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# MONGOLIAN ECONOMY

Mongolian Economy and Business Magazine

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Big Middle Class,  
Small Inflation

Outlook For Property  
Prices Credit



## TIGHT FISCAL POLICY, BALANCED BUDGET



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# ECONOMIC POLICY ISSUES IN MONGOLIA

## Chinggis Khaan Hotel, Conference Hall October 12th, 2012

1. Dr. Erdenebat Bataa (National University of Mongolia),  
**"Macroeconomic Risks and How They Could Be Mitigated"**
2. Ms. Munkhaya Batbaatar (Institute of Finance and Economics),  
**"Cyclic Analysis of the Mongolian Economy and Indicators"**
3. Dr. Altantsetseg Batchuluun (National University of Mongolia),  
**"Supply Analysis of Labor Market in Mongolia"**
4. Dr. Bat Buyantsogt (National University of Mongolia),  
**"Capital Control: Case of Mongolia"**
5. Dr. Purev Byamba (Mongolian State University of Agriculture),  
**"Small and Medium Business Development: Does Rising Tide Lift All Boats?"**
6. Ms. Ariunaa Dashtseren (Ministry of Economic Development),  
**"Migration to Central and Khangain Regions in Mongolia"**
7. Mr. Gantulga Donorov (Gerege Partners LLC),  
**"Demographic Dynamics and Social Welfare System in Mongolia"**
8. Mr. Gan-Ochir Doojav (Bank of Mongolia),  
**"Economic Vulnerability Assessment with Leading Indicators"**
9. Mr. Jan Hansen (Asian Development Bank),  
**"Mining-driven Economic Development and Wealth Management"**
10. Dr. Zahid Hasnain (World Bank),  
**"Improving Public Expenditures to Meet the Challenge of Scaling-Up Infrastructure"**
11. Dr. Davaasuren Sodnomdarjaa (National University of Mongolia),  
**"Economic Growth and Poverty"**
12. Dr. Batsukh Tserendorj (Institute of Finance and Economics),  
**"Risks Assessment of the "Dutch Disease" in Mongolia due to Major Resource Industry Projects and Expected Massive Capital Inflow"**
13. Dr. Bolormaa Tsogtsaikhan (National University of Mongolia),  
**"Migration in Mongolia"**

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Chart 3. Number of rooms, price in millions of MNT

District	1 room	2 rooms	3 rooms
Bayangol	56.8	77.9	102.0
Songinokhairkhan	46.7	59.5	74.9
Bayanzurkh	50.5	74.4	102.4
Khan-Uul	60.0	92.8	92.3
Chingeltei	55.3	94.3	120.0
Sukhbaatar	61.0	87.0	103.7
Average	55.1	81.0	99.2

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## INFLATION

A report has been released for projected inflation for between 2011 and 2020. Statistics, future aims and price data, and expectations for Oyu Tolgoi and Tavan Tolgoi were used as the basis for the projected growth to gross domestic product (GDP), direct foreign investments and job creation.

## MINING



A study by the National Innovation Committee titled "The Effects of the Mining Sector on Others" concluded the mining \ will not negatively affect other sectors. The study revealed that the mining sector has thus far benefited construction, transportation and conservation, as well as develop infrastructure in sectors such as communications and technology. However, mining has negatively impacted agriculture, said the study.

## ECONOMY

The National Development and Innovation Committee (NDIC), which was recently absorbed the Ministry of Economic Development, has projected the population of Mongolia to grow by

276,000 people by 2015. The labour market will have an added 299,000 young workers. An overview study of the market suggests that about 199,000 new jobs will have been created by that year.

Growth in mining, industry and transportation for the second half of this year will be close to the growth of first half of 2012. However, lower demand is expected to result in contraction for the service sector. The estimated growth in agriculture is high, said officials from the Bank of Mongolia. Total economic growth is projected to slightly decline, reaching up to 14 percent.

## AGRICULTURE

The Agriculture Fund has upped the amount it will pay for wheat, opting to pay MNT 100,000 per ton. The 2012 state budget includes a total of MNT 15 billion, or MNT 50,000 a ton. Additional finance will be included in the 2013 budget.

The government has decided to introduce the change within the first quarter of next year.

## FINANCIAL MARKET

This year's evaluation on the world's stock exchanges by the Independent Committee for Evaluation the Department of Policy and FTSE saw Argentina listed as one of the countries being monitored

for possible downgrade, while Mongolia has been put on the watch list for "Frontier Markets". The evaluation ranks countries based on their collected marks against other international markets. Mongolia is not currently included in any of its indexes.

## HEAVY INDUSTRY

A government ordinance has re-established the executive committee to the Sainshand industrial complex.

The industrial centre planned for Sainshand, Dornogobi Aimag will be the country's first. Headed by Khaltmaa Battulga, the minister of agriculture, the committee will include the ministers of foreign affairs, economic development, road and transportation, mining, construction and urban Development, defense and finance and labour.

## EURO ZONE



As of August 2012, inflation in the euro zone reached 2.6 percent for the year, reported Eurostat, the European Union's statistics office. According to researchers, the growth of inflation was triggered by a rise in oil prices.

Last month the Central Bank of Europe decided

to retain its annual policy interest at 0.75 percent, the lowest in its history, due to fears that Europe's debt crisis may deepen. Exports have fallen by 2 percent compared with 2.4 percent growth last June, reported the study. The Financial Market Weekly Bulletin from the Bank of Mongolia noted that imports in the euro zone dropped by 1.2 percent last month.

## NORTH AMERICA



The U.S. government is planning to introduce a policy to reduce state budget expenses and increase taxes. However, the policy could put additional pressures on manufacturing, warn economists. Unemployment in the country is still high, having reached 8 percent.

According to the Thomson Reuters Research Analytics research group, Americans have not lost their faith in their government. Such optimism among citizens is derived from growth in share and property prices, said the report. The National Association of Realtors noted that the sale of older apartment expanded by 7.8 percent, reaching USD 4.82 million for the year. However, its industrial sector shrank by 1.2 percent last August. ■



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FEATURE TOPIC

# AN INTERESTING ECONOMY

BY I. OTGON

It has been a while since Mongolia's economy first came into the global spotlight. Mongolia is on the verge of achieving development. It is still uncertain where Mongolia's development will lead, but its economy is growing more interesting.

Although the prospect for the national economy is not looking too bad, recent surprises from the new government has triggered a fall in share prices by 23 times on international markets, said O. Chuluunbat, vice minister of economic development.

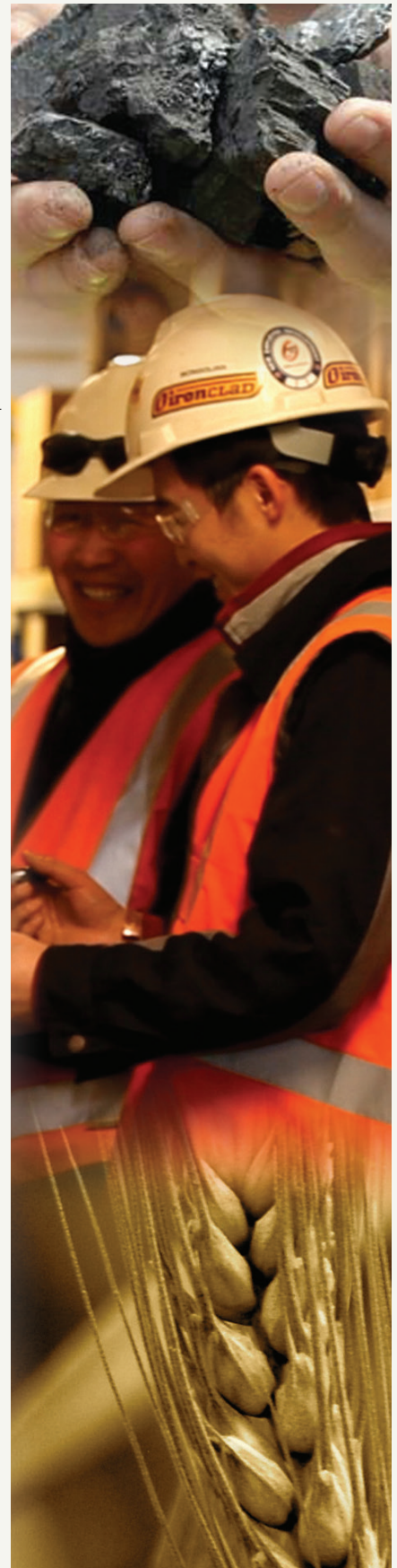
One issue of concern is the sudden price drop in mining commodities, especially for coal, which comprises about 90 percent of all Mongolia's exports. On this matter, Matthew Wood, the general director of Garrison Capital said he felt the down trend was a temporary situation. Although we can be certain of very little in this world, he felt certain "the world's going to be burning coal for a long time".

When asked how long the euro-zone crisis will last, Naidansuren Zoljargal, the newly installed president of the Bank of Mongolia said it would not be easy, and the current crisis we face would likely be longer than the one sparked in 2008. "The crucial challenge for Mongolia is to find an appropriate solution for its economy", he said.

Indeed, the state budget is in the hands of the income from mining commodities exported abroad. Profits were heavy when coal and copper prices were high. Unfortunately, the government gave a lot of the money away with its cash distributions. Now that prices have dropped, it seeks new money-making opportunities.

The Bank of Mongolia hopes for a monetary policy counter to these poor fiscal management practices. For that reason, *Mongolian Economy* devotes this October issue to the budget and the monetary policy of 2013. It is high time that we witness what the government has learnt from its bitter experiences three years ago.

How will the shadows of global economic crisis affect the state budget and monetary policy? Mongolia must slowly search for alternative economic opportunities. ■



## MONETARY POLICY

# BIG MIDDLE CLASS, SMALL INFLATION

BY I. OTGONJARGAL

The central bank president believes investment in the middle class is the force needed to assuage the economy.

Parliament has been discussing what 2013's monetary policy will look like since October 4. It has been the talk of the town since the government started distributing cash social subsidiaries.

The aim of monetary policy is to support economic growth by creating a stable price network. However, many unwanted issues sometimes arise. Such issues are causing headaches for many common citizens as well as professional economists. Social subsidiaries and cash flow from the mining industry demand more cleverness on wise spending.

Mongolia is a country with a strict monetary policy that focuses on tackling inflation. While some argue it is best to enforce a rigid monetary policy, others argue against it, especially during times of fast economic growth. The responsibilities and effectiveness of the basic instruction for implementing a policy should be specific.

The newly appointed president



of the Bank of Mongolia, Naidansuren Zoljargal, and the State Great Khural owe the public a suitable, innovative policy. Although he is new to his position, Zoljargal is an experienced economist and has worked at the central bank for years. A Harvard graduate in social sciences, he served as the vice president there from 2010 to 2012. All that is left is to wait and see what he can achieve now that he is heading the bank.

One of his duties is enforcing the direction of the monetary policy. Can he soften a strict monetary policy that has been argued over for so long? Can

he tackle inflation and invigorate business? These are some of things people expect of him.

The central bank president has already defined many of his goals for the country is economy. Zoljargal has planned for the central bank to continue enforcing a strict monetary policy while aiming to establish a wealthy middle class and lower inflation for 2013.

That is nothing new. The Bank of Mongolia has spoken of promoting the middle class and lowering inflation before. That is why the bank strengthened the monetary policy in the first place. Unfortunately inflation has »

not lessened as it had aimed. The new central bank president is confident he can bring down inflation to eight percent, and further to seven percent from 2014 to 2015.

As a professional banker and a young leader, Zoljargal is certain that he can take on the challenges to accomplish all the goals the bank has set forth. Previous leaders of the bank could not establish a mutual understanding between the central bank and government. Zoljargal has said that research should be done at the bank, while Parliament enforces its policy. He also noted that Parliament's involvement in creating monetary policy is important, and therefore discussion and debate are essential. Also, reducing inflation would contribute to better lives for people living in Mongolia.

Both the bank and the government should acknowledge their respective duties. Before, a rivalry existed where one instigated inflationary pressures with cash distributions while the other enforced a policy aimed at eliminating it. Having acknowledged this, Zoljargal has bravely decided to end the chaos.

"Up until today, the monetary policy attempted to maintain total assets to bonds instead of loans. Nothing is wrong with that. However, the supply of meat is not stable, flour imports are frequently halted, and taxes and prices jump up and down. Products are halted at Zamiin Uud. All this is related to the chaos in supply", said Zoljargal.

"With such problems, the central bank cannot tackle inflation all by itself. The government must pay attention, too. For that reason, we are seeking for close cooperation with the government".

The government must impose

strict controls on oil prices, as it the most commonly used good. The Bank of Mongolia has initiated the development of an adjunct programme to combat the situation. But the most important factor to commodity prices is transportation costs. Thus, officials have researched and discussed the factors that create price fluctuations.

The Zamiin Uud border currently can allow the passage of 250,000 tonnes of goods monthly. Construction materials for Oyu Tolgoi are always traveling through this port. In spring, when the construction season starts, the amount of imported materials such as cement and paints increases, which results in the delay of other imported goods. Vendors offer bribes so that their goods can pass through the border, which is reflected by the prices on store shelves.

Four years ago about 11 percent of expenses from all products coming from China were from transportation costs. Today, that figure has grown to 25 percent. The central bank warns this is not a good sign because it affects base inflation. The bank of Mongolia is working with government to resolve the issue. From these efforts, five projects are ready to be implemented.

## Praise Courage

While Zoljargal has been commended by the media for his brave direction, they argue that it might not be possible to bring inflation to the single digits as long as the government continues to offer cash payments. The new government has already decided it will give MNT 20,000 a month to every child under 18. Further, the Human Development Fund is already responsible for the MNT 21,000 monthly payments as well

as MNT 1 million to the disabled and pensioners.

In response, Zoljargal said to journalists, "I am cautious, of course. Fifty percent of the entire economy comes from the state budget. But I and my team are confident about the monetary policy we have developed".

"We have presented specific issues on macroeconomic stability, infrastructure for the financial market and its institutional strength. Macroeconomic stability means ending useless subsidiary policies. I personally believe that creating a wealthy middle class makes stable economic growth".

Zoljargal identified inflation as his worst enemy. The Bank of Mongolia wants to create a wealthy middle class, a pool of skilled human resources, and a suitable economic policy with transparent law enforcement.

Unfortunately, the living standards of Mongolia's middle class remain low. Strengthening the middle class is a priority of monetary policy. High inflation, countless social welfare payments have caused Mongolia's middle class to suffer. According to a study from the Bank of Mongolia, if inflation reaches over 10 percent price pressures over low-income citizens will reach 82 percent and 50 percent for the middle class. Meanwhile, the country's wealthiest will only feel as much as 1 percent from inflation.

What does that mean for 15 percent inflation?

If Mongolia holds MNT 7 trillion in assets with inflation of 15 percent, then MNT 1 trillion will fall from people's pockets annually. Thus the Bank of Mongolia is aiming to save at least half the money it holds and so has made 8 percent its target for inflation.

If the bank can make this goal a reality, it would result in more credit and business activity. ■



Photo by B. Byamba-Ochir

## BUDGET

# CHARTING THE BUDGET

BY B. BAYARAA

This year marks the first the fiscal stability law will take effect, and it is up to the State Great Khural to pay the law heed.

October looks to be a month for discussion on the budget and monetary policy.

The Minister of Finance has introduced the draft law of next year's budget to Parliament, while the president of the Bank of Mongolia has presented the directions of the 2013 monetary policy.

The government will start 2013 with a budget of MNT 7 trillion for expenditures. It projected that a

tonne of copper would cost USD 6,328.90 and coal USD 131.50. However, its projection of expenses in relation to revenue bears little resemblance to those of the past. With a projected income of MNT 7.88 trillion, expenses are set for MNT 7.44 trillion. In that case total budget loss would be MNT 360 billion, 2 percent of gross domestic product (GDP), thus fulfilling the requirements of the Law on Budget Stability, said Chultem Ulaan, the Minister of Finance.

It is time that the State Great Khural think hard about how to correctly approach next year's budget. The budget plan is very specific: Budget expenditure must not exceed 2 percent of GDP while reducing expenses, local administrations must be allowed to compose their own

budgets, and sustainable salaries and pensions must be maintained.

Elections are over and the government has settled down. Local elections will take place soon. The expanded structure of the government and its activities has brought change that could add slight pressure to budget spending.

The budget has allotted MNT 9.4 billion for the reduction of air pollution in Ulaanbaatar. The draft has also included spending of 44.4 percent of total investment into infrastructure, and 24.4 percent on education, culture, health and human development. The remaining 32 percent will be devoted to agriculture and industrial purposes.

However, a worrisome global economy has caused raw material

prices to fall. As a result, revenue could decline.

“Income from taxes have started to drop. Last year 56 percent of tax revenue derived from mining”, said B. Erdenebat, professor at the School of Economics at the National University of Mongolia.

He added, “This year, an estimated 60 percent was planned for collection from this sector. However, this goal might not be met”.

But the Ministry of Finance has a very different view on this matter. Copper and gold production at the Oyu Tolgoi mine will begin next year. Also, the exploitation of coal at Erdenes Tavan Tolgoi is expected to double. In addition, coal production throughout the country is projected to rise as well.

Apart from mining, agriculture is expected to expand approximately by 4.5 percent. That would bring Mongolia’s GDP to MNT 17.6 trillion. Economic growth could slow down due to confusion regarding budgetary limitation put in place by the Law on Budget Stability.

“Budget losses have reached MNT 1 trillion”, said the Minister of Finance Ch. Ulaan. “But the government seems not to care about it”.

The Bank of Mongolia points to “social subsidiaries such as cash distribution” as having unfavorably impacted the economy. Apparently, the new government has decided to ignore the risks and continue the social welfare policies of the previous government. Economists warn that its

plan to distribute USD 5 billion worth of bonds could trigger pressures on the budget and increase debt.

“The step to release bonds worth so much money without any spending plan is dangerous. Both the International Monetary Fund and the World Bank have been warning of the risk”, wrote columnist B. Baabar.

With revenue of MNT 7 trillion, mining will contribute 40.2 percent of GDP. Mining production will be a major contributor to government revenue. Oyu Tolgoi believes it will be one of the biggest contributors. The Ministry of Finance hopes to collect MNT 1.257 trillion from the mining industry. Oyu Tolgoi is set to extract 382,000 tonnes of copper, 424,000 tonnes of gold and 802,000 tonnes of silver next year, which would result in MNT 151 billion in direct payments to the government.

Estimates for total revenue have

been made which considers the possible risks of price fluctuation in minerals, noted from Ministry of Finance. In addition, MNT 103.8 billion of the planned MNT 169.76 billion in the Stability Fund would be derived from copper production, while MNT 66 billion from coal.

The General Department of Taxation will supply MNT 3 trillion to the State budget and the Mongolian Customs General Administration MNT 2 trillion. These two organisations will have to compose 75.8 percent of the state budget. As written in the draft law, the budget expense reaches close to MNT 5 trillion.

Meanwhile the government has plans to distribute MNT 20,000 monthly allowance to children under 18, in addition to the 21,000 monthly cash allowances from the Human Development Fund. ■

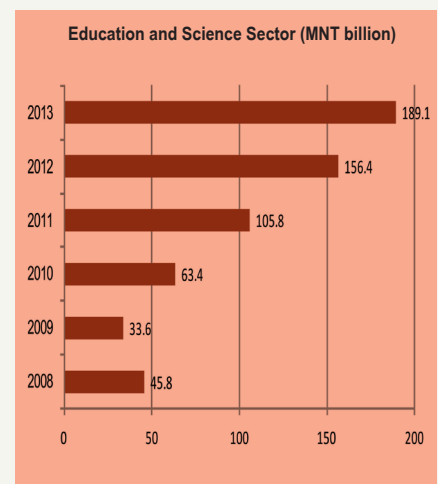
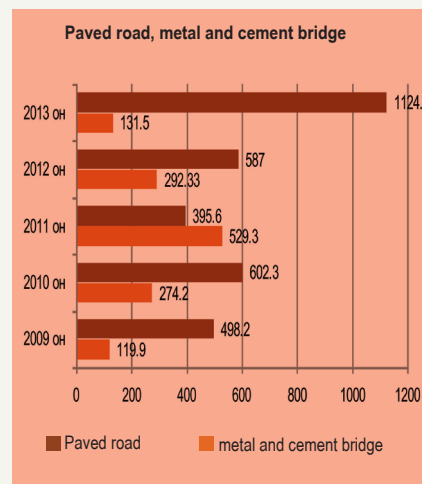
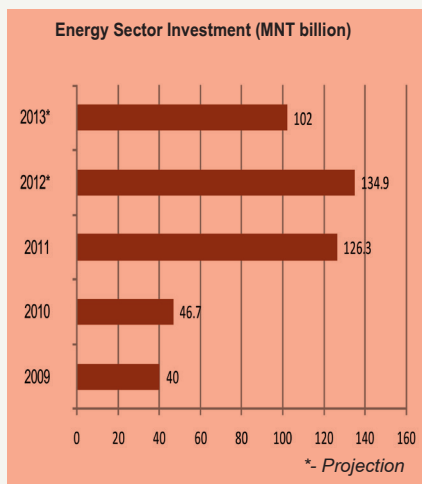
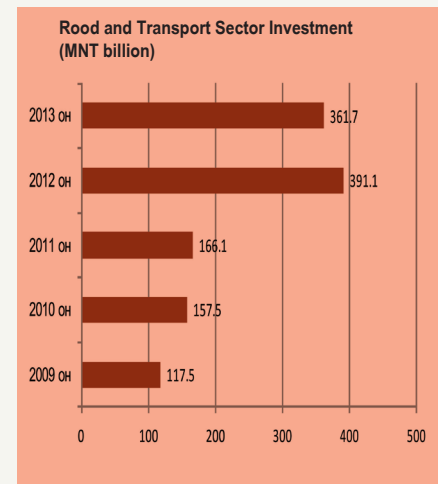
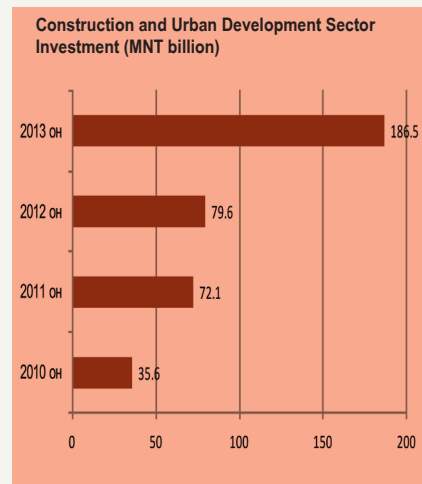




Photo by E. Zorigt

HUNNU INTERVIEW

# LOOKING FOR THE NEXT OYU TOLGOI

BY B. ENKHTSETSEG

You've got two of Asia's most successful groups now investing in Mongolia. That's a huge tick. Everyone else looks at that and must think Mongolia is a great place if Lippo and Banpu are investing there.

*Garrison Capital Executive Director Matthew Wood and Managing Director Lkhagvadorj "George" Tumur, speak on the successes of Hunnu Coal and state of the minerals sector in Mongolia. Wood has more than 18 years experience in the resource sector with both major and junior resource companies. Tumur has worked in senior management for various Mongolian mining companies and recently managed the development of a large coking coal deposit with over 400*

*million tons of reserves.*

*Hunnu Coal began with only three employees before positioning itself as a leader in the mining sector and listing on the Australian Stock Exchange. Australian magazine Resource Stocks selected the public offering by Hunnu Coal as the "Best Australian IPO of 2010". Garrison Capital is an independent full service corporate advisory firm specialising in the acquisition, funding and management of resources opportunities globally. »*

► **Many people believe the foreign investment law passed last May has only heightened uncertainty for foreign investors. What is your take on the law?**

**Matt Wood:** I guess we're waiting to see how that's implemented. I think that it's important that there is a foreign investment review board in Mongolia. They exist in Australia, and for places where particularly strategic resources are protected for Mongolia, I think that's important. But certainly, for me, it's more about how they implement it.

Setting up huge bureaucracies for approval processes—for six months, 12, months, or longer—to get licenses and approval isn't advantageous to Mongolia, whatsoever. It just slows everything down. If they can implement things in a manner that protects the interest of the nation as well as fast-track development, well, that's going to be a huge positive effect.

**Do you think most foreign investors share your opinion?**

**Wood:** Mongolia is one destination to choose from. Garrison Capital operates globally. If foreign investment laws become unfavourable here, then it might be more favourable for capital elsewhere.

Other foreign investors have a similar view. We like a very even playing field. We don't like the rules being changed on us in the middle of the game.

I've been here for three and a half years now, and we've been very successful. Garrison's got a long-term view in Mongolia. We've created a lot of businesses here. We employ indirectly and directly probably close to 1,000 people now. We're doing really well, we're really happy here, but I wouldn't like to see any new laws come in here and disadvantage us.

**Some criticise the law as an assault on the economic security of the mining sector, a main pillar to Mongolia's export economy. What is your take on the law?**

**Lkhagvadorj "George" Tumur:** Generally, most of the mining sector feels it is right to have a foreign-investment review board in Mongolia. But there has to be a clearly defined mechanism which can sort out issues accurately and quickly.

Everybody can interpret this law differently because of its unclear context—even its basic principles have not yet been defined.

**foreign investment law. What is the difference between Mongolia and Australia's laws?**

**Wood:** I'm no expert on these laws, but in Australia [it applies to deals] over a certain value (I think USD 200 million) investment by a foreign entity in Australia. If they go over 15 percent ownership, they need a foreign investment review board approval. That approval isn't



The message can reach investors differently. If they think, "Okay, there is only an opportunity for 49 percent investment, nothing further", that is a problem. We need a clear mechanism with definite regulations that makes the process clear to us, like how many days are needed to solve the issue.

Passing the law is not an issue, but the method of its implementation sure is.

**As you've said, Australia has a review board, similar to the one Mongolia has established in the**

a six-month process, it's a thirty-day process. That's 15 percent, not 49 percent, like in Mongolia.

The difference is, for one, the speed it's done in. It's very important that these things happen quickly. People are making major investments; they want to know if it's going to happen now or if they will be hanging around for six months. It's all about how these things are implemented.

The second thing is the ownership. In Australia, [foreign investment deals are] nearly always approved ►►

▶ but there have been some instances for strategic assets where they've said, "No, we're not approving that. These assets should be maintained in the hands of Australian entities and we don't want a Chinese company or English company owning these assets. They're rare examples, and they really are quite strategic assets to Australia.

The other ones happen very quickly. What Australia doesn't do is say all assets in a certain area may only be 50 percent foreign-owned because that doesn't work. People will just stop investing if that is the case.

**How do you feel about some of the policies Mongolia has introduced for its mineral sector thus far?**

**Wood:** Some of it I like; some of it I don't. For a country where mining is so important, the licensing system needs a lot of work done. Today a company like us cannot apply for a new exploration license. That means there is no new exploration or development happening in this country. You don't just pick up a license and start a mine. You pick up a license and then it takes many, many years of exploration before you can get a mine. That means that process hasn't even started yet.

What it also means is a lot of the old licenses are expiring. If you look at a map of Mongolia from 2005 to today, the amount of licenses is being [greatly reduced]. I don't see it as advantageous to the country at all. I think it's extremely damaging.

**Tumur:** What you have to realize is that not all exploration projects turn into mining projects. Even if you find a deposit, it does not mean that it's economical and you can start mining. It needs lots of assessment and physical and market study to prove that the project will generate economic value. After spending nine years on exploration you find out you can't mine it for now. Maybe after 20 years or 50 years because of the geology situation or market situation

or environmental situation, then you have to look for a new project. When there is no new project availability, eventually everyone leaves. It's very risky.

Overall, I don't think the government doesn't need to do too much. It just has to make the policy more clear and continue to implement it. You usually see the effect after introducing a policy after five or ten

everyone else is selling, you should be buying. Try and do things a little differently, a little bit smarter.

In down times if other people are letting people go, sacking people, and reducing their businesses, it's a great opportunity to find good people. That's always an issue in Mongolia, good experienced people. It's a small country and education is really important. Maybe down times are a



years, not immediately.

**Many investors are worried about the debt crisis in Europe and economic slowdown in China. How do you plan on handling this situation, especially if it goes on longer than you thought?**

**Wood:** I think we'll be fine. That's part of being in the resources sector. I've been in the resources sector my entire life. It has ups and downs. You've got to ride the downs and change your business plan a little bit. Maybe when other people are panicking you can make some acquisitions. When

great time to find some more really great people, so when it turns around we're in a great position again.

**While some people believe Mongolia is experiencing economic slowdown, others believe China is just behaving in a tricky manner to gain the upper hand. What are your thoughts on the matter?**

**Wood:** I'm not a big believer in the China slowdown story. I think China has a lot of growth in front of it. It probably is playing lots of little games. The iron ore price went from ▶

► USD 140 to something like USD 85. It's now back at USD 105. Everyone said, "Oh, that's China slowing down." But the copper price hasn't moved. It's USD 3.50 (a pound), and I think copper is an even stronger indicator of slowdowns.

In the beginning of 2009 copper fell close from USD 4 to around USD 1.30. Now that's a slowdown. That was clearly a global slowdown.

It doesn't concern me at all.

**How long do you think the downturn in the coal market will last?**

**Wood:** I think this is a short-term downturn. I think by New Years next year we'll be seeing improved coal prices again. I don't think this will be a long-term issue. At some point we'll probably see it go down again and go up again. I think the world's going to be burning coal for a long time.

**Tumur:** Looking at the other export markets to send coal, you have to send either through Russia or China. Russia is not a very big consumer of coal. There is a big market like China in Korea and Japan, but you have to go through these two big countries. If somebody is smart enough to handle the inter-China infrastructure and reach the seaborne market at a reasonable cost, there is potential there, particularly for coking coal.

**Wood:** If you look at China, it is a huge country but some parts aren't growing very fast. Some parts of China are growing really fast. If you look at that, the provinces bordering Mongolia are the fastest growing provinces. They're the ones consuming the most with the highest growth rates.

**As the lead in management to a number of companies, including Hunnu Coal, Haranga Resources, and Voyager Resources, what are Garrison Capital's management policies for responsible mining?**

**Tumur:** A lot of people talk about responsible mining. But since most of our companies are listed on a public stock exchange, we are

not only responsible for the mining and exploration. We also have responsibility to the investors.

Investors don't want to see us doing irresponsible actions in any of our activities. We're not responsible to just one country or one project; we have to report all our activities on a quarterly basis and annual basis to the world. It's all very open. Anybody who wants information can just click on the website and find it. If somebody thinks that the company might be doing something wrong or irresponsible any investor, small or big, has the right to question the company and get a straight answer.

**Wood:** We've been in this business for a very long time, and we're going to be in it for a long time. We don't want to do anything to damage our reputation. We are extremely careful about this.

**After seeing the great success of Hunnu Coal, with the sale to Banpu last year, what's the next step for Garrison Capital?**

**Wood:** George and I are still very much involved in running Hunnu Coal. Banpu is now the 100 percent shareholder in that. We're still assisting Banpu grow that business. We want to turn that into a fantastic coal business for them here in Mongolia. Then we're focusing on our iron-ore business Haranga Resources, our copper business Voyager Resources, and our new oil business Wolf Petroleum. We all want just as much success or more.

We're going to be here for a very long time. We take very long-term views on these things.

**Tumur:** Hunnu Coal's success, bringing a major Asian coal mining company to Mongolia, is not only important for us, it's important for the whole country. Even though Banpu hasn't been known to Mongolia, it has been known internationally recognised as a reputable mining company that has invested in countries like Indonesia, Australia and China. For the foreign investment community, it was a major signal that big investors can invest in Mongolia. That was huge news for

Mongolia.

**Wood:** Since that we've introduced Lippo Group, which is one of Asia's largest conglomerates, to our iron-ore company. They've come on as a major shareholder in our iron-ore company. That's another fantastic thing for Mongolia. You've got two of Asia's most successful groups now investing in Mongolia. That's a huge tick. Everyone else looks at that and must think Mongolia is a great place if Lippo and Banpu are investing there.

**Tumur:** The main success in our company was maintaining predominantly Mongolian management. It's seamless as a Mongolian company listed on a foreign stock exchange rather than having foreigners coming and dictating what to do.

**As two of the leaders in Mongolia's mineral sector, what are some of your thoughts on its development?**

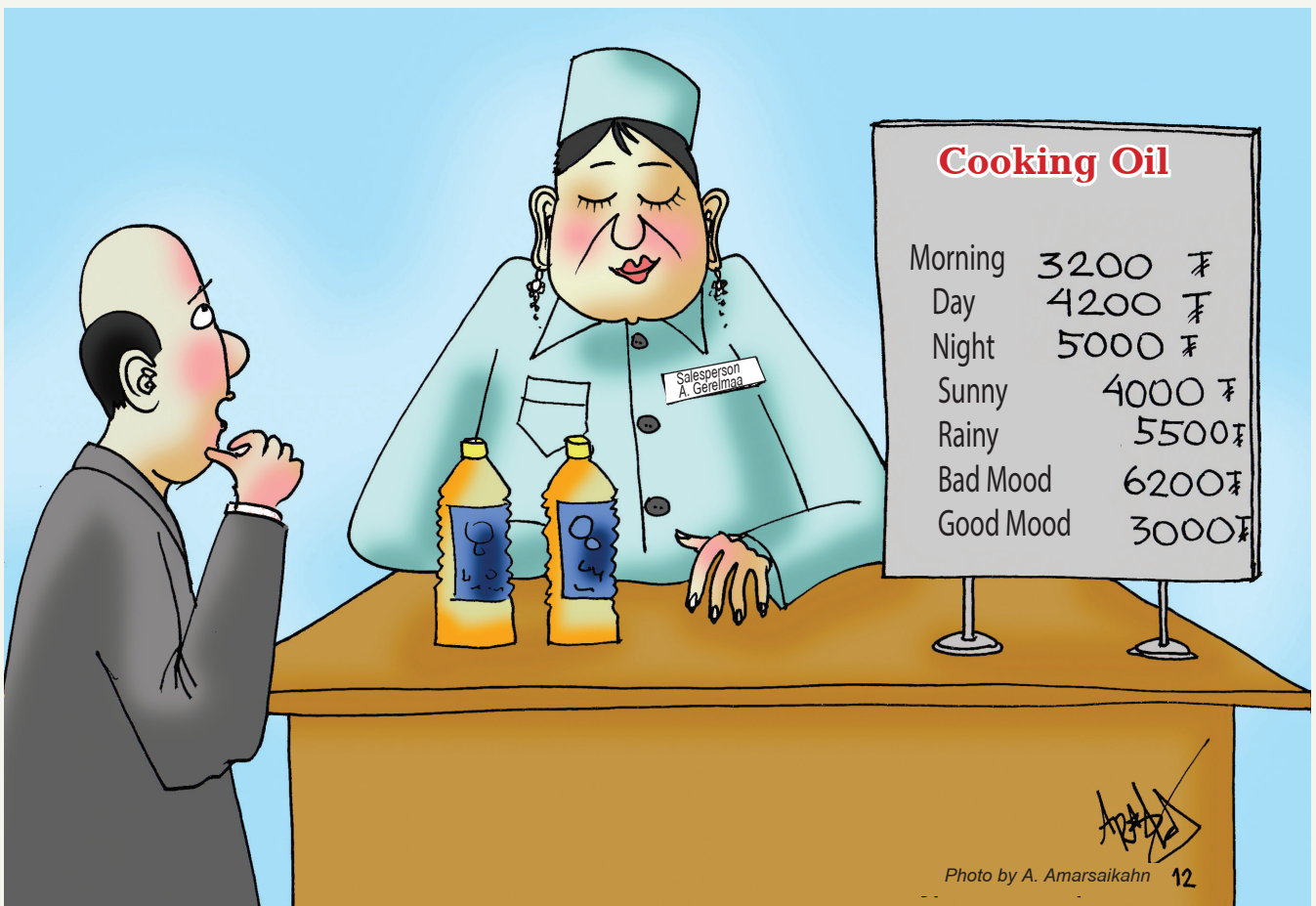
**Wood:** I'm a huge fan. It's an unbelievable opportunity. The people here are hard working, well educated. They want to see growth in their country. The resources sector is just the very beginning, and you have one of the world's largest consumers of [mineral and energy] products on your doorstep. Mongolia should be one of the wealthiest countries in the world—hopefully in the not-too-distant future. I'm a real believer in that.

**Tumur:** Mongolia has a great potential to grow into a very wealthy nation, but you have to have enough patience to focus on the mining sector as well as a healthy and educated people. That's the greatest wealth you can have in a country. I hope that will be a priority.

**Wood:** All this talk is always about Tavan Tolgoi, and Oyu Tolgoi—all these known things. Instead the country should be looking at what are the next ones. How many more can we find? People should be looking at what's next, not how much we can get out of just this one. I'm a huge believer that there are many. ■

## LOGISTICS

## BETWEEN HERE AND THERE



BY. B. UUGANBAYAR

The lack of standardised and regulated logistics practices is driving up prices on store shelves.

Without pricing regulations, vendors may tag their own prices on products however they wish.

In September, Kalerina

vegetable oil sold at the Bayanzurkh market for MNT 2,600 compared with MNT 3,100 at Sky Shopping Centre and MNT 2,950 at the Max department store. Although each supermarket is located in the same district, the price for the same product fluctuates by around MNT 500. In Songolon, Bayankhoshuu and Yarmag Districts, prices rise even further. The further one gets from the city centre, the more expensive products cost.

Around 30 percent of total expenses go to transportation, preservation and inefficient logistics, which leads to price hikes, reveals a study from the Mongolian Logistics Association.

“When inflation reaches 15 percent, the price pressures on low-income citizens could be as high as 90 percent, while middle-income citizens will feel it by 30 percent and high-income people by only one percent”, said the newly ▶

► appointed president of the Bank of Mongolia, Naidansuren Zoljargal.

“However, the difference between prices is greater here, in Mongolia, than in other countries”.

In many countries transportation and preservation expenses are reflected by no more than 15 percent in the final price. To keep prices stable, logistics are regulated in countries such as the United States, the Czech Republic, Germany and in some countries in Asia. They have state offices for logistics, where transportation, preservation, and distribution are regulated under a single system.

These countries have a very specific theory on how to set prices. This ensures that the economy stays healthy, said Adiya Munkhbold, president of the Mongolian Logistics Association.

## The Burden is in the Logistics

The Mongolian Logistics Association has worked with German development organization GIZ to study the possibilities for developing a system for logistics to reduce transportation and preservation costs that are responsible for greater prices.

“Sixty percent of inflation in Mongolia is not real”, said Munkhbold. “Logistics could be a solution to reducing price pressures and keeping prices stable”.

According to Munkhbold, Mongolia could learn from the experience and policies of Germany. He proposed establishing logistics centres throughout the country that could tie production with a network for transport. In addition, those centres could collaborate with a transportation agency that should also be established. Creating such a network would reduce costs from inefficiencies and allow increased profits by establishing stable prices, thus

easing price pressures, he said. It would also reduce transportation costs and taxes.

Having different transportation vehicles and separate trade networks are reflected in prices. For companies it means empty delivery trucks and additional workers is money spent on nothing, said Namsan Batzorig, an administrative officer at GIZ.

“If companies didn’t transport their goods during rush hour, they could save fuel and time”, said Batzorig

## Labels and Storehouses

According to researchers from the Mongolian Logistics Association, there are many ways to prevent price growth in goods. One method is labelling goods. For example, if all imported products had their prices stamped on them, vendors would not be able to name any price they wanted. This would allow for fair competition and greater transparency.

The Mongolian Logistics Association and Ulaanbaatar City Hall is planning to experiment with marking prices on products this year. In addition, building storehouses for common goods would also put a lid on price growth.

Munkhbold said it was crucial to have warehouses with high standards. The lack of sufficient standards at warehouses contributes to the higher prices vendors place on goods. Adding to this, the quality and safety of products have become issues of concern.

Developed countries have public storehouses where products are sold at up to 60 percent cheaper than other warehouses. Such places allow customers to benefit from sustainable supply with stable prices. Building a warehouse that could hold up to 100,000 tonnes

of oil would stabilize prices for a year.

## Starting with Construction

The prices of chief imported products tend to rise in spring. However, proper logistics could eliminate this trend.

Five-hundred factories supply the construction sector, yet those factories import about 60 percent of their construction materials from foreign countries, said Haltmaa Battulga, minister of manufacturing and agriculture. Industry specialists note that expensive construction materials influence apartment prices. Principal construction materials such as steel, cement, armature, plumbing tools, doors and windows, and paints are all imported.

The Mongolian Logistics Association has initiated construction of a warehouse with the capacity to store 17 million tonnes of goods in Choir and has developed a plan for doing so. Companies will finance the MNT 79 billion needed for construction, while an additional MNT 5 billion of financial support for railway construction would come from the government. The warehouse would allow companies to store construction materials, which would ease burdens during times when materials are scarce or expensive.

It has been 20 years since Mongolia shifted to a free-market system. There are over 490 laws and regulation, but not a single sentence mentions logistics. The country has no specific policy on preparing trained specialists.

Citizens suffer from soaring prices because there is no policy for logistics. The Mongolian Logistics Association and GIZ are seeking suitable regulations and a possible solution to this problem. However, support from government

GUEST

# BEYOND RESOURCES

Their options are going to be how do you reduce spending and what is on the table. Our experience is child allowances work better if they're targeted at the very poor because the middle class doesn't really need them.

*Pamela Cox, the World Bank's regional vice president for East Asia and the Pacific, visited Mongolia in September for the first time since assuming her current position in January this year. Cox, a development professional with more than 30 years experience, previously worked as vice president for Latin America and the Caribbean for the World Bank, playing a leading role in supporting inclusive growth in emerging economies and providing innovative and practical financial and knowledge services to meet developing country needs.*

## What are your first impressions of Mongolia?

Beautiful. We spent about, I think, 12 hours and looked at some of the projects that the bank, IFC [International Finance Corporation], and private sector are financing here. So we saw solar power for gers, a school we're supporting (more broadly we support a whole program for changing how education is done), and a wind farm (that's a big investment from Newcom that will hopefully be on line in December). We do a sustainable livelihoods programme where we give small grants to communities to

decide on their own development needs. We drove a little bit, but the country is very, very big.

## Most of the news coming from Mongolia is its enormous mining boom and 17 percent growth. Having seen the country first hand, are the boom and its effects apparent?

The World Bank is even involved in the mining boom because IFC is investing in Oyu Tolgoi (OT), and MIGA [Multilateral Investment Guarantee Agency], our investment guarantee arm, is looking to guarantee investments as well.

What's interesting to me is Mongolia has such great potential—even beyond resources. We were talking about the wind farm; Mongolia has wind resources and solar resources, it could also export power generated through those sorts of resources as well. Mongolia has huge potential.

## Having mentioned green energy and its export, do you believe selling energy to foreign countries is a practical long-term economic strategy?

According to this company, it was. But I think Mongolia is very unique because here is a very large



country with a lot of resources sitting between two big economies with about one and a half billion people. That's a tremendous opportunity for Mongolia.

In addition, sitting fairly nearby are the economies of Japan, and Korea. There are a lot of economies growing in Asia and Mongolia has a great location.

## What differences do you see between Asia and the other regions you've worked in?

I think the advantages of East Asia are, first of all, that this is a region that is growing and has been growing for quite a long time. That has been hugely successful at reducing poverty and educating millions of people. It's a very dynamic region—economically and from a growth point a view. I think right now the rest of the world is watching East Asia.

## What role is Mongolia playing among emerging economies?

I think Mongolia in this region has the opportunity to do things right. Many countries have learnt the lessons, good and bad, about managing resources. Some have the bad experiences named after it, such as "Dutch disease," where »

► the Netherlands experienced bad effects from managing their resources. I think Mongolia has a wonderful opportunity from countries across the world on how to do it right.

**You keep mentioning all the opportunities available to Mongolia. What opportunities are we talking about exactly?**

I think there are opportunities big and small available to Mongolia. We invest in large projects but we also invest in projects that have people at the grass-roots level, and that's sort of what we saw both sides of yesterday.

We saw this very large wind farm development. It's very exciting that it's a Mongolian company taking the lead on this. This is an opportunity to generate sustainable energy for the country.

At the same time we saw a project that provided solar power to individual herders in their gers. This was a wonderful opportunity for them: they have power at night, and they can read and watch television. They can do many of the things that those of us who live in cities take for granted.

I think that, for me, was a big contrast on how we can have an impact on a big-scale and small-scale.

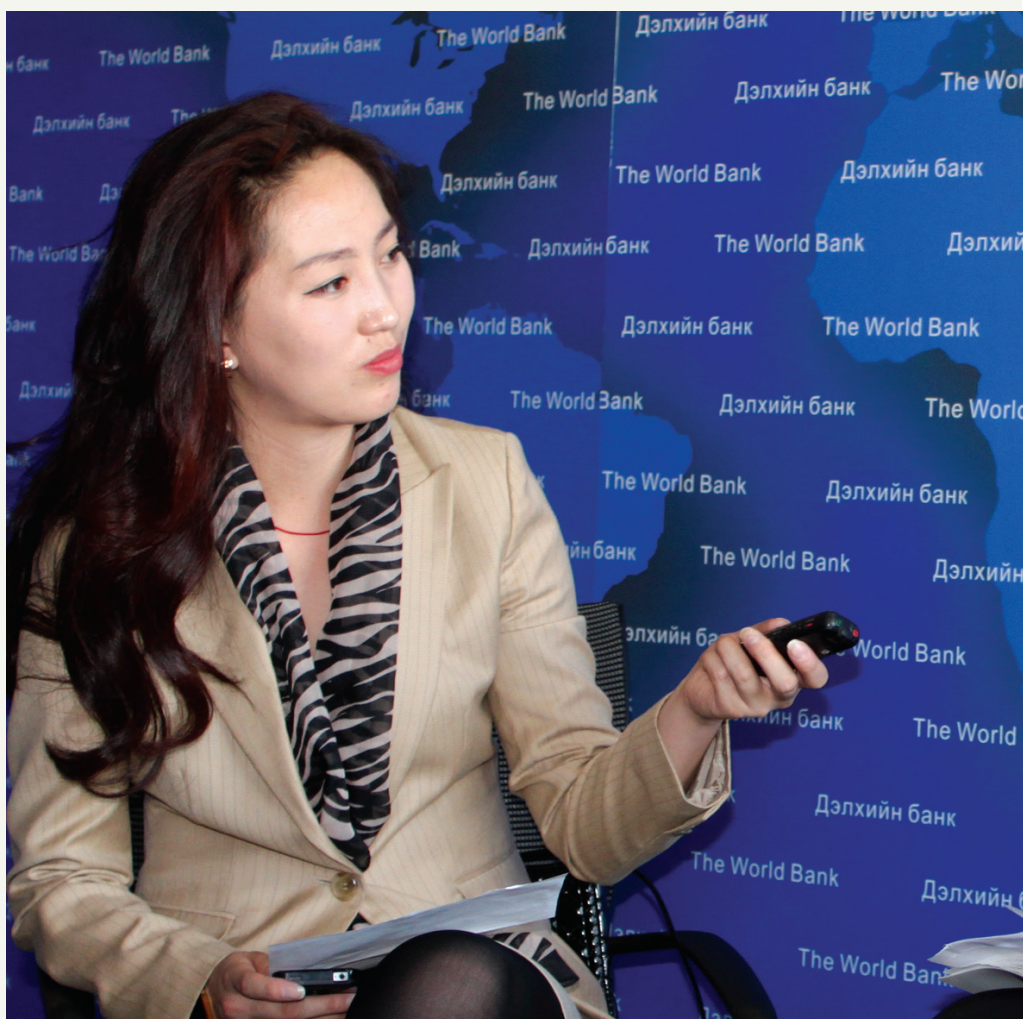
**What do you believe are the primary needs of this country?**

I'm glad you had an issue on education because this is a country that has a lot of opportunities but it only has three million people. That means that education and bringing people in to develop the skills that the country is going to need in the future is going to be absolutely critically.

And it will mean changing the economy. It needs to be a diversified economy; it cannot depend just on mineral resources. There need to be job opportunities for people.

But certainly education is going to be key.

**It looks as though Mongolia**



**will inevitably suffer from the fall in coal prices and slowed growth in China. Mongolia already has problems with its state budget. What are some options Mongolia has to resolve these issues?**

There is the short term and long term. In the short term, running a deficit, just like you can't run a deficit in your personal budget, is just not going to be possible for a long time. So when countries run deficits, they need to find ways to reduce those deficits. They need to postpone some projects, do some things that are lesser priority, target some of their spending better (especially spending for the poor). In the medium term, what we find across the world is that countries that live off exports of natural resources need to have a way to smooth out

the revenues from those resources.

If you look, for example, at Chile, we've connected Chile to Mongolia so Mongolia can learn from Chile's experience. Of course, Chile is very dependent on copper exports. Chile has a stabilisation fund so in good times, when copper is high, they put extra money into the stabilisation fund. Then, in bad times, when copper prices fall, they use those revenues to smooth out their budget expenditures. So, they don't have their budgets going way up and way down year by year.

This is something that Mongolia would do well to look at because clearly commodity prices don't always stay up. You know there are going to be some years they're down and some years they're up. What's important is that you know ►



Photo by E. Zorigt

you have—and I know Mongolia has the fiscal stability law—a way of smoothing out budget expenditures—so when times are good you don't spend all your money, you put some of it aside.

**Right now Mongolia does not have that kind of money. What other options does are available?**

There are a couple things governments can usually do. One is postpone some projects. Secondly is when you look at spending (social spending in particular) make sure it is well targeted. Give grants and so on to the poorest members of the population, and not necessarily to everyone.

**Last June Mongolia had its general parliamentary elections**

**and has since installed a new Parliament that is forming a new government. Parliament has promised to stop giving out general handouts, but more recently promised to continue giving handouts to children. Another MNT 300,000, which is left over from the original MNT 1 million promised to citizens in 2008 elections is due for distribution very soon. How big of an impact will this have on the Mongolian economy in this current backdrop of low coal prices for export and slowed growth to Mongolia's biggest trading partner?**

One reason governments have parliaments is so they can debate their options. Their options are going to be how do you reduce spending and what is on the table.

Our experience is child allowances work better if they're targeted at the very poor because the middle class doesn't really need them.

Thankfully Mongolia has a robust government. It just had elections and a parliament that can debate these sorts of issues.

I think we at the World Bank are very happy to provide the experiences of what has worked and not worked across the world. Of course, at the end of the day it is the decision of the newly elected parliament.

**Mongolia's position as a landlocked country is possibly its greatest challenge for reaching foreign markets. What possibilities does Mongolia have to overcome these trade challenges with two giant neighbors on either side of it.**

Well, two giant neighbors mean you have two big, giant markets for your goods. I understand that about 90 percent of Mongolia's goods go to China, so clearly you're taking advantage of that.

Countries that are landlocked can look at a number of options. One is to export high-value sorts of goods. Mongolia may not be necessarily at that stage, but that is one thing that landlocked countries do.

Another possibility is exporting things like power. If you generate solar power or wind power, that can be exported with transmission lines, which you have to use whether or not the country is landlocked.

**What kind of financial aid can the World Bank provide to countries during times like now?**

We helped Mongolia during its last downturn. In this crisis there are a few things we can do. We can provide extra financing to the government to help it stabilise its budget. But even more importantly, we can also put money into social programmes that can help people at the lowest rungs of society, things like targeted social spending or grants to communities to help them do some small projects. ■

PRICES

# OUTLOOK FOR PROPERTY PRICES

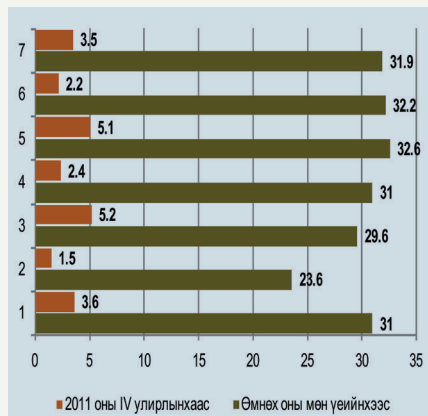


N. Monsor /CEO, UMC Alpha company/

It seems Mongolia's properties sector has handled the 2008-2010 crisis quite successfully. Until 2008, property prices had constant growth of up to 20 percent. However, the financial crisis had a toll on the construction sector, which led to total economic crisis that resulted in the collapse of the properties market. At that time housing prices fell a bit, but by mid-2010 they once again started to rise. As of September 2012, statistics reveal that price increases reached their peak.

According to the Quarterly Property Price Index from the National Statistics Office, apartment prices in Ulaanbaatar's six districts increased by 31 percent, compared with the same period last year and 3.6 percent compared with April 2011.

Chart 1. Price Indexes for residential houses



Source: National Statistical Office of Mongolia

Both newly commissioned and old apartments have experienced average price increases of up to 38 percent compared with last year.

However, there is a big price gap between new and old apartments. Currently, an older three-room apartment of about 75 square meters costs around MNT 105 million, while a new one with the same specifications costs some MNT 135 million. That variance of MNT 30 million is expected to continue to grow in coming years.

## New apartment

Price comparisons of new apartments to older apartments commissioned around the same time last year.

Chart 2. Meter square, price in thousand/s of MNT

District	Luxury	Average	Austere
Khan-Uul	2,000	1,650	1,300
	3,200	2,200	1,500
Chingeltei	2,200	1,500	1,200
	2,600	1,900	1,600
Bayanzurkh	1,850	1,400	1,100
	2,200	1,700	1,450
Bayangol	1,400	1,300	1,250
	1,700	1,600	1,450
Songino	1,400	1,200	1,350
khairkhan	1,800	1,200	1,000
Sukhbaatar	2,300	1,350	1,100
	2,800	1,700	1,400

Source: UMC Alpha

According to the chart, a square meter in a new apartment, depending on its

grading, fluctuates between MNT 1.4 to MNT 3.4 million. This is an increase of up to 30 percent in prices compared with prices from the same period last year.

Grading is a key determinant for price fluctuations among new apartments. Factors for grading include:

- Location
- Surroundings and landscaping
- Air pollution
- Quality of construction
- Prestige of the development company
- Security

## Old apartments

The following is data collected from daily advertisements in local newspapers for old apartments

Chart 3. Number of rooms, price in millions of MNT

District	1 room	2 rooms	3 rooms
Bayangol	56.8	77.9	102.0
Songinokhairkhan	46.7	59.5	74.9
Bayanzurkh	50.5	74.4	102.4
Khan-Uul	60.0	92.8	92.3
Chingeltei	55.3	94.3	120.0
Sukhbaatar	61.0	87.0	103.7
Average	55.1	81.0	99.2

Source: Zar medee, Shuurkhai zar

Most of the old apartments for sale are from before 1970. Again, compared with last year, prices have increased on average by 33 percent in the six ▶▶

districts of Ulaanbaatar. Apartments commissioned from 1970 to 2001 have experienced price increases of 31 percent, while the prices of apartments commissioned after 2001 have risen by 25 percent. Three main contributing are:

- The lack construction sites in the central area has led to the demolition of some apartments built before 1970. Doing so allows for new constructions in these areas.
- Construction quality and standards are poor in general.
- Insufficient infrastructure for new construction projects and over centralisation.

Although these factors contribute to the price hikes, there are many factors that determine value.

First, property prices are set in relation to construction costs. Secondly, a base is established depending on the purchasing power of citizens. Third is a comparison to prices in other countries.

### Price and expenses Chart 4



Source: UMC Alpha

Construction costs and value structure follow these trends in every country around the world and can change along with variances from these factors.

Chart 5. Price structure

	USA	Mongolia
Location	20.3%	27.1%
Construction, building	58.9%	52.5%
Finance expenses	1.7%	2.1%

Operation expenses	5.4%	5.0%
Marketing expenses	4.8%	2.1%
Profit	8.9%	11.2%

Source: NAHB 2009, UMC AlphaAlpha

Chart 5 shows that around 60 percent of total expenses from a development project are from construction and material costs.

Mongolia imports nearly all of its construction materials. Construction material prices follow currency exchange rates, customs taxes, and fuel and transportation expenses. As for operational costs, wage increase, rising inflation and interest rates play a major role for increases. The prices of construction materials are vulnerable to any changes in the market. Regulations have caused prices to skyrocket and are not expected to fall in the near future.

### Chart 6. Prices and profits

Property prices of up to five times the average income of an individual are considered within the bounds of what people can afford. This chart is an index of countries.

Qualifier in price	Ratio of Price to Income	Country	City
Too expensive	35	China	Beijing
	20	Russia	Moscow
	18	Singapore	-
Expensive	14	USA	New-York
	12	Монгол*	Ulaanbaatar
Affordable	7	Italy	Rome
	6	Australia	Sydney
Cheap	3	USA	All

\*the average monthly salary is counted as MNT 341,000  
Source: Economist.com

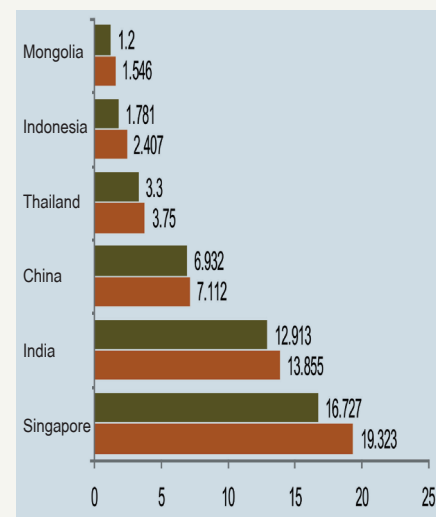
If the average monthly wage was MNT 486,000 and an austere two-bedroom apartment costed MNT 70 million, that would still be 12 times the average income. However, that ratio is

determined based on the lowest estimation of income for a family. The fact that most people are paid their wages in cash makes it difficult to determine income estimates, however.

Positive steps forward made within the Mongolian economy, especially for its mining industry, have effected salary increases to Mongolians of up to 10 times, experts report. And so too property prices will continue to rise, as shown on Chart 6.

### Chart 7. Price comparisons

Chart 7 shows property prices in Mongolia are cheaper than other Asian countries.



Source: Global Property Guide, UMC Alpha

Further rises in price could be triggered by greater demand within real estate.

One of the main hindrances to property demand is access to mortgages.

The current banking system is not capable of dealing with such a situation. Currently 34,000 lenders have registered mortgage loans worth a total of MNT 767 billion, comprising 10 percent of loans within the banking system.

Further growth will depend on the government's 100,000 Homes housing project and the financing provided. Long-term policy to support such projects will enable price stability. ■

OYU TOLGOI

# THE ERA OF DEVELOPMENT

BY B. BAYARTOGTOKH

There is very little time before Oyu Tolgoi begins its initial production.

“Mongolia’s mining industry will keep its leading role in the nation’s economy for the next 30 years because there is no other sector that can compete with the mining industry,” said Mongolia’s first President Punsalmaa Ochirbat during the Discover Mongolia 2012 international mining investment forum.

“For that reason, whether you accept it or not, government faces the reality that in order to develop the economy, improve citizens’ living standards, and balance foreign trade, it will have to rely on the mining sector. Thus, there is no other way or exit than the mining industry”.

This opportunity is awaiting us. The health and strength of Mongolia’s economy is becoming dependent on investments of a single company. The only hope to expand Mongolia’s economy is the Oyu Tolgoi project, thinks society.

Construction projects and tax income are derived chiefly from one company that has enabled

the realisation of the great accomplishment Mongolians have dreamt of by changing the way the world looks at Mongolia. Economists have praised the success of Mongolia’s economic development. Maintaining its current success is a task for us to fulfil ourselves.

During this year’s Discover Mongolia forum, international investors were presented with the contributions of the Oyu Tolgoi project to Mongolia’s economy. The profits from the project are to benefit Mongolian first. Oyu Tolgoi paid USD 96 million in 2010, USD 375 million in 2011, and USD 171 million in the first half of 2012 in taxes. The company invested about USD 1.3 billion in the first six months of 2012, providing USD 6 million every day.

In addition, it employs over 2,600 Mongolian workers for a total of USD 4.5 million in salaries. Including its suppliers, Oyu Tolgoi has employed 10,000 Mongolian workers.

At least 10 different sectors will benefit from the Oyu Tolgoi project; including activity in the manufacturing sector, a greater income for the state budget, growth in gross domestic product (GDP), the introduction of innovative technologies, and the creation of new jobs and a skilled work force. In addition to these, energy production and rural infrastructure will develop as well. Commodities



and services in the domestic market, too, will rise. In its first ten years of operation Oyu Tolgoi will produce 544,000 tonnes of copper and 650,000 ounces of gold.

According to experts, the Oyu Tolgoi mine has some of the best quality gold and copper in the world. The project has enabled a whole new chapter in the history of Mongolia. Nine years of discussion, criticism and negotiations have now become a part of the past. Then again, Mongolia is still striving to develop and join the ranks of the so-called ►



▶ “Asian tigers”—itself called the “wolf economy” of Asia.

The driving force of all this is Oyu Tolgoi, soon to be the world’s third biggest copper mine.

The mine, which is to be commissioned next year, has invested about MNT 8 trillion to the economy of Mongolia. By 2020, total taxes and dividends paid by Oyu Tolgoi will comprise 30 percent of Mongolia’s entire state income. For that reason, foreign experts have noted that the current annual economic growth of 17 percent could reach as high as 35 percent.

Although the euro-zone crisis and China’s economic fall may be signs for alarm to some, Mongolia still has reason to remain faithful in the promise its minerals bring.

“Long-term presumptions of copper prices look positive”, said Andrew Harding, director of the copper department at Rio Tinto.

In recent years Mongolia’s economy has grown at a rapid pace, with the number of both foreign and domestic investors growing as well.

Oyu Tolgoi’s open-pit mine will exploit 100,000 tonnes of ore each day. Its

underground mine is set to begin operations in 2017. The company has started developing projects aiming to increase its capacity for exploitation capacity to up to 160,000 tonnes of ore daily.

The Oyu Tolgoi copper, gold, silver and molybdenum mine will soon enter Mongolia’s economic cycle as the engine of Mongolia’s economy and the compass for great investment.

The first stage of the project’s, production is ready to unveil next year. Mongolia’s strategy for development by utilising its mineral resources has already started. ■



# NEWSWIRE HIGHLIGHTS

NewsWire is a weekly news aggregate sponsored by the Business Council of Mongolia. Each week NewsWire delivers breaking and significant news from local and international news sources for a Mongolian and foreign audience alike. The following are news highlights from the month of September:

## BUSINESS

### ERDENES-TT BEGINS EXPLORATION AT WEST TSANKHI

Erdenes Tavan Tolgoi JSC has begun exploration at West Tsankhi in the Tavan Tolgoi coal mining site.

This area has until now been reserved for the development of foreign investors, but the process has been delayed by the inability to select who would participate in such a consortium. A second mine would mean new opportunities for government revenue and job creation. The mine reportedly holds 1.2 billion tonnes of coal, with 65 percent comprising high-quality coking coal.

“To start mining at West Tsankhi does not mean to cancel a tender for the selection of strategic investors,” said the company in a statement.

The company noted that negotiations would continue with foreign investors. However, to increase the value of the company, it is vital that it meet the requirements of the planned initial public offering (IPO) for Erdenes-TT to run operations at the West Tsankhi.

The company plans to export between three million and four million tonnes of coking coal from East Tsankhi this year, and expects exports to steadily rise to up to 50 million tonnes by 2017.

Source: *Undesnii Shuudan, News.mn*

### CHALCO ABANDONS WINSWAY 30 PERCENT STAKE PURCHASE

Aluminum Corp. of China Ltd. (Chalco) dropped plans to buy a 30 percent stake in Mongolian coal exporter Winsway Coking Coal Holding Ltd. for HKD 2.39 billion (USD 308 million), its second failed acquisition this month.

The agreement was terminated because Chalco won't be able to get approval from governments and regulators by a 30 September deadline, Chalco said, due to the foreign investment law Mongolia passed last May. The company said on September 3 it terminated a CAD 925 million (USD 941 million) offer for a stake in SouthGobi Resources Ltd.

Chalco, China's largest aluminum producer, proposed in April to become Winsway's biggest shareholder by buying about USD 1.1 billion shares at HKD 2.12 apiece from the company's chairman. Winsway said in a separate statement that the share sale was abandoned on September 28 because the deal would not get government approval on time.

Chalco was seeking coal and iron-ore assets after profit from its mining unit fell 67 percent last year on higher raw material and power costs. Metallurgical-coal prices have tumbled this year as manufacturing in China contracted at the fastest pace since March 2009 and mines in Australia resumed output after flooding halted operations last

year.

BHP Billiton Ltd., the world's biggest coking coal exporter, settled the fourth-quarter benchmark contract for the fuel at USD 170 a metric tonne, 40 percent less than a year earlier.

Source: *BusinessWeek*

## ECONOMY

### MONGOL BANK AIMS FOR SINGLE-DIGIT INFLATION IN 2013

The Bank of Mongolia's newly appointed president, N. Zoljargal, has proposed a new scheme to put a lid on rising inflation. Mongolia experienced 14.9 percent inflation in the first eight months of 2012.

The Central Bank policy aims to maintain low and stable inflation by cooperating with the government to limit the supply-side causes of inflation. As a result, inflation should not exceed more than 8 percent by the end of 2013, said Zoljargal. He added that would be the first step to maintaining 5 to 7 percent inflation in the two following years.

Zoljargal said the Central Bank would continue its policy of maintaining a flexible exchange rate that follows fundamental macro-economic conditions. It will also try to make the monetary-policy making process more transparent to provide greater accountability. The central bank will aim to allow commercial banks to bear greater risk by providing added

capital and improve its risk audits by introducing national standards for inspection methods.

The central bank plans to introduce regulation reforms regarding collateral to ease interest rates and establish government-backed insurance for deposits.

Zoljargal said the Bank and Parliament have agreed to rectify ineffective social welfare policies and create a new monetary policy.

Source: *Udriin Sonin*

## POLITICS

### JUSTICE COALITION SPLITS FOR LOCAL ELECTIONS

The Mongolian National Democratic Party (MNDP) and Mongolian People's Revolutionary Party (MPP) will end their partnership for the local election this month.

It was well known that the Justice Coalition was a volatile partnership that may not last, but now those thoughts may have been confirmed with the announcement that the two parties will go their separate ways for local elections set to take place nationwide this month.

Although the parties will not campaign together, they said they would continue to cooperate in the Democratic Party (DP)-led grand coalition ruling Parliament.

Source: *Unuudur* ■

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