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Macro and Debt Strategy

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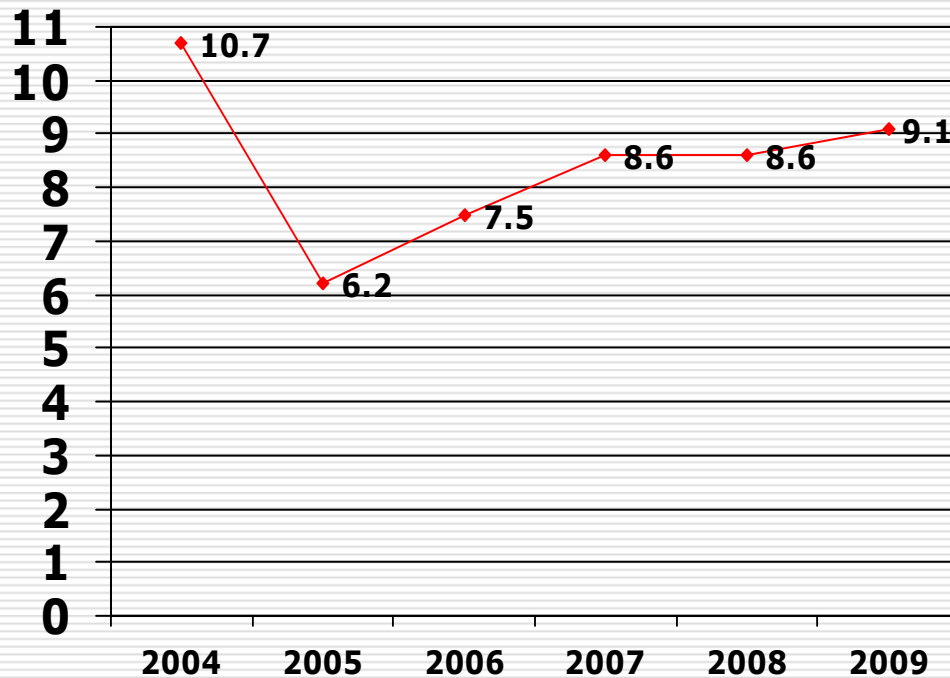
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Macro environment

real GDP growth

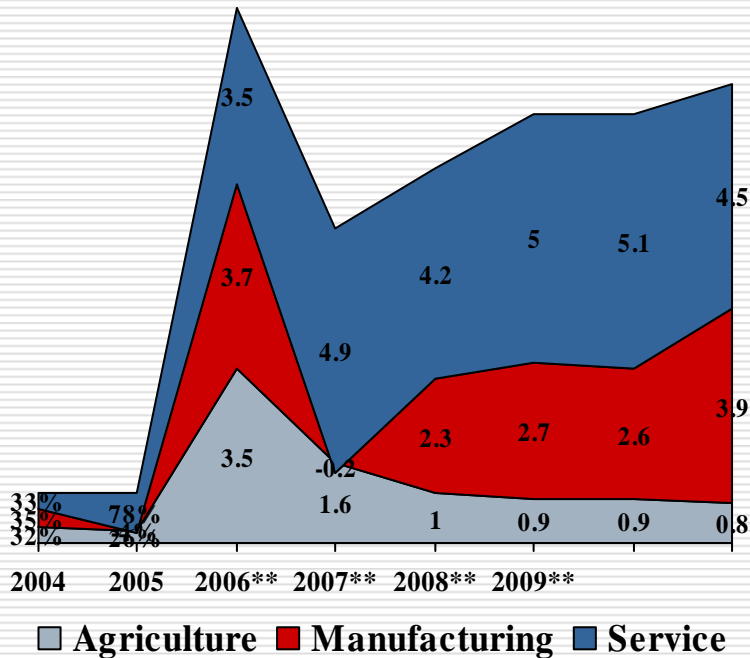


- Preserve economics' sustainability
- Increase economics growth
- GDP growth in 2006 is 7.5% by expected execution and 8.8% by the average of 2007-2009



Macro environment

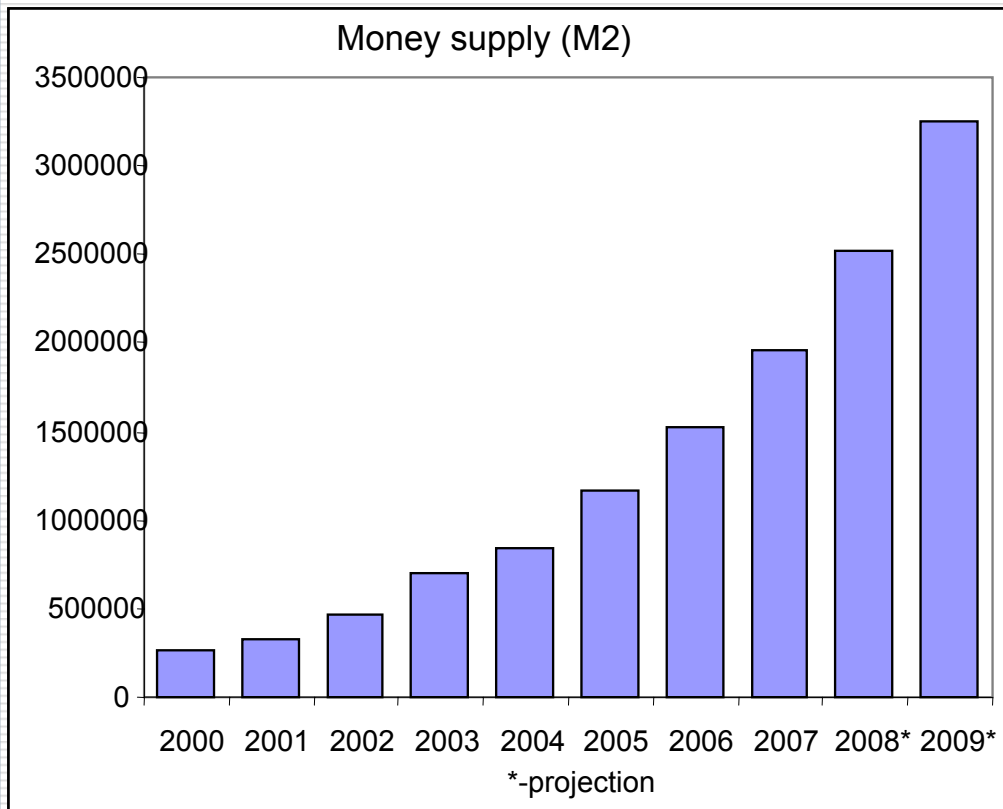
contribution to the real GDP growth



- The amendment to the Tax Laws serve the basis for the private sector growth
- In the mid run the manufacturing sector growth is related to the increase of the gold and copper price as well as the assumption to start exploration of Oyu tolgoi mines from FY2008



Macro environment

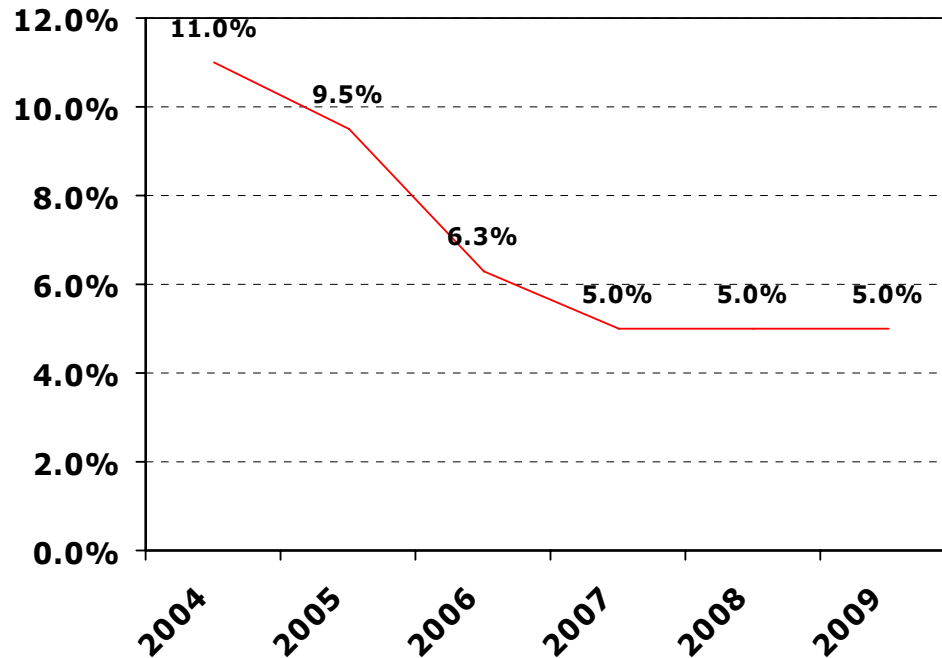


- Money supply will increase 28-29% compared to the previous year
- In terms of structure of money supply, 80% will be savings



Macro environment

Inflation

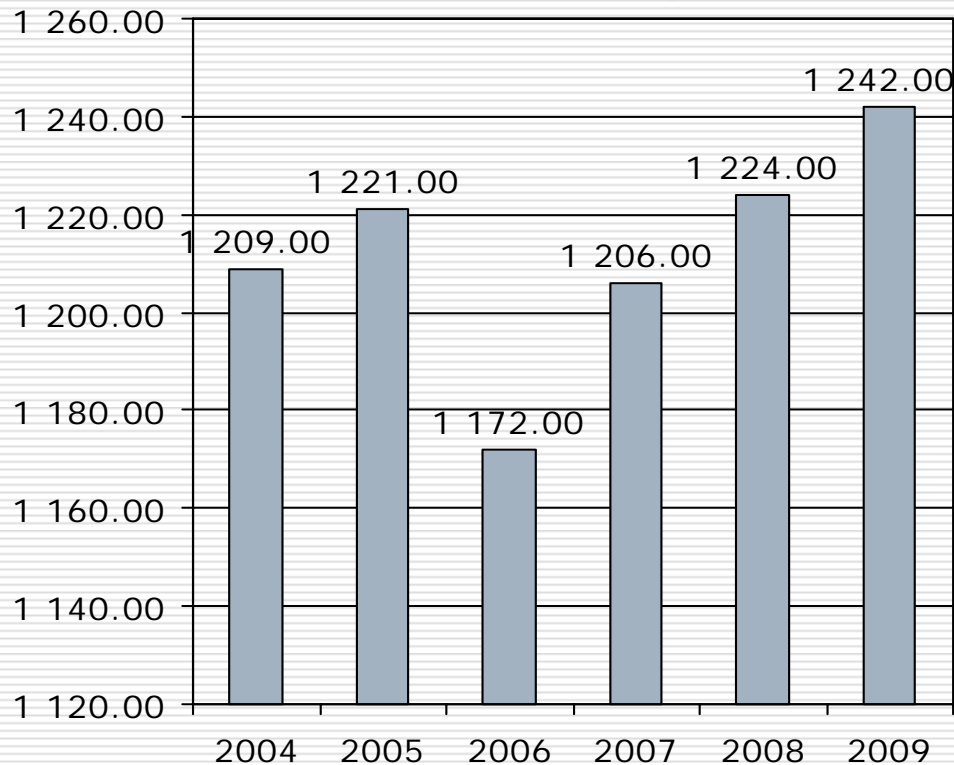


- Inflation is estimated at 5% on average.
- Although inflation is a subject to be influenced by external factors, it is deemed to be kept within one digit number



Macro environment

Tugrug vs US dollar exchange rate /at the end of each term/

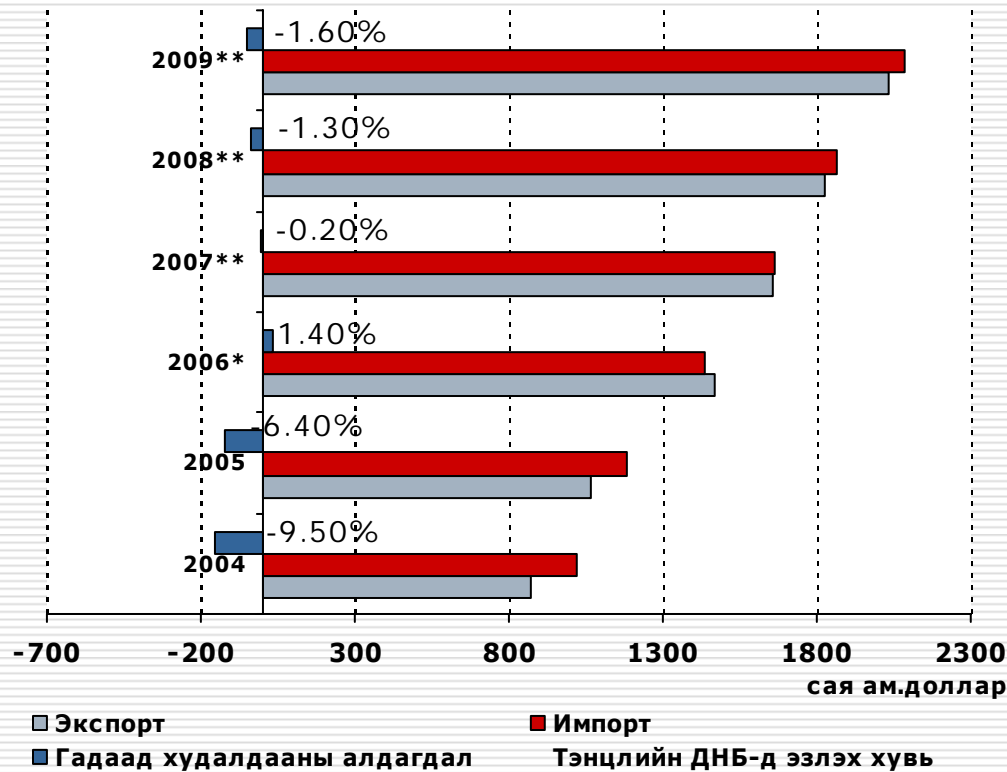


- US dollar exchange rate against Tugrug has dropped in 2006
- Stability has been observed for the rest of foreign currency's exchange rate
- In the medium term tugrug rate will drop by 1.5-1.8 percent



Macro environment

Foreign trade balance



- Positive balance of foreign trade in 2006 is due to high price of our main export product in the world market
- Medium term foreign trade deficit compared to GDP is expected to be -1.3 – 1.6



Macro environment

- External factors are expected to be constant
- Sustainable macro economics and economic growth are anticipated



Fiscal Policy

Budget balance

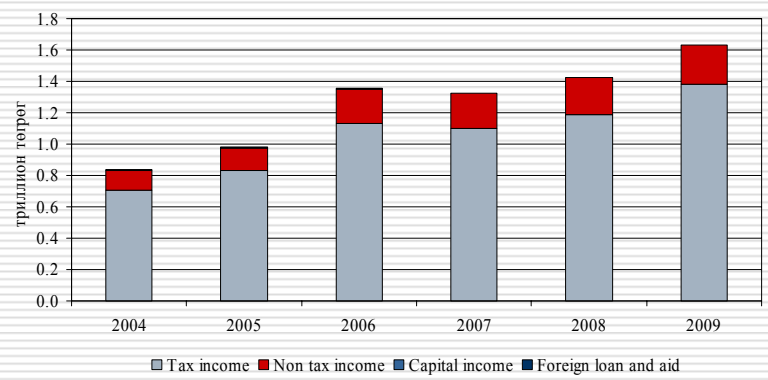


- o Amendment in Tax Law has been made in order to maintain budget revenue stable, broaden tax base to enhance efficiency of tax collection. Due to this reason budget revenue in 2007 expected to decrease.
- o Improve expenditure management, comply with the principle where budget expenditure growth does not exceed GDP growth in the given FY. Increase in the current expenditure compared to previous years is caused by full-sized measures taken in social welfare sector



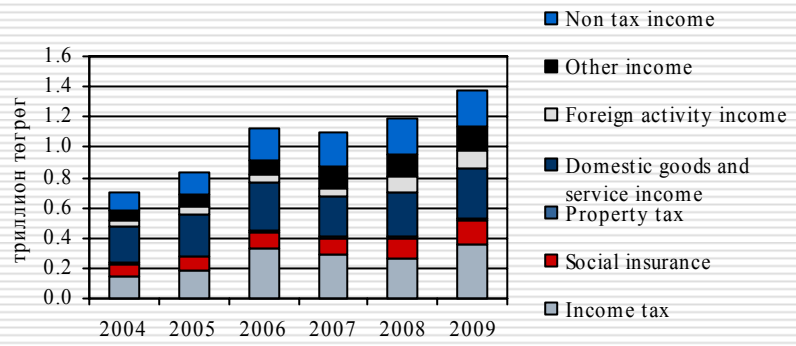
Fiscal Policy

Budget Income



- o Budget income increased by 20% on average for the last consecutive three years.

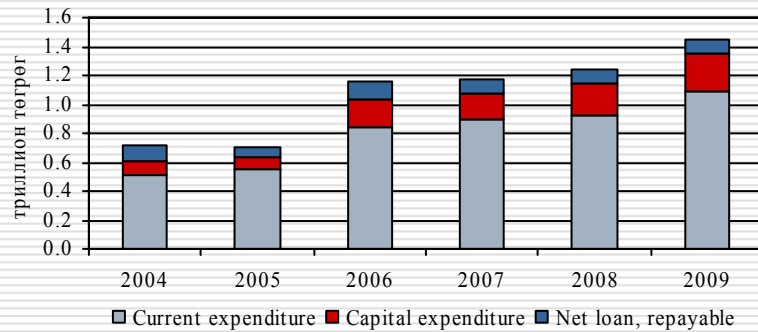
Current Income





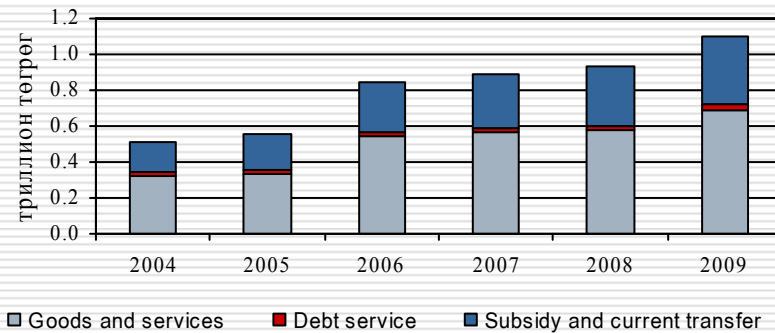
Fiscal Policy

Budget expenditure



- o Current expenditure is tend to raising due to the Social sector policies

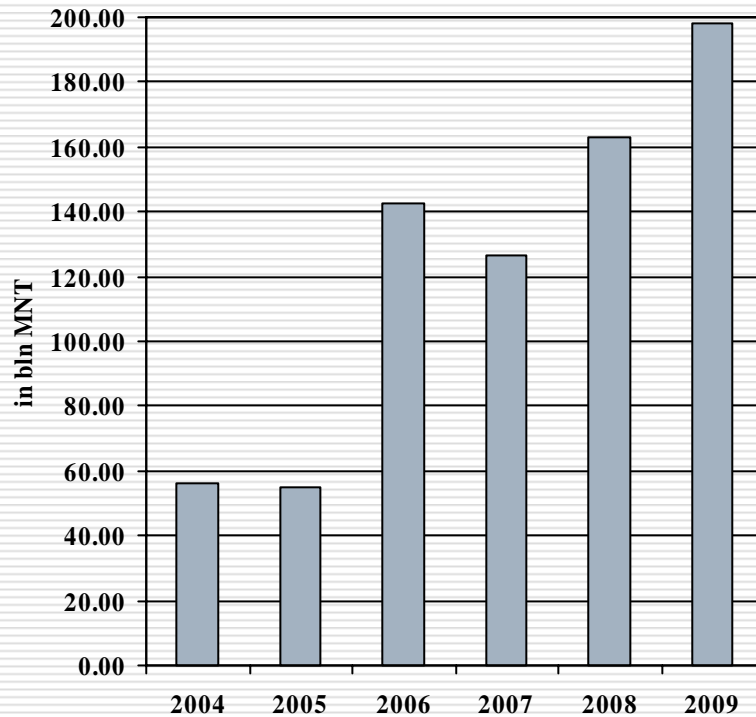
Current Expenditure





Fiscal Policy

Public Investment

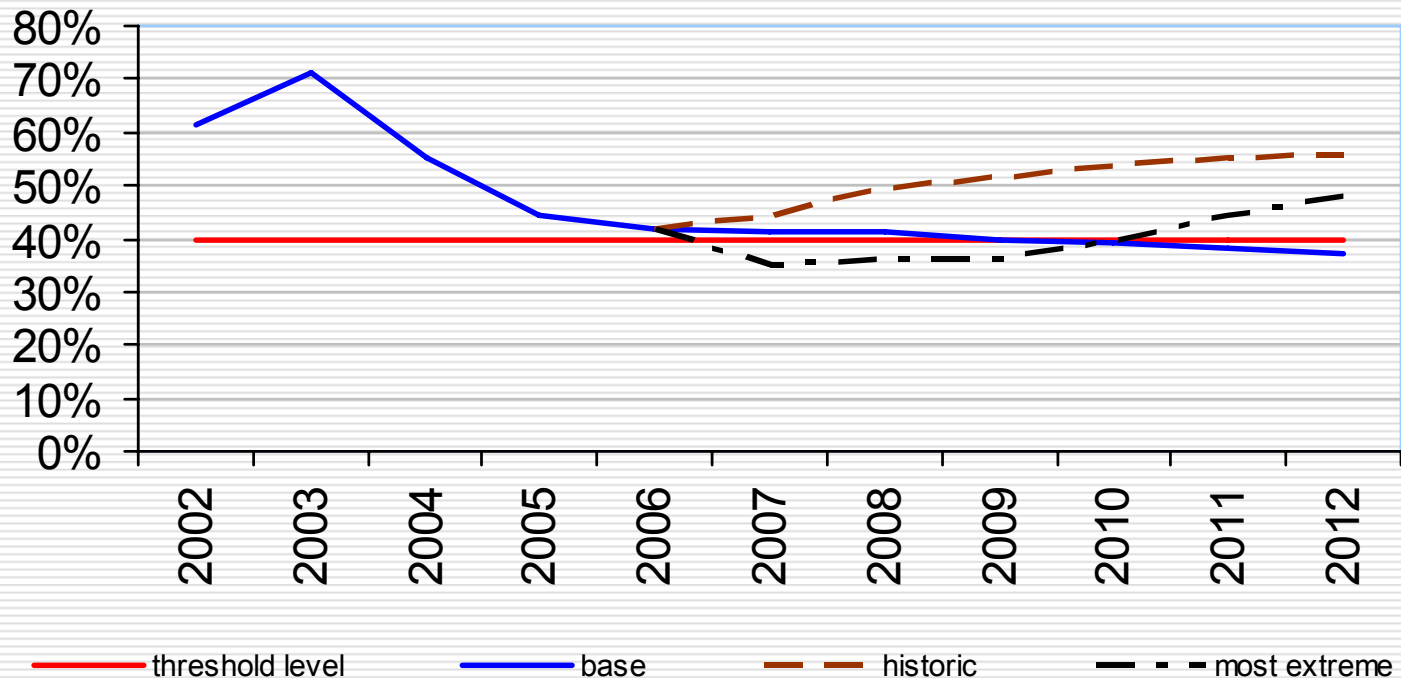


- o Due to the increase of the budget revenue the public investment is tend to increase



Fiscal Policy

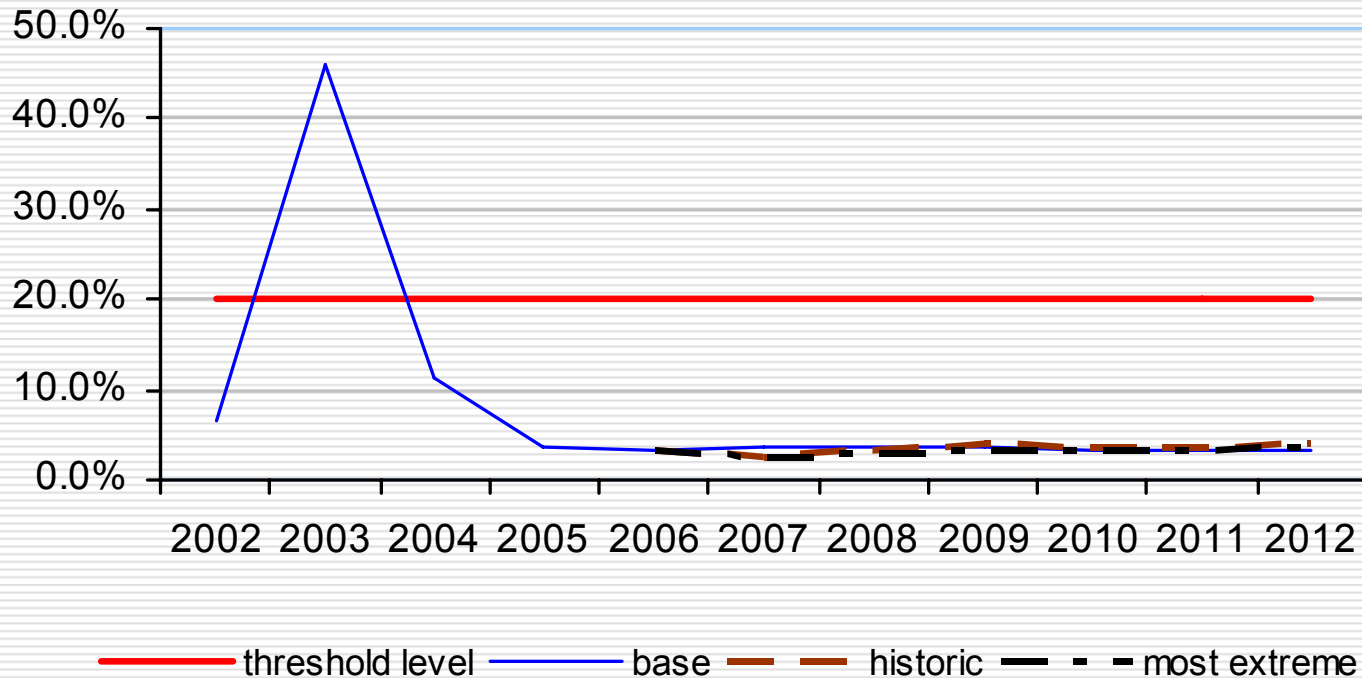
Debt Outstanding and Disbursed (NPV) / GDP





Fiscal Policy

Debt Service/ Export





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- To avoid the above risks, following measures are being taken:
 - Within economic policy framework:
 - National development strategy
 - Millennium challenge development
 - Within fiscal policy framework:
 - Budget expenditure reform
 - Sustainability fund
 - medium term Debt management strategy:
 - Domestic debt strategy
 - External debt strategy
 - Contingency strategy
-



Debt Strategy (1)

- Debt management strategy of the Government of Mongolia:
 - Define objectives
 - Define scope of the debt
- Aftermath of debt management strategy implementation:
 - Decrease debt service costs
 - Manage debt risks
 - Stimulate and develop Government bond market activities
 - In the longer run it is presumed to facilitate to advance the credit rating



Debt Strategy (2)

- The Strategy is also to:
 - Support Socio-economic guidelines and Medium Term Budget Framework of 2007-2009
 - To compliment fiscal and monetary policies



Debt Strategy (3)

- Debt management strategy objectives:
 - To provide medium and long term government programs and activities with consistent financing at the lowest cost,
 - Forecast possible risks and maintain it at reasonable level
 - Also, in the medium term
 - Support Social and economic guideline, and
 - Support objectives of Medium Term Budget Framework
 - Decrease external debt
 - Increase the share of the domestic debt
 - Risk management:
 - Continue obtaining concessional loans
 - Minimize the exchange rate exposure of the portfolio
 - Set government bond market at constant operational stance
-



Debt Strategy (4)

- Medium term domestic debt strategy:
 - Setup a government bond mechanism to provide its sustainable and operational stance
 - Issue bonds as per schedule announced in advance
 - Diversify government bonds
- Implementation of domestic debt strategy might face following risks:
 - Roll-over risk
 - Relatively high deposit rates of commercial banks creates risk to compete with government bond interest



Debt Strategy (5)

- Medium term external debt strategy shall have the following goals to pursue:
 - Consistency between external debt structure to NIR
 - Minimize the exchange rate risk of the portfolio
 - Define the terms and conditions of new borrowing
 - Evenly schedule debt service without burdening budget,
 - Main constraints to implement external debt strategy:
 - Exchange rate risk
 - Operational risk
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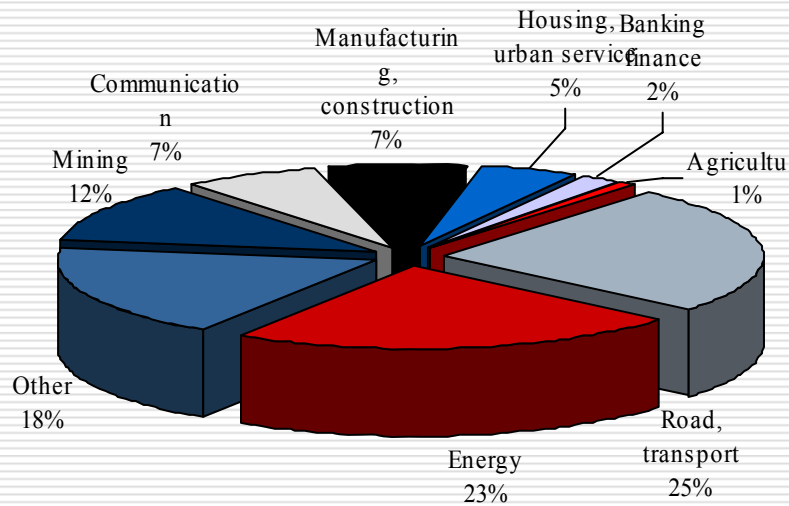


Debt Strategy (6)

- **Contingent Liability**
 - Government guaranteed loans /fully or partially/
 - Pre 1990 debt, expressed in XTR – the Government is in the process of debt settling negotiations with Poland, Bulgaria, Romania
 - Post 1990 debt in dispute – the Government is in the process of debt settling negotiations with Finland debt



On-lending loans



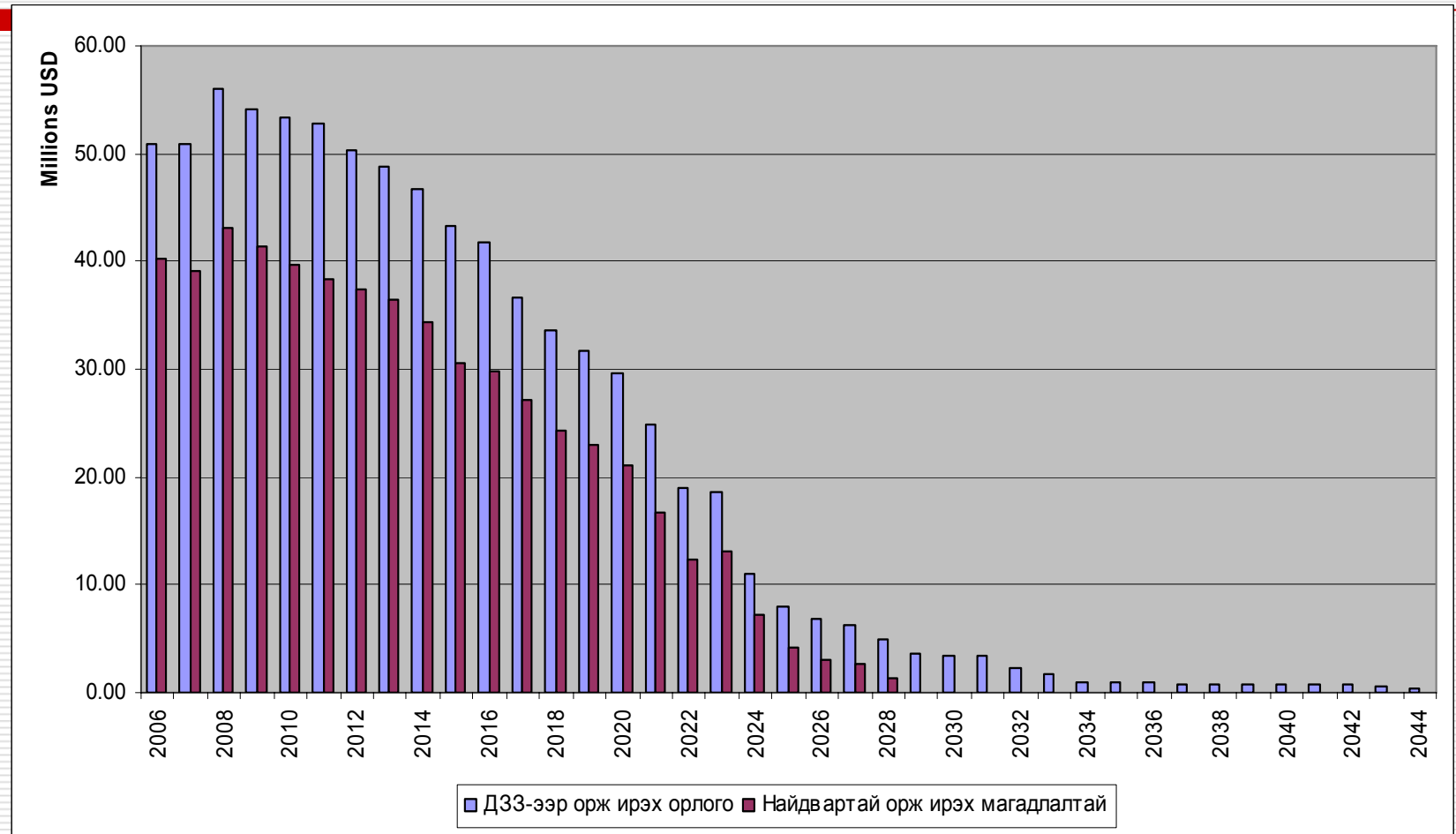
by Sectors, %

Poor repayment reasons:

- Lack of consolidated database on on-lending loans up to 2001;
- The status of the companies received on-lending has been changed
- Privatization did not include the on-lending obligation of the company in respective balance sheet by SPC
- Exchange rate differences
- High cost of foreign Consultant services
- High cost of the equipments and mashinery



On-lending loans





To do list in the mid run

- Within governance framework:
 - Improve legal environment of debt management.
 - Monitor allocation of functions of debt management implementation
 - Make government debt management report transparent and public
 - Within debt strategy and risk management framework:
 - To perfect debt management objectives and its scope
 - Develop an Action plan to develop government bond market
 - Develop a policy for on-lending
 - Introduce a methodology to analyze cost-risk evaluation
 - Develop methodology to compare loan conditions with cost
 - Capacity building:
 - Upgrade current DMFAS version
 - Develop a training program of debt management staff for capacity building
 - Develop a Code of Ethics and enforce its implementation
 - **Macro economic policy and cash management coordination:**
 - Regularly analyze debt sustainability
 - Coordinate with BOM on issuing T-Bills
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THANK YOU