

Fiscal Outlook 2009 and 2010

- Effect of downward revision in nominal GDP
- Revenue performance in first 6 months of 2009
- Import developments
- Budget outlook 2009
- Budget outlook 2010

Effect of downward revision in nominal GDP

Table 1. Impact of Changes in GDP Assumptions on Key Fiscal Indicators

	Budget March amendment	2009 Budget July amendment	IMF Program	2010 IMF Program / MTFF
<i>in billions of Togrogs</i>				
Revenue and grants	1,973	2,055	1,936	2,269
Expenditures and net lending	2,314	2,419	2,316	2,559
Overall deficit	-341	-364	-380	-290
<i>in percent of GDP – GDP assumption as of March 2009</i>				
Revenue and grants	31.3	32.6	30.8	31.6
Expenditures and net lending	36.8	38.4	36.8	35.6
Overall deficit	-5.4	-5.8	-6.0	-4.0
GDP assumption (in billions of Togrogs)	6,294	6,294	6,294	7,180
<i>in percent of GDP – updated GDP assumption August 2009</i>				
Revenue and grants	31.8	33.1	31.2	32.7
Change (to previous GDP assumption)	0.4	0.4	0.4	1.1
Expenditures and net lending	37.3	39.0	37.3	36.9
Change (to previous GDP assumption)	0.5	0.5	0.5	1.3
Overall deficit	-5.5	-5.9	-6.1	-4.2
Change (to previous GDP assumption)	-0.07	-0.08	-0.08	-0.15
GDP assumption (in billions of Togrogs)	6,209	6,209	6,209	6,931
Change in percent	-1.4	-1.4	-1.4	-3.5
<i>Additional adjustment need in billions of Togrogs</i>			5.1	10.1

Bottomline: Effect is small.

Revenue performance in first 6 months of GDP

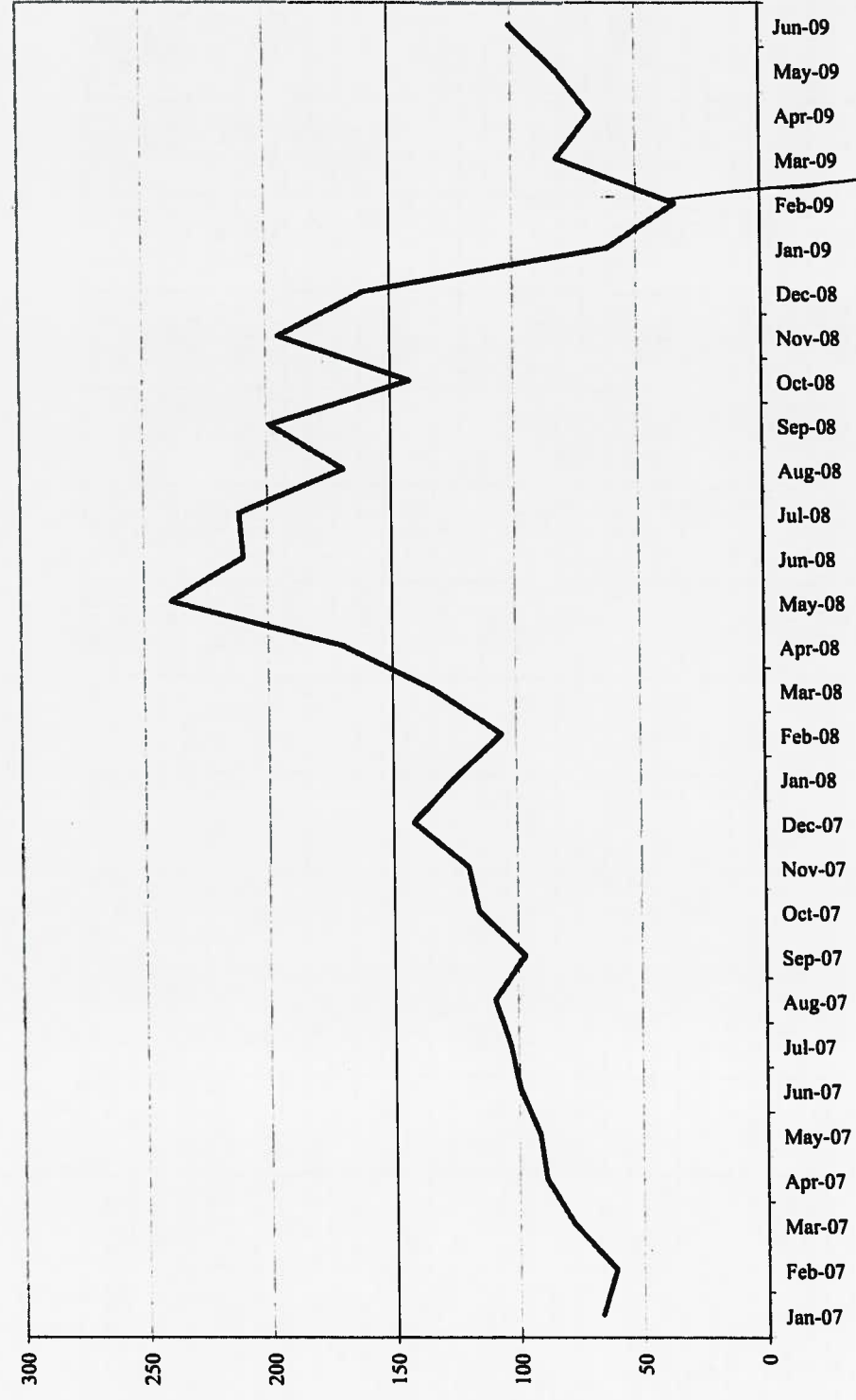
	2008		2009			
	Budget (March)	Budget (July)	IMF Program	Outturn end-June 2009	July-December collection to meet meet IMF target	Full year
TOTAL REVENUE COLLECTION						
<i>In billions of Togrogs</i>						
Total revenue	2,170	1,973	2,055	1,936	826	
Mineral revenue	619	241	320	241	168	
Non-mineral revenue	1,551	1,732	1,735	1,695	658	1,037 1,69*
Annual change in percent						
Total revenue		-9.1	-5.3	-10.8	-20.0	
Mineral revenue		-61.1	-48.4	-61.1	-51.0	
Non-mineral revenue		11.7	11.8	9.3	-4.7	22.4!
NON-MINERAL REVENUE COLLECTION						
<i>In billions of Togrogs</i>						
Non-mineral revenue	1,538	1,732	1,735	1,695	658	1,037 1,695
CIT	187	210	210	207	73	134 207
PIT & social contributions	339	350	350	343	176	167 343
Domestic sales & excise taxes	147	151	151	154	75	79 154
Foreign-trade related taxes	537	625	625	597	202	395 597
Stamp tax & own budget revenue	119	178	181	178	55	123 178
Other	207	219	219	216	77	139 216
Annual change in percent						
Non-mineral revenue		12.7	12.8	10.2	-4.7	22.4
CIT		11.9	11.9	10.5	-16.9!	34.6
PIT & social contributions		3.2	3.2	1.1	18.1	-12.2
Domestic sales & excise taxes		2.5	2.5	4.6	65.8	-22.5
Foreign-trade related taxes		16.3	16.3	11.1	-24.2!	45.9
Stamp tax & own budget revenue		49.8	52.0	49.8	-6.8	105.7
Other		5.5	5.5	4.0	-6.9	11.3
Passive forecast for July-December 2009						
<i>In billions of Togrogs</i>						
Non-mineral revenue					658	873 1,531
CIT					73	96 169
PIT & social contributions					176	234 410
Domestic sales & excise taxes					75	99 174
Foreign-trade related taxes					202	268 471
Stamp tax & own budget revenue					55	73 128
Other					77	102 178
Difference to IMF program target:						
Non-mineral revenue						-164
CIT						-38
PIT & social contributions						67
Domestic sales & excise taxes						20
Foreign-trade related taxes						-126
Stamp tax & own budget revenue						-50
Other						-37
Likely overperformance on mineral taxes:						
Mineral revenue						79
Overall difference to IMF program target:						
						-86

Bottomline:

- Overall revenues in 2009 are likely to fall short of IMF program target because:
 - ✓ Large decline in foreign-trade related tax collection;
 - ✓ This will be compensated only partly by stronger mineral revenue collection;
 - ✓ Profit taxes and government's own revenues also perform poorly.

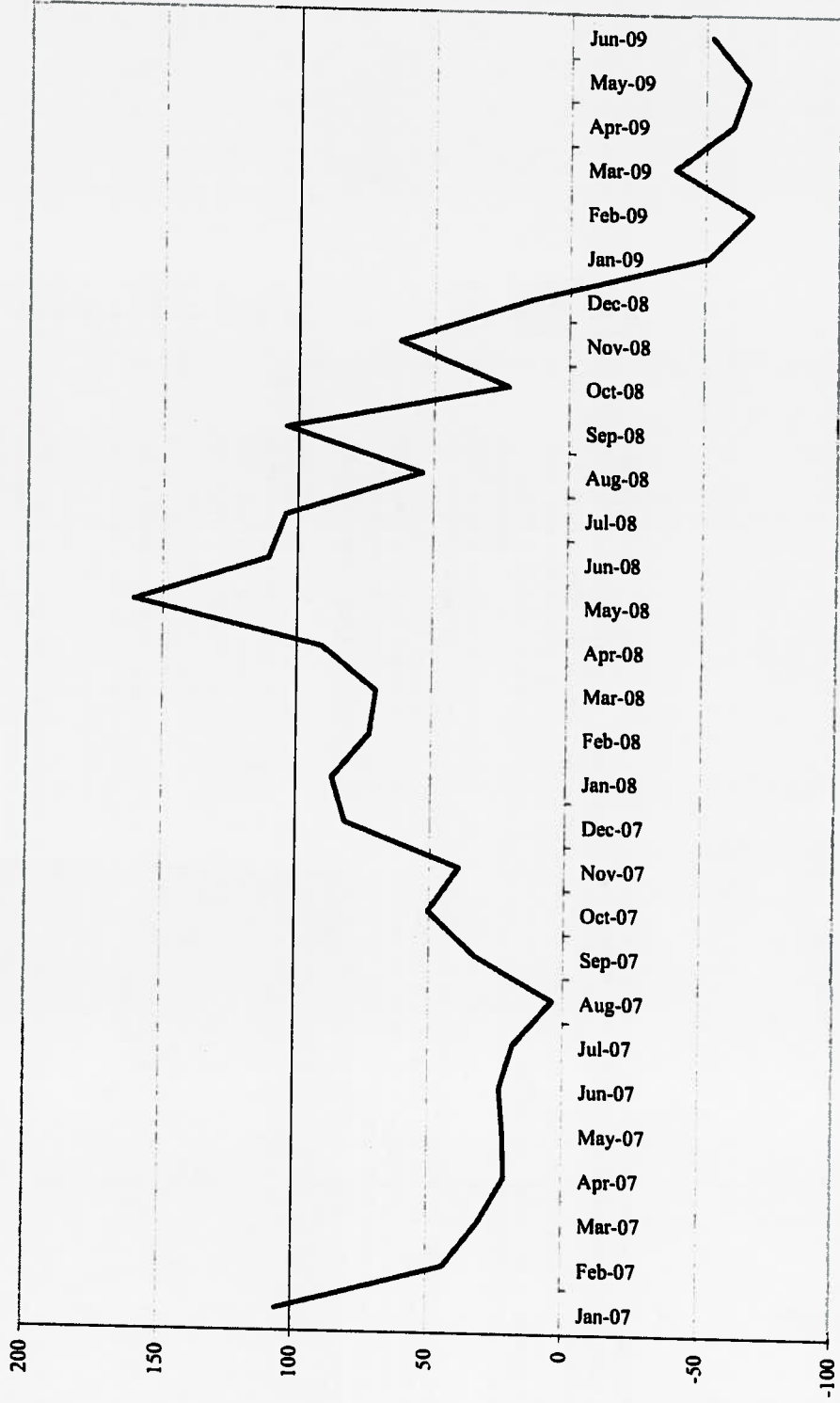
Import developments in 2009

Imports excluding raw materials and equipment (in millions of US dollars)



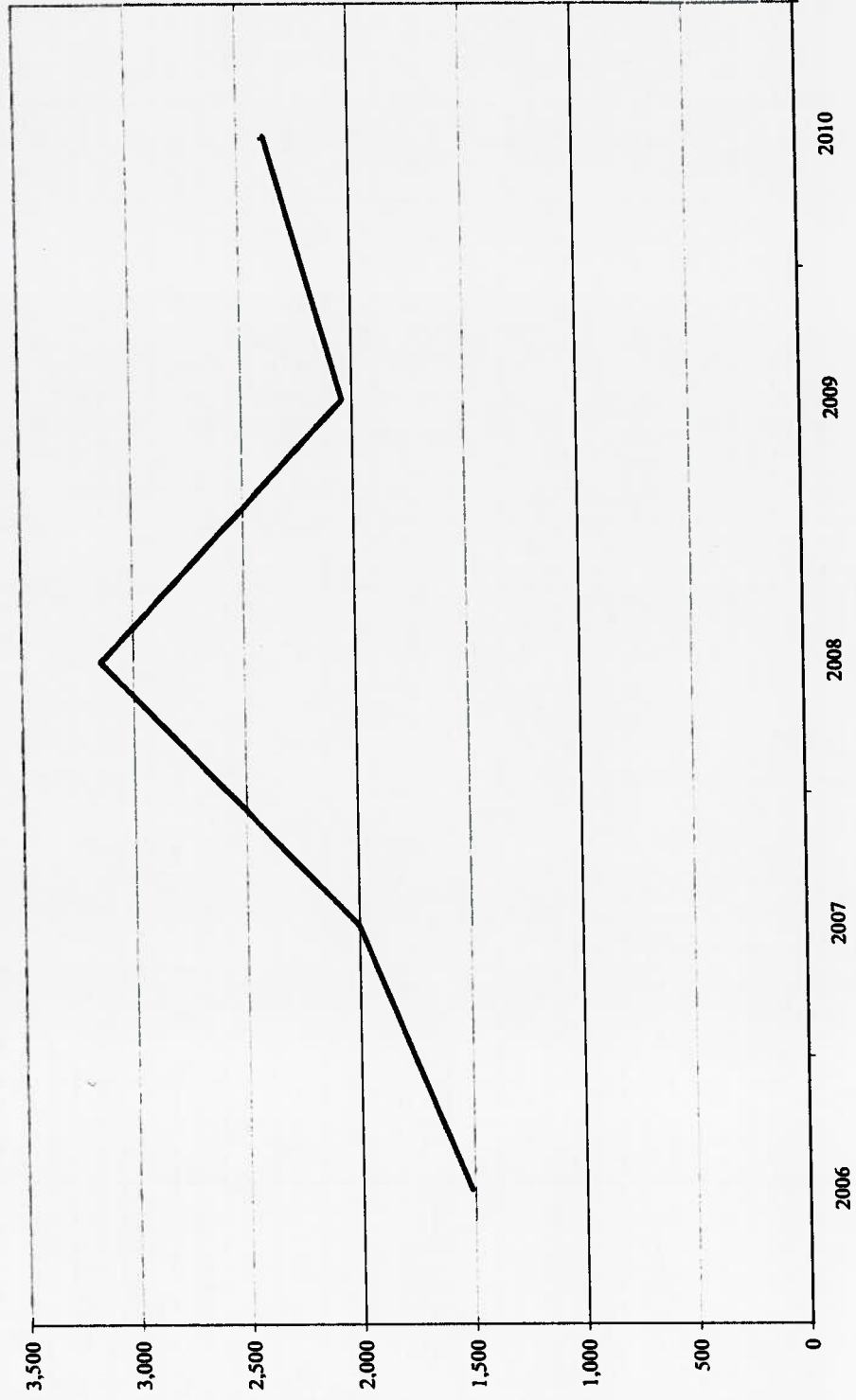
Import developments in 2009

Imports excluding raw materials and equipment (change in percent)



Import developments in 2009

Imports (in millions of US dollars)



Budget outlook 2009

	2008		2009				Difference to Budget (July)
	Budget (March)	Budget (July)	IMF Program	Passive forecast	Forecast Detailed forecast		
In billions of Togrogs							
REVENUE COLLECTION							
Total revenue	2,170	1,973	2,055	1,936	1,851	1,874	-180
Mineral revenue	619	241	320	241	320	348	29
Non-mineral revenue	1,551	1,732	1,735	1,695	1,531	1,526	-209
CIT	187	210	210	207	169	168	-41
PIT & social contributions	339	350	350	343	410	402	52
Domestic sales & excise taxes	147	151	151	154	174	175	24
Foreign-trade related taxes	537	625	625	597	471	432	-193
Stamp tax & own budget revenue	119	178	181	178	128	127	-53
Other	207	219	219	216	178	221	2
EXPENDITURES							
Total expenditures and net lending		2,314	2,419	2,316		Budget (July) 2,419	
Current expenditures		1,788	1,835	1,794		1,835	
Wages		586	586	566		586	
Goods & services		347	347	344		347	
Interest		55	55	84		55	
Transfers		751	799	753		799	
Subsidies		49	49	47		49	
Capital expenditures & net lending		526	584	522		584	
Capital expenditures		425	482	421		482	
From domestic sources		391	450	391		450	
From foreign sources		34	32	30		32	
Net lending w/w gold-financing operation		101	101	101		101	
		0	0	0		0	
FISCAL BALANCE							
Overall balance		-341	-364	-380		-544	
in percent of GDP:		-5.4	-5.8	-6.0		-8.8	
Gap							
Target deficit							
in percent of GDP:						6.0	
in billions of Togrogs:						373	
Gap							
in percent of GDP:						-2.7	
in billions of Togrogs:						170	
MEASURES							
Underexecution of domestic capital expenditures							
Savings with 85% execution rate:						67.5	
Underexecution of foreign project loans						9.7	
Underexecution of external interest expenditures						20.7	
Reinstating petroleum excise tax						12.0	
Remaining gap:						60	
Further measures?							
Increases in general excise rates?							
Memorandum items							
Nominal GDP (in billions of Togrogs)		6,294	6,294	6,294		6,209	

Bottomline:

- **There is a gap of about T170 billion, mostly because of shortfalls in foreign-trade related taxes;**
- **Likely under-execution of capital expenditures could compensate in this part;**
- **Further measures/**

Budget outlook 2010

	2009		2010				
	IMF Program	revised forecast	IMF Program & MTFF	Passive Forecast	Difference to MTFF	Forecast Detailed forecast	Difference to MTFF
In billions of Togrogs							
REVENUE COLLECTION							
Total revenue	1,936	1,874	2,269	2,079	-190	2,011	-258
Mineral revenue	341	348	363	363	0	277	-86
Non-mineral revenue	1,695	1,526	1,907	1,717	-190	1,734	-172
CIT	207	168	194	158	-36	192	-2
PIT & social contributions	343	402	392	459	68	459	67
Domestic sales & excise taxes	154	175	176	200	24	200	24
Foreign-trade related taxes	597	432	687	497	-190	486	-201
Stamp tax & own budget revenue	178	127	203	145	-58	145	-58
Other	216	221	255	261	6	252	-3
Change in percent							
Total revenue			17	11		7	
Mineral revenue			50	4		-20	
Non-mineral revenue			12	12		14	
CIT			-6	-6		14	
PIT & social contributions			14	14		14	
Domestic sales & excise taxes			14	14		14	
Foreign-trade related taxes			15	15		13	
Stamp tax & own budget revenue			14	14		14	
Other			18	18		14	
Nominal GDP			14			12	
Mineral GDP			14			11	
Non-mineral GDP			14			12	
EXPENDITURES							
Total expenditures and net lending			2,559			2,559	
Current expenditures			1,918			1,918	
Wages			646			646	
Goods & services			392			392	
Interest			19			19	
Transfers			807			807	
Subsidies			54			54	
Capital expenditures & net lending			641			641	
Capital expenditures			478			478	
From domestic sources			425			425	
From foreign sources			53			53	
Net lending			163			163	
o/w gold-financing operation			0			0	
FISCAL BALANCE							
Overall balance			-290			-548	
in percent of GDP:			-4.0			-7.9	
Gap							
Target deficit						4.0	
in percent of GDP:						277	
in billions of Togrogs:						277	
Gap						-1.9	
in percent of GDP:						268	
in billions of Togrogs:						268	
MEASURES							
Maintaining 2009 wage bill						60	
Maintaining social transfers at 2009 level (March amendment)						56	
Remaining gap:						152	
Further measures?							
Memorandum Items							
Nominal GDP (in billions of Togrogs)	6,294	6,209	7,180	6,931		6,931	
Mineral GDP	1,219	1,398	1,388	1,556		1,556	
Non-mineral GDP	5,075	4,811	5,792	5,375		5,375	

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Bottomline:

- There is a large gap of about T275 billion, again mostly related shortfalls in foreign-trade related tax revenue (about T200 billion) and likely downward revision in mineral revenue (no large dividend payments to be expected)
- Expenditure measures like savings from social welfare reform or freezing wage bill will close this gap partly;
- But there is need for large revenue measures