



MONGOLIA MONTHLY BRIEF – JUNE 2009



(The full report in English and Mongolian can be downloaded at <http://www.worldbank.org.mn>)

The impact of the economic downturn is felt throughout the economy. And while the pace of the downturn has slowed down in several areas, risks exist in the banking sector going forward.

Revenue in the year to May 2009 was 22.8 percent lower than in 2008, but it improved compared to April 2009. Total expenditure was relatively stable, while expenditure on maintenance increased. The World Bank’s Monthly Economic Update for June 2009 highlights the importance of protecting the maintenance of basic infrastructure during the downturn, by taking the power sector as an example. The resulting 12-month rolling fiscal deficit deteriorated slightly in May compared to April,

The trade balance is improving as imports are still declining, due to the domestic slowdown. Exports have picked up somewhat from April to May, thanks to some positive developments in copper, gold and crude oil exports. The exchange rate has been very steady against the USD, and the Bank of Mongolia (BoM) has been able to accumulate international reserves. The BoM and the banking system’s net international reserves increased further to \$553 million and \$648 million at the end May, respectively.

Inflation is sharply down to 7.4 percent year on year in May, from 12.6 percent yoy in April, led by a decrease in core inflation, giving further evidence of the economic slowdown. The BoM lowered its policy rate, the 1-week central bank bill rate by mid-June, to 11.5 percent from 12.75 percent. This cut was not as large as the drop in inflation though, so in real terms, the policy rate is now strongly positive.

Total deposits at commercial banks increased, while MNT deposits fell and FX deposits increased. Part of this decrease in MNT deposits is in line with seasonal variations in MNT deposits.

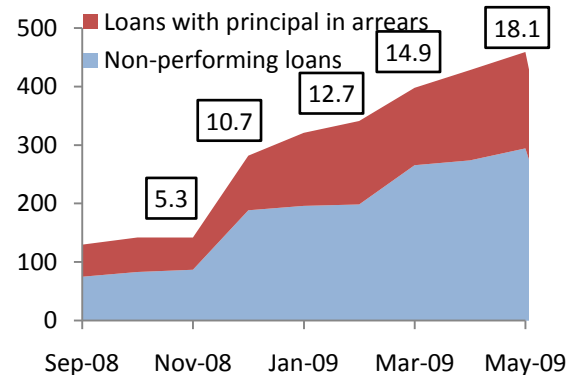
Non-performing loans (NPLs) and loans with principal in arrears continue to increase to 18.1 percent of total loans. NPLs increased by 7.5 percent in May compared to April, to MNT 294 billion or 11.6 percent of outstanding loans. Loans with principal in arrears increased by 6.8 percent in May compared to April, reaching MNT 165 billion or 6.5 percent of outstanding loans.

The largest increases in NPLs and loans in arrears were recorded in the manufacturing, construction, and wholesale and retail sectors. These also account for the majority of all NPLs and loans with principal in arrears at the end of the first quarter of 2009.

Meanwhile, banks are reluctant to lend to the private sector and are buying less risky central bank bills instead. Newly issued loans declined in many segments of the private sector, with particularly large drops in wholesale and retail, mining and quarrying, construction and manufacturing.

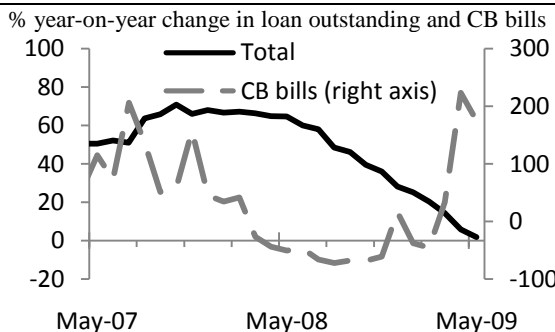
NPLs and loans with principal in arrears continue to increase

MNT billion (numbers are NPLs as % of total loans)



Notes and source: see Update

Bank have shifted from lending to buying central bank bills



Notes and source: see Update

This credit crunch is aggravating the slowdown in the manufacturing sector. Only mining and quarrying bucks the trend thanks to some recovery in mineral prices. On average, the corporate sector shows a large drop in income and taxes paid, as expected during these difficult times.

Registered unemployment increased by 20.4 percent in May 2009 compared to May 2008. Including unregistered unemployed who are actively looking for work or available for work immediately, the actual unemployment rate may be as high as 9 to 12 percent of the labor force.