



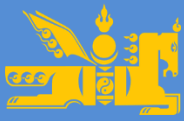
Coping with Global market commodity Price Fluctuations: Impact on Fiscal and Debt Management in case of Mongolia

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1. Country Profile

Geography

- Area: 1,564,116 sq. km
- Capital City: Ulaanbaatar
- Geographic Areas: Gobi, Steppes, Mountains

Population and Culture

- Population: 3 million
- Language(s): Mongolian (90%), Kazakh, Russian
- Religion(s): Buddhist Lamaism, Muslim, Shaman, Christian
- Nomadic Culture

Economics



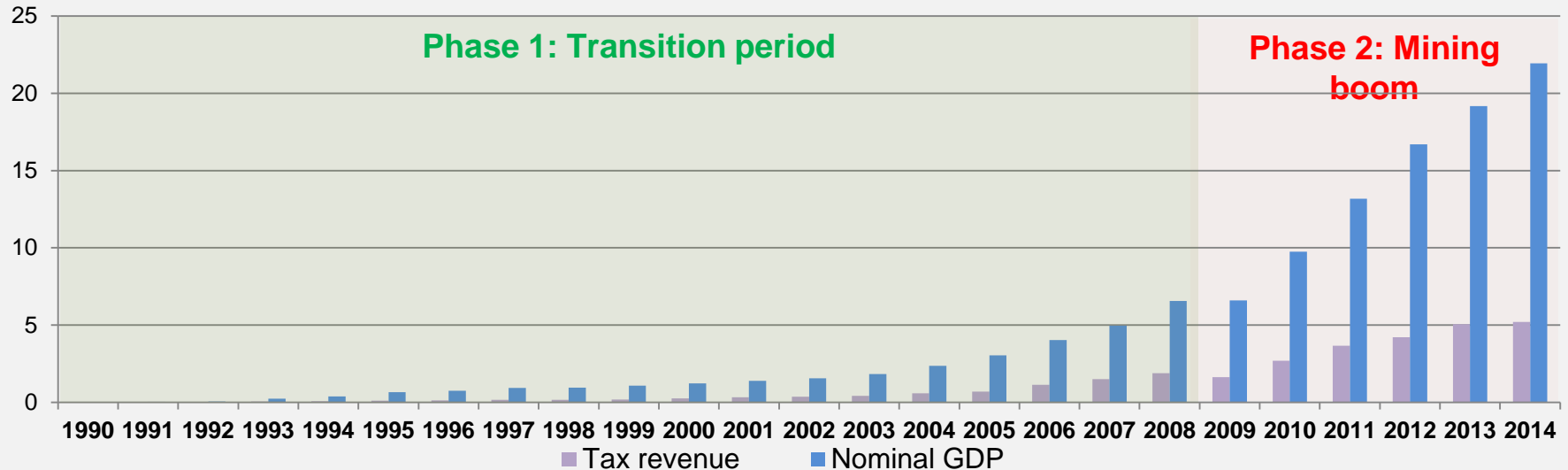
- Currency: Tugrug (MNT), US\$1=1900
- Major Industry: Mining – Copper, coal and gold, Cashmere, agriculture
- Major Trading partners: China, Russia, USA, Japan.
- GDP per capita: ~3600 USD



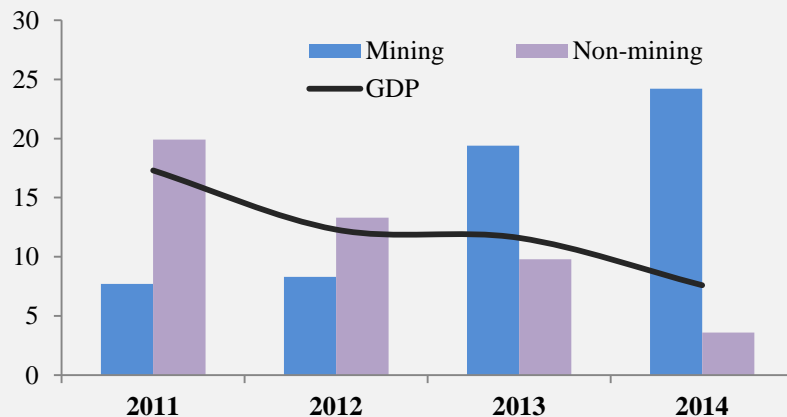
2. Role of commodity on economy

Billion MNT

Tax revenue and Nominal GDP



Real GDP growth (in percent)

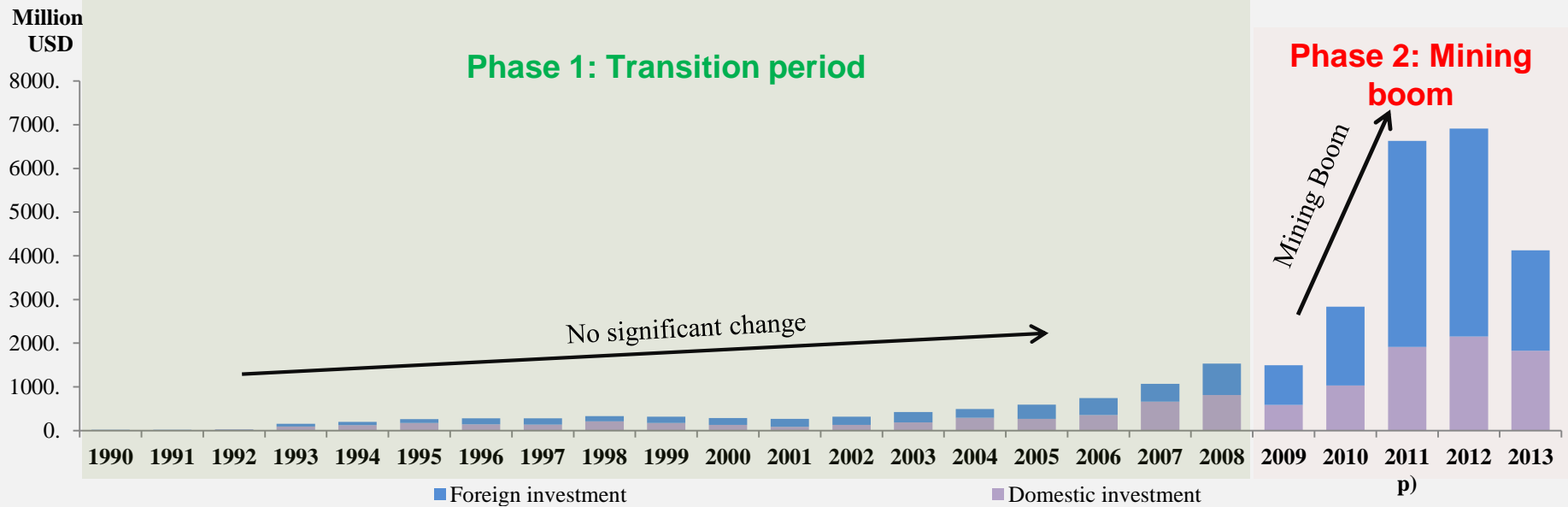


- ❑ Mongolia has transitioned into free market economy in 1990. The transition period from 1990-2008 had experienced steady growth averaging about 3% in real terms.
- ❑ With the discovery of two major copper and coal deposits (Oyu Tolgoi and Tavan Tolgoi), Mongolia has experienced a very rapid GDP growth during the Mining Boom, the average real GDP growth is 10%. While the highest growth was 17% in 2011.

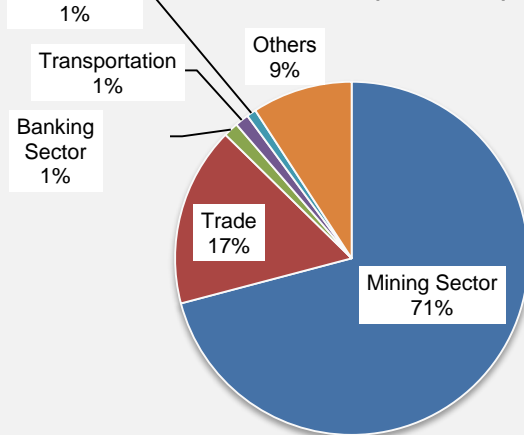


2. Role of commodity on economy

Foreign and domestic investment



FDI breakdown (1990-2013)

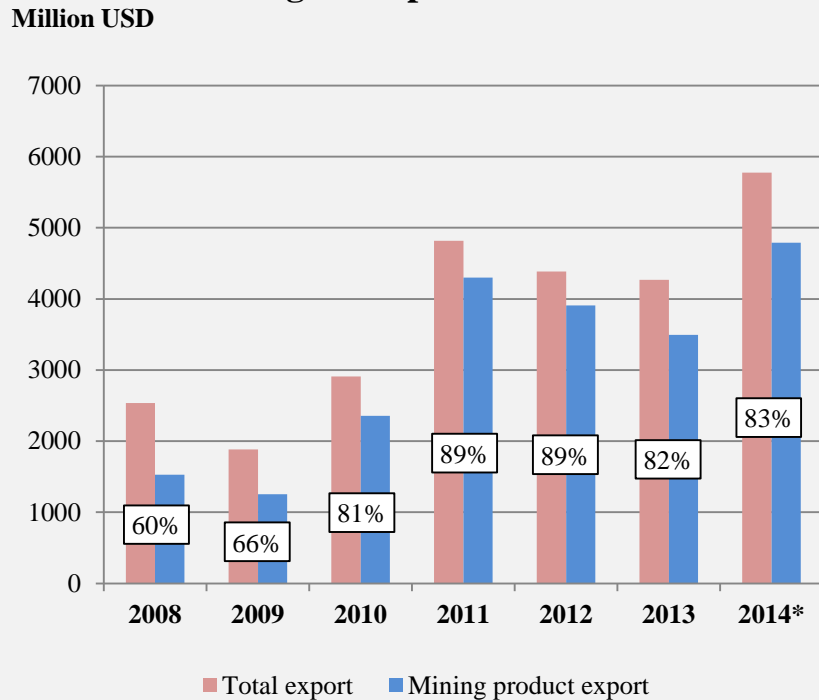


- ❑ Mongolia has experienced a drastic increase in FDI from 2009 to 2012 due to construction phase Oyu Tolgoi project (*One of the biggest Copper project in the world*).
- ❑ The mining sector is the main sector for FDI making about 71% of the total FDI since 1990.

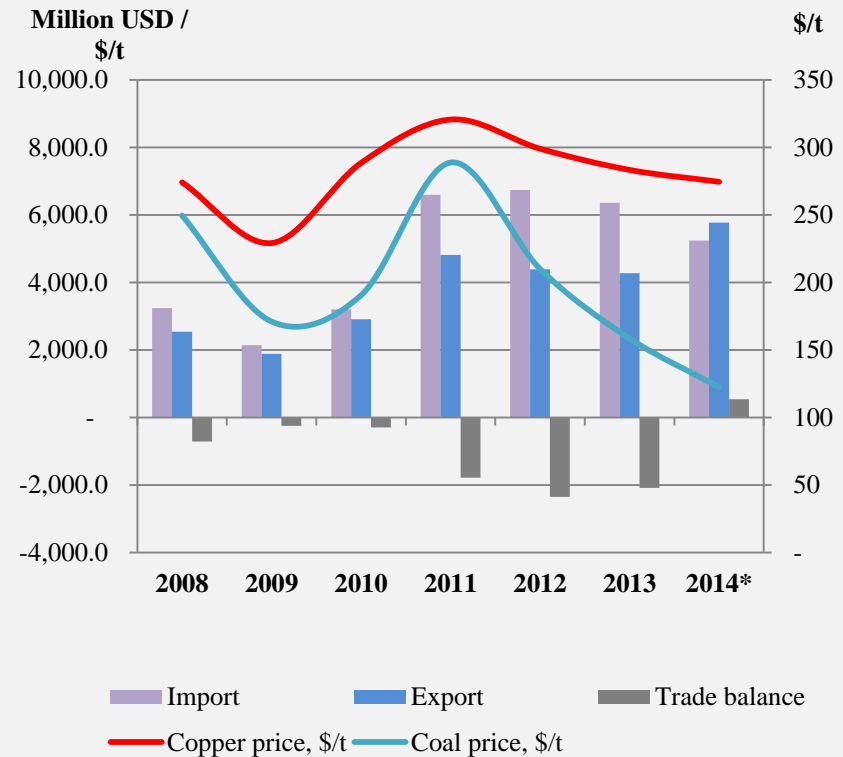


2. Role of commodity on economy

Mongolia export structure



Foreign trade



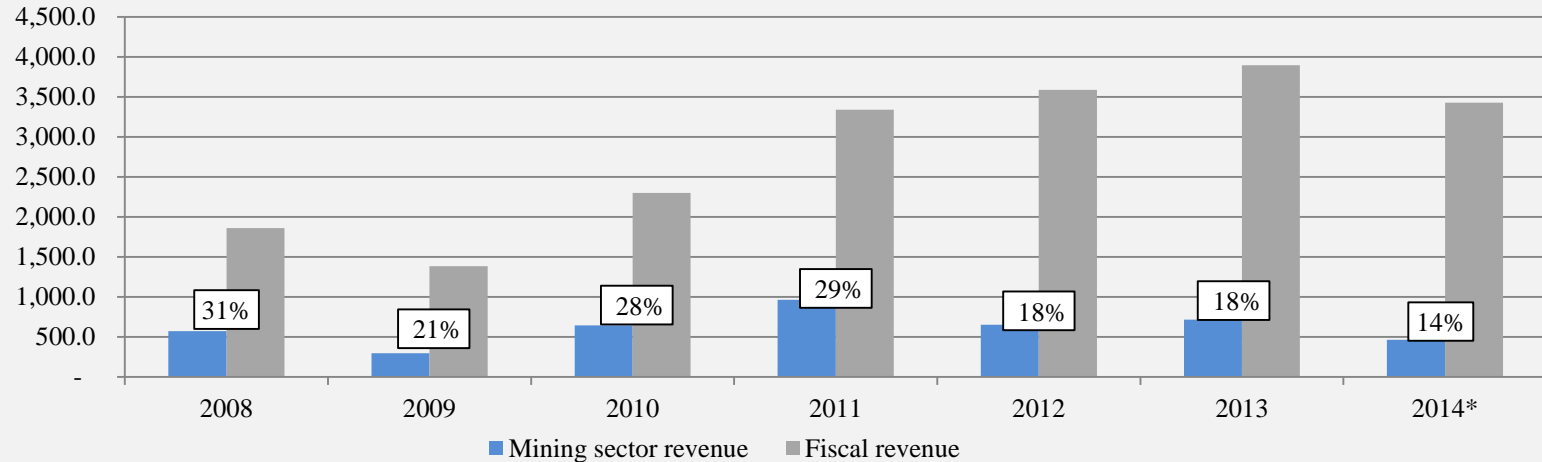
- ❑ Mining has become the biggest sector in Mongolia, accounting for 20 percent of GDP, 60 percent of industrial value added, and ~90 percent of export earnings.
- ❑ Major export-related minerals include copper, molybdenum, gold, coal, and fluor spar concentrates. The country also produces limited amounts of tungsten, salt, clay, lime and aggregates.



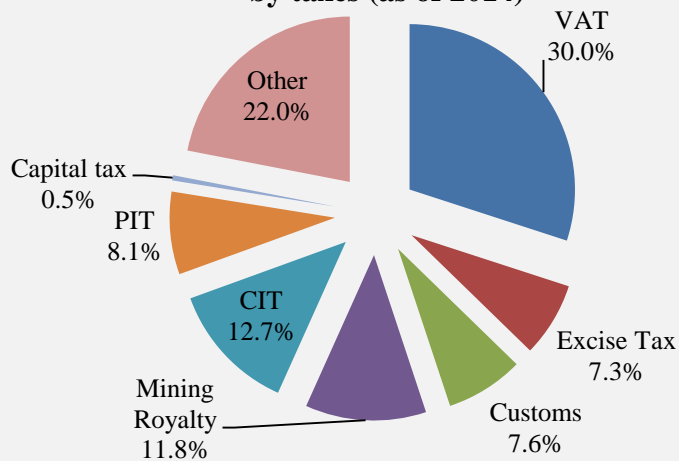
3. Fiscal policy and commodity price effect

thousand USD

Mining sector revenue share



Tax revenue breakdown by taxes (as of 2014)

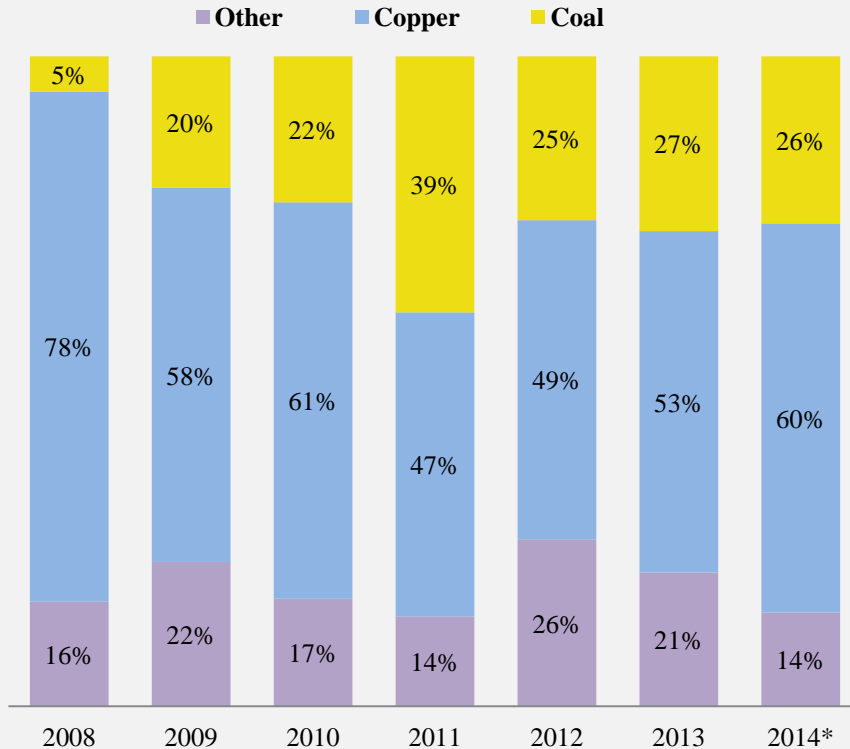


- ❑ Revenue from mining sector consists of Mining royalties, CIT, VAT, PIT, air pollution and customs fee.
- ❑ At its peak, revenue from mining sector made about 30% of the total revenue, but since 2011 with the decline of commodity prices it has been steadily decreasing.
- ❑ Mining companies make about 20% of the corporate income tax revenue.

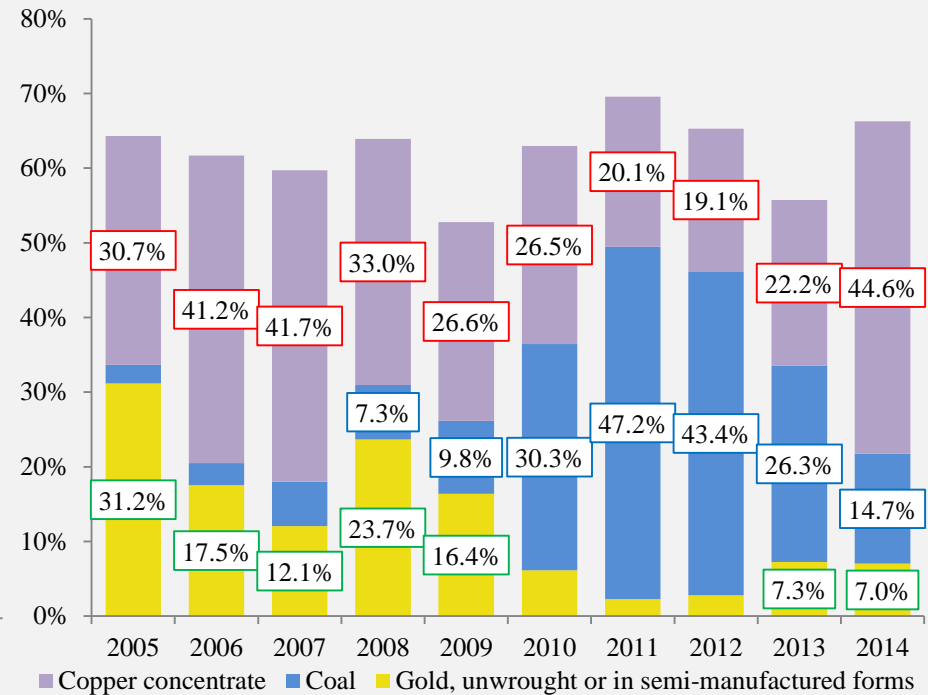


3. Fiscal policy and commodity price effect

Mining revenue share by commodities



Share of main commodity export in total export

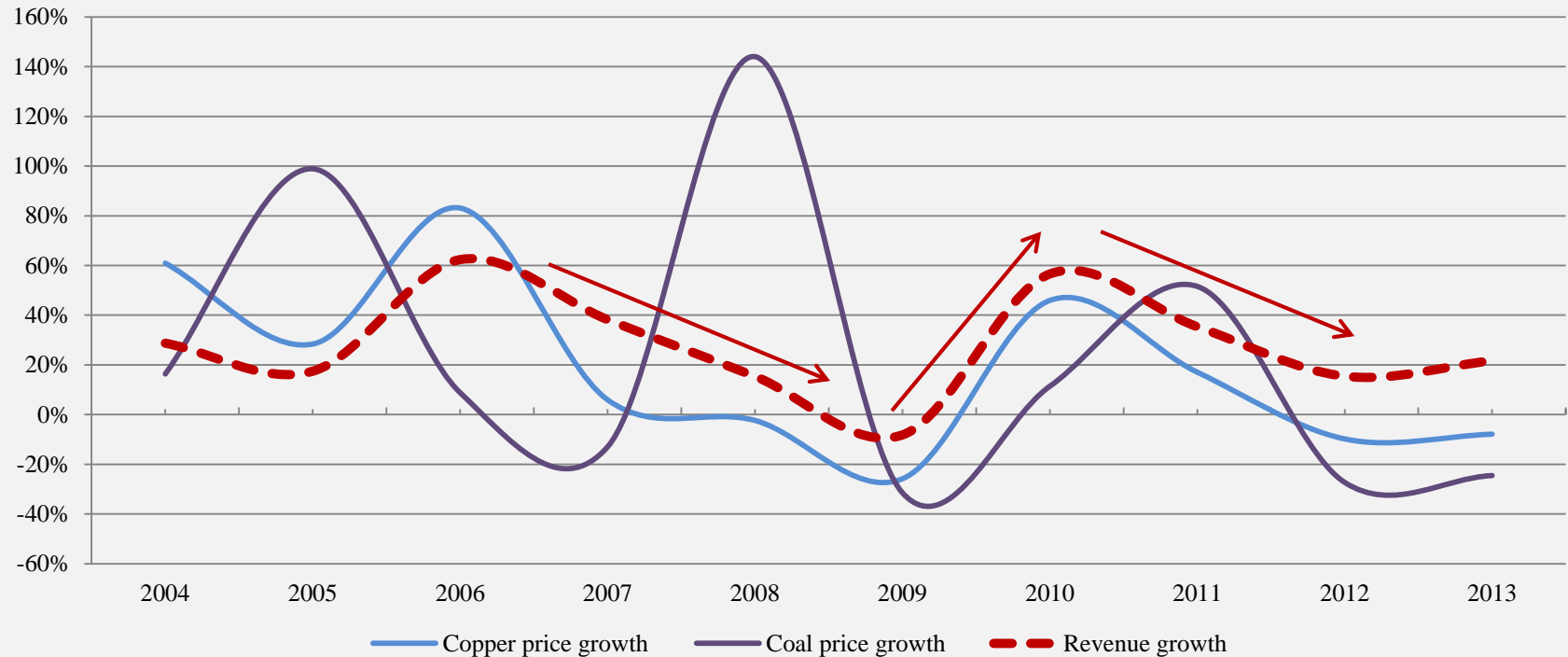


- ❑ Main commodities for export are coal and copper concentrates.
- ❑ Copper and coal generates ~20% of total fiscal revenue, setting the trend for revenue growth.



3. Fiscal policy and commodity price effect

Growth rates of commodity export prices and fiscal revenue



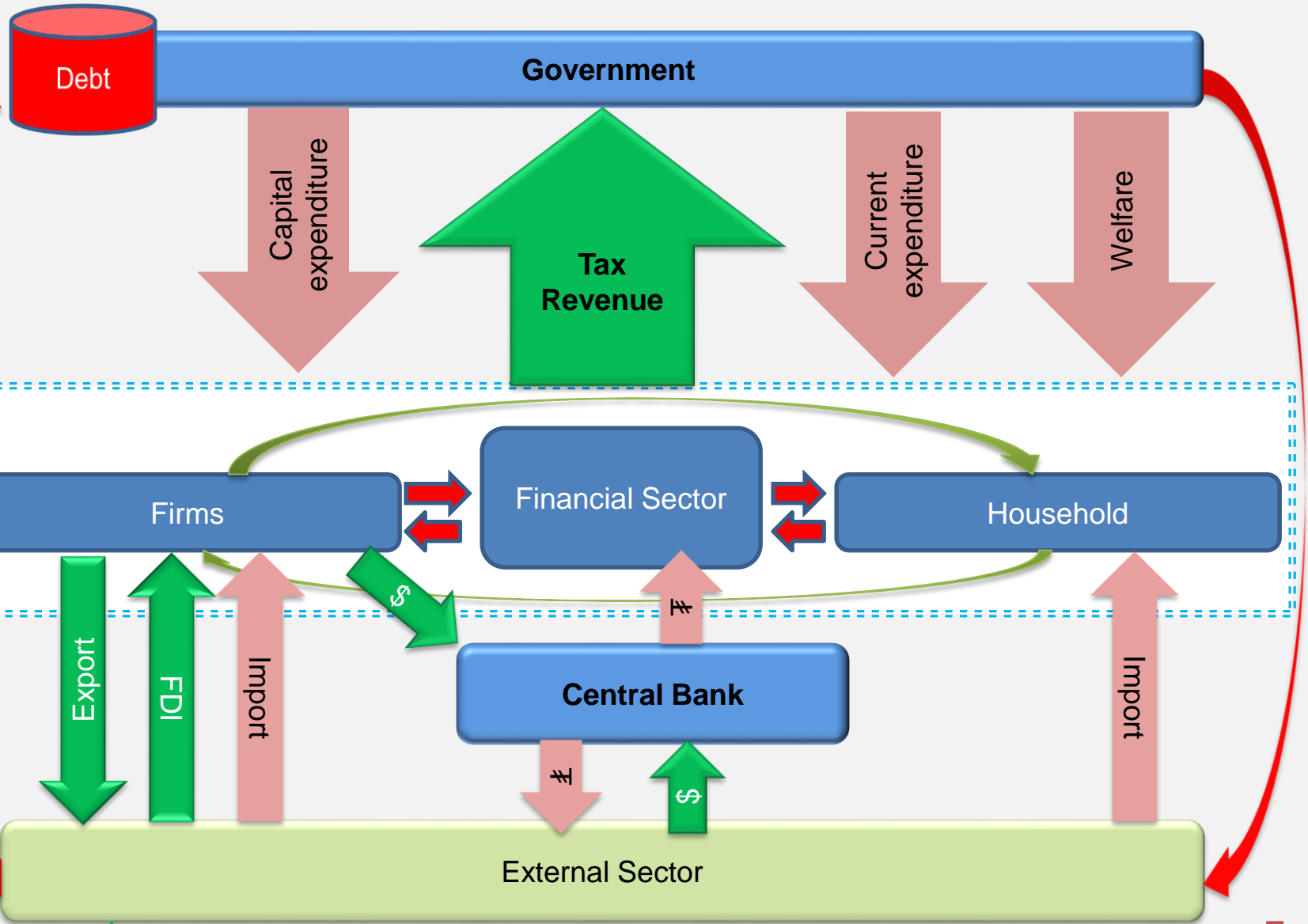
- ❑ Total revenue rises in response to increases in commodity export prices.
- ❑ Total revenue changes are closely correlated with the copper commodity prices (0.78), and therefore its safe to say that Mongolian economy is **copper driven** economy.



1990-2009

2010-2011

2012-2014



Commodity price ↑

Commodity price ↓



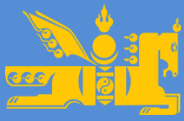
4. Fiscal policy and improvement on legal environment

1. Fiscal Stability Law (FSL), which was enacted in 2010.

- Structural revenue rule
- Expenditure rule
- Deficit ceiling rule
- Debt ceiling rule

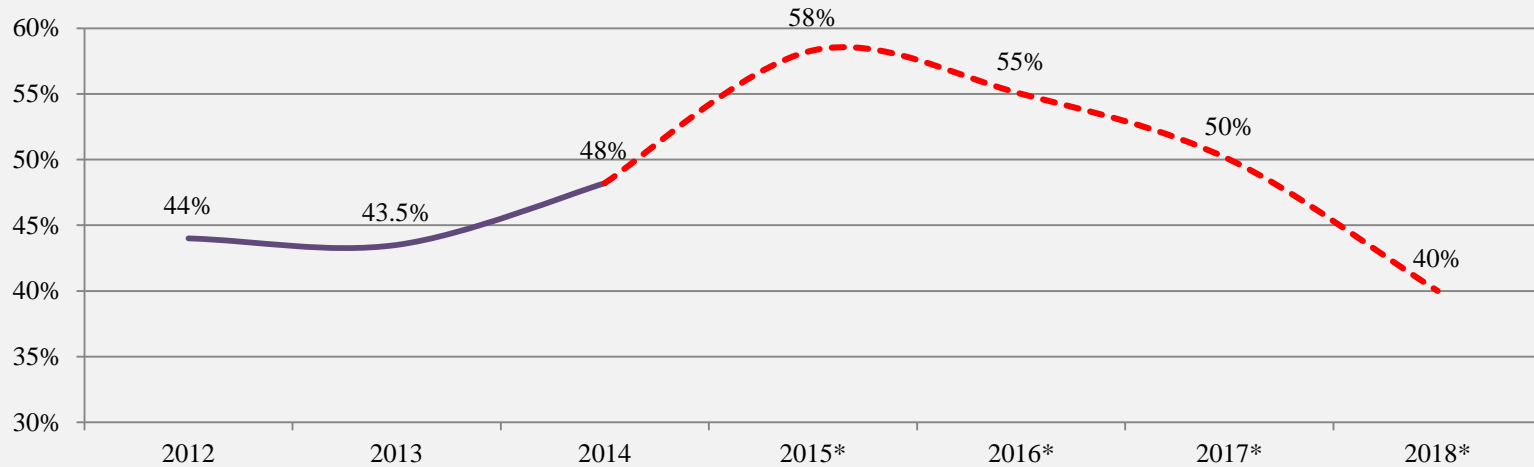
2. Debt Management Law, Government debt management strategy

- Debt management law was approved by Parliament in this year.



5. Medium term policy for Debt sustainability

Government debt ratio to GDP



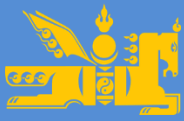
- In the medium-term government debt will be stabilized and its ratio to GDP will be reduced.



5. Medium term policy for Debt sustainability

The Government of Mongolia shall pursue the following policy objectives within the Medium-Term Government Debt Management Strategy for 2016-2018 and shall align all borrowing decisions with the set policy objectives:

- ❑ Level off government debt services in long-term, gradually reduce a ratio of debt services to total budget revenues, and lengthen the average maturity of the government debt portfolio through new borrowing with longer term maturity in 2016-2018;
- ❑ Improve Mongolia's sovereign rating, actively engage with investors, gain their confidence, raise the profile of Mongolia, reduce foreign debt services and develop a yield curve of the domestic government debt securities;
- ❑ Create optimal government debt portfolio by appropriately planning and implementing comprehensive debt management actions in medium term.



**THANK YOU FOR
YOUR KIND
ATTENTION**