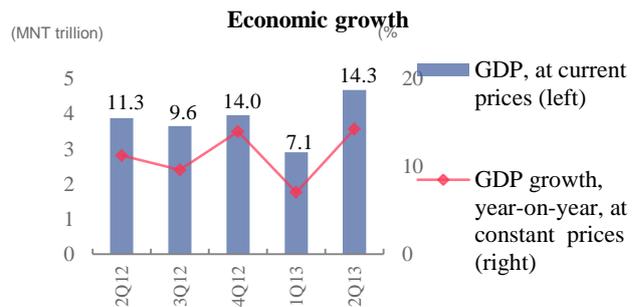
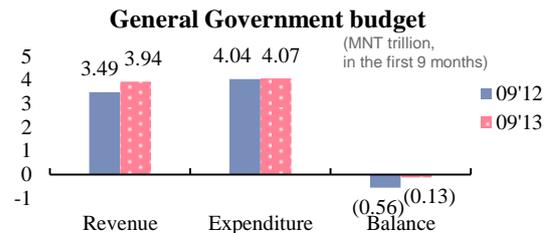


### MAIN INDICATORS: GDP, STATE BUDGET, FOREIGN TRADE, EXCHANGE RATE, INFLATION

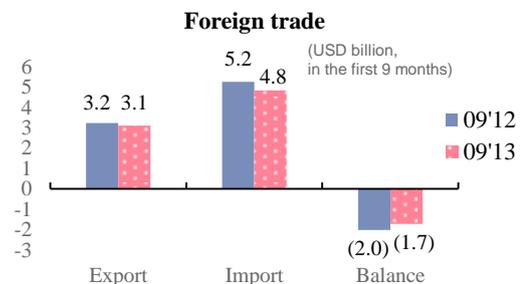
**Economic growth rebounded in the second quarter 2013.** Real GDP grew by 14.3 per cent in the second quarter to June, a strong improvement on the 7.1 per cent growth recorded for the twelve months to March 2013. Expansion in the first half was 11.3 per cent, a slow-down from the 13.1 per cent growth recorded for the same period one year prior. In current prices, GDP amounted to MNT 7,591 billion for the first six months of 2013 and grew by 18.8 per cent in comparison to the same period last year. Growth was driven by increases in government spending from the Chinggis bond proceeds, although agriculture also grew strongly.



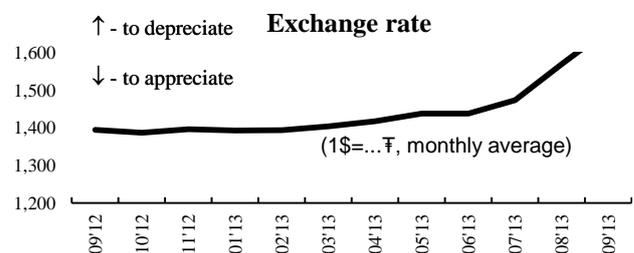
**The accumulative 2013 budget for the central and local governments is still recording a deficit of MNT 131 billion** /the total budget revenue and expenditure amounts to MNT 3,937 and MNT 4,068 billion/. The deficit is an improvement from the same period last year, when combined government finances were in deficit of MNT 558 billion. Revenue remains 13 per cent higher while expenditure remains the same because of some 17 per cent spending cuts in subsidies and transfers as well as 32 per cent in investment through internal sources.



**The trade balance was in deficit USD \$1.7 billion for the nine months to September.** The total turnover of trade reached USD 7.9 billion, a decrease of 6.5 per cent from the same period last year. Both exports and imports are lower compared to last year, with exports of USD \$3.1 billion down 4.1 per cent since last year, and imports of USD \$4.8 billion down 8 per cent. The slow-down in coal exports continues, down 45 per cent in value and 20 per cent in volume compared to the same period last year.



**The Mongolian Tugrik depreciated sharply in September.** The monthly average exchange rate fell 5.9 per cent to 1,662 MNT against the USD. The biggest daily fall in the value of the tugrik reached 1,723 in September. The value of the tugrik has fallen 19.2 per cent over the past year to September. The total amount of foreign currency reserves reached USD 2,679.6 million decreasing by 1.7 per cent compared to the previous month. Compared to the same period last year, foreign currency reserves are now down 7.7 per cent.



**Inflation increased slightly to 9.9 per cent in the year to September.**

Compared to September 2012 it decreased by 4.9 units. The year to date inflation rate was 8.2 per cent, while inflation for the month of September was a modest 1.4 per cent. During this month the prices of Clothing, footwear and cloth, and Alcoholic beverages, tobacco increased as well as that of housing, water, electricity and fuels.

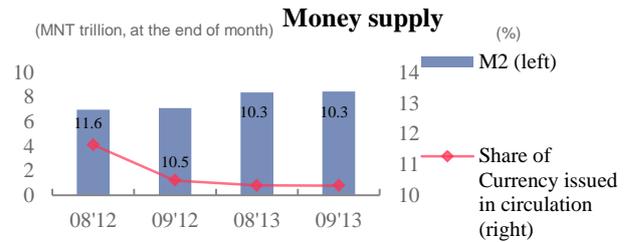


Source: NSO, BoM

**FINANCIAL SECTOR: MONEY SUPPLY, DEPOSITS, LOANS**

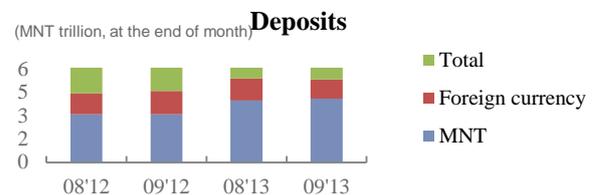
**The money supply (M2) slightly increased in September.**

M2 rose 0.9 per cent from the previous month reaching MNT 8.5 trillion or USD 5.1 billion. M2 is 19.3 per cent higher than the same period in September 2012. Currency issued in circulation rose by 0.8 per cent, and remains 17.3 per cent higher than the previous year to be MNT 875 billion. Currency issued in circulation amounts to 10.3 per cent of the M2.



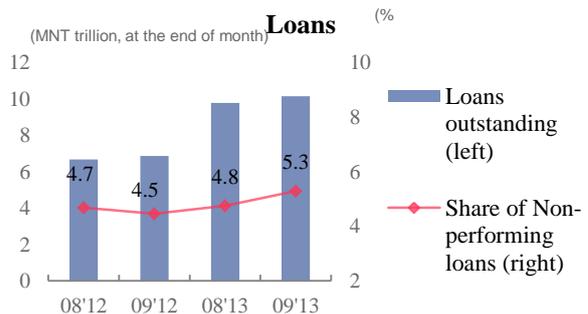
**Bank deposits fell by 0.8 per cent in September to MNT 5.3 trillion.**

Deposits are now 16.3 per cent higher than a year ago amounting to USD 3.2 billion. Deposits in foreign currency fell by 11.4 per cent to MNT 1.2 trillion, while MNT deposits rose by 2.9 per cent to MNT 4.1 trillion. Foreign currency deposits are now 17.2 per cent lower than one year ago, while MNT deposits are 32.5 per cent higher.



**Non-performing loans rose in September.**

This sharp rise in non-performing loans, from MNT 136 million to MNT 537 billion in the last three month, represents a 75.4 per cent increase from the same period last year. Non-performing loans amount to 5.3 per cent of the total amount of loans outstanding. Total loans outstanding rose 3.8 per cent to MNT 10.2 trillion or USD 6.1 billion, an increase of 47.9 per cent in the past year. The annual interest rate (weighted average) for loans in MNT increased by 0.4 percentage points and decreased by 2.1 percentage points for loans in foreign currency from last year reaching 19 per cent and 12.1 per cent respectively.



*Source: NSO, BoM*

**Monthly highlights**

- > The “Erdenes Tavantolgoi” company begins to export coal from the West Tsankhi. It plans to export 7.5 million tons of coal this year, of which 4.5 million tons will be extracted from the East Tsankhi, and 3-3.5 million tons from the West Tsankhi site.
- > EBRD, the Bank of Mongolia and the Ministry of Finance have signed a Memorandum of Understanding under the EBRD’s Early Transition Countries (ETCs) Local Currency Lending Program. Donors will share the loan risk providing to borrowers such as micro, small and medium-sized enterprises (MSMEs) loans at affordable interest rates.
- > The year’s Conference of Asian Bankers Association (ABA) focused on the theme “Asia: Growth Engine of the Global Economy” was organized for the first time in Mongolia.

**Summary**

The International Monetary Fund (IMF) has cut its 2013 growth forecast for the Mongolian economy, the latest World Economic Outlook (WEO) released on 7 October 2013 shows. GDP is now expected to grow by 11.8% in 2013, revised down from the IMF’s previous growth forecast of 14.0% in April. Economic growth in 2014 is expected to be around 11.7%, slightly higher than the 11.6% previously forecast. Of most concern, GDP growth forecasts for Mongolia in 2015 and 2016 have been slashed. The Mongolian economy is now expected to grow by a modest 5.8% in 2015, down from 7.6% forecast in April, while 2016 growth is expected to be only 3.6%, down from 9.5% forecast in April.

These cuts to the growth forecasts for Mongolia have been driven by continued uncertainty and weakness in the global economy, particularly in China. The IMF argues that although advanced economies such as the US and Europe are gradually strengthening, growth in emerging markets has slowed. Accordingly, the IMF cut its growth forecasts for China to 7.6% in 2013 (down from 7.8% in July) and 7.3% in 2014 (from 7.7% in July) as part of this latest World Economic Outlook.

Of particular concern for Mongolia is the rebalancing underway in China from an investment based economy to a consumption based economy. As demand shifts away from materials-intensive growth, some commodity exporters could be vulnerable, the IMF notes that. The WEO October 2013 database demonstrates this vulnerability for Mongolia, with expectations for growth in Mongolia’s exports dramatically revised down. For instance growth in exports in 2016 which were previously forecast in April to increase by 22.7% are now forecast to fall by 3.9%. Over the longer term, the Chinese slowdown and associated rebalancing of the Chinese economy could have a dramatic impact on Mongolia’s economic growth. The IMF has estimated the impact of a slowdown in Chinese growth from an average of 10 percent during the previous decade to an average of 7½ percent over the coming decade on Mongolia. It found that Mongolia’s GDP level in 2025 is estimated to be about 7 percent lower than otherwise, primarily as a result of slower Chinese demand for coal, iron ore, and copper.