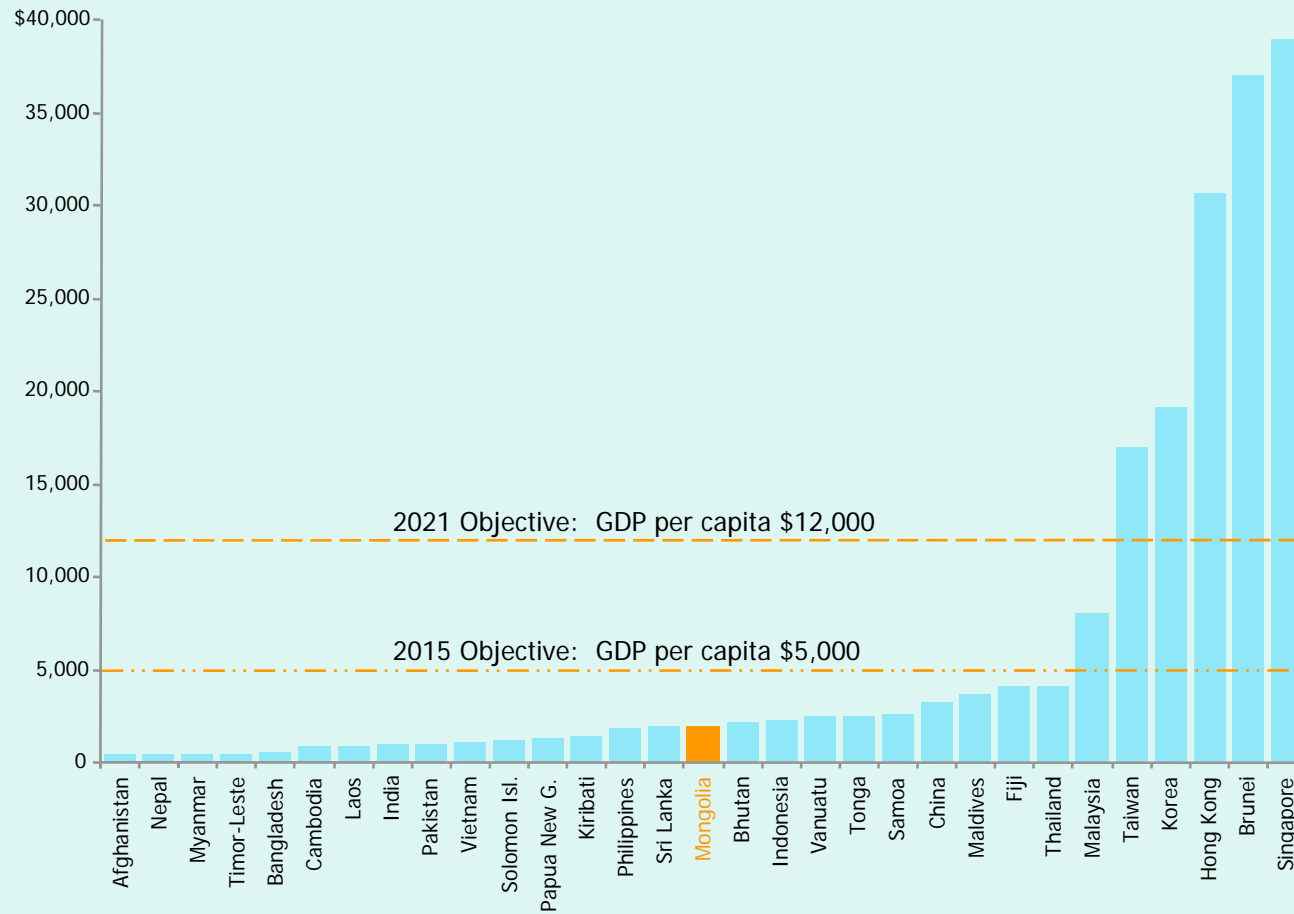
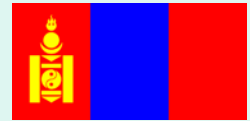
- 2010-2015 Mongolian economy will grow faster due to mining
- GDP in nominal prices will increase 3 fold



Development Priorities 2010-2015

- Development of mining sector, establishment of heavy industry base – metallurgy, copper smelting, oil processing, chemical industry
- Intensification of agriculture, industrialization
- Development of infrastructure to support mining and industrialization
- Human development, sustainable development
- Improvement of Governance, support of private sector

Mongolia's National Development Strategy objectives

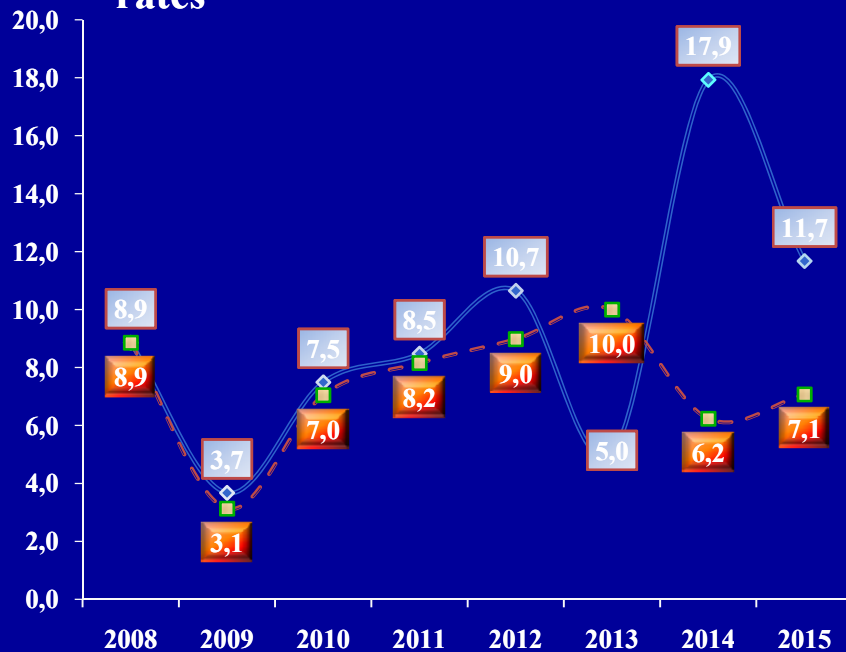


Achievement of the National Development Strategy would place Mongolia into one of the key economic powers in the regions within 10 years.

* International Monetary Fund, World Economic Outlook Database, October 2009

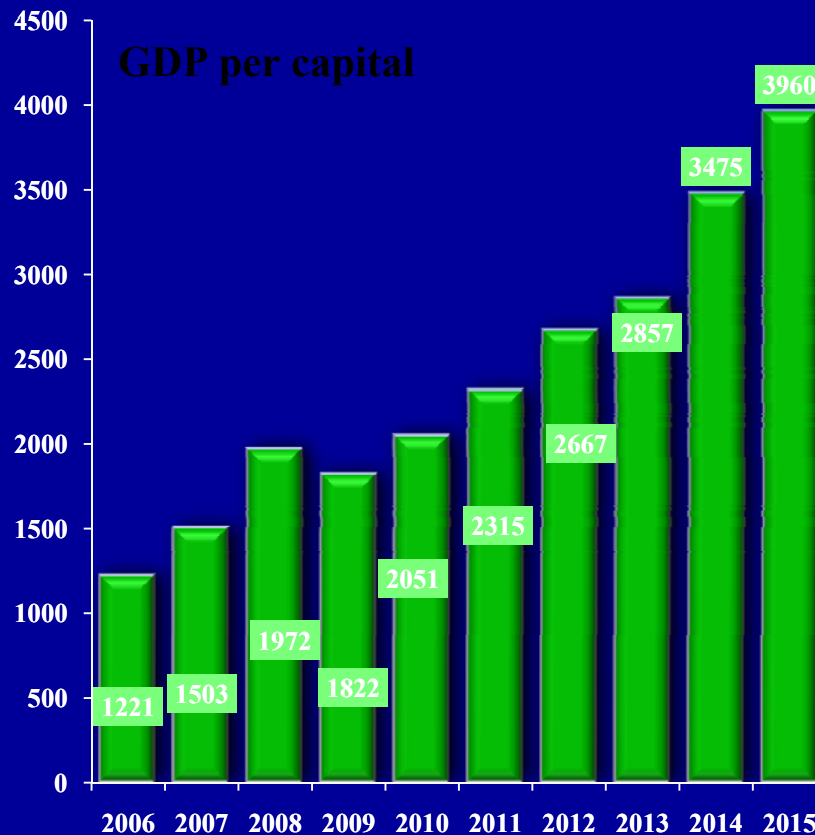
- Baseline economic growth rate projection is 7.9% for 2010-2015
- Development of new mines will increase growth rate to 11.6%
- In 2014, economic growth rate may reach 18%
- GDP per capita will increase almost 3-fold

Mining projected and baseline growth rates



—◆— Эдийн засгийн бодит өсөлт, хувь /уул уурхайн ордууд ашиглалтанд орсноор/

-■- Эдийн засгийн бодит өсөлт, хувь /суурь хувилбараар/



Economic diplomacy

The Government adopted a Programme on.. on last October with a view to enhancing foreign economic relations in the following areas.

- Trade
- Investment
- Bilateral and multilateral cooperation
- Development assistance and loan
- Country promotion abroad

Conclusion

- Mongolia is on the path to become one of the fastest growing economies in the world.
- Mongolia has been affected by the global economic crisis like other countries. The Government of Mongolia has responded with an ambitious crisis-response programme to make the economy more robust in the medium-term.
- Although the growth is expected to slow down in 2009, the economy is about to quickly recover in 2010 and expand extensively due to development of mining sector.
- There is a huge opportunity for both domestic and foreign investors to undertake profitable economic activities in Mongolia.

**We greatly welcome your interest in
Mongolia.**

**Thank you for your participation in
Europe-Mongolian Investors' Forum**

