INTERNATIONAL INVESTMENT BANK

Mongolia |

Investment climate

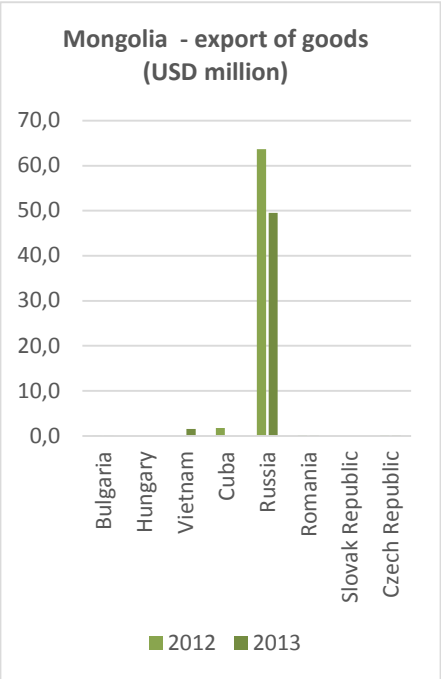
The World Bank Doing business report 2015[1] ranks Mongolia 72nd among the world's most attractive countries for doing business; the country slightly receded from the 70th place it occupied in 2014.

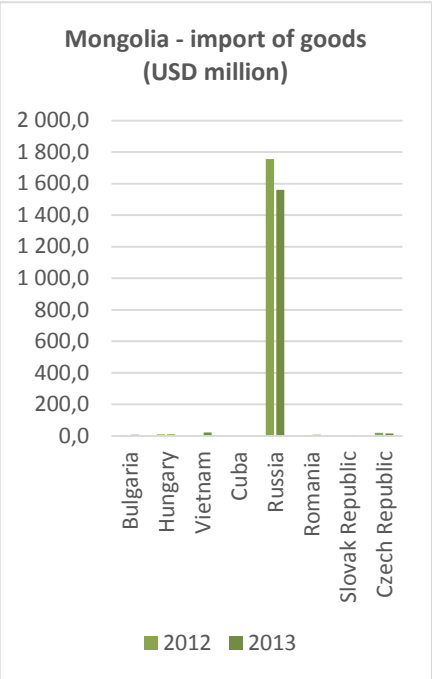
The country's economic development to a large extent relies on the inflow of foreign direct investments (FDI), which started declining in 2013. Next year saw the increase in FDI inflow, owing to falling raw material prices that resulted in deterioration of the country's key macroeconomic indicators. The largest FDI sources for Mongolia were Canada with its share reaching 61% of the total investments and UAE with their share of 15%. The World Bank reported FDI outflow[2] in Q1 2015, which reached USD 72 million.

All in all, Mongolia enjoys a relatively liberal trade regime. The country's trade policies feature substantial flexibility and low tax barriers compared to the majority of other developing economies in the central Asian region.

Under the circumstances, Mongolian government strives to strengthen its external trade. At the beginning of 2015, Mongolia signed its first bilateral free trade agreement with Japan. The agreement provides for elimination of 5% export tax on imports of new Japanese-manufactured cars. In 2013, Japanese exports to Mongolia reached JPY 29.3 billion (USD 248 million at the current exchange rate), while imports reached JPY 1.9 billion (USD 16 million). Main Japanese export goods to Mongolia are passenger cars, which account for about 45% of total Japanese exports to the country. Moreover, Mongolia aims at eliminating all trade taxes for 96% of Japanese goods within 10 years. Under the agreement, Japan will also eliminate trade taxes for the majority of Mongolian goods.

Trade and economic relations with the Member States





Area 1 564 116 sq. km
Population (2014) ▲ 2.9 million
Unemployment (2014) ▲ 7.8%
GDP (2014) ▼ $ 12.0 billion
GDP growth rate (2014) ▼ 7.9%
Inflation (2014) ▲ 12.9%
Average annual exchange rate (2014) ▲ 1 813.48MNT/1 USD
Sovereign debt (2014) ▲ 51.7% GDP
Inflow of foreign direct investments (2013) ▼ $2.0 billion
Outflow of foreign direct investments (2013) ▲ $0.5billion

Main industries:
- extraction
- agriculture
- transport
- retail
- processing
- construction
- IT

National Development Bank:
- Development Bank of Mongolia

Participation in IDBs (share in authorized capital):
- World Bank Group – IBRD (0.05%), IFC (0.04%), IDA (0.18%)
- IMF (0.05%)
- EBRD (0.02%)
- ADB (0.31%)
- AIIB (-)
- IBEC (1.33%)

Mongolia is a member of:
- ADFIAP

Exports / imports (2014):
▲ $6.4billion/ ▼ $ 6.7billion

Exports / imports(Mongolia's share)(2013):
- Bulgaria 0.0% / 0.1%
- Hungary 0.0% / 0.2%
- Vietnam 0.0% / 0.4%
- Cuba 0.0% / 0.0%
- Russia 1.2% /24.6%
- Romania 0.0% / 0.1%
- Slovak Republic 0.0% / 0.0%
- Czech Republic 0.0% / 0.3%

[1]Source: World Bank Group - Doing Business 2015.
[2]Source: World Bank, Mongolia Monthly Economic Brief, May 2015.

Economic development forecast

Mongolia's economic growth pace slowed down significantly from 11.7% in 2013 to 7.9% at the end of 2014, showing the weakest figures for the last four years. Key reasons for the slow-down are higher inflation rates, weak inflow of FDI as well as falling oil prices and the slow-down of China's economic growth. Real GDP growth is expected to reach 7.0% in 2015[3]. Mongolia's economy will grow on average at 7.2% per annum between 2016 and 2019.

Average annual inflation at the end of 2014 amounted to 12.9%. In 2015 inflation will hit a 10%-level, significantly exceeding the official 7% forecast made by the Bank of Mongolia (BoM). Key causes for persistent higher inflation levels are rise in consumer prices and depreciation of national currency, which had a direct impact on imported goods prices.

In January 2015, Mongolian tögrög dwelled at 1900 MNT/1 USD. In a short-term, the trend of Mongolian currency devaluation will prevail against the background of US dollar appreciation. Depreciation of national currency will affect higher inflation levels and increase the dependence upon external factors as well as general depreciation of developing markets currencies. Average annual exchange rate in 2015 and 2015 will reach 2000 MNT/1 USD and 2100 MNT/1 USD, respectively.

Mongolia's trade balance lately has been demonstrating fair results. At the end of 2014 trade deficit reached USD 0.4 billion (-2.9% GDP), current account deficit reached USD 1.0 billion (8.1% GDP). In the Q1 2015 the deficit shrank by USD 385 million owing to increased exports and declining imports. Coal exports, to a large extent, account for increase in export items.

Budget deficit amounted to 4.1% GDP at the end of 2014, which is significantly higher than a 2.0%-level planned for 2014 by the Mongolian Ministry of Finance. In order to boost economic growth in 2014 the government will increase its spending, which will result in growing deficit (to 5.0% GDP).

Consumer spending will stay moderate in 2015 (8.5% at the end of 2014) and will reach 7.5% compared to the double figures of 2010-2012. However, it is necessary to take into account further raise of the base rate planned by the BoM, which will negatively affect consumer spending figures.

At the end of November 2014, Mongolia's foreign exchange reserves shrank by 41.5% compared with the previous year and reached USD 1.35 billion. Foreign direct investments in Mongolia reached USD 582.4 million in the 11 months of 2014, which is by 71% less than the previous year's results. Weak interest on the part of foreign investors as well as current account deficit will negatively affect Mongolia's gold and foreign-exchange reserves again in 2015.

Banking sector

In order to harness inflation and prevent divestment, the BoM will continue applying its tight monetary policy. For these purposes it is planning to leave its 13.0% base rate unchanged throughout 2015. Under the circumstances, the BoM will not be able to offer sufficient liquidity to the market.

Capital adequacy of Mongolia's banking system steadily increases. By the end of 2014 it reached a comfortable level of 17%. High volatility was registered at the end of 2014. This indicator dwelled at 37% (above the limit of 25%). Bad debt at the end of 2014 did not exceed 4%; however, 2H 2014 saw its growth.

In Q1 2014 consumer lending growth rates slowed down. Lending to construction shrank from 117.5% to 19.8% in Q1-Q4 2014, while lending to real estate sector declined from 72.7% to 29.1% year on year.

Deteriorating key macroeconomic indicators negatively affect the quality of Mongolian banks, whose situation worsened in March 2015. The level of NPL grew by 9.4% compared to the previous month.

[3]Source hereinafter, if not stated otherwise: Business Monitor International – Mongolia Country Forecast Report Q3 2015.