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MONGOLIAN ECONOMY



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MONGOLIA

Infrastructure

The government plans to build six bridges and highway intersections. China Railway International has been named as the company that would be responsible for construction of the intersections at Baruun Durvun Zam while China Railway and Bureau Group Corporation will build intersections near Yarmagiin Guur and at the southwest cross-road near the Department of Traffic Police.

The project operation will begin on February 15

and is planned to finish in 2015.

Mining



State owned Erdenes Tavan Tolgoi has lost over USD 500 million in total, resulting in stagnating operations. Last year, coal prices dropped by 30 percent. The loss is largely a result of sixty

percent of the investment capital from an offtake agreement with Aluminum Corp. of China (Chalco) being redirected to the Human Development Fund. The State Great Khural is currently developing a plan to bail out the company using proceeds from last year's USD 1.5 billion Chinggis bond.

The Ministry of Mining is drafting a project for shale oil that would research methods for exploration, mining, and processing shale oil. A

legal environment to build a complex for natural gas, synthetic oil and industry will be improved. Mongolia concluded research to determine the possibility for obtaining natural gas from shale minerals with Genie Oil and Gas of the United States. The French company Total also made a proposal for shale exploration in Mongolia.

Banking

According to a survey by the Bank of Mongolia, the total savings of Mongolia have increased by MNT 1 billion, reaching MNT 4.9 billion. The savings of businesses reached MNT 378.8 billion while personal savings grew to MNT 3.1 billion. Moreover, foreign currency savings increased by 46.7 percent, reaching MNT 1.4 billion.



A savings insurance body will be established following the passage of the Law on Insuring Bank Savings on 10 January, 2013. A working group leading the project that includes representatives of the Ministry of Finance and the Bank of Mongolia has begun directing funds, involving banks in the program, and hiring and training personnel.

Economy

The government has projected the price of copper at USD 6,330 a tonne and coking coal at USD 131.5 a tonne. If mineral prices exceed those projections, the added revenue would be put into the Stabilisation Fund.

Table 1: Price prognosis (annual average price) USD/t

	2012	2013	2014
Copper	7970	7965	7775
Gold	1679	1749	1655
Zinc	1956	2040	2125
Coking coal	211	203	213
Energy coal	98	105	111
Iron ore	125	120	122
Oil/nymex	92	85	83

Source: Open Society Forum

Table 2: GDP Growth prognosis of some countries by percent

Index	2012	2013	2014	2015	2016	2017
World economy	2.5	2.6	3.1	3.6	3.8	3.7
Developed countries	1.2	0.9	1.5	2.2	2.5	2.2
USA	2.2	1.6	3.0	3.5	4.0	3.0
Japan	1.6	0.7	0.7	1.5	1.2	1.2
South Korea	2.3	3.4	4.0	4.1	4.2	3.8
Euro zone	-0.4	-0.7	-0.4	0.7	1.1	1.3
Developing countries	4.7	5.3	5.5	5.5	5.6	5.7
China	7.7	7.8	7.3	7.0	7.5	7.3
India	5.4	6.2	6.9	7.3	7.4	7.5
Mongolia	12.0	13.8	11.0	-	-	-

Source: Open Society Forum

International banking group Citibank made projections for the world economy based on information from the International Monetary Fund.

WORLD



China

China produced the most gold in the world in 2012, making it the largest producer for the sixth straight year, latest industry association data showed. China's gold output increased to hit a record high of 403.05 tonnes in 2012. The China Gold Association reported that China's gold output was almost 100 times that of 1949. The country is currently the world's second-largest gold consumer after India, with total gold consumption at 761.05 tonnes in 2011, the association said in a report released in December.

China has announced plans to raise its minimum wage as it approves a long-awaited plan to tackle the widening income gap between rich and poor. The minimum wage would increase to 40 percent of average salaries by 2015. State-owned firms would also need to give a greater share of their profits to the government, which it said it would use to fund social security. The

government said its latest plan was targeted at lifting as many as 80 million people out of poverty by 2015.

North America

U.S. car giant General Motors' January sales in China surged 26 percent from a year earlier to 310,765 vehicles, it said, setting a record for any month. Its previous monthly record was January 2011, when it sold 268,035 vehicles in the country.

Russia

The European Bank for Reconstruction and

Development (EBRD) has invested more than 20 billion euros (USD 26 billion) in the Russian economy over the past two decades. The EBRD Russian investment portfolio totals 750 projects in a wide range of spheres from consumer goods manufacturing to complicated infrastructure projects. Last year, the bank invested over 2.5 billion euros in nearly 70 projects in Russia.

The inflation rate in Russia was 7.1 percent, jumping from 6.6 percent the previous month, the Federal Statistics Service in Moscow reported. Russian consumer prices



rose 1 percent from the previous month, topping estimates of a 0.8 percent advance.

Switzerland's palladium imports from Russia, the biggest producer of the metal, dropped last year to the lowest level since 1990, according to Barclays. Shipments fell by 72 percent to 154,600 ounces in 2012, the bank said today in an emailed statement. Switzerland imported 6,462 ounces from Russia in December. ■

A. AMARSAIKHAN



Cartoon by A. Amarsaikhan



NO PLACE TO HIDE FOR OYU TOLGOI

BY B. BAYARAA

Mongolia and Oyu Tolgoi's investors are at a stalemate. The only consequence that can be for certain is if they fail to resolve their disagreement no one can benefit.

Mongolia has four legally approved stability agreements, an investment agreement and 15 product division agreements. The investment agreement is that of Oyu Tolgoi.

Shareholders of Oyu Tolgoi LLC held a meeting on the February 6 at Ikh Tenger. The mine operator opened its enrichment factory at the turn of the new year, and the long-awaited production date started just before the lunar new year. Meanwhile construction still continues at the Oyu Tolgoi deposit. The Khanbumbat airport has also been commissioned.

All the while, top government officials have voiced dissatisfaction with the agreement, which has caught many by surprise. They warned Oyu Tolgoi's investors to remember what was written in the agreement.

Previously, only a small minority of parliamentarians talked about the dos and don'ts of the agreement. But now the government has made it clear where it stands. As a result, both sides made a call to sit down for further negotiations for the near term.

The shareholders' meeting is expected to end the ongoing dispute between the Mongolian government and Rio Tinto.

"The Oyu Tolgoi investment agreement has started a great goal. However, the faults have to be corrected. The focusing points of the government should be directing the clarification of certain facts, calculating realistic evaluations and issues on building communities in those areas", said Prime Minister Norov Altankhuyag to the State Great Khural.

Representing the Mongo-

lian government in the sit down was Mining Minister Davaajav Gankhuyag, joined by Economic Development Minister Nyamjav Batbayar, Minister of Environment and Green Development Sanjaasuren Oyun, and Finance Minister Chultem Ulaan. The team began addressing six main grievances at the shareholders' meeting: conflicts between the Mongolian government and the consulting company, some articles within the investment agreement that conflict with the foreign investment law, clarifications on increasing investment expenses and implementation of the technical economic analysis, the special license possessed by Entree Gold, whether activities coincide with Mongolia's laws, and further issues on management fee payments.

The investors were asked to abide by the rules and be realistic. On the contrary, Rio Tinto responded to these with a statement that the Mongolian government should repay its USD 250 million debt through deductions from last year's taxed income. Both parties are ad-▶

▸ dressing their weaknesses, but it is too early to conclude any results.

According to the finance minister, Oyu Tolgoi did not pay any taxes in 2012 and asked the investors to strictly follow Mongolia's laws and regulations. Oyu Tolgoi LLC, however, countered this saying the company had paid a total of USD 803 million in taxes, fees and deposits.

How Long Can Mongolia Wait?

The Oyu Tolgoi project has been at the centre of attention from the beginning. Thus it has no place to hide from the public. Although, the stakeholders have said harsh words, they have to stick to the agreement as well.

But the foul play from investors has made Mongolians lose their patience. The initial investment has increased by about USD 2 billion, or 40 percent. The original estimate of USD 5.1 billion has grown to USD 7.1 billion. To find out the reason for this, an official request was sent to the investors from the Mongolian government. Unfortunately, no reply was given to the government until now.

Some Parliament members related the added investment cost with Rio Tinto's deficit. According to an auditory conclusions made by the National Auditory Office of Mongolia, in 2011 Oyu Tolgoi investment expanded by USD 50 million. Parliament members are now asking that Oyu Tolgoi LLC be audited for further investment and financial issues.

Increased expenses have no benefits for either side because they will result in profit losses. Additionally, Mongolians will have to wait much longer before they can benefit from the project as output would weaken. The government would have to wait until 2033 be-

fore it could receive dividends for its shares at a cost of USD 24.4 billion compared with 2019 for the original projection of 14.6 billion.

"During its commercial production, Oyu Tolgoi's management fees could reach up to USD 80 million", stated Oyu Tolgoi LLC.

Although management services fees will increase as expenses rise, Rio Tinto has said that it does not foresee further costs. Additional financing to the project and dividend losses could mean more bad news for Rio Tinto. To raise more money for the second stage of the Oyu Tolgoi project, investors have appealed to international banks and financial organisations.

At present, Mongolia owes USD 705 million plus interest to investors.

"We will make sure that the agreement's implementation is monitored and executed. We want to bring development, progress and the great construction to become a reality in the Gobi", said President Tsakhia Elbegdorj. "Oyu Tolgoi must leave behind a law abiding culture that is transparent and responsible".

Whether or not the Mongolian government will play by Rio Tinto's rules will become clearer in the coming days of the month. After discussions on additional changes to the Oyu Tolgoi's investment agreement is finalised, the company is expected by the government to pay royalties based on a new sliding scale beginning next year. Furthermore, some discount and remittances could be reduced to collect an additional MNT 445.8 billion for the 2013 budget. If negotiations do not go well, Mongolia's revenue income would fall short of what it budgeted.

Representation

Although Mongolians own the

wealth beneath the ground, the truth is investors have the last word. Parliament members such as Sainkhuu Ganbaatar and B. Bat-Erdene have always been sceptical of the fact that Mongolians have only taken orders rather than make decisions. Oyu Tolgoi LLC's board has nine members, three of whom represent Mongolia.

"Board members should not represent the country nor serve the government", said Parliamentarian D. Erdenebat.

The president supports the need for the representation of Mongolian interests within the executive administration. He emphasised how important it was that Mongolians are involved in all possible aspects of the project, such as financing, purchasing, contracting, and establishing the jurisdictions and service departments. The four ministers who took part at the shareholders' meeting proposed 13 issues to be communicated to the board members of Oyu Tolgoi LLC. These include, adding changes to the regulations of shareholders' meeting and certain company policies. Other issues include increased participation by the Bank of Mongolia, domestic companies and financial organisations.

A statement from Oyu Tolgoi LLC reads, "Oyu Tolgoi's board consists of nine members. The board is headed by Mongolian members, including representatives from Erdenes Oyu Tolgoi, Turquoise Hill Resources and Rio Tinto; all have equal rights". The statement explained that the administrative executives are 12 specialists who come from Mongolia, England, the United States, Australia and Japan.

The shareholders' meeting is set to continue at the end of this month. Both the Mongolian government and Rio Tinto and its investors will sit together to discuss the future of Oyu Tolgoi. ■

BUDGET

MINING-DRIVEN ECONOMIC DEVELOPMENT: THE KEY ROLE OF SOUND FISCAL POLICY AND SOVEREIGN WEALTH FUNDS



JAN HANSEN
Senior Country Economist,
Asian Development Bank



Mongolia's medium-term economic prospects are widely regarded as very favourable with commercial production from the Oyu Tolgoi copper and gold mine scheduled to begin in mid 2013 and the Tavan Tolgoi coal mine in an early stage of development. While nonrenewable natural resources provide a unique opportunity for economic development, the reality, however, has often been different. Prudent fiscal policy, in combination with the establishment of a sovereign wealth fund is the most important economic policy measure to turn the "natural resource curse" into a natural resource blessing.

The principle of the "national resource curse" states that natural resource-rich countries often fail to grow more rapidly and perform less on human development indicators than less-endowed countries. The natural resource curse should however not be interpreted as a rule that resource-rich countries are doomed to failure. Several resource-rich countries such as Norway, Botswana and Chile have done very well with their endowments.

Turning the "resource curse" into a resource blessing

It is in particular the vast revenues originating from the natural resource sector that create very significant challenges for economic policy makers and in fact are often seen as one major reason for the natural resource curse. The main challenge to turn the natural resource curse into a natural resource blessing is, therefore, managing the vast mineral revenues well through the adoption of prudent fiscal policy. This is the second of four articles on mining-driven economic development and wealth management. The purpose of this article is to outline the main elements of an appropriate fiscal policy framework for natural resource-rich developing countries, highlighting the important role

which a sovereign wealth fund can play. The third article will examine in detail how sovereign wealth funds can help countries pursue good macroeconomic policies, and discuss consequent design issues.

Spending of natural resource revenue on consumption represents a depletion of wealth

Government wealth can be seen as the sum of net financial wealth and natural resource wealth. Because non-renewable natural resources are an element of wealth, the exploitation of natural resources and creation of natural resource revenue does not generate income as such. Rather, it simply swaps one asset—the oil or minerals in the ground—for another asset—natural resource revenues in cash above the ground. Natural resource revenues, independently of their modality (e.g. taxes, royalties, fees, bonus, dividends) are therefore not like other revenues and should, in general, be saved rather than spent—both to help achieve long-run fiscal sustainability, and for intergenerational equity. Prudent fiscal policy in a natural-resource dependent country should therefore focus on the non-resource government budget balance which is the difference between the non-resource revenues and all budgeted expenditures, instead—as otherwise common—on the overall budget balance.

The main challenge for fiscal policy in a natural-resource dependent country is to determine how much revenue from natural resources should be saved rather than spent. The following article outlines the main principles of a fiscal policy framework for natural-resource-rich developing countries by focusing on two different time horizons: (i) the long term over the period of resource exploitation and (ii) the short and medium term over the business cycle. »



► Fiscal policy in the long term

The debate on an appropriate framework for fiscal policy has been dominated by the permanent income hypothesis (PIH) approach. According to the PIH approach, natural resource wealth will be fully converted into financial assets, possibly accumulated in a savings fund or sovereign wealth fund and preserving the entire natural resource wealth for future generations. Meanwhile, the return or income of the assets will be used to fund public expenditure. Thus, PIH predicts a constant stream of additional government revenue, funded by the return from the assets accumulated by the sovereign wealth fund.

Natural resource wealth reflects the present discounted value of future government revenues (net of resource-related expenditure) derived from the production of the natural resources. Estimates of “permanent income” can then be derived based on the estimated resource wealth. Governments may spend up to the real interest they receive on their natural resource wealth each period, which would correspond to a constant stream of additional revenue to fund the non-resource budget deficit of the government.

In other words, fiscal policy will target a constant non-resource deficit which equals the return on the

natural resource wealth. This approach provides for the accumulation of financial resources that make up for the depletion of the natural resources. On the contrary, a non-resource budget deficit exceeding the return on the natural resource wealth would be equivalent to wealth depletion and unsustainable fiscal policy.

Developing countries need to front-load investments and fight poverty

Managing mineral wealth purely as an asset, preserving its value and consuming its return may appear an optimal policy for a developed country (e.g. Norway) which already has achieved a high level of development and standard of living. It appears less adapted to the situation of a developing country which faces a high poverty rate and immediate needs to improve core public services and investments in human and physical capital. In particular, for a developing country, in order to accelerate economic and social development, building domestic physical and human capital through public investments in infrastructure to develop the mining and non-mining sector and investments in education and health might initially be more important than building up financial assets.

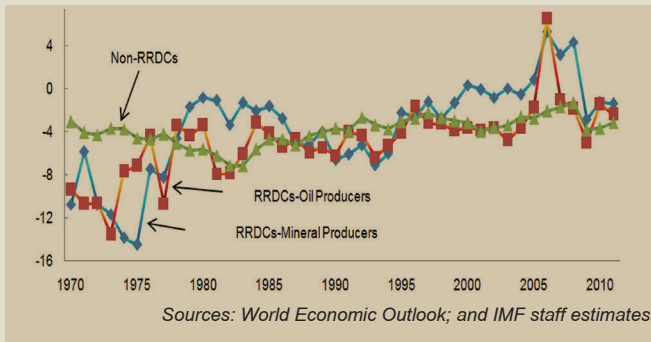
Therefore, for developing countries, more flexible frameworks than PIH are needed that facilitate front-loading of growth-enhancing spending financed by natural resource revenues. This means that current poorer generations will be provided with an extra boost of additional government spending, funded by natural resource revenue while leaving future richer generations with a relatively lower share of wealth, compared to the baseline of preserved wealth or complete conversion of mineral wealth to financial assets under the PIH. In technical terms, the non-resource budget deficit will initially exceed the return on the natural resource wealth.

... but avoid wasteful expenditure and inflation

There are, however, important arguments against (significant) front-loading of natural resource financed expenditure. A too-large increase in spending will create absorption problems; both government capacity, in particular in investment planning, procurement and project management and the ability of the economy to absorb a spending increase may reduce the efficiency of investment and create waste and inflation pressures. In countries with large absorption constraints, the pace of scaling-up of natural resource-financed expenditure may have to be gradual, while public financial management systems are re-inforced and domestic supply constraints softened. It is important to note that historically natural

- ▶ resource-rich countries appear to have spent too much and saved too little which has created problems and explains part of the natural resource curse.

Overall Fiscal Balance of Resource-Rich Developing Countries (RRDCs) and Non-RRDCs (In percent of GDP)



Sovereign wealth funds preserve the wealth of the country

The important role which a sovereign wealth fund plays in the long-term fiscal policy framework is wealth preservation, i.e. to convert natural resource wealth into financial assets by investing natural resource revenue in foreign financial assets, which can provide income for future generations after the natural resource wealth has been exhausted. It is essential to invest the financial savings in foreign assets in order to isolate the domestic economy from the volatility and aggregate demand effect of natural resource revenue.

For the sovereign wealth fund to be effective, it has to be integrated into an effective fiscal policy framework which specifies—through an appropriate fiscal rule—the long-run fiscal policy target, i.e. the size of the non-resource fiscal deficit. In the case described above, fiscal policy will target a constant non-resource deficit which equals the return on the natural resource wealth. A sovereign wealth fund which is not integrated in an effective fiscal policy framework (i.e. merely consist of rules for the in- and outflow of funds but no specific fiscal policy target) is ineffective because the government has the option to borrow the funds it has to put into the sovereign wealth fund.

Fiscal policy in the short term: Saving in good times to build a buffer for bad times

The approach of using estimates of permanent income to determine a proper stance of fiscal policy in the long term needs to be supplemented by shorter-and medium-term considerations, in particular the economic cycle. The optimal fiscal policy response to commodity

price fluctuations for a natural resource rich country is a countercyclical policy stance: save commodity related revenue increases during upswings and use these buffers during downswings. Such a fiscal stance dampens the macroeconomic volatility arising from commodity price fluctuations.

There is a considerable amount of evidence that volatility of commodity prices is one of the most damaging aspects of resource dependence. The uncertainty and volatility of natural resource revenues is typically greater than for other kinds of revenue, mainly as a result of unpredictable and frequently large fluctuations in international commodity prices. The high volatility of commodity prices is a major cause for “Dutch disease”.

The Fiscal Stability Law of Mongolia builds on the best international practices and becomes effective this year

The high volatility of natural resource prices requires the establishment of a short-to medium-term fiscal rule. One popular fiscal rule is based on long-term averages, rather than actual natural resource prices which are used to estimate structural budget revenues and a structural (or equilibrium), rather than the actual budget balance. The fiscal policy target would then be to achieve a certain structural budget balance. This fiscal rule smoothes resource revenue and thereby de-links public expenditure from resource price volatility.

Budgetary revenues are stabilised with the help of a fiscal stabilisation fund. The fiscal stabilisation fund aims to shield the budget from commodity price volatility and reduce the impact of volatile revenue on fiscal policy and the economy; i.e. to stabilise budgetary revenues. When the resource price is high, the fund would receive revenue, which it would then pay out to the budget when the price is low. A savings fund, or sovereign wealth fund, on the contrary seeks to create a store of wealth for future generations. The price based, structural-fiscal target-fiscal rule can be supplemented by additional safeguards for fiscal sustainability; for example a ceiling on public debt and expenditure growth rules.

In Mongolia, the current fiscal framework focuses on the short to medium term and is specified in the Fiscal Stability Law which was enacted in June 2010 and becomes effective in 2013. The Fiscal Stability Law puts in place three complementary fiscal rules: i.e. a ceiling on the structural deficit; a debt ceiling; and a ceiling on expenditure growth. And it establishes the Fiscal Stability Fund. A long-term fiscal policy framework, including a sovereign wealth fund, is currently in development by the government. ■

WORLD ECONOMIC FORUM

MONGOLIA REPORT FOR 2014

BY I. OTGON

A team of analysts from the World Economic Forum in Davos will come to Mongolia next month with the aim of conducting a survey about the social and economic conditions of our country.

A delegation of officials led by President Tsakhia Elbegdorj attended the World Economic Forum in Davos, Switzerland from January 23 to 27. This year Mongolia was distinguished clearly by its leadership, initiative and participation. During the forum, where the world's leading representatives of politics, economy and business take part, former U.N. Secretary General Kofi Annan and the forum's Executive Chairman Klaus Schwab described Mongolia as a good model of a country that is full of new possibilities, positive projections and has transitioned successfully to a democracy.

Mongolian Economy spoke with Foreign Affairs Minister L. Bold, a member of the Mongolian delegation to Davos.

How would you describe the current global economic standing and future outlook after attending the 2013 World Economic Forum?

This time the forum had a more optimistic atmosphere in comparison to the previous one. It is connected with the fact that the euro debt crisis' most critical period is over, and the US was able to prevent the financial crisis. Last year there was fear for an eventual euro exit during the forum. The European countries altogether prevented it.

Yet, in addition to the optimistic atmosphere there was also the sense that the world economy was fragile. Although the international stock market standings have improved it hasn't affected the economy. The crisis has concluded, but the fundamental challenges remain. I would like to recite one participant's words during the forum: "The weather has become a little bit warmer, but the sunshine is far away".

Economic experts from

international financial institutions warned that although the economic conditions have improved, the move for reform should continue. The head of International Monetary Fund (IMF), Christine Lagarde also warned, "The enhanced standing of the global financial crisis doesn't mean it will remain calm". This thought was the main idea that emerged from the forum.

Concerning future trends: the global economy will come out of its economic stagnation gradually, reviving quickly this year and the next. According to the prognosis of the IMF, the global economy would have growth by 3.5 percent in 2013. This number bears better result than last year.

An evaluation for the Russian economy by outside experts was given at Davos. It said its economy might have been brought into crisis. How would this situation influence our country?

I took part in the session about the Russian development trend. The survey showed that the issue of governance is problematical to our northern neighbour. But Russia pays great attention on the development of its economy. That could be seen from the session.

We are confident that Russia will undertake structural reform in its economy and overcome this challenging time.

A group of independent analysts from the Davos forum will work in Mongolia to compile projections for the course of Mongolia's development by 2030, reported media. What can you say about this?

A team of analysts from the World Economic Forum in Davos will come to Mongolia next month with the aim of conducting a survey about the social and economic conditions of our country. They will interview ►



Foreign Affairs Minister L. Bold, President Tsakhia Elbegdorj, Former Dutch Prime Minister Wim Kok

▶ 100 investors, journalists, and other social group representatives. That material would be the main document for the World Economic Forum Mongolia Strategic Dialogue, to be held in September.

The Office of the President and the Ministry of Foreign Affairs distributed a special edition of *Mongolian Economy* to promote the economic and investment framework of Mongolia at Davos. How was the information about Mongolia received by forum attendees?

We handed in the special edition of your magazine *Mongolian Economy* and other materials at the Davos Forum. The attendees of the Economic Forum were interested in receiving information about Mongolia because of the economic growth, and the favourable framework for investment into Mongolia attracted international attention.

We also noticed interest during the Mongolia Night event, held every year during the forum. Over 360 guests took part in our reception. To name some of them: ADB President Haruhiko Kuroda, Secretary General of the International Federation of the Red Cross and Red Crescent Societies Bekele Geleta, Head of the Swiss Agency for Development and Cooperation Martin Dahinden, President of Areva Luc Oursel, Chariman of Bahrain Petroleum Corporation Sheikh Salman Al Khalifa, Director of

private bank Credit Suisse Christopher Wagner, Vice President of CNBC International J. Casey, Dean of Harvard University's John F. Kennedy School of Government David T. Ellwood, Nobel Prize for Economic Sciences winner Joseph E. Stiglitz, and many other prominent officials. They talked with President Elbegdorj during the reception.

What is the significance of the World Economic Forum Mongolia Strategic Dialogue to be held in September in Mongolia?

The World Economic Forum Mongolia Strategic Dialogue will be a discussion had via an international roundtable meeting for economic development projections and future outlooks. A similar type of roundtable meeting was organised in Moscow last year, and the results of it were presented at the World Economic Forum in Davos. The results of the meeting in Ulaanbaatar are to be introduced at the 2014 World Economic Forum during the session on Mongolia.

A roundtable meeting for Ulaanbaatar would enable our policy makers to listen to the opinions of internationally renowned analysts and develop a joint solution while presenting a correct understanding about our business and investment framework to other countries, business entrepreneurs and investors. ■

MONGOLIA ECONOMY FORUM

Numerous guests from Mongolia and overseas will take part in the Mongolia Economic Forum to be held on March 4 and 5, at the Government Palace in Ulaanbaatar. One of those honoured guests is former Dutch Prime Minister Willem “Wim” Kok. He knows well about the so-called “Dutch disease”. His speech on this topic is certain to be of great interest to the politicians and economists of our country.

Kok was born on September 29, 1938 in the village of Bergambacht in South Holland. He served as prime minister of the Netherlands from August 22, 1994 until July 22, 2002. Wim completed his studies in business at the elite Nyenrode Business Universiteit, which is famed for preparing diplomats. After graduation he worked for a trade company.

In 1961 he was appointed as assistant international officer of the Netherlands’ Federation of Trade Unions. Kok served there as chairman from 1973 until 1982. He once described himself in this role role: “I am pro hard but realistic policy of the trade union”.

From 1989 to 1994 he served as deputy prime minister and minister of finance. On April 11, 2003, Kok was granted the honorary title of minister of state.

During Kok’s time as prime minister, the Dutch economy was flourishing and the country became internationally known for its economic development. At present Kok is a member of the supervisory boards of ING Group, Royal Dutch Shell, TNT and KLM. Currently he holds the position of president of the Club of Madrid, which works to support democracies.

Former Dutch Prime Minister Wim Kok will travel to Mongolia to explain how he tackled in his country the eponymous resource economy-based affliction.



FROM DUTCH DISEASE TO DUTCH MIRACLE

Workplace, workplace, workplace

“In the early 1980s the Netherlands experienced serious economic crisis. The unemployed rate doubled within a short period, and in 1982 almost 13 percent of the employable population was unemployed. A budget deficit of 4 percent in 1977 reached 10 percent in 1982.

From that time Wim Kok struggled to create workplaces while he served at the trade union. Ten years later the motto of his work as a politician was “Workplaces, workplaces and again workplaces”. He worked on implementation of the internationally known polder model. As a result, the Dutch disease of the 1980s turned into the Dutch miracle of the 1990s.

State policy was essential to realising this. Outside of the Netherlands, Wim Kok was a renowned politician. Bill Clinton told him during a diplomatic meeting of state leaders “You were the first, Wim”.

Prof. Friso Wielenga, Ein pragmatischer Brueckenbauer ■

MONGOLIA ECONOMY FORUM

WHAT WE HAVE THAT OTHERS LIKE

BY E. ZORIGT

B. Gan-Ochir, secretary of the Mongolia Economic Forum, discusses the plans for the annual forum in 2013.

The Mongolian Economic Forum brings to discussion important topics such as legislation, innovation, and green development. What will be the core topics this year?

The economic forum gives the opportunity to hold an open discussion with policy makers on one hand and representatives of civil society and business institutions on the other. This year's forum will be the same, but with different content to discuss.

The creation of a national brand is talked about a lot. In your opinion, which outcomes are expected after the forum?

There will certainly be numerous recommendations and initiatives to reflect on for the next step if the forum discussion is good.

For instance, the issue of who should create the national brand should be discussed first. Would it be set up by the private sector or the public? Or will Mongolians all together create a totally new brand? The next important issue to cover is which product can be used for the Mongolian brand? To answer these questions, we have to see our advantages first.



Why not sell the warmest clothes worldwide as we have winter temperatures of up to -40 to -50 degrees Celsius? As a country with plenty of cattle, we could also bring to the global market the most delicious meats. Other advantages to mention are the use of wool, cashmere and leather items along with dairy products.

Of course there are many challenges in the creation of a brand. For instance, the issues to confront are human resources, techniques and technologies. Yet we have every opportunity to solve any issue. We have the monetary capital. The mining resources will provide us with the money. Thus, we could use that money to create the national brand.

Multi-stakeholders will gather at the forum, so it is essential that we use different perspectives to discuss the problems of brand creation and define the methods to solve these problems. The economic forum provides an opportunity to talk face-to-face with citizens and public and private sector organisations instead of throwing stones at each other. So, in order to reach good results all parties should be active and open.

There will be a special session on the business environment and competitiveness. Would you tell us more about it?

Prior to creating the national brand, discussions about the business environment and competitiveness are necessary. To be honest, state »

participation within the business sector is heavy, yet balanced involvement from the state is also required. If the state puts the private sector under any tax pressure and discriminates politically then we have the wrong involvement. Thus, unfair participation should be extinguished.

There are stories about when the government of Mongolia used to hinder business. But the situation is improving little-by-little. The new government pays attention to increasing the participation of citizens and making state activities more transparent. Transparent public activities improve citizens' control. State monitoring by the citizens runs fair operations, fulfilling its duty with a good reputation.

There is criticism that discussing a national brand for international sale is foolish when the country cannot even cater to the domestic market. Others say the creation of a brand causes price pressures at the local market. What do you think about this?

It is important from which perspective one sees the issue. We should see it from the right point of

view and struggle to reach our target. If there are challenging issues, then we should find a solution to it. Otherwise it is not right just sitting and saying it will not work out.

I talked about who could create a brand. If the state tries to create the brand by itself, then probably all the challenges you named would arise. It would be better to involve the private sector because the private sector can create competitiveness. It is a fair sector where connections and corruption are almost nonexistent. Therefore the parties should discuss things well and understand each other.

The private sector should talk about how the state participates wrongly. The state must stop involving itself in the wrong matters. Also it is time to end this setup where the strongest has so much leverage that the weak ones must use bribery. Only then can we create a brand to compete on the global stage.

Some people talk only about what cannot work. A brand starts from a very simple thing. It depends on what we produce and which aim

the private sector has. Today the private sector doesn't speak about mobiles to compete with Samsung and cars to compete with Toyota. They talk about more simple things. We should produce the warmest socks, the softest cashmere and delicious meat. That is our advantage.

Every nation has its unique culture and heritages. A brand must be created based on that. We have meat of the best quality, but there are some problems with hygiene and standards. That problem should be resolved. Then we can create a brand which is not so far away from us. We should leave the old image of brand thinking of just expensive suits, watches, and cars. Instead, finding out what we do have that others might like is more important.

What are the details of the forum?

The Mongolia Economic Forum will be held on March 4 and 5 at the Government Palace. Guests will receive invitations from us. Also an exhibition by Mongolian enterprises will be held. The forum can provide different types of information from one place. ■



BUDGET

ONE STEP FORWARDS AND TWO STEPS BACKWARDS

BY B. ENKHTSETSEG

It has become apparent that parliament has failed to adhere to the restrictions it set for itself.

The reputation of Mongolia's past budgets are weak, as they are repeatedly amended throughout the year and done so with unrestrained deficit spending. The Fiscal Stability Law was passed by the State Great Khural with this in mind, and it takes effect for the first time this year.

The law's aim is to curb extravagant budgetary spending and discontinue past trends of constant revisions to budgets by parliament.

The 2013 budget approved by parliament on November 15 has an important implication as the first annual fiscal plan prepared while the law is under effect. If government can abide it, the fiscal deficit will not exceed deficit spending of more than 2 percent of gross domestic product (GDP).

In 2012, projected budget deficit of 1 percent in reality bore out to 7.7 percent at the year's end. The World Bank and Asian Development Bank both said Mongolia last year had continued its expansionary trend and pro-cyclical fiscal policy. They also said the end result of this year's budget will depend on time and policy implementation.

"Overall the budget can be summarised as very ambitious and too optimistic", said, Taehyun Lee, Senior



If Oyu Tolgoi Says No?

country economist at the World Bank.

The 2013 budget projects the economy to expand by 18.5 percent with GDP reaching MNT 17.6 trillion. This growth would be driven by a 78 percent increase in total exports and 60 percent growth in mineral extraction. The Bank of Mongolia's target rate

for inflation of 8.1 would cushion the economy further.

An analysis of the budget by the World Bank last year found the underlying assumption of 18.5 percent economic growth may be too optimistic, given the frail global economic outlook and the prospect of China's economic

rebound remains uncertain. This is especially risky when paying mind to the looming downside risk over China's main trade partners, including Europe and the United States. Recent growth projections for 2013 by the World Bank and the International Monetary Fund were 16.2 percent and 16.8 percent, respectively. Those figures, too, are likely to be downwardly adjusted given the slow pace of economic growth during the latter half of 2012.

Total revenue is projected to reach some MNT 7.26 trillion, up by about 28.9 percent from the final 2012 budget. A rise in mineral production and exports and improvements to the trade balance are expected along with relatively robust growth projections for the non-mineral sectors.

Corporate income tax, royalties and dividends are expected to account for about 24 percent of total revenue from the mining sector. The World Bank's fiscal outlook shows that minerals revenue for 2013 is to be almost 62 percent higher than in 2012 (about MNT 1 trillion), following a renegotiation of the terms to the Oyu Tolgoi investment agreement and increased exports of gold and coal.

Changes to the sliding royalties scale for Oyu Tolgoi is expected to yield MNT 445.8 billion or 2.5 percent of GDP. The additional source of income is expected from the re-negotiation, which includes progressive royalty revenue of MNT 221.3 billion. It increases the 2009 agreement's 5 percent royalty under the 2009 investment agreement to up the 20 percent level, depending on commodity prices. That extra income is nearly three times what Oyu Tolgoi was originally expected to pay.

But it is still uncertain if Oyu Tolgoi's investors will tolerate these changes by government.

"Revenue items from the Oyu Tolgoi agreement renegotiation is included in the budget. Including this type of unpredictable revenues in the budget is not appropriate", said Amar Lkhagvasuren, economic officer at the Asian Development Bank.

Furthermore, the uncertainty surrounding the OT re-negotiation issue could add another serious down-

side risk to the already vulnerable revenue projection, as production of the Oyu Tolgoi copper and gold mine could be further delayed due to the stalemate regarding the investment agreement, said the World Bank in its fiscal outlook.

Off-budget Spending

Total expenditure and net lending is projected to reach nearly MNT 7.5 billion, which is equivalent to 42.2 percent of the projected GDP in 2013, and provides an additional 17.9 percent when compared to 2012. Last year's expenditures included a 53 percent increase in public servants' wages. Domestic investment plays a big role in this year's fiscal policy with an expected 42.5 percent rise from government.

International organisations keep reminding policymakers that the ratio of capital used for maintaining infrastructure to new investment has declined over the last few years. In its fiscal analysis the World Bank said, "The neglect in maintenance and repairs is both fiscally and economically costly, reducing the life-span of existing infrastructure that will result in a significant future increase in the fiscal burden due to larger rehabilitation costs down the line. Given the rapidly growing investment, proper allocation for capital maintenance and repair is essential to keep the exiting capital functioning and providing intended benefit."

The spending plan for the current budget does not include two new spending elements, MNT 718 billion for the Price Stabilisation Fund and the use of proceeds from the 2012 USD 1.5 billion sovereign bond sale. According to the World Bank budget report, the fund has had significant adverse impact on the fiscal outlook.

Although the program has a three-year implementation plan, most of the lending from the central bank is likely to be implemented upfront in 2013. The program will initially be financed by the central bank loan and would create a new source of funding that is equivalent to 4 percent of GDP. The World Bank called it "an inflationary measure adopted to curb inflation".

Economists criticise participation by the central bank in the program and it functioning as another channel for off-budget financing. They say that the role of Mongolia's central bank stipulated under the agreement with the government is clearly way beyond the traditional role of a central bank.

Complicating matters further, the proceeds from the sovereign debt sale is over 11 percent of the GDP projected for 2013 and could be a significant fiscal burden going forward. The 2013 budget currently reflects only the interest payments expected for the bonds. Specialists say that bond's effect on this year's fiscal deficit will depend upon how the government uses it.

"If the proceeds from the bond issuance is spent by the Development Bank of Mongolia on projects that do not generate revenue it will affect future fiscal years. It will also affect aggregate demand, on top of expenditure in the budget and thereby inflationary pressure in the economy", said Jan Hansen, senior country economist of Asian Development Bank Mongolian Resident Mission.

He said, "Adding off-budget expenditure to the budget will give a much higher deficit and also a higher demand effect from fiscal policy."

According to the World Bank, the revenue shortfalls of 2012, the inclusion of unguaranteed additional revenue from the re-negotiation of the Oyu Tolgoi investment agreement, and the cost of the Price Stabilisation Program and bond released this year are expected to bear 6 percent deficit spending in 2013, breaching the 2 percent ceiling set by the Fiscal Stability Law. Worse still, the report added, "However, we expect that the fiscal deficit may reach over 6 percent and the magnitude could be larger depending on how the extra spending plans unfold".

Though the State Great Khural's penchant for amending budgets in the past may have been cause for concern, this new poor habit for off-budget spending creates new worries. If the government cannot account for expenditures, it will not go without consequence. ■

Annex: Key Components of the 2013 Budget

	Billions of MNT			Percentage Share of GDP			2013 Budget (% Change)
	2011 actual	2012 amend	2013	2011 actual	2012 amend	2013	
TOTAL REVENUE AND GRANTS	4,468,198.0	5,631,686.9	7,258,092.4	40.3	34.9	41.1	28.9
TOTAL STRUCTURAL REVENUE AND GRANTS	4,227,178.1	5,530,336.9	7,088,333.7	38.1	34.3	40.2	28.2
Tax revenue	3,668,307.8	4,925,603.9	6,461,531.6	33.1	30.5	36.6	31.2
Income Tax	833,738.9	950,859.7	1,261,481.6	7.5	8.2	5.9	32.7
PIT	232,257.3	292,182.2	397,727.5	2.1	1.8	2.3	36.1
CIT	545,631.1	658,677.5	863,754.0	4.9	4.1	4.9	31.1
Social Security Contribution	473,351.3	591,565.0	732,018.1	4.0	4.7	3.7	23.7
Sales Tax and VAT	1,114,382.5	1,734,053.0	1,940,163.9	11.0	11.0	10.7	11.9
Excise Taxes	293,967.0	376,367.5	595,227.5	3.0	2.9	2.3	58.2
Foreign Trade Taxes	337,422.6	565,955.9	575,299.6	3.5	3.3	3.5	1.7
Other Taxes	662,859.7	1,296,310.9	633,451.2	5.1	5.6	4.1	95.6
Royalty	204,921.7	291,646.4	367,329.4	1.8	1.8	2.1	26.0
Progressive Royalty	177,785.2	193,365.1	199,035.1	1.6	1.2	1.1	2.9
Non tax revenue	545,366.5	602,915.0	625,986.5	4.9	3.7	3.5	3.8
TOTAL EXPENDITURE AND NET LENDING	4,997,040	6,312,220.3	7,444,625.0	45.1	39.1	42.2	17.9
CURRENT EXPENDITURE	3,236,403	4,606,347.5	4,906,137.0	29.2	28.6	27.8	6.5
Wages and salaries	802,465	1,220,856.9	1,406,241.5	7.2	7.6	8.0	15.2
Purchase of other goods and services	702,040	870,752.0	1,072,066.4	6.3	5.4	6.1	23.1
Subsidies and transfers	1,694,577	2,363,149.3	2,028,389.1	15.3	14.6	11.5	(14.2)
Subsidies	122,881	119,232.8	185,993.3	1.1	0.7	1.1	56.0
Transfers	1,571,697	2,243,916.5	1,842,395.8	14.2	13.9	10.4	(17.9)
CAPITAL EXPENDITURE	1,280,920	1,719,710.4	2,488,859.6	11.6	10.7	14.1	44.7
Domestic investment	1,020,970	1,408,993.0	2,008,220.0	9.2	8.7	11.4	42.5
Capital repairs	50,139	55,776.9	51,875.4	0.5	0.3	0.3	(7.0)
STRUCTURAL BALANCE (%)	(769,862)	(781,883.4)	(356,291.3)	(6.9)	(4.8)	(2.0)	(54.4)
OVERALL BALANCE (%)	(528,841.8)	(680,533.4)	(186,532.6)	(4.8)	(4.2)	(1.1)	(72.6)
STABILIZATION FUND	241019.89	101350.00	169,758.7	2.2	0.6	1.0	67.5

Source: Ministry of Finance (2013 Budget), World Bank staff calculation

PRICE

HOUSING MARKET INFORMATION

BY B. TUYA

Each winter Ulaanbaatar's denizens begin their battle against smoke. Housing projects have been proposed as one way to reduce air pollution in the city. People often do not have anything to say other than "prices are high".

For that reason, *Mongolian Economy* presents the

market rates for housing in the fourth quarter of 2012, using data from the Master Properties real estate agency. The agency based its market information on research from the National Statistics Office and the Bank of Mongolia.

Chart 1. Price survey of the projects, implemented in Ulaanbaatar (MNT million)

	Bayanzurkh		Khan-uul		Sukhbaatar		Songinokhairkhan		Chingeltei		Bayangol		Nalaikh		Ulaanbaatar	
	Flats	Average price	Flats	Average price	Flats	Average price	Flats	Average price	Flats	Average price	Flats	Average price	Flats	Average price	Flats	Average price
Under 1500	16	1.380	2	1.500	0	-	13	1.322	0	-	3	1.267	1	1.500	35	1.360
1501-2500	33	1.882	33	2.025	11	1.900	4	1.803	6	2.020	19	1.752	1	2.250	107	1.913
Above 2501	5	3.415	20	3.208	2	3.500	0	-			0	-	1	3.067	28	3.261
Total	54	1.876	55	2.436	13	2.146	17	1.435	6	2.020	22	1.686	3	2.272	170	2.021

One-hundred seventy housing projects have been initiated in Ulaanbaatar, of which 12 are completed. About 64 percent of all projects were planned for Bayanzurkh and Khan-Uul districts. Housing prices range between MNT 1.5 million to MNT 2.5 million.

Chart 2. Percentage by districts

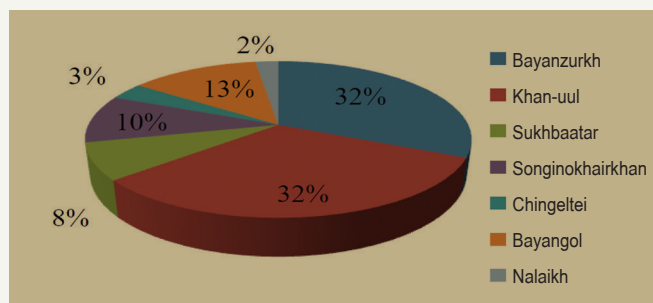
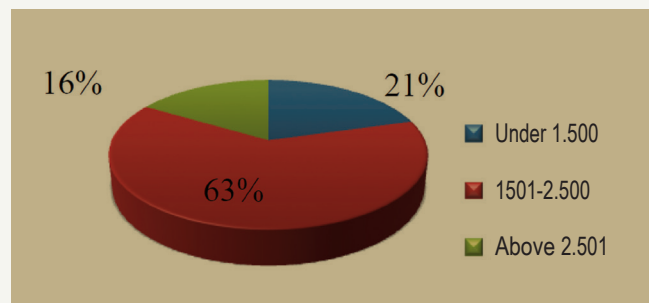


Chart 3. Percentage by price (MNT million)



Average price for housing from projects in Ulaanbaatar

As of December 2012, the average price for a new flat cost around MNT 2 million, a 1.3 percent increase from the month before and 35 percent more than a year before. Triggers to price rises are the completion of the 12 housing projects while the remaining projects are all at about the halfway point.

In addition, 158 new housing projects are expected for completion within the next year, of which about 100 will be completed in 2013. In the first quarter of this year, 32 housing projects are expected to be commissioned. These factors have made the commissioned flats very highly priced. ▶▶

Chart 4. Average price of the housing projects, implemented in Ulaanbaatar (MNT million/s)

Districts	IV quarter, 2011	III quarter, 2012	November 2012	IV quarter 2012	Monthly changes (by percentage)	Quarterly changes (by percentage)	Annual changes (by percentage)
Bayanzurkh	1.327	1.605,4	1.841	1.876	1.8%	14.42%	41.30%
Khan-uul	1.746	2.402,8	2.422	2.436	0.5%	1.30%	39.50%
Sukhbaatar	1.737	2.022,9	2.103	2.146	2%	4%	23.50%
Songinokhairkhan	1.070	1.459,1	1.416	1.435	1.3	-1.60%	34.40%
Chingeltei	2.122	2.072,5	2.244	2.020	-11%	-2.50%	-4.80%
Bayango	1.304	1.582,8	1.611	1.686	4%	6%	29.20%
Average	1.493	1.866	1.994	2.021	1.30%	7.67%	35.30%

The average annual change in the last quarter of last year was 35 percent, a 2.83 percent decrease compared to the February quarter in 2011. The monthly change in Chingeltei district was a 2.5 percent fall, while Bayanzurkh district varied the most, with 14.42 percent rise.

The 158 housing projects would provide housing to an additional 4,974 families compared with last year's 20,266 families. Average sales of the projects stands at 74 percent, reported Master Properties.

Chart 5. Capacity of the implemented projects

Districts	Projects	Families	Proportion	Total sales (MNT-thousand)
Bayanzurkh	53	9604	33.5%	1068
Khan-uul	52	7020	32.9%	1833
Sukhbaatar	13	1439	8.2%	207
Songinokhairkhan	15	3117	9.49%	189.8
Chingeltei	6	690	3.79%	96
Bayangol	16	2493	10.1%	192.2
Nalaikh	3	880	1.89%	126.8
Total	158	25240	100%	3712.8

According to Chart 5, 33.5 percent of all housing projects are built in Bayanzurkh district.

Chart 6. Loan requirements of banks

Banks	Loan term	Loan interest per month	Loan interest per year	Amount (MNT million)	Collateral	Capacity of repayment by percentage	Explanation
TDB	15 years	1.5-1.6%	19.20%	150	Up to 90 percent of completion required	50%	Life insurance and pledging of the lender
Golomt bank	15-20 years	1.90-1.95%	20.40%	120	New flats have to be authorised by State Commission	40%	Collateral insurance 0.12% life insurance 0.12%
Khan bank	10 years	2-2.1%	25.20%	100	New flats have to be authorised by State Commission	40%	Collateral insurance 0.12% life insurance 0.12%
Ulaanbaatar bank	15 years	1.9-2.1%	25.20%	100	Purchasing flat	40%	Temporary collateral or co-lender required
Khas bank	Up to 15 years	1.5-1.7%	20.40%	40% of total amount	New flats have to be authorised by State Commission	50%	Co-lender required
State Bank	15 years	1.7%	20.50%	100	New flats have to be authorised by State Commission	50%	Collateral insurance 0.13% life insurance 0.13%
Chingis Khan bank	10-20 years	Decision by committee meeting		70% of total amount	Purchasing flat	50%	Life and collateral insurance of the lender
Saving's bank	10 years	2.2-2.5%	30%	100	Purchasing flat	40%	Life and collateral insurance of the lender

Compared to the third quarter of last year, the interest rates for loans at Khan and Golomt banks increased by up to 0.2 percent in the last quarter of that year. ▶

Chart 7. Granted loans by commercial banks (MNT million/s)

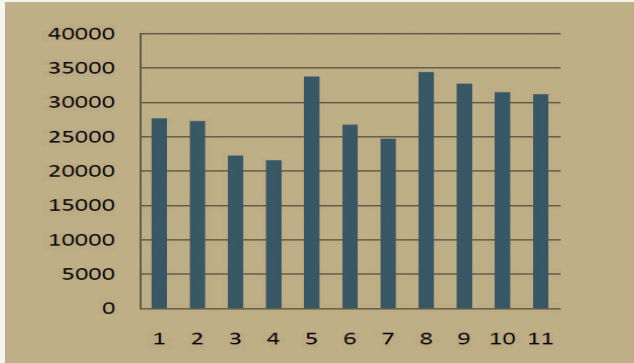


Chart 8. Average loan interest

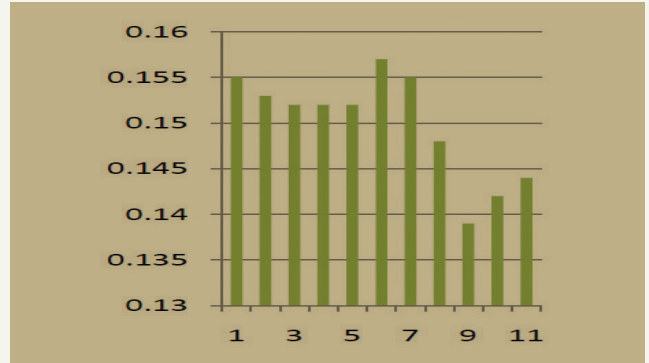
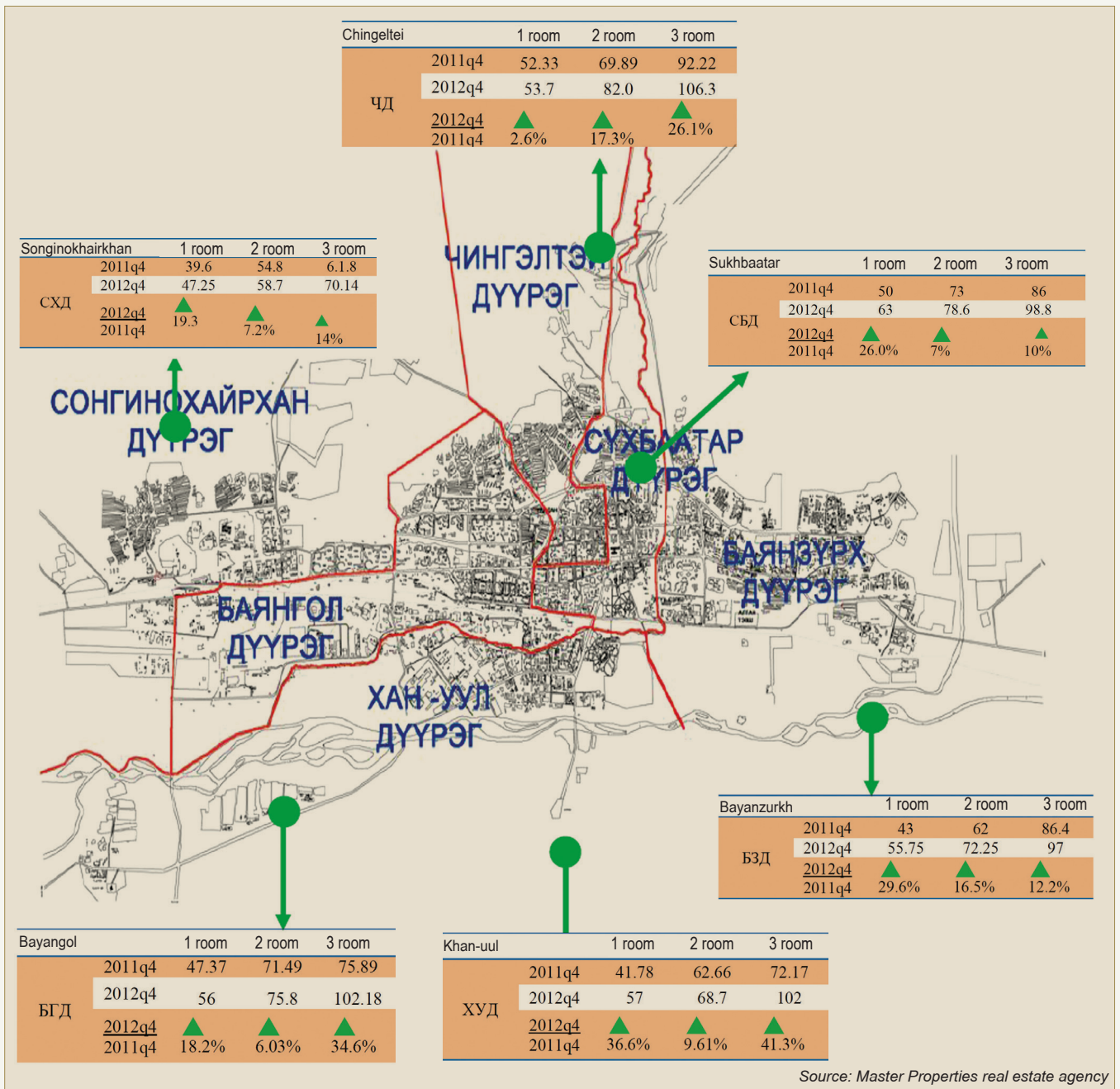


Chart 9. Survey on average price of old flats (MNT million)



Source: Master Properties real estate agency

PRODUCTION

NEW TECHNOLOGY, NEW POSSIBILITIES

BY B. UUGANBAYAR

A new construction material firm is helping to ween Mongolia off its dependence on foreign imports during this era of rapid growth and development.

This issue of Mongolian Economy introduces its newest feature section, Production. Its main function will be to introduce companies that are able to replace imported products with domestically produced alternatives. This first edition features the operations of cement material producer TACO.

Concrete mouldings used to be 100 percent imported from China and South Korea, but in the past half year a domestic producer has emerged. TACO began its operations producing wall mouldings that meet European standards last September 2012. Since then its factory has offered an alternative to imports for the construction sector.

T. Otgonbayar had been studying how to supply concrete moulds to construction companies at an affordable price for two years before opening his factory last September.

Euro form is an important material for mounting walls into a mould. Before 2000 walls were moulded using interlocking board imported from China and a higher-quality variety from South Korea. A total of 100 to 120,000 pieces are used annually for construction in Mongolia, on average. At present, 70 percent of this demand is covered by products from South Korea, while the rest is imported from China.

The Business Model

Building a 10-floor residence requires around 2,500 to 3,000 pieces for moulds. Construction of a building using Chinese interlocking board requires lots of manual labour, and is expensive too. Companies that use this interlocking board must hire Chinese workers because only they have the skills to create the forms using wood and wire



rope. Moreover, it is of a lower quality and is less safe than the ready made pieces. Shaping interlocking board requires cutting down lots of young trees and creates lots of waste. The state has prohibited the use of young trees for construction purposes, as is the apparent trend for countries around the world.

The South Korean materials are of a good quality, but are quite expensive. When there is damage there are no repair services available and the damaged moulding is a complete loss. Moulds of 60x120 millimeters are sold for MNT 51,000 to MNT 53,000 at wholesale construction material centers. In rural areas the price is even more expensive.

TACO produces wall forms of good quality, and the technology it uses is accepted internationally. A moulding of 600x1200 millimetres costs MNT 44,900, 500x1200 millimetres is MNT 43,900, 450x1200 millimetre is MNT 42,900, and 300x1,200 millimetres is MNT 38,900. One wall moulding can be used up to 200 times with the right technology,

Achieving Goals

T. Ogonbayar is a hardworking person. He imported all ►



► his equipment from South Korea to set up his business and invited Korean engineers to train his personnel. Five of his staff have learnt the production process. The advantage of his factory is the fact that the main raw material is prepared in Korea.

Otgonbayar started the workshop with his Korean business partner Yun In Yun. His company TACO imports all types of wall mouldings as well as related equipment, but they plan to eventually produce it all in Mongolia as the business expands. The company is located within the compound of Power Plant No. 4, where he pays MNT 600,000 a month to rent their 600 square metre workshop.

The material for the surface of the wall moulding is imported from Korea. These are installed with special equipment for later stages of production. First the material is set for welding, and painted afterwards before the interlocking boards are cut. The last step is fastening everything together with aluminium nails. Otgonbayar hopes to have this entire process eventually automated. The company now has five permanent workers and two assistants, who are all provided with lodging. They receive a salary of MNT 500,000 per month.

The company produces around 120 to 150 moulds a day. Since its establishment, it has generated MNT 60 million in sales. Construction companies are grateful to have the materials provided from a domestic producer at a cheaper price than from abroad. TACO has come under great demand, receiving orders from companies

such as Delta Construction, Sunday and Seoul Group.

“In our country, business development for start-ups is challenging because the company has lots of expenditures such as operating capital, rent for the workplace, workers’ salaries, and equipment maintenance”, said Otgonbayar,

He said the greatest support the state could offer companies would be low-interest loans to purchase land outside of developing cities.

TACO has applied for a MNT 300 million loan from the Ministry of Construction and City Development in the hopes of taking part in this programme, automating production, and increasing its staff. If the loan is approved, the company would be able to increase its capacity to produce 400 to 500 mouldings each day in addition to other required materials such as piping, domestically. It would mean a total of 8,000 wall forms for a quarterly period and 30,000 unit products for construction in 2013.

Otgonbayar has big plans to produce 100,000 mouldings, supplying up to 80 percent of Mongolian demand, within three years by increasing production capacity every year. In addition to its aims to produce construction materials for the local market, provide workplaces for Mongolians and support domestic economic growth, TACO hopes to introduce construction technology that is quick to install and can be bought at a cheap price. The cheaper materials could lead to cheaper construction, eventually impacting the prices of residential flats while supporting the domestic economy. ■



