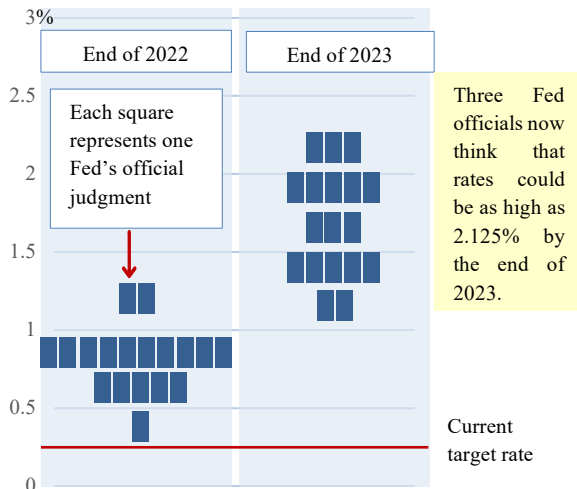


WILL THE YEAR OF THE TIGER BE FAVOURABLE FOR MONGOLIAN ECONOMY?

Policy rate, capital market

The Federal Reserve indicated it could soon raise interest rate for the first time in more than three years as part of a broader tightening of historically loose monetary policy. The Fed announced to raise the interest rate three times in 2022, 2023, and twice in 2024.

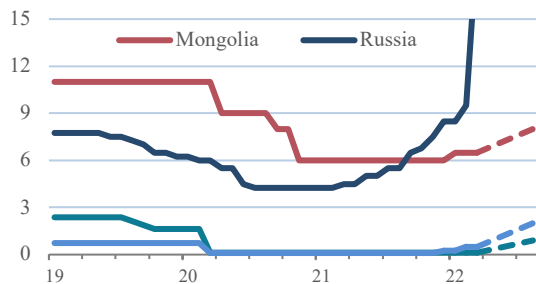
Graphic 1: Fed’s policy rate expectation



Source: Federal Reserve

Central banks around the world are expected to increase the base rate. Moreover, 12 central banks in developing countries already acted in response to surging inflation in 2021 by increasing the policy rate.¹ Investors are expecting European Central Bank to raise interest rate twice in 2022.²

Graphic 2: Policy rates and expectations, percent



Source: Respective central banks

Bank of Mongolia raised the policy rate by 0.5 percent to 6.5 percent in February 2022 for the first time since November 2022. The ongoing supply disruption due to border restriction, the prospect of rising inflation expectation, as well as the base rate in foreign market policy rate could

¹ The central bank of England also lifted the policy rate for the third time on the 3rd of February, 2021.

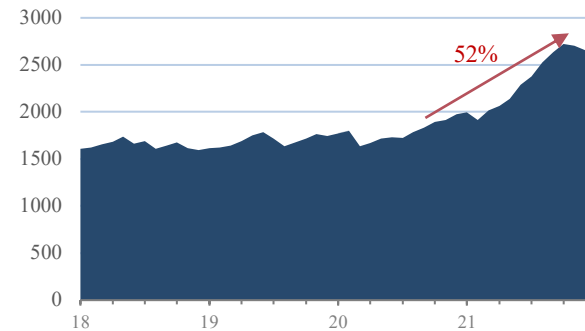
force the Bank of Mongolia to raise the interest rate in 2022. Having the lowest rate since 2007, this is a brief opportunity window where private companies, government, and other stakeholders can issue a low-interest-rate bond. Because the policy rate is likely to be raised in late 2022 or the beginning of 2023 at the latest.

Real estate market

The mortgage loan issued in MNT (Tugrik) increased by 34 percent in 2021 reaching a record high of MNT 2.7 trillion and reported a three to fourfold increase compared to 2020 (13 percent) and 2021 (9 percent). Moreover, 76 percent of the total loan is issued under various programs by the government, 21.3 percent is issued by banks and 2.7 percent is issued by other sources.

The government issued MNT 1 trillion worth mortgage.

Graphic 3: Mortgage (by all sources), billion MNT



Source: Bank of Mongolia

As a result, the apartment price index rose by 16 percent in December 2021 year over year. The price of the newly built apartments and old apartments increased by 12 percent and 35 percent respectively. Furthermore, another MNT 1 trillion mortgage loan is expected to be issued under the government’s “10 trillion MNT Economic Recovery” program.

Some analysts conclude that real estate industry is in bubble and worry that it would burst if the price of real estate keeps rising. The rising price is also backfiring the government efforts to support low-medium income households.

² European Central Bank hasn’t lifted the policy rate in the last decade

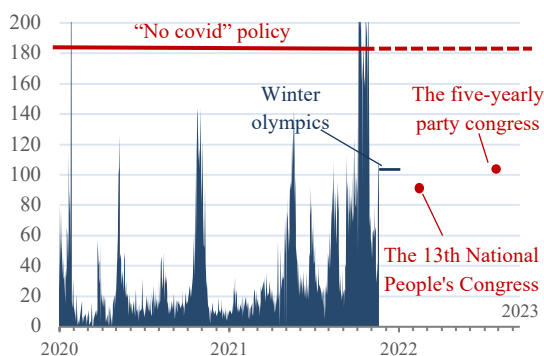
China's Covid-19 border restriction

“Zero Covid” policy adopted by China in 2022 is the main risk factor, which causes Mongolia to fall short of estimated exports and contribute to supply chain disruption. The Communist Party has made the goal of eliminating covid-19 infections a top priority. Also, the annual session of China’s parliament is normally held in early March. Moreover, The five-yearly party congress in late 2022 is expected to confirm Xi Jinping as the country’s leader for at least another five years.

China is in a better position than most countries to have closed border: its exports have barely been affected, and foreign direct investment is higher than it was before the pandemic. Strict quarantine requirements may therefore persist for much, if not all, of 2022.³

The Eurasia Group, the world's leading global political risk research and consulting firm, named China’s zero Covid strategy the biggest political risk in 2022. Ian Bremmer, the founder of the Eurasia group, highlighted “China is in the most difficult situation because of a zero-Covid policy. And the population has virtually no antibodies against Omicron. Keeping the country locked down for two years has now made it riskier to open it back up”.

Graphic 4: Daily covid cases in China and major events



Source: Our World in Data

Border closings, as well as, travel bans are becoming the main factor for the recovery of businesses and the economy. The strict Chinese border control is likely to continue until the end of 2022 based on decisions and policy of China

even though the Bank of Mongolia expects the border to reopen in the first quarter of 2022.

Conclusion:

- Real estate bubble is likely to burst if the mortgage market will keep increasing. The rising price is backfiring the government efforts to support low-medium income households.
- There’s an opportunity window before the second half of 2022 to issue low-interest-rate bonds while the policy rate remains at the lowest.
- China’s border closing will likely continue until the end of 2022 due to their “zero covid” policy.

We hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm’s business or client relationships. Research reports do not constitute a personalized recommendation. This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

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³ <https://www.economist.com/the-world-ahead/2021/11/08/china-is-unlikely-to-re-open-its-borders-in-2022>