



Mongolia Monthly Economic Update

World Bank

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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 work 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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Executive Summary¹

This month's Mongolia Economic Update provides a review of the main economic, fiscal and financial developments over 2009, the policy response and future challenges. Collapsing mineral prices and a steep drop in external demand due to the global downturn hit Mongolia's economy extremely hard. This external shock exposed underlying weaknesses in the economic and policy environment, as demonstrated by the sudden and sharp deterioration in fiscal and external balances and in the quality of banks' balance sheets. However, the strong policy response of the authorities, helped by improved external conditions, led to a rapid stabilization in the economic situation from mid-year. Nonetheless, real GDP in 2009 fell by 1.6 percent on a preliminary basis after growth of 8.9 percent in 2008. And the social impact of the crisis was seen in sharp real wage declines, particularly in the informal sector. Recent livestock losses due to the dzud have put further pressure on the livelihoods of the rural poor.

Entering the crisis, the country's fiscal position was highly reliant on mineral revenues with saving inadequate during the preceding boom which saw large increases in unsustainable or inefficient expenditures. The banking sector was also hard hit, because loans had outpaced deposits during the boom years and it was highly exposed to sectors such as construction which suffered badly during the downturn. After a crisis of depositor confidence in late 2008, triggered by the collapse of the fourth largest bank, the health of bank balance sheets and credit quality deteriorated markedly. In turn, this contributed to a tightening of credit conditions, which presented a drag on the economic recovery. In the mining sector, significant progress in mining sector reform and development was made during 2009 with the signing of the Oyu Tolgoi (OT) Investment Agreement. In the process leading up to the signing of this agreement, a number of policy issues were clarified and some of the key disincentives to mining investment were removed.

Starting in the second quarter of 2009, the government undertook strong actions on fiscal, monetary, exchange rate, and financial policies. They were made possible by strong political leadership and an effective bi-partisan consensus. They were also supported by a rapid response by the development partners in the form of international and bilateral donor budget and balance of payments support, and technical assistance.

Looking forward, Mongolia's medium-term growth outlook is favorable, driven by the large mining investment in OT. However, the upcoming mining boom does carry with it the attendant "Dutch disease" risks and a return to the profligate populism of the past. Other risks to the outlook relate to resolving the ongoing solvency problems in the banking sector and to near-term fiscal pressures before the sharp increases in mineral revenues associated with the OT project in later years. Accordingly, it remains crucial to continue the policy reforms started in 2009. These include the adoption of the planned fiscal stability law to move away from the boom and bust cycle of mineral prices; improvements to the budget process and to the planning and management of public investment; and putting in place a framework to support future infrastructure investment. And implementation of a targeted poverty benefit should ensure that in the future the poor are protected from mining boom-and-busts in a fiscally sustainable manner. Similarly, addressing the banking sector problems in a decisive and transparent manner is urgently needed to prepare the sector for the upturn in economic activity, investment and capital inflows in the years ahead. Finally, continued reforms in the mining sector will enhance incentives for new exploration and environmentally and socially sustainable development in a sector that is a key driver of medium to long term growth.

¹ The analysis is based on the most recent data (January 2009) from the Bank of Mongolia (monthly bulletin and monthly consolidated banking system balance sheet), the National Statistical Office, Ministry of Finance and National Tax Authority.

The external shock

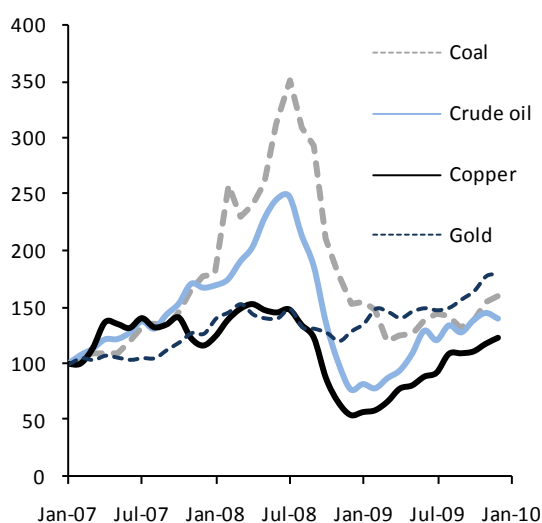
Mongolia was hit by a significant external shock in late 2008 and early 2009 as mineral prices collapsed and export demand fell with the global economic downturn

The global economic downturn was transmitted to the Mongolian economy primarily through the slump in global commodity prices from mid-2008. Specifically, the price of copper, the country's main export, fell by as much as 65 percent from \$8700 per tonne in April 2008 to \$3000 per tonne in March 2009. Prices of other key export commodities—coal, zinc, cashmere, and crude oil—also fell significantly. Only the price of gold held up, because of its role as a safe-haven investment (Figure 1).

This external price shock was combined with an external demand shock due to the downturn in economic activity in Mongolia's major trading partners. For example, growth in industrial production in China, which absorbs about 70 percent of Mongolia's exports, slowed down from about 16 percent year-on-year growth in mid-2008 to 5 percent in the first quarter of 2009. The result was that Chinese import demand for copper imports and Mongolian goods more generally fell sharply, with annual declines reaching around 50 percent in the first half of 2009 (Figure 2).

Figure 1 Commodity prices collapsed in the second half of 2008...

Index=100 in January 2007



Source: World Bank

Figure 2 ...and demand in China, Mongolia's largest trading partner dropped

% year-on-year change of 3-month moving average



Source: Haver Analytics, World Bank

Structural and economic policy weaknesses exposed by the crisis

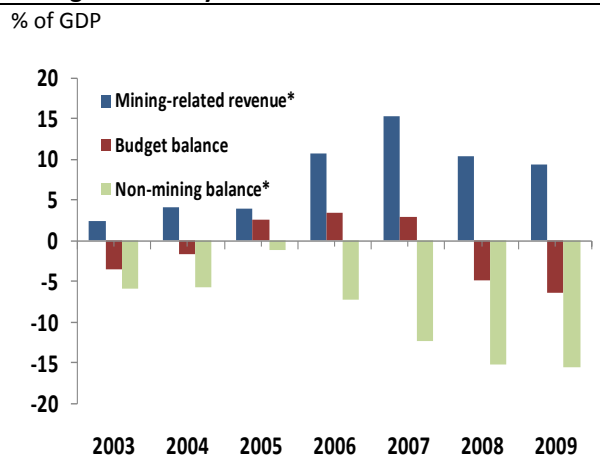
All the major copper producers in the world were affected by the collapse in copper prices, but, because of its particularly weak economic and policy environment entering the crisis, Mongolia's experience was perhaps the most severe. The contrast with Chile is particularly striking: Chile's exchange rate was flexible (so it absorbed part of the shock) and Chile was able to self-finance a large stimulus

package to support its economy by drawing upon large fiscal savings made during the boom years under its structural balance rule².

An increasing reliance on mineral revenues and inadequate savings left the budget highly vulnerable to the copper price collapse...

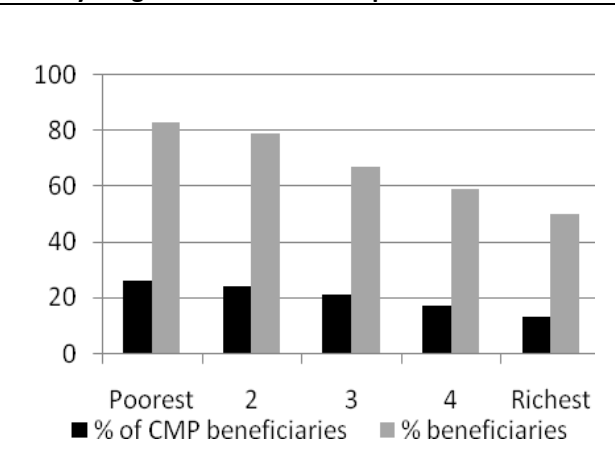
In contrast with these sizeable savings made by Chile, in Mongolia the government had run only modest fiscal surpluses during the boom years (2005-2007) which were insufficient to absorb the fiscal shock caused by the collapse of the mineral prices. In addition, during the boom period, the government shifted the fiscal burden away from the non-mining sector, leaving the budget increasingly dependent on revenues from mining. At its peak in 2007, mining-related revenue, contributed nearly 40 percent to total revenue or 15 percent of GDP. In addition, with the central bank pursuing a de facto peg of the local currency to the dollar, there was a direct transmission of the falling international copper price to tax revenues. The non-mining fiscal deficit increased dramatically from a 7.3 percent of GDP in 2006 to a 15.3 percent deficit in 2008 (Figure 3).

Figure 3 Mongolia's non-mining fiscal deficit grew during the boom years...



Note: Central/state and local budget, MDF and social security fund. * Corporate income tax and dividends from mining companies, the WPT, and royalties.
Source: Ministry of Finance, World Bank

Figure 4 ...while there was extensive leakage of Child Money Program benefits to non-poor households



Source: World Bank (2009).

... and unsustainable and inefficient spending during the boom further intensified fiscal pressures during the crisis

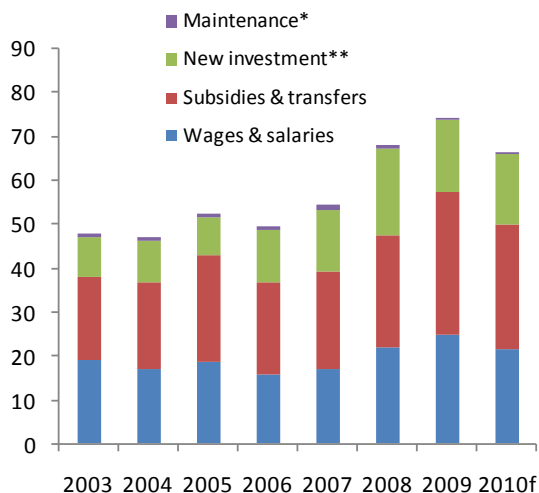
In addition, rising revenues during the boom period fuelled several unsustainable and inefficient expenditure trends. For instance, social transfers proliferated and became universalized during the boom years. The most important social transfer program, the Child Money Program (CMP) which disbursed about MNT 140 billion per year or 5.6 percent of fiscal expenditure in 2008, suffered from considerable leakage with a substantial portion being received by relatively well off and rich households (Figure 4). Meanwhile, volatile mining revenues accounted for roughly three quarters of its financing. Wages and salaries as a share of GDP also increased sharply in 2008 as did capital expenditures (Figure 5 and Figure 6), with projects frequently lacking feasibility studies. As a result of years of extremely poor public investment planning the allocative and operational efficiency these new investments was low.

² Chile's banking sector was also unaffected due to prudent lending policies during the boom period, unlike Mongolia.

Meanwhile, gross under spending on capital maintenance has led to a severe state of disrepair in the energy and roads sectors.³

Figure 5 Rising share of expenditures on subsidies and transfers

% of total expenditure



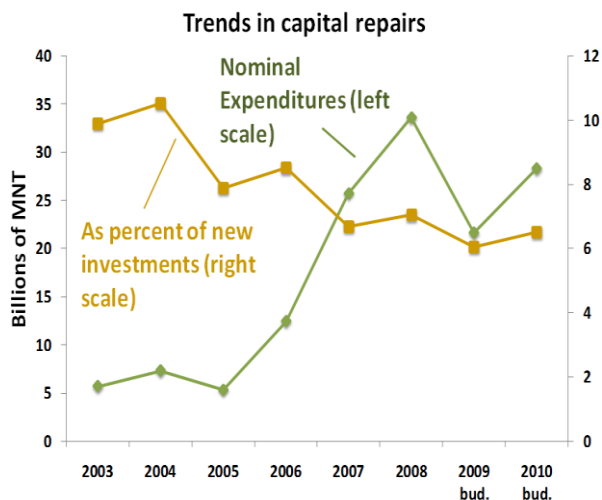
* Maintenance defined as Capital Repairs (in budget); probably underestimates actual capital repairs, as part is included in other items. ** New investment defined as Domestic Investment only. *** budget.

Source: Ministry of Finance and World Bank

Figure 6 ...and expenditures on capital repairs have declined relative to new investments

MNT billion

% of new investment



Note: Road Fund included in capital repairs from 2007-2010.

Source: Mongolian authorities and World Bank.

Expenditure restraint and a recovery in revenues have helped improve fiscal balances in recent months but continued fiscal consolidation remains a priority

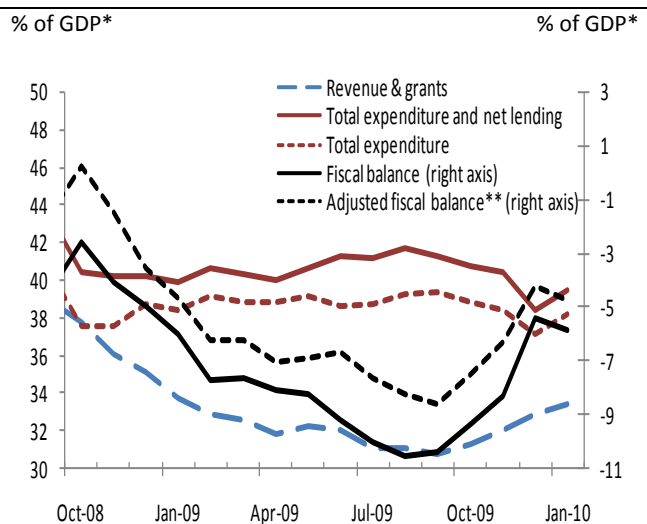
The fiscal deficit improved in recent months as the decline in revenues stabilized and spending was curtailed (Figure 7). Overall, the fiscal balance in 2009 came in at MNT 328 billion (around 5.4 percent of GDP) compared with a full-year budget target of MNT 364 billion (around 5.8 percent of projected GDP). The revenue intake in 2009 was some 7.5 percent lower than in 2008 in nominal terms and 13 percent lower in real terms mainly reflecting the fall in mining revenues due to the fall in copper prices. However, the recovery in copper prices in recent months helped to staunch the decline (Figure 8) with total revenues and grants increasing by 31 percent in the fourth quarter of 2009 quarter-on-quarter. The recovery in revenues continued in January 2010 with revenues up 79 percent in real terms on the year, although these numbers have been strengthened by positive base effects arising from the sharp drop (of 61 percent) in total receipts in January 2009.

With the government also cutting back on spending in order to maintain fiscal sustainability and meet the fiscal deficit targets, total spending was some 5.7 percent lower in nominal terms than in 2008. The largest cuts were made to capital expenditure and subsidies. Offsetting these was an increase in wages and salaries, unexpected repair expenditures due to flood damage and spending on containing the spread of swine flu and dzud relief efforts. There were also substantial fiscal costs associated with

³ The main problems in relation to the public investment plan include weak strategic planning, weak links between the national and sector strategies, ad-hoc and politically driven project selection processes, lack of adequate screening of projects through sound economic rate of return analysis and feasibility studies, unrealistic costing of projects that results in considerable implementation delays, and a failure to operate and maintain assets effectively.

the blanket guarantee law and the failures in the banking sector. Overall, MNT 8.6 billion was disbursed⁴ out of the government reserve fund and MNT 8 billion out of Finance Minister's portfolio to fund these unpredicted contingencies.

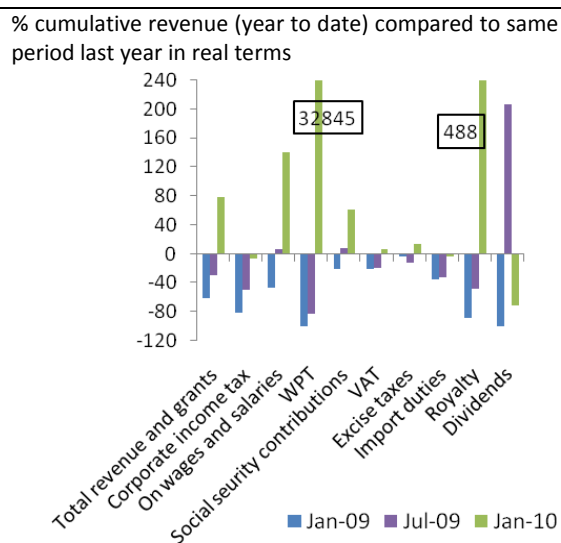
Figure 7 The 12 month rolling fiscal deficit has improved in recent months...



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

Source: Ministry of Finance, World Bank.

Figure 8 ...as the contraction in revenues has moderated



Source: Ministry of Finance, World Bank.

The external shock also led to a sharp deterioration in the current account balance

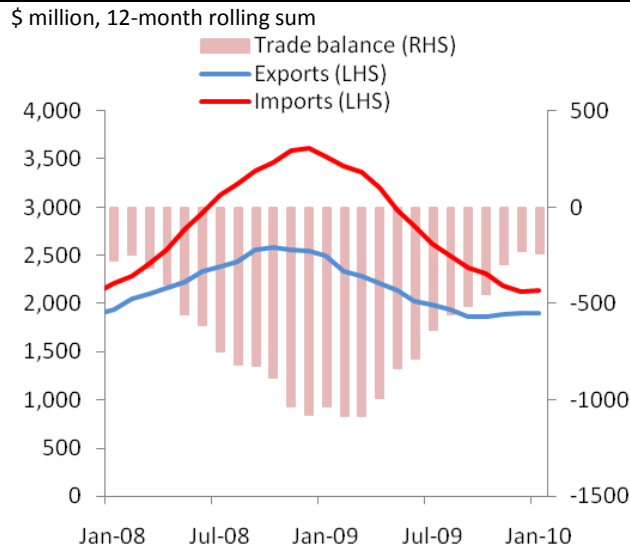
Due to the external shock, the trade balance deteriorated markedly through late 2008 and early 2009 (Figure 9). The value of exports fell with international commodity prices, more than outstripping moderation in the rate of growth of imports. As a result the current account balance moved from a surplus of 6.7 percent of GDP in 2007 to a deficit of 14 percent in 2008 (Figure 10) and climbing to over 15 percent in the first two quarters of 2009.

But improvements in external demand and recovery in commodity prices have contributed to the strong current account adjustment in the second half of 2009

Mongolia's external balances have improved in recent months, mainly due to the strength of economic activity in China (Figure 2). The strength of Chinese industrial production reflects the impact of stimulus policy measures and, in turn, the annual growth in Chinese imports both in aggregate and from Mongolia in particular has recovered strongly. This has contributed to the revival in Mongolia's exports of copper and coal over the last quarter.

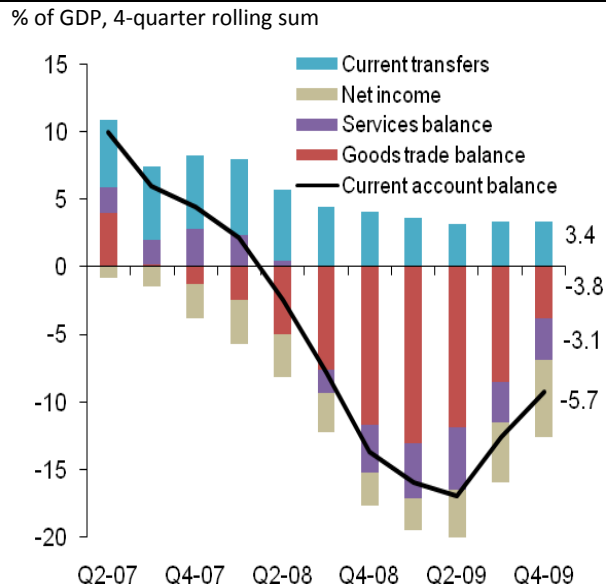
⁴ 2009 Outturn of the Government Reserve Fund, Ministry of Finance.

Figure 9 The trade deficit worsened markedly before recovering through the second half of 2009...⁵



Source: National Statistical Office, World Bank.

Figure 10 ...leading to a deterioration then improvement in the current account balance



Note: Numbers on the right are the values of major balance of payments components as a % of GDP on a 4-quarter rolling basis.

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

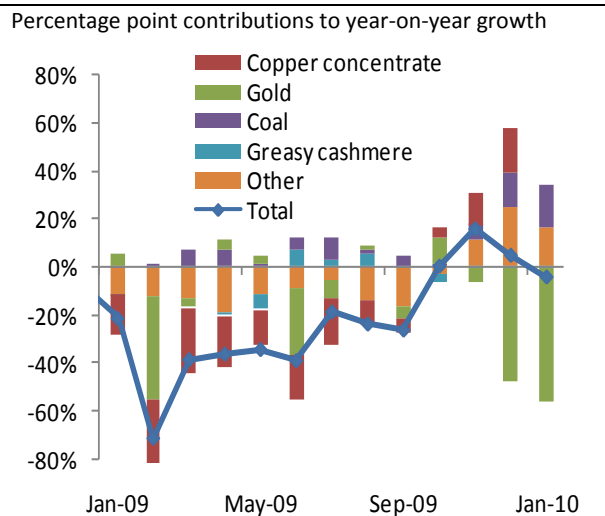
Rising commodity prices have also helped the external position. For instance, copper prices at the start of February were only about 23 percent below their peak in August 2008. Gold prices have remained within the \$1000-1200/toz range since December, well above the roughly \$800/toz price seen at the end of 2008, supported by safe-haven buying and by central bank purchases. However, the dollar value of Mongolia's gold exports has continued to decline (Figure 11), with the volume of exports almost halving in 2009 compared to 2008 in spite of the provision of government-financed credit to support gold producers. Factors that may have influenced the reduction in the volume of gold exports⁶ include the WPT (Windfall Profit Tax) and decreased gold production by a major gold exporting company in Mongolia.

As the domestic economy has recovered, the decline in imports (which reached up to 50 percent in the first half of 2009) has also moderated. January 2010 saw the first annual increase in total imports since December 2008 (Figure 12). Imports rose by 3.4 percent driven mainly by a surge in shipments from Russia (up 43 percent on the year). However, in light of the extreme weakness of January 2009 when imports plunged by 41 percent on the year, these annual numbers may overstate the current strength of import demand.

⁵ 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.

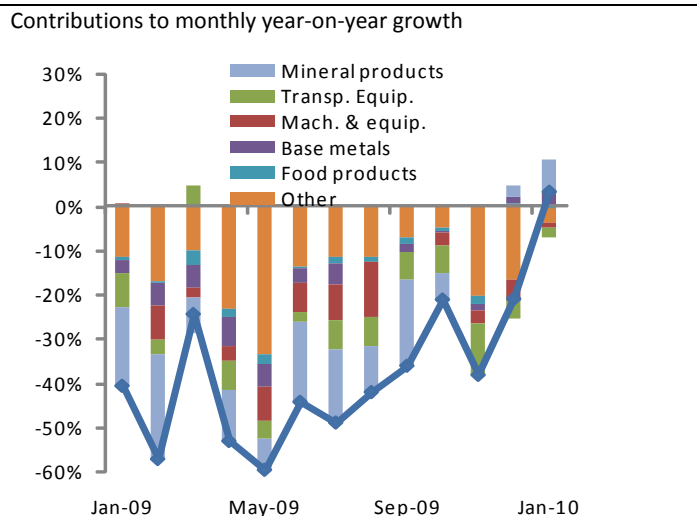
⁶ News sources suggest that the actual volume of exports may be higher, as the WPT may have led to gold being smuggled out of the country. Another reason may be that producers are holding on their gold stock rather than exporting it, until this tax abolishes in 2011.

Figure 11 Overall export growth has improved over the second half of 2009...



Source: National Statistical Office, World Bank.

Figure 12 ...with import demand also recovering



Source: National Statistics Office, World Bank.

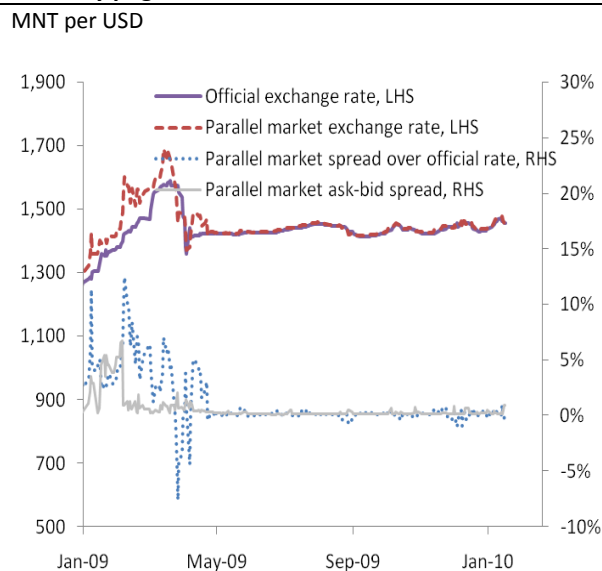
As a result of the improved goods deficit, the current account deficit narrowed to 4 percent of GDP in the final quarter of 2009, after peaking at 13 percent in Q1 (Figure 10). The deficit in services trade has improved also but remains relatively high at 3 percent of GDP (compared with a high of around 4 percent in Q1) as transport and tourism receipts remain depressed. For 2009 as a whole, the current account balance narrowed by US\$340 million to a deficit of US\$382 million (or approximately 9 percent of GDP). It was primarily financed by net capital inflows in the financial account,⁷ which amounted to US\$850 million (20 percent of GDP) in 2009. Direct investment by foreign companies (FDI), mainly in the mining sector, increased substantially over the course of the year but remains about 10 percent lower than 2008 levels. Net borrowing from abroad by both government and the private sector jumped in 2009, due to the donor disbursement and loans to the commercial banks.

With demand for local currency falling in late 2008 and early 2009, substantial reserve losses were incurred in support of the currency...

Currency flight during the crisis period was further aggravated by the BoM's attempt to hold on to its de facto currency peg to the US dollar. This was in contrast to other major commodity exporters that let their currencies freely depreciate as a first defense mechanism against falling international commodity prices. In the process, the BoM lost US\$500 million of international reserves between July 2008 and February 2009 and the currency depreciated anyway, by about 38 percent between the end of October and the middle of March (Figure 13 and Figure 14).

⁷ 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.

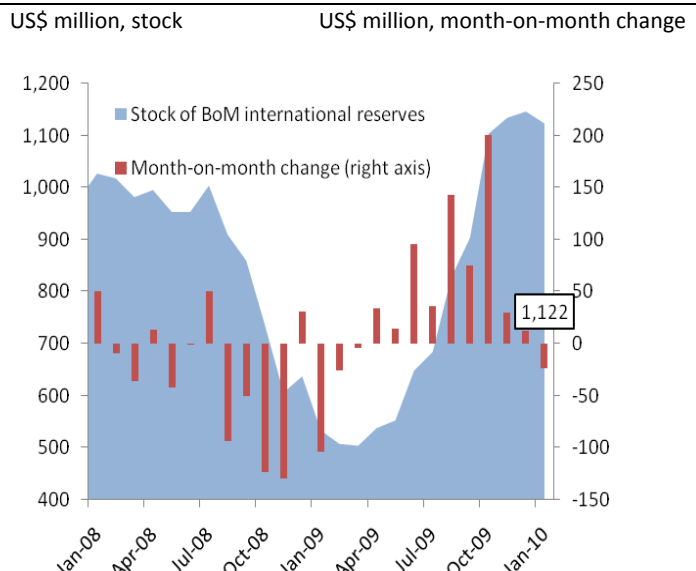
Figure 13 Divergence between parallel and official rates as the central bank tried to defend the currency peg



Last observation: February 18, 2010.

Source: Mongolian Financial Association, World Bank.

Figure 14 ...and reserve losses mounted in an attempt to defend the de facto peg



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

Source: Bank of Mongolia, World Bank.

... but, following its depreciation in early 2009 the nominal exchange rate has remained stable since April 2009

To prevent an overshooting of the exchange rate as the Bank of Mongolia (BoM) abandoned its de facto peg and introduced a transparent bi-weekly foreign exchange auctioning mechanism, and in order to restore confidence in the local currency, the central bank sharply raised interest rates in March 2009 to 14 percent from 9.75 percent. These policy actions, combined with the narrowing of the trade deficit resulted in a stabilization of the nominal exchange rate since April and enabled the BoM to rebuild international reserves. Reserves have also been boosted by the disbursement of the IMF SBA tranches, the OT prepayment loan, project funding from the International Fund for Agricultural Development (IFAD) and an SME Development Project from Japan, and deposits from commercial banks, reaching record levels of US\$1,145 million in December. Meanwhile, the spread between the ask and bid rates in parallel and commercial bank foreign exchange markets, which is often a good indicator of market liquidity, has remained low, after the sharp spikes in late 2008 and early 2009. In January, 2010, the exchange rate against the USD depreciated slightly, by 0.6 percent, compared with December, 2009.

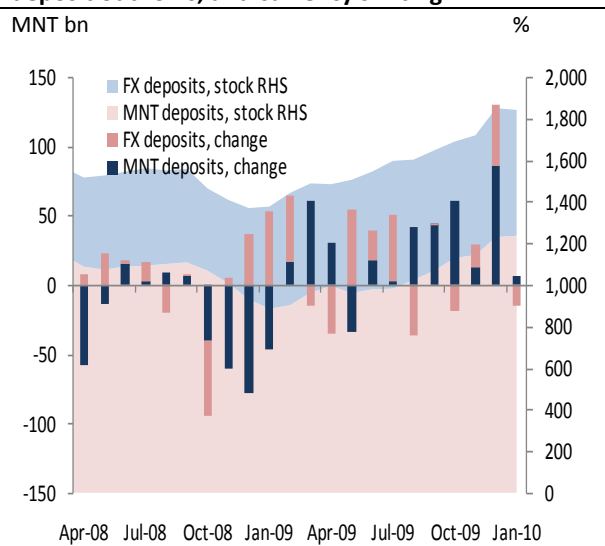
Weaknesses in the banking sector exposed by the external shock resulted in a crisis of confidence in late 2008 and deposit flight

The global downturn exposed problems in Mongolia’s financial sector which had been overheating during the boom years. Very high domestic inflation—33.7 percent yoy in August 2008, the highest in East Asia in 2008—and loose monetary policy led to a credit boom, which masked the growth in non-performing loans (NPLs). The same combination also led to negative real interest rates on local currency deposits, resulting in flight of local currency (MNT) savings into FX deposits (Figure 15), where interest rates were as high as 12 to 18 percent in some banks. Also, lending portfolios entered the crisis heavily concentrated on sectors such as construction and real estate and with high exposures to individual

major borrowers. From mid-2008 onwards, the share of loans accounted for by the top 50 borrowers by loan size increased from around 20 percent of total loans to around 30 percent of the total loans outstanding currently (Figure 16). These figures are on an aggregate basis and individual banks may well have higher exposures. This concentration increases the vulnerability of a bank's loan portfolio to shocks hitting individual creditors.

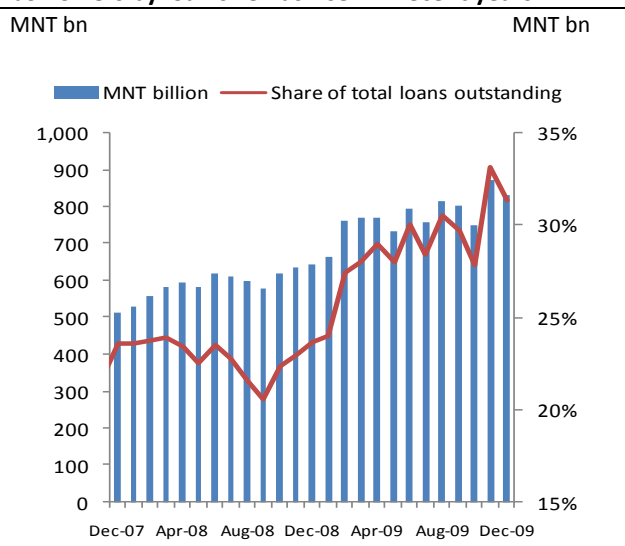
When Anod Bank, the fourth largest bank, was taken under conservatorship by the Bank of Mongolia (BoM), at the end of 2008, and major shortages of foreign currency emerged—the BoM rationed FX leading to a substantial deviation between the official BoM exchange rate and the parallel market rate (refer back to Figure 13)—the public started to lose confidence. This led to a generalized flight out of both MNT and FX deposits. To restore public trust in the banking sector, the government issued a blanket deposit guarantee in November, but it left many customers in uncertainty about which deposits were included, while real interest rates on MNT deposits were negative.

Figure 15 Fall in confidence in late 2008 led to deposit outflows, and currency shifting



Source: Bank of Mongolia, World Bank.

Figure 16 Concentration of lending to the largest 50 borrowers by loan size has risen in recent years



Source: Bank of Mongolia, World Bank.

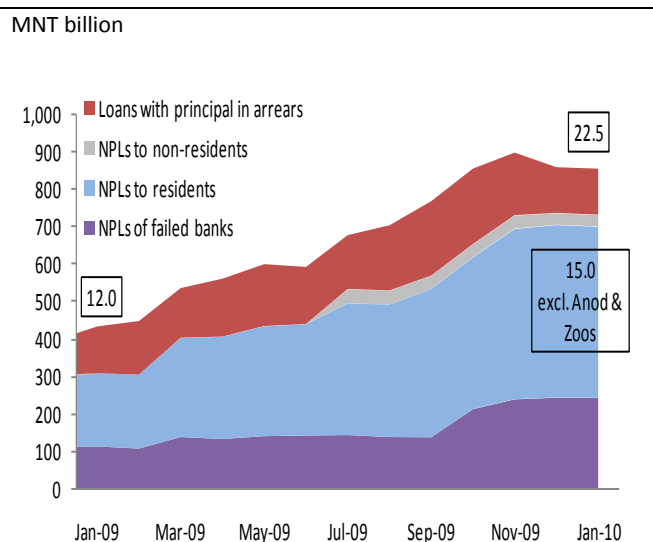
Following the stabilization of depositor confidence the focus of concern shifted to the health of bank balance sheets

Policy measures undertaken by the Bank of Mongolia to stabilize the exchange rate and restore confidence in the local currency contributed to a recovery in deposits in the second half of 2009. The central bank increased the CBB rate to as high as 14 percent in March 2009. Once foreign exchange market conditions stabilized and inflation fell, it gradually reduced the rate to 10 percent in September 2009. It also, for example, increased the capital adequacy ratio of banks, reduced credit risk fund rates, introduced a foreign exchange auction/trading system. Deposit inflows also increased as a result of high real deposits rates which rose to close to 20 percent in the third quarter of 2009. At MNT 1,241 billion in January 2009, local currency deposits are now well above the recent peak of MNT 1,149 billion in March 2008. Foreign currency deposits fell slightly by MNT 15 billion to MNT 607 billion in January but remain much higher than levels at the start of 2009.

As the immediate threat of a liquidity crisis receded, weaknesses in the quality of banking sector balance sheets became increasingly apparent through 2009. Aggregate losses of commercial banks

reached MNT 143 billion, roughly double the levels a year ago.⁸ Loan quality, in particular to the private sector, has deteriorated markedly (although at a declining rate in the fourth quarter of 2009). In total, non-performing loans and loans with their principal in arrears⁹ currently stand at around 22.5 percent of total outstanding loans (Figure 17). Excluding Anod and Zoos banks that have been taken into receivership by Bank of Mongolia, NPLs and loans with principal in arrears as a percent of total loans outstanding are 15 percent as of end-January, 2010. The NPL ratios differ across sectors, reflecting the differential impact of the crisis and underlying credit quality. For example, the construction sector at Q4 2009 accounted for around 14.4 percent of the outstanding consolidated loan stock but around 38 percent of NPLs and loans in arrears, i.e. an overall NPL ratio of over 35 percent (Figure 18).

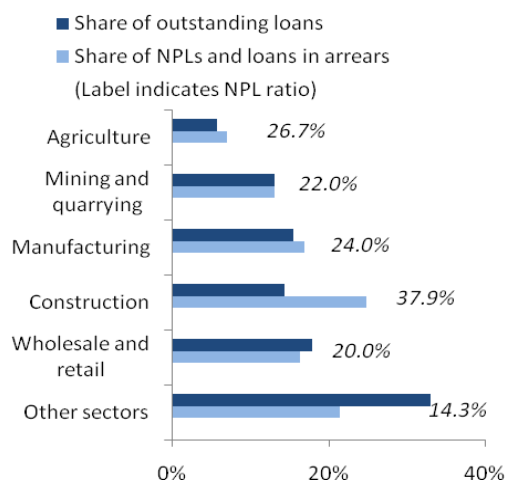
Figure 17 Loan quality has deteriorated through 2009...



Note: The numbers in boxes are the sums of NPLs to residents and non-residents and loans with principal in arrears as a percent of total loans outstanding.

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

Figure 18 ... with particularly high ratios in construction and agriculture



Note: "Other sectors" mainly comprise lending to consumers e.g. mortgages, pension and salary advances.

Source: Bank of Mongolia.

Ongoing concerns over credit quality contributed to a tightening of credit conditions

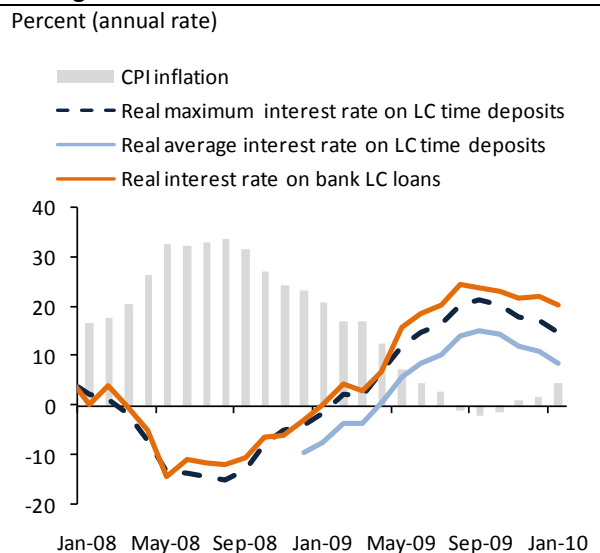
Despite the Bank of Mongolia having cut its official policy rate three times since May, from 14.0 percent to 10 percent in September, nominal interest rates on both local currency deposits and loans barely fell in 2009. On the deposit side, the search for funds by banks facing liquidity difficulties may have been an important driver of the high rates while the lending rates likely reflected concerns over credit quality, and high funding costs. Combined with the sharp decline in the CPI inflation rate over 2009 the trend in nominal rates resulted in rising real economy-wide borrowing costs as measured by the *ex post* real interest rate (Figure 19), posing a constraint to the recovery in private sector activity. Although the recent upward trend in inflation resulted in falling *ex post* real rates they remain around 20 percent on loans. However, if the prospect of the recovery of growth in 2010 has led to higher inflation expectations in recent months then this would point to a lowering of *ex ante* borrowing costs.

⁸ Consolidated Loan Report, January, 2010, Bank of Mongolia

⁹ These are loans of which the principal is 1 to 90 days in arrears. After 90 days, they become non-performing loans.

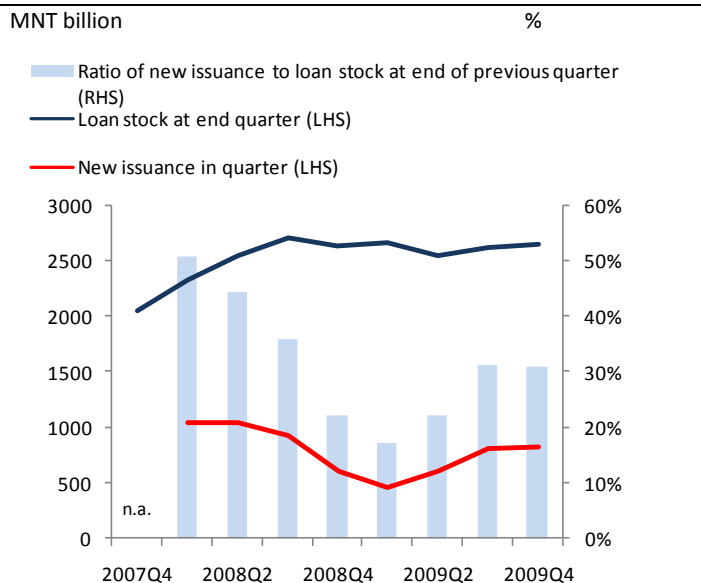
The availability of credit also declined during the crisis period with banks increasingly choosing to use funds to purchase central bank bills for example. The overall stock of outstanding loans has remained broadly flat in nominal terms since mid-2008, up only 3 percent from 2009 Q2 through the end of 2009 Q4. The level of new loan issuance fell markedly in late 2008 and early 2009 both in nominal terms, down 57 percent year-on-year for example in 2009 Q1, and relative to the outstanding stock of loans. However, there has been some recovery in new issuance levels in recent quarters, for example in the mining sector in particular (Figure 20).

Figure 19 Real deposit and lending rates increased through 2009...



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

Figure 20 ... while the stock of total lending remained flat



Source: Bank of Mongolia Consolidated Loan Report, World Bank.

Weaknesses in the mining sector investment climate included policy uncertainty

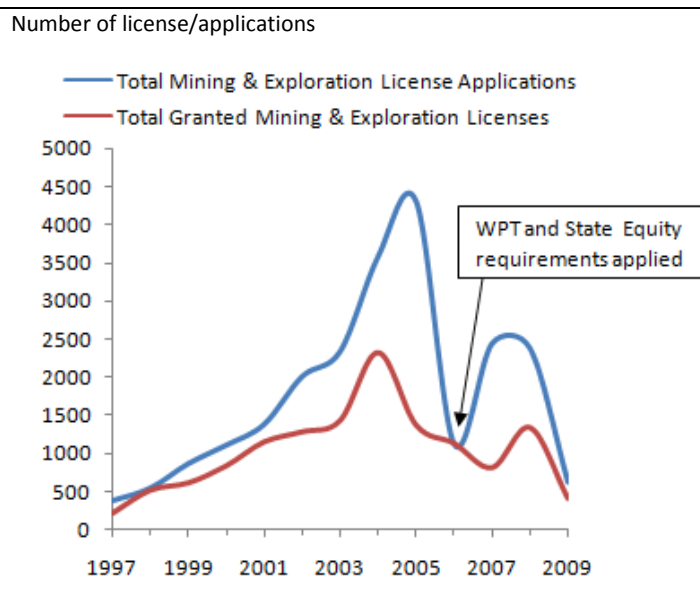
Uncertainty over the policy framework in the mining sector during the pre-crisis period has acted as a deterrent to new investment by foreign companies. For example, the introduction of the Windfall Profits Tax, together with new requirements on state equity participation, had caused a precipitous drop in the applications for, and granting of, new mining and exploration licenses (Figure 21).

However, significant progress in mining sector reform and development was made during 2009 with the signing of a large, world-class mining project agreement: the Oyu Tolgoi (OT) Investment Agreement with Ivanhoe Mines and Rio Tinto. In the process leading up to the signing of this agreement on October 6, a number of policy issues were clarified and some of the key disincentives to investment in the sector were removed. In particular, the Windfall Profits Tax was repealed with effect from January 2011. Other positive changes included permitting private sector construction and management of roads and water supply facilities, liberalizing the policy environment and changes to the income tax regime that extended loss carry forward provisions. In addition, the adoption of the OT agreement as the draft standard agreement upon which future projects will be negotiated was a significant step providing more clarity for future developers of mines on strategic deposits.

Nevertheless, alongside these positive steps, other measures were also introduced that provide strong disincentives to new exploration and mine development. For example, immediately prior to the completion of negotiations for the OT investment agreement, an amendment to the VAT Law was

introduced which excludes exports of mineral products from being able to claim VAT refunds for the VAT paid on the inputs used for these mineral products. This constitutes a significant increase in operating costs to miners and reduces profitability. In addition, forward movement on important regulatory developments, such as in relation to mineral licensing, has been slow.

Figure 21 Trends in exploration and mining licensing activity



Source: Mongolian authorities and World Bank.

Policy response of the government to the crisis

Strong policy actions were taken by the government in early 2009 to address the crisis...

Faced with the reality of the severe downturn, the government initially considered a variety of possible responses, including signing long-term mineral export contracts in exchange for large up-front payments and implementing a wide-ranging stimulus package to be funded by a US\$1.2 billion sovereign bond. However, as economic conditions worsened, and access to international capital markets on reasonable terms seemed very difficult, a bi-partisan consensus began to emerge around a more comprehensive policy response, which could be supported by the IMF and other development partners. These policy changes included strong actions on fiscal, monetary, exchange rate, and financial policies. For example, without additional measures, it was forecast in early 2009 that the 2009 budget deficit was heading for 12 percent of GDP. To keep the fiscal deficit within financeable limits, the government could cut spending or raise revenues, or both. Since raising revenues is inherently difficult during an economic downturn, the government had little choice but to cut spending drastically in its 2009 budget, with the budget amended in March and June 2009. The June amendment targeted a 5.8 percent of GDP deficit (MNT 364 billion) which compares with the full year outturn of 5.4 percent of GDP (MNT 328 billion).

Table 1 Summary of policy actions taken over 2009

Sectors	Policy actions:
Fiscal Policy:	Deficit contained to 5.4 percent of GDP, below the 5.8 percent target in the June 2009 budget Public investment cut. Expenditure cut on wages and salaries of public servants; hiring freeze imposed. Non-concessional foreign borrowing limited in 2009
Exchange rate and monetary policy:	BoM raised the policy rate to 14% and introduced FX auction
Banking sector:	Two failed banks put under receivership. Audit by international reputable auditor for one bank completed and bank being liquidated. Receiver appointed for second bank and audit underway. State bank created to house the good assets. BoM increased capital adequacy requirements. BoM revised and clarified deposit guarantee law.
Mining sector:	Signing of OT agreement and associated policy measures (e.g. cancellation of WPT) Progress on EITI

... supported by international and bilateral donor support

The Government presented its action plan to the development partners on March 14, 2009. On April 1, 2009, the IMF Board approved an 18-month Stand-By Arrangement (SBA) of US\$229 million to help Mongolia adjust to the external shock by stabilizing the macroeconomic situation. The center piece was a substantial fiscal adjustment to deal with the fall in mineral revenues of 10 percent of GDP. Fiscal deficits of 6 and 4 percent of GDP, in 2009 and 2010, respectively, were built into the program, with a total fiscal financing gap at the time estimated at US\$205 million in 2009 and 2010. Additional reforms focus on monetary and exchange rate policies, rebuilding confidence in the banking system, and protecting the most vulnerable from the downturn and the adjustments.

To fill the fiscal financing gap, the World Bank pledged US\$60 million in the form of two single-tranche development policy credits (DPC) (US\$40 million for 2009 and \$20 million for 2010s) supporting reforms in the policy areas most affected by the downturn. The first DPC, disbursed in July 2009, focused on the following policy areas (i) fiscal policy and management, given the budget's strong dependence on mining revenues; (ii) social protection, given the impact of the economic downturn on the poor; (iii) the financial sector, which was overheating when the global crisis hit, and which experienced a major bank failure in late 2008; and (iv) the mining sector, given the sector's importance in driving the recovery.¹⁰ Preparation of the second DPC is ongoing with funds having been increased to US\$30 million.

The government obtained equally strong support from the Asian Development Bank (ADB, US\$60 million) and Japan (US\$50 million), and also received budget support from Australia (US\$3.5 m), and a firm pledge from the US. As a result, the projected balance of payments and fiscal gaps were filled. The World Bank, Japan, the ADB and Australia disbursed their pledged amounts for budget support in 2009 (US\$133.5 million in total) in July 2009. The IMF, meanwhile, disbursed about US\$169 million in 2009 under the SBA in balance of payments support for the central bank.

Adherence to the IMF program has been exemplary. Staff-level agreement on the fourth review under the IMF SBA was reached in early February. If completion of the review is approved by the IMF Board, then this would allow the disbursement of another US\$24 million. The staff press release noted the contribution of the government's prudent macro management and continuing structural reforms to the relatively favorable outlook. The need for continued fiscal adjustment and discipline was

¹⁰ World Bank (2009), *Program Document for a Proposed Development Policy Credit*, June (World Bank's Documents and Reports website: <http://go.worldbank.org/ROT5TQLVCO>).

emphasized, including through early passage of the comprehensive social transfer and fiscal stability laws that have been submitted to Parliament. The importance of strengthening the banking system was also highlighted, with Parliamentary adoption of a comprehensive bank restructuring plan viewed as a key measure.

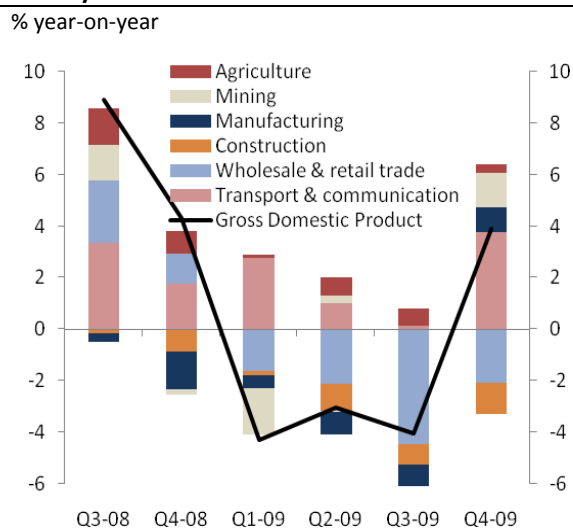
Real and social impact of the crisis

Economic activity slowed sharply in 2009, despite the policy actions

As a result of the above combination of expansive fiscal and monetary policies, a fixed exchange rate and an overheated financial sector, Mongolia's economic downturn was particularly severe, with the economy contracting by 1.6 percent in 2009 following growth of 8.9 percent the previous year. The sector most affected was construction, which contracted by slightly over 50 percent over the year, followed by wholesale and retail trade and manufacturing which experienced annual declines of 29 and 12 percent respectively in 2009 (Figure 22). While the initial shock was from the fall in commodity sector prices and mining sector weakness, banking sector instability led to a sharp contraction in credit which further added to the drag on economic activity.

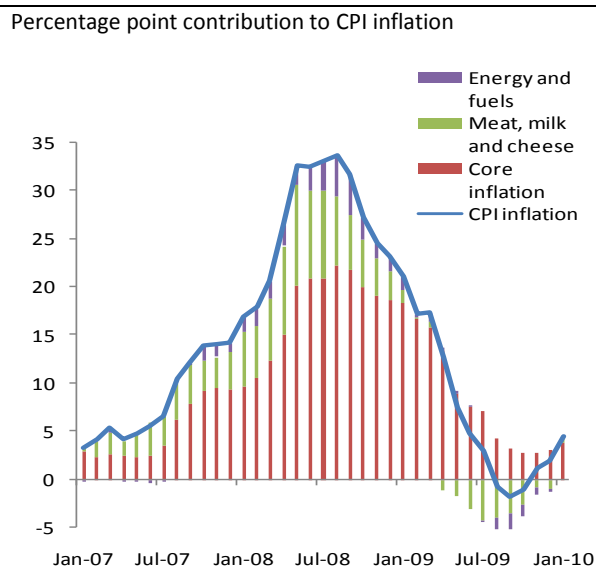
With the economy in the grip of a severe downturn, the headline CPI inflation rate fell sharply in 2009, briefly turning negative from August to November, in turn providing room for the BoM to cut policy rates. It has since turned positive driven by rising energy prices (due to increased demand during a colder than expected winter) and also a slight rise in the rate of core inflation. However, at 4.5 percent yoy the headline inflation rate in January 2010 was much lower than the 21.0 percent rate seen in January of 2008 (Figure 23).

Figure 22 Construction, wholesale and retail trade and manufacturing suffered large contraction in activity



Source: National Statistical Office, World Bank.

Figure 23 ... while inflation turned negative briefly as the downturn gathered pace



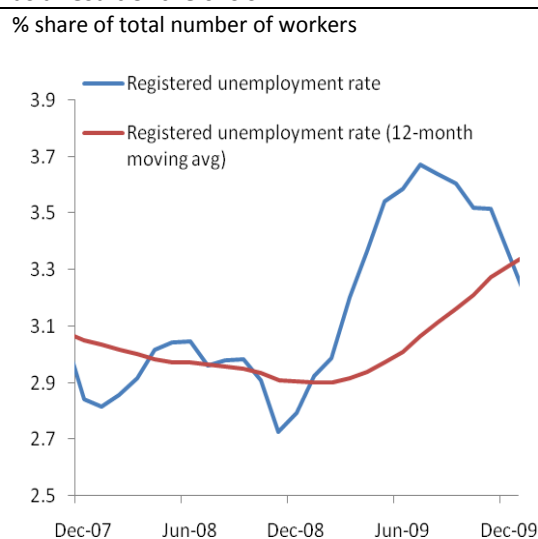
Note: This is the UB city CPI.

Source: National Statistical Office, World Bank.

Although registered unemployment rose as economic activity declined, the numbers underestimate the impact of the crisis on labor markets

The official unemployment rate, which includes only those who are registered with the Labor and Social Welfare Service Center, rose from 2.7 percent in November 2008 to 3.7 percent in July 2009, although it has since gradually fallen back to 3.2 percent in January of this year (Figure 24). However, these numbers likely grossly underestimate the impact of the economic downturn on both the level of unemployment and real wages. According to the 3Q Labor Force Survey from 2009, 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 10.5 percent in September 2009 with some 119,000 people unemployed from the total labor force of 1.137 million.

Figure 24 Registered unemployment rose sharply as a result of the crisis



Source: National Statistical Office, World Bank.

The adverse social impact of the crisis was visible in the declining real wages in informal labor markets

The World Bank commissioned quarterly surveys to evaluate the changes in real income in the informal labor markets in Ulaanbaatar and found that the effects of the economic slowdown had a widespread social and poverty impact in Mongolia (Table 2). The April 2009 survey indicated that real effective incomes had fallen by about 60 percent in some informal urban labor markets as inflation eroded nominal wages and as job losses mounted.¹¹ Employment conditions also became less favorable for informal workers in the rural regions, and herders and informal mining workers found it hard to cope with the decreasing job availability, falling wages and increasing living expenses.¹²

The latest survey conducted in late January 2010 indicated an influx of workers into these informal markets, reflecting migration from rural workers escaping harsh winter conditions due to the dzud and increased work opportunities offered by new year holiday celebrations in early February. (Of the workers surveyed, 31 percent indicated that they were migrants from rural areas). In addition, on

¹¹ Box 2 in World Bank (2009), Mongolia May Monthly Economic Update.

¹² World Bank (2009) Study on the Crisis Implications for Household Livelihood, Final Report, May 20-June 30.

average workers' real wages have increased by about 68 percent from April 2009 to January 2010 reflecting a combination of rising nominal incomes along with significant reduction in the consumer price index. Despite this, the overwhelming majority of the workers surveyed stated that their earnings were barely adequate to meet their daily needs.

In addition to the impact of the economic crisis on the livelihood of the population, the effects of the dzud conditions of recent months have been significant (see discussion in December 2009 Update). Livestock accounts for around 63 percent of rural household assets. Accordingly, with more than half the country's provinces were reported to be in the grip of dzud conditions this winter, livestock losses in recent months are likely to adversely affect the well-being of the rural poor in Mongolia. Particularly vulnerable in the current situation in the near-term are those families which are migrating to urban cities, increasing the size of workers in informal labor markets for unskilled labor. This puts downward pressure on wages in some key markets (although the demand effects from the holiday season serve as an offsetting factor).

Table 2 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	Jan-10	Apr-09	Nov-09	Jan-10	Apr-09	Nov-09	Jan-10
Railway cargo unloading in UB "44" area: Triangle bridge district	500	500	750	3.0-7.0	3.0-5.0	3.0-7.0	0.4	0.3	0.7
Container loading and unloading for freight companies	200	200	200	8	6.0-7.0	15	0.9	0.9	1.8
Supermarket shipments loading and unloading at "Bars" market	25	100	215	5.0-10.0	10.0-15.0	4.0-15.0	0.8	1.6	1.5
Merchandise carter Narantuul "Black market" in UB	400	300	520	5.0-6.0	8.0-10.0	5.0-15.0	0.4	1	1.2
Construction materials delivery "100 family" district	30	100	120	5.0-10.0	5.0-10.0	5.0-15.0	0.7	1.1	1.1
Total (estimated)	1255	1200	1805			Average	0.8	1.0	1.3

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

Improving the policy environment to promote recovery and future growth prospects

On 8-9 February 2010 the Inaugural Mongolia Economic Forum was held, organized by the Prime Minister's office with the support of the President and Parliament. The event was designed to provide a forum for open and transparent discussion between politicians, domestic and international business leaders, academics, civil society and the media and many of the development challenges facing Mongolia were discussed. For example a key item on the agenda for the inaugural forum is how best to employ Mongolia's natural and human resources to improve its competitiveness. Other items discussed include reforms to the budget, the development agenda in the mining sector and the business environment.

Mongolia's medium-term growth outlook is certainly very favorable, driven by the signing of the major OT mining investment agreement in October 2009. Capital expenditure on infrastructure and investment relating to the development of the OT mines is expected significantly boost GDP growth rates to close to 7 percent between 2010 and 2012 and over 20 percent in the medium term. But, the upcoming mining boom will carry with it the attendant Dutch disease risks and that of a return to the "profligate populism" of the past. Accordingly, it remains crucial to continue the policy reforms started last year including moving forward with the adoption of the planned fiscal stability law (see Box 1 from the December 2009 Monthly Update).

Improvements to the budget process, including the public investment program is complementary to other fiscal measures to better manage the boom-and-bust cycle of mineral prices. In addition, not only will these reforms help Mongolia increase the efficiency with which future increases in mineral revenues are invested, they will also be crucial in addressing effectively and in a cost-efficient manner the infrastructure needs of the country (Box 1), in particular those related to putting in place a modern mining infrastructure. Putting in place a targeted poverty benefit will ensure that the poor are protected from future mining boom-and-busts in a fiscally affordable manner. Similarly, addressing the current problems of the financial sector in a decisive and transparent manner will prepare the sector for the upturn in economic activity, investment and capital inflows in the years ahead. Finally, continued reforms in the mining sector and increasing its transparency will help enhance incentives for new exploration and environmentally and socially sustainable development in a sector that will be a key driver of economic growth in the medium to long term.

Recent developments in the fiscal sector on the public investment proposals for 2010 highlight some of the challenges Mongolia faces in ensuring that future mineral revenues are used effectively and efficiently to address key development challenges. The annual budget law for 2010 was approved by Parliament in November 2009 despite the presidential veto put on its public investment program (PIP) that included MNT 76 billion of investment projects allocated for each election constituency. While the president's veto questioned parliament for abusing its power and allocating taxpayers' money to the election constituency, from the fiscal point of view there is a more serious concern, namely that the majority of those newly added projects do not have feasibility studies or technical drawings.

The approval of projects that do not have feasibility studies and technical drawings violates the Construction Law of Mongolia (article 15.2). Since the presidential veto was disregarded by legislature and the budget was enacted, a citizen submitted a petition to the Constitutional Court of Mongolia that the 2010 annual budget law violated the constitution of Mongolia. Due to these rising public and constitutional concerns over the investment plan, parliament instructed the Mongolia National Audit Office to conduct an audit of the planning, formulation and development of the public investment program approved under the 2010 budget. The audit found that about 7 percent of projects were not aligned with any of the major strategy documents, while around 180 out of 600 construction and capital repair projects did not have feasibility studies or technical drawings (as required under the Construction Law). In value terms, the audit found that, out a total of MNT 447.7 billion worth of projects in the PIP, around MNT 18.3 billion did not have feasibility studies, MNT 4.5 billion of projects did not have sufficient budget funding, MNT 21.9 billion of projects did not have sufficient capacity (volume or size), MNT 11.1 billion of projects did not have a clear investment purpose and ownership, and MNT 12.4 billion of projects were non-investment projects (SME promotion, tourism development, herder promotion measures etc). Note that individual projects may fall in more than one of these categories. As a result, pressure is growing for an amendment to the 2010 budget during the parliamentary spring session.

Box 1 Public Private Partnerships in relation to Mongolia

Public-Private Partnerships (PPPs) are increasingly being used in the provision of infrastructure services, in particular those with large upfront costs such as highways, water and sanitation, bridges, airports, hospitals and schools. Among advanced countries, the UK and Portugal stand out as making the largest use of PPPs: around 20% of public investment provision is via PPPs. PPPs have also become more widely used in developing countries, with their value peaking at \$130bn prior to the Asian Financial Crisis in 1997/98. In the latest crisis, with government budgets under pressure and private sector funding drying up, the use of PPPs has diminished, although they are estimated at around \$48bn in the first half of 2009.

The key characteristics of PPPs are that they tend to bundle investment and service provision into a single long term contract. The duration of projects is usually 20-30 years, with the private firm managing and controlling the asset (this typically also includes responsibility for maintenance), usually in exchange for user fees. The fees are its compensation for the investment and other costs. When the contract ends, the project reverts to government ownership.

PPPs can be an important source for infrastructure development in Mongolia's future. However, it is important to underline however, that PPP's are not "free money" — the investors will expect a return on their investment and financiers will require certain collateral assurances that they will get their money back. The majority of these transactions convert capital expenditure today into recurrent spending in future years. They need to be viewed by the Government as just another financing option for a "good project", with its associated costs, and not as a means to promote other objectives, such as privatization or spurring private sector activity.

In particular, Mongolia needs to avoid the risk that PPPs develop into a system that is parallel to the budget-financed public investment program, with the true costs of these projects not adequately reflected in the budget. To enable effective planning, the public investment program should allow for the evaluation of all publically executed projects irrespective of the financing source. Parallel systems run several important risks:

- Difficulties to ensure that all projects are approved within the affordability envelope of the MTF;
- Fragmentation between the capital and recurrent budget, and of projects being approved without adequate consideration of resources to cover subsequent operational and maintenance costs, can lead to asset degradation and a reduced ability to deliver effective infrastructure and services;
- Lack of institutional co-ordination between responsible entities, leading sometimes to double programming; and
- No one institution is able to provide a single coherent overview of the country's social and economic development activities.

In addition, the fiscal risks can also be considerable. These include:

- State guarantees on the debt raised against the project;
- Guaranteed minimum levels of demand (volume of traffic, MW of power through 'take or pay' agreements etc) and other minimum revenue guarantees; and
- Termination provisions that require the state to buy back the assets at either 'market value' or write down value and other 'buy back' clauses.

To protect against these risks, a single system of project appraisal for all projects (public and PPP) should be used to ensure consistency in selection and fairness in prioritization. A "bad" project will always remain a "bad" project: using a PPP approach will not magically transform it into a good one. The Ministry of Finance should therefore be able to veto a proposed PPP project at both the concept stage as well as prior to the contract being signed. And all the fiscal risks of the project have to be adequately accounted for, which includes reflecting the expected value of guarantees and other contingent liabilities in the annual budget, and subjecting the stream of expected service payments for PPPs and calls on guarantees to medium-to-long term debt sustainability analysis, with appropriate sensitivity tests.

Looking forward

Mongolia's economic medium and long term prospects have been transformed by the signing of the OT agreement at the end of last year. Nevertheless, there remain sizeable risks to the economic and policy outlook, in particular relating to banking system solvency and to near-term fiscal pressures in the next few years before the sharp increase in mineral revenues associated with the OT mining project. For example, the economic outlook fundamentally depends on a small number of major investment projects, in particular OT. Accordingly, changes in the scale and timing of their progress would have large implications for macro outcomes in individual years. There is also uncertainty on the extent to which increased OT infrastructure-related investments will have positive spillovers for the domestic economy.

Significant fiscal financing pressures are also expected in the near term. Government revenues will come under pressure from the expiration of the WPT in 2011, with revenue losses estimated to be in the region of 5 percent of GDP. And bank restructuring costs, expected to be substantial, will also add to government spending. In this regard, it is therefore imperative to agree on the principles and conditions for the use of public funds for possible bank bailout. Finally, with Mongolia rated as sub-investment grading, borrowing on commercial terms is likely to be costly (see Box 2).

On the external front, Mongolia's economic fortunes are closely tied to continued buoyancy in commodity prices, which tend to be highly volatile, and strong growth in China. For instance, although copper prices climbed steadily through most of 2009, prices in mid-February were about a tenth lower than their peak in November 2009. In the meantime, with the monetary policy stance being tightened in China, economic growth is likely to slow, undermining some of the support to Mongolian exports seen over the past year.

Given these risks, there is little choice but to continue fiscal adjustment and to press ahead with structural reforms aimed at minimizing unproductive government spending (e.g. through better targeting of social transfers and improved public investment planning) and strengthening the banking sector. Not only will this allow Mongolia to successfully bridge the next few years, until the OT mine becomes operational, but it will also put in place a strong policy framework to manage the upcoming mining boom and use these revenues to promote equitable, sustainable growth going forward.

Box 2 Sovereign Bond Spreads in 2009

Emerging market bond spreads have fallen considerably since mid 2009 after widening to close to 800 basis points (bps) over US treasuries last year, as concerns about large government contingent liabilities vis-à-vis potential bank recapitalizations eased and investor risk aversion declined. Although EMBI spreads are slightly above 300 bps, there are important differences between countries, notably those relating to sustainability of public finances, the likelihood of debt distress and whether efforts at fiscal consolidation are credible.

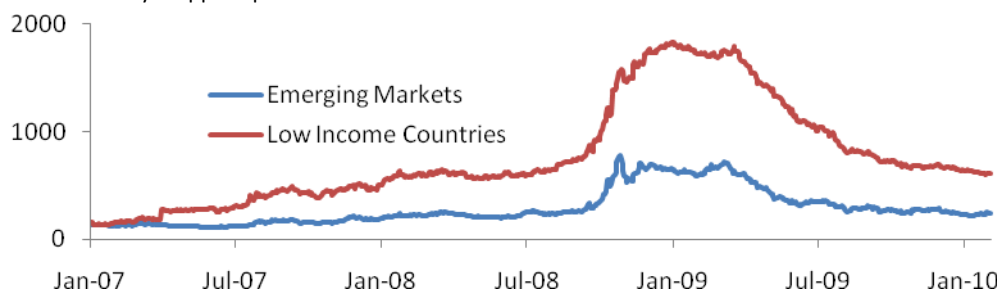
Emerging market economies issued a total of US\$35 billion of sovereign bonds in the first 10 months of 2009. However the cost of borrowing varied considerably. For example, for countries with a relatively high investment grade rating (S&P rating of A, BBB+ and BBB) bond spreads were some 300 bps higher relative to the government benchmark rate and 280 bps above the London Interbank Offer Rate (LIBOR). In comparison, countries rated less favorably (S&P rating of BBB-) were higher (Table 3). Spreads for Indonesia, which has a sub-investment grade rating (BB-), were more than 800 basis points higher than either the government or the LIBOR benchmarks.^a

This shows that the market conditions remain very difficult for low-rated sovereigns. Moreover, a first-time issuer in financial difficulties may find it quite costly to enter the market at this stage. Indeed sovereign bond spreads have surged again for such countries in recent months as market risk aversion has increased, first due to the debt standstill by Dubai World, a state backed property venture in Dubai, and now most recently on account of

solvency fears about Greece as well as other developed economies such as Portugal and Spain, with large fiscal deficits and rising debt ratios.

Figure 25 Emerging market and LIC spreads have narrowed over the past year but still remain high for low income countries

Basis points EMBI+ daily stripped spread over US treasuries



Note: unweighted average of selected emerging markets (Brazil, Chile, China, Colombia, Hungary, Indonesia, Korea, Mexico, Malaysia, Philippines, Poland, Russia, Thailand, Turkey, Ukraine, and South Africa) and low-income countries (Belize, El Salvador, Georgia, Ghana, Sri Lanka, and Pakistan).

Source: J.P. Morgan Emerging Market Bond Index Plus, World Bank.

Table 3 Sovereign bond issues in 2009 by selected countries

	S&P	Moody's	Coupon rate	Maturity	US\$ (mn)	Spread to Government Benchmark (bps)	Spread over Libor (bps)
Columbia	BBB-	Ba1	7.4	10	1000	503	465
Peru	BBB-	Ba1	7.2	10-15	1500	391	371
Brazil	BBB-	Ba1	6.1	10-30	3525	248	243
Indonesia	BB-	Ba3	11.0	5-10	3000	865	829
Philippines	NA	B1	8.4	10	1500	600	575
Sri Lanka	B	not rated	7.4	5	500	506	468

^a Although Mongolia has no outstanding international bonds, Parliament has authorized the government to issue up to US\$1.2 billion. Moody's assigns a rating of B1 currently while Fitch ratings assigns a notional B rating (both sub-investment grade) to Mongolia's long-term external debt with a stable outlook. The latter is an improvement compared to early-2009, when it had a negative outlook. Other sovereigns with a similar rating include Ecuador, Ghana, Lebanon, Sri Lanka, Ukraine and Venezuela.

Source: World Bank staff

Table 4 Mongolia: Key Indicators

	2003	2004	2005	2006	2007	2008	2009
Output, Employment and Prices							
Real GDP (% yoy change)	7.0	10.6	7.3	8.6	10.2	8.9	-1.6
Industrial production index	..	..	..	100.0	110.4	113.4	..
(% yoy change)	..	..	..	..	10.4	2.7	-3.3
Unemployment (%)	3.4	3.6	3.3	3.2	2.8	2.8	..
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	-5.0	-5.4
Non-mining balance (% of GDP) ⁽¹⁾	-5.9	-5.8	-1.3	-7.3	-13.4	-15.5	-12.9
Domestic public sector debt (% of GDP)	3.1	1.4	0.1	1.0	0.5	0.0	9.3
Foreign Trade, BOP and External Debt							
Trade balance (\$ mn)	-199.6	-99.2	-99.5	136.2	-52.4	-612.6	-285.4
Exports of goods (\$ mn)	627.3	872.1	1066.1	1543.9	1950.7	2534.5	1562.2
(% yoy change)	19.7	39.0	22.2	44.8	22.4	34.4	-38.4
Copper exports (% yoy change)	..	..	14.7	94.8	27.7	3.0	-39.9
Imports of goods (\$ mn)	826.9	971.3	1165.6	1407.7	2117.3	3147.0	2040.1
(% yoy change)	21.6	17.5	20.0	20.8	42.5	70.8	-35.2
Current account balance (\$ mn) ⁽²⁾	-102.4	24.1	29.7	221.6	264.8	-721.9	-382.0
(% of GDP)	-7.1	1.3	1.3	7.0	6.7	-13.9	-9.1
Foreign direct investment (\$ mn)	131.5	128.9	257.6	289.6	360.0	585.5	527.4
External debt (\$ mn)	1240.3	1311.8	1360.0	1413.9	1528.7	1600.5	2101
(% of GDP)	87.3	73.7	59.7	44.3	38.9	33.1	50.0
Short-term debt (\$ mn) ⁽³⁾	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service ratio (% of exports of g&s) ⁽³⁾	35.1	7.5	2.7	2.3	2.0	2.0	3.7
Foreign exchange reserves, gross (\$ mn)	203.5	207.8	333.1	718.0	1,000.6	656.7	1145.2
(month of imports of g&s)	2.3	1.8	2.5	4.6	5.0	2.1	5.1
Financial Markets							
Domestic credit (% yoy change)	157.3	25.8	18.8	-3.1	78.4	60.6	..
Short-term interest rate (% per annum) ⁽⁴⁾	..	15.8	3.7	5.1	8.4	9.8	..
Exchange rate (MNT/USD, eop)	1168.0	1209.0	1221.0	1165.0	1170.0	1267.5	1446.6
Real effective exchange rate (2006=100) ⁽⁵⁾	94.2	93.9	99.6	102.8	104.8	127.4	..
(% yoy change)	-4.8	-0.4	6.1	3.2	1.9	21.5	..
Stock market index (2000=100) ⁽⁶⁾	151.5	120.8	203.6	382.0	2048.0	1181.6	..
Memo:							
Nominal GDP (MNT bn)	1,660	2,152	2,780	3,715	4,600	6,130	6,055
Nominal GDP (\$ mn)	1,448	1,814	2,307	3,156	3,930	5,258	4,203
GDP per capita (\$)	583	722	900	1,214	1,491	1,960	..

Notes: (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