

For green development

MONGOLIAN ECONOMY

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ECONOMY
MORTGAGE MOTIVATION

ECONOMY
90 YEARS OF ACHIEVEMENTS AND
CHALLENGES

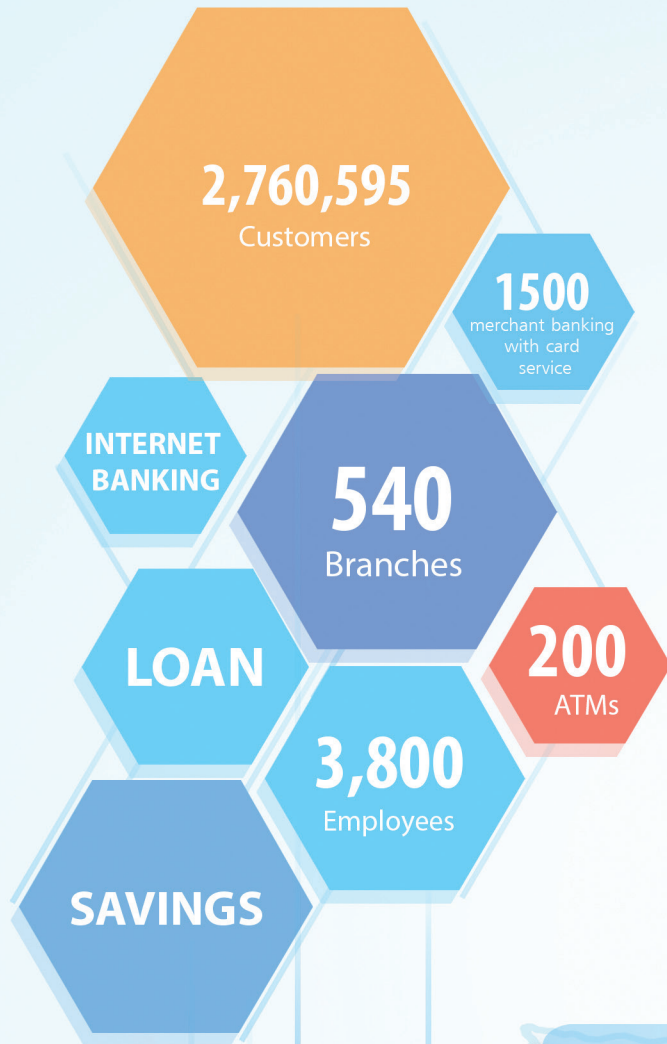
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MONGOLIAN ECONOMY

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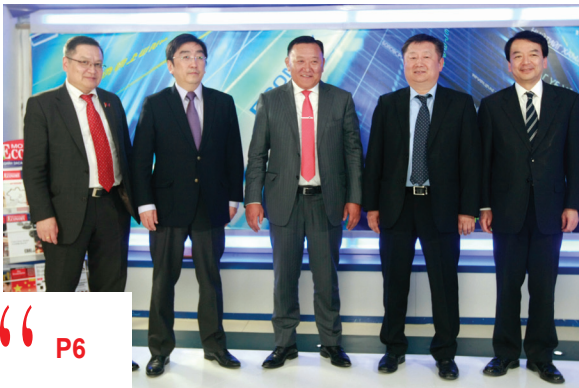


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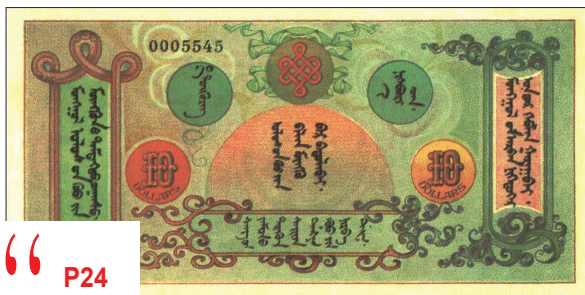
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Banknotes printed between 1921 and 1924

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EDITOR'S NOTE



Mongolian Economy is delighted to share in the celebration of the 90th anniversary of the development of Mongolia's banking sector. The banking sector leads among all other sectors in its rapid development and contributions to the economy in the past 20 years since the country's transition to the market economy.

Most Mongolian citizens were not able to utilise banks and benefit from their services until the beginning of the new millennium. Today, however, all citizens have access to broad-based banking

services. Now people can easily manage their financial affairs from anywhere in the world with the use of international credit cards and online banking.

Currently, there are 13 commercial banks in Mongolia. It has become the norm for both urban and rural residents to have multiple debit cards and savings books on hand. Today, there are approximately 1,500 bank branches in Mongolia, of which more than 1,000 are located outside of the capital. The sum total value of commercial banks' assets is MNT 20 trillion, or 119 percent of GDP last year. Bringing people access to banks at the most remote corners of Mongolia alone is a tremendous accomplishment.

This month's issue features an interview with the chief executives of the largest commercial banks of Mongolia. President of Mongolian Bankers Association M. Bold said: "In some large countries, their banks have not managed to completely provide their services to the people. They are dreaming of achieving the success we have made."

Bold's words reveal how fast Mongolia's banking sector is developing.

Also in this issue are interesting articles about what benefits mortgages have brought to Mongolia, the green policies of banks and sustainable finance.

Mongolia's banking sector has reached a relatively high stage of development, but is still immature when compared with the international stage. There is still a lot to be done for the banking sector, including the establishment of a legal setting for fundraising in line with the country's economic growth. The hope is the development of banking accelerates as competition grows.

Deputy Editor I. Otgonjargal

GREETING



Greetings from the Governor of the Bank of Mongolia. On behalf of the Bank of Mongolia, I would like to pay tribute to the 90th anniversary of the banking sector in Mongolia and to those who worked productively and have kept up their efforts for the economy. I also thank those who have been working for the development of the banking and financial sector.

History tells us that coins were traded as money for the commodities trade during the ancient Hunnu Dynasty, Mongol Empire and Great Yuan Dynasty – before the use of paper money. The first-ever paper Mongolian money was issued by the Department of Monetary Affairs in Mongolia in 1260. The money was handed over to the generations that followed for centuries before the Mongolian Trade and Manufacturing Bank (what is currently the Bank of Mongolia) was established for the first time on June 2, 1924. This was the fundamental start of the development of the modern banking systems in Mongolia.

Currently, there are 13 commercial banks operating in Mongolia and more than 1,400 branches. Today, the sum total of active assets is MNT 20.7 trillion. The number of deposit holders is 2.5 million and the number of borrowers is 694,000.

So far, the Bank of Mongolia has played the central role in the implementation of the state monetary policy, provision of financial and macroeconomic stability, and creation of the basic conditions for long-term economic growth.

With this opportunity, I am delighted to emphasise that the recent monetary policy reform employed by the central bank has resulted in the strengthening of the financial sector, providing macro economic stability, preventing possible risks, protecting the real income of citizens, and increasing the savings of the middle class.

Congratulations, again, on the 90th anniversary of the development of the modern banking sector in Mongolia and may there be only the best and brightest future, full of prosperity.

GOVERNOR AT THE BANK OF MONGOLIA
NAIDANSURENGIIN ZOLJARGAL



Ulaanbaatar city, June 02, 2014

BANKS' 90TH ANNIVERSARY

THE LONG AND SHORT OF THE CENTRAL BANK'S HISTORY

BY B. BAYARTOGTOKH

The banking sector makes up 90 percent of Mongolia's financial system. Active assets of the banking sector totalled MNT 19.3 trillion last year, exceeding the national GDP. There were 13 banks and 1,409 branches and units across the country and the number of deposit holders totalled 2.5 million, while the number of borrowers reached more than 690,000 in 2013.

There are more than 60,000 organisations and companies in Mongolia, of which a mere 13 financial organisation hold special banking permission. Out of the 13 banks, six of these banks have foreign investors and make up 43 percent of the banking system.

Between 1994 and 1998, the banking sector was quite uncertain. Non-performing loans increased to 17 percent of total loans and one fifth of all loans were considered risky. But from 2000 onwards, the number of non-performing loans has reduced significantly.

In the past 22 years, there have been 31 commercial banks in total in Mongolia, of which 15 went bankrupt and three were incorporated. At present, there are 13 banks operating. Since 2005, permission to start a new bank has not been given. In the meantime, the sector has developed along with the growth of the economy. The funds required to launch a bank now stands at MNT 16 billion compared with what was initially MNT 50 million.



In 1990, the banking sector transitioned to a two-stage banking system. Since then, the sector's achievements and mistakes have become more transparent.

Mongolian Trade and Manufacturing Bank

After the People's Revolution took place in 1921, the government of that time proposed several initiatives aimed at settling matters regarding the politics, economics, and finances of the country. The purpose was to steer away dominant foreign traders and money lenders from the country. As a part of the initiatives, the Mongolian Trade and Manufacturing

Bank, the first-ever bank of Mongolia, was established on June 2, 1924.

At a time when the bank launched its operation, its assets totalled 260,000 yanchaan (the Chinese currency that was used in Mongolia) and had 22 employees. There were some 18 Soviet experts among the 22 employees and only four Mongolian employees.

The first branch of the Mongolian Trade and Manufacturing Bank was established in Altanbulag, a town at a Mongolian-Russian border point. The head of the branch was a Russian man named F.S. Vlasov, along with his Russian accountant, I. V. Markevich.

An alternative name for the Mongolian ►

▶ Trade and Manufacturing Bank was the Mongol Bank (the Bank of Mongolia). At that time, no names were used, but the Itater was more common. On February 22, 1925, the Government of the People's Republic of Mongolia passed a resolution for monetary reform, coining Mongolia's banknote as the "tugrug".

New Direction

The new direction taken for the banking sector dates back to the beginning of 1980. The single-stage monopoly banking system was layered with bureaucracy and caused a number of problems for organisations and individuals. At this time, state intervention in banking activities was very high.

It was common for high-profile politicians to direct banking decisions. The bank was commonly used to fund anything the politicians wanted, without considering asset guarantees. Sometimes no interest was put on loans at all, and those who were not able to repay loans could easily have their debt cancelled.

During the transition from a socialist economy to a market economy, the single-stage banking system could not continue any longer. The banking sector then transitioned to the two-stage banking system, from the single-stage system, after 1990.

Before the transition, some proposals were made over establishing agriculture, industry and trade, the Mongolian Red Cross and manufacturing banks. These proposals formed the beginning of the commercial bank industry in Mongolia. As a result, the Trade and Development Bank and the Investment and Technological Innovation Bank were established in 1991.

Mongolia's banking sector has grown with time. As the economy grows, so too will the country's banks. Managing the sector sustainably with tighter policies will help the development of the financial industry and its banks. ■

Historic Chronology (the Bank of Mongolia)

- 1227 – Mongolia issued the ever-first paper money in the world
- 1924 – Mongolian Trade and Manufacturing Bank established
- 1925 – Local currency was termed the tugrug
- 1926 – White silver coin was issued to the market
- 1931 – Long-term loan system was issued
- 1940 – The state budget transferred to provinces and soums through the Bank of Mongolia
- 1946 – Deposit loans issued based on asset guarantees
- 1954 – The Bank of Mongolia controlled by the Government of Mongolia
- 1963 – Mongolia transitioned to a multi-lateral settlement system
- 1991 – Two-stage banking system introduced
- 1992 – Clearing settlement launched
- 1993 – The Bank of Mongolia approved a general direction for control and monitoring
- 1994 – A new accounting system introduced
- 1996 – Commercial bank crisis resulting in bankruptcy of Ardbank and Daatgal Bank
- 2001 – A number of non-banking financial institutes established increasing competition in the banking and finance sector
- 2009 – Financial crisis
- 2011 – Reapproval of payment card regulations

MORTGAGE

MORTGAGE MOTIVATION

BY B. BAYAR

Relocating residents of Ulaanbaatar's ger districts is a major aim of the government-backed mortgage programme. Launched a year ago, the programme provides middle-class citizens the opportunity for home ownership.

Commercial banks were given MNT 1 trillion to issue mortgages and refinance MNT 520.5 billion in existing loans. Banks have since utilised 51.3 percent of the funds from the central bank to mortgage new homes. Assisting in the growth of home ownership is important to

push Mongolians towards saving habits rather than consumption. The programme is expected to also have long-term positive impacts on inflation reduction and economic growth.

The Bank of Mongolia has promised to continue the current mortgage system in a sustainable way. Meanwhile, the government will bolster the stock market and the social insurance fund. The programme is giving Mongolian citizens access to mortgages at half the average market rate, which has boosted apartment sales.

The motivation to save comes from the need for the initial 30 percent down ▶▶



In the past two years, more than 20,000 people have been involved in the mortgage loan programme, initiated by the Bank of Mongolia last year

- payment to attain a mortgage. Mortgage are repaid over 20 years, which will provide banks income from interest over those two decades and sustain the banking sector. That covers the needs of the Bank of Mongolia as well.

Mortgages were first introduced in Mongolia by the Asian Development Bank in 2003. Mongolia's commercial banks followed suit by issuing their own mortgages afterwards.

The 8 percent mortgage programme was launched on June 17 last year. The popularity of the programme has made commercial banks busy ever since.

Construction activities have been booming since last year as a result of government programmes.

The Bank of Mongolia has supported the domestic production of building materials resulting in the 60 percent more supply last year compared with 2012. Last year's Price Stabilisation Programme included an initiative to finance the expansion and establishment of companies' production capabilities. The Price Stabilisation Programme and the mortgages together have allowed market demand and supply to reach equilibrium.

"Beyond the construction sector growth, there has been state policy. It was affected by the increase in capital flow by the government and the Bank of Mongolia, which was to contribute to the construction sector," said Ch. Khashchuluun, an economist at the School of Economic Study at the National University of Mongolia.

Parliament amended the mortgage programme on May 10 to push more home ownership outside of Ulaanbaatar. The idea is to have these homes connected to the central water supply and sewerage networks. The interest rate on mortgages for homes in the countryside is one point lower, at 7 percent a year, providing further incentive.

The mortgage programme has not lost its momentum since launching last year. What will be essential to make such a programme sustainable, however, is the creation of a secondary market through bonds, which will be guaranteed by property. This would prevent any wide swings in the mortgage market. Mongolian Mortgage Corporation has sold MNT 200 billion bond last year on the Mongolian Stock Exchange. This was the first time bonds would be used to finance the costs for mortgages.

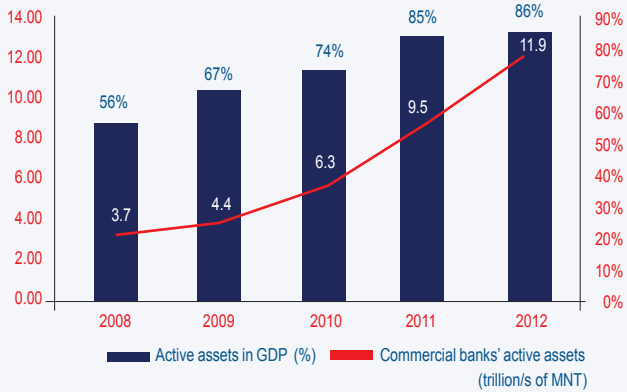
Now, confidence in the mortgage loan programme is stronger than ever because the mortgages are no longer exclusively funded by the central bank. For the moment securities are the only source of capital, but in the future there will be contributions from insurance companies and pension accounts.

Helping people find homes will improve life in Mongolia, but the indirect benefit will be the growth of savings and activity on the stock market. ■

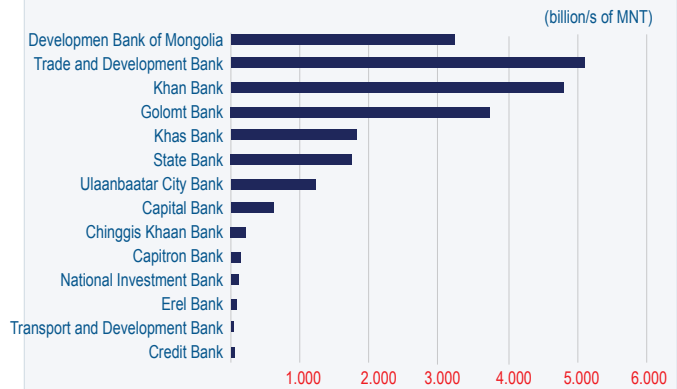
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NEWS IN FIGURES

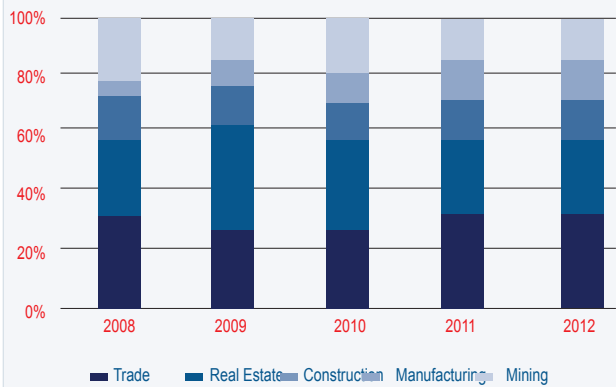
Total active assets of commercial banks by percent of GDP



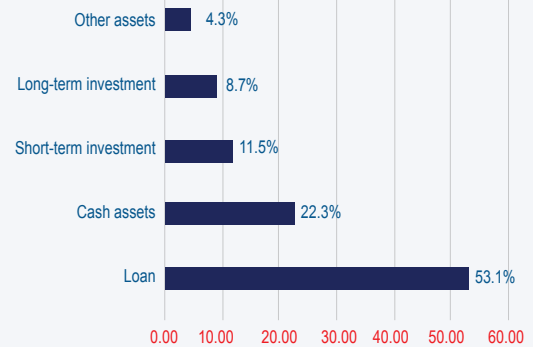
The banks' total assets as of the end of 2013



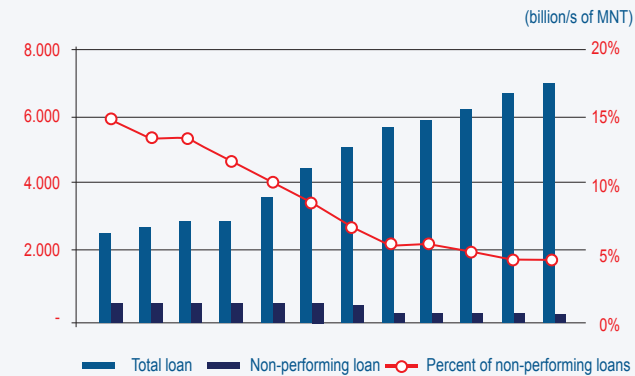
Distribution of loans by sector



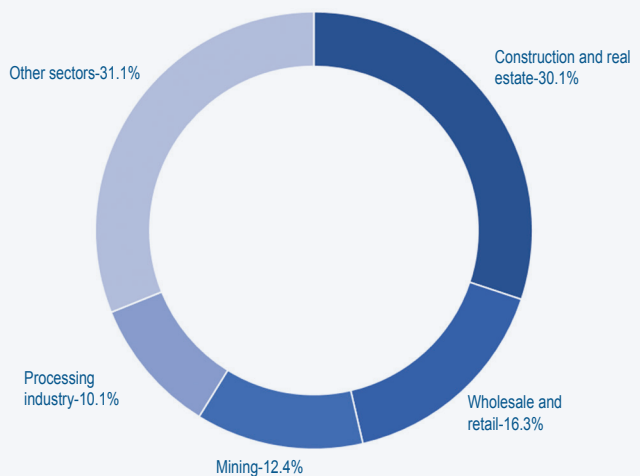
Structure of the banks' active assets



Total loans and quality

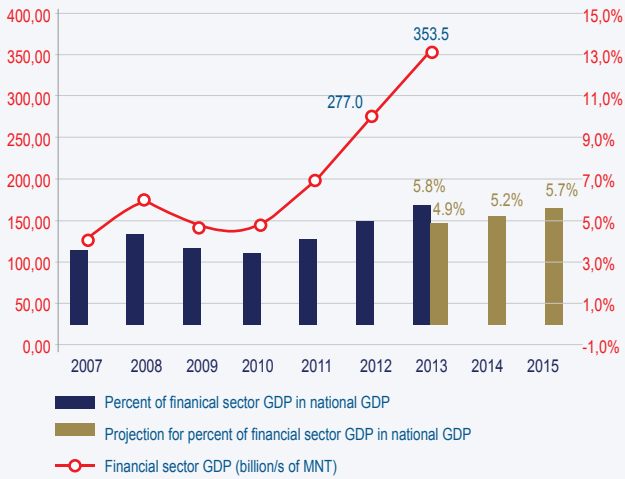


Credit balance, by sectors



Source: the Bank of Mongolia

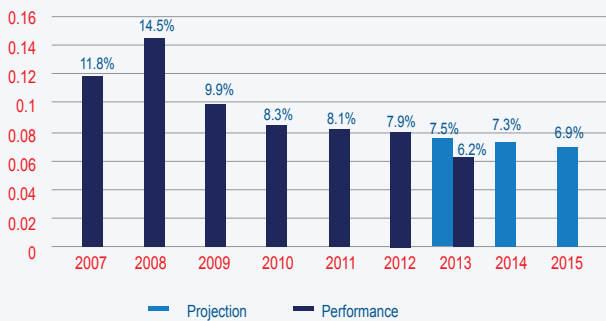
Financial sector GDP



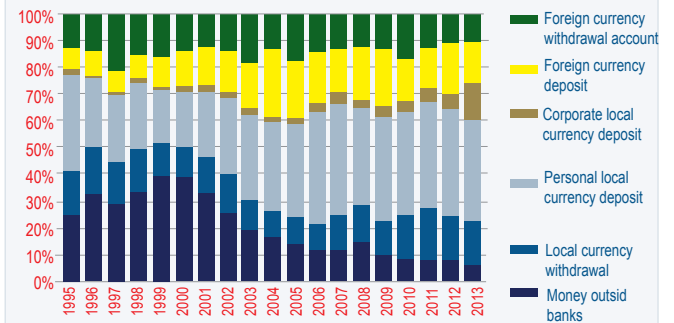
Growth of GDP and financial sector GDP



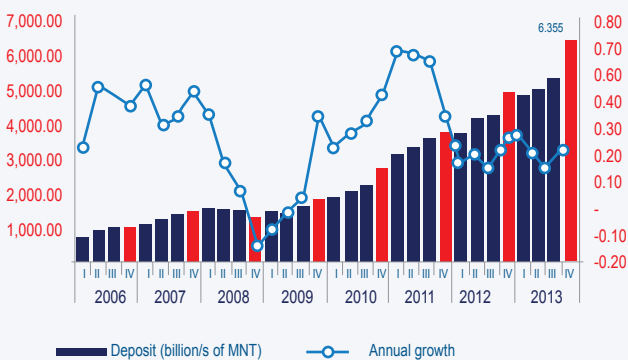
Non-bank money in M2



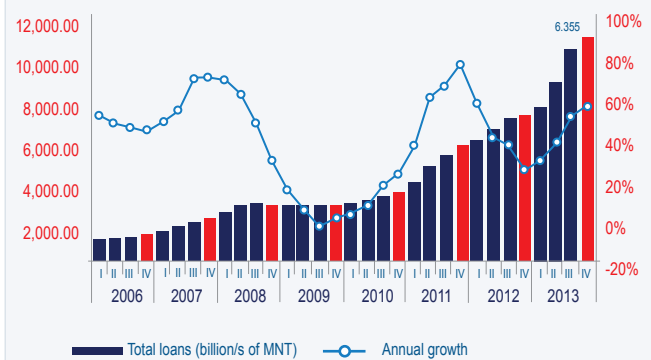
Structure of money supply (M2)



Total deposits, growth and structure



Credit balance and growth



INTERVIEW

90 YEARS

OF ACHIEVEMENTS AND CHALLENGES

BY S. BATZAYA

Mongolian Economy invited the president of the Mongolian Bankers Association, M. Bold, and the chief executives of State Bank, Khan Bank, Golomt Bank, and Trade and Development Bank, D. Batsaikhan Norohiko Kato, G. Ganbold, and D. Khurelbaatar, respectively.



M. Bold, President of Mongolian Bankers Association

“ The currency is one of many products in the market, just like bread. If there is a lack of bread in the market, its price goes up. The only solution is to get out of this situation. ”



D. Khurelbaatar, deputy chief executive at Trade and Development Bank

“ The Monetary history of Mongolia is measured by four events, in 1227, 1924, 1954 and 1991. In 1227, the first paper money was issued. ”



D. Batsaikhan, chief executive at the State Bank

“ It is necessary to reduce inflation and introduce innovations for registration. When a loan is issued in a foreign country there is no need for an asset guarantee. Instead, the account is leveraged. No money is circulated outside the account for foreign banks. ”



G. Ganbold, chief executive at Golomt Bank

“ When the country’s economy expands, it is believed that banking and other sectors will be developed. ”



Norohiko Kato, chief executive at Khan Bank

“ We have been so busy focusing on our own situations in the past, but now, as my colleagues here have just mentioned, the banks are talking about green development and sustainable financing, and are starting to take some collaborative approaches. ”

► **Before we start the interview, we would like to congratulate you on the 90th anniversary of development in Mongolia's banking sector. In observation of this milestone, bank workers have planted trees at the Ulaanbaatar national park to establish new green space, which leads into the first question. What is the role of the banking sector in green development?**

M. Bold: Yes, bank workers created the green space at the Ulaanbaatar national park on May 16 this year. This initiative has revealed how the banking sector is not only for profit. We consider this a symbol of how it can provide the public with more services while creating environmentally friendly areas and protecting the environment.

Last year, Mongolia's banks launched an initiative called "stable funding." Under this initiative, the main requirements for issuing loans would change beginning next year, based on whether a company's activities are environmentally friendly or not.

D. Khurelbaatar: Congratulations for the anniversary, bankers and bank staff! Green development is not only an issue for Mongolia. Instead, it is an issue that is attracting global attention. The Mongolian Bankers Association (MBA) has initiated work with the Ulaanbaatar City Council on this issue and will make a memorandum of understanding.

G. Ganbold: Banks' policies for loans and other liabilities, protection of the environment, and environmentally friendly businesses will be priorities. The same policy was in effect among banks before, but now it's deeper and more support can be given to environmental rehabilitation activities while mining is booming in Mongolia.

We will focus on creating a new green environment. For example, Golomt Bank is planning to fund some projects aimed at contributing to the development of greenhouse farming. The bank's policy particularly focuses on funding winter greenhouse projects with advanced technology that would be environmentally friendly.

We need to work with the relevant governmental organisations. It is

important for organisations to budget for the costs of environmental protection and rehabilitation activities in their financial plans when they start planning.

D. Batsaikhan: People think about money when they see banks. A bank should be a business that directs the flow of money while implementing corporate social responsibility. So, it is important to play a certain role in society in terms of CSR.

The banks' green areas is an example of a number of projects that were jointly done by Mongolia's banks for the sake of society. The banks are working together to protect the environment. Also, banks have their own CSR tasks, respectively. For example, State Bank has just launched a project to support environmental protection and green development.

Norihiko Kato: Over the past 90 years, the Mongolian banking industry has accomplished tremendous growth and robust change, especially in the last 20 years or so. During my limited experience here – I have been in Mongolia for three years now – I really have felt that the banking industry has changed very rapidly with the introduction of new technologies and attempts to achieve global standards, transparency and other advancements.

We have been so busy focusing on our own situations in the past, but now, as my colleagues here have just mentioned, the banks are talking about green development and sustainable financing, and are starting to take some collaborative approaches. Mongolia's economy needs a very strong financial industry. So we need to go forward together.

What has the development of the banking sector been like? At what stage of development does it stand at today?

Bold: There are more than 10,000 people within the banking sector of Mongolia today. There are 1.2 million deposit holders at the banks and 690,000 citizens who have received loans from banks, in total. It appears that every family received loans from banks. Almost everybody has an account with

a bank. There are more than 1,500 bank branches in Mongolia, of which more than 1,000 branches are based in the countryside. More than MNT 20 trillion is circulated within the banks, which is equivalent to 119 percent of GDP.

There are some indicators that Mongolia's banking sector is approaching the level of developing countries'. We are aiming to increase these numbers. Mongolia's banking sector could be thought to have made a substantial step forward.

Khurelbaatar: The Monetary history of Mongolia is measured by four events, in 1227, 1924, 1954 and 1991. In 1227, the first paper money was issued.

In June 2, 1924, the Mongolian-Soviet Union's joint trade and manufacturing bank was established with some 22 employees. In 1954, the Soviet Union believed Mongolia's banking system could have its own employees and allowed for independence. After this, the Bank of Mongolia was established and has operated ever since. In 1991, a new Banking Law was approved which created a new era for development in this sector. Ever since then, state-owned and commercial banks have been established and developed.

Batsaikhan: I would like to talk about the products and services of banks. In the past 20 years, banks worked hard to introduce products and services that meet world standards. They worked well. Now we can send and receive money to and from every country in the world.

New Internet-based products and services are being developed. Last year, the MBA initiated and hosted the Asian Bankers Association's meeting in Mongolia. The representatives of the event said that Mongolia's banking system had reached the world standard. This was an international assessment, made by the representatives of foreign banks.

Ganbold: The 90-year history was a period of both achievements and challenges. Banks have created thousands of new jobs and contributed to the economy by funding a number of past and ongoing projects. Infrastructure projects are a result of these projects ►

► and citizens have been employed for these projects.

Money, products and services together create wealth. The banks are most actively engaged in wealth creation. It means that banks are wealth creators, I think.

The banking sector comprises 95 percent of the finance sector of Mongolia. This is an achievement of its development over other sectors. Also the banks are now providing financial services that meet international standards. Over the most recent four years, some representative offices of large foreign banks have been established in Mongolia, which has created competition among commercial banks in Mongolia. It has created the opportunity to fund the expansion of projects.

Kato: I think the main factor of this development is competition among the banks. When Khan Bank was privatized, Agricultural Bank of Mongolia had a total of 260 branches but only two branches in Ulaanbaatar. Khan Bank, under our previous management, worked very hard to expand its network of branches, both in Ulaanbaatar and the countryside.

Now we have 530 branches throughout the country. Meanwhile, our banks made the same effort and here in UB. Now customers can choose whichever bank. Even in the countryside there is not just one bank but two or three banks in a single county.

Since shifting to the free-market economy, I think that policy makers and regulators have taken a wise approach by allowing the banks to compete. As a result, this market has become very competitive and each bank quite freely tries to do its best in its own way. With this competition, the banks have developed swiftly and now provide global-standard products and services to their customers.

You applaud the fact that the banking sector comprises 95 percent of Mongolia's financial sector, but many experts say alternative options are needed to expand the economy. How do you respond to this argument?

Bold: Banks comprise 95 percent of the financial sector because of their good

performance, I would say. The other side from the banking sector is a deficiency within the capital market. Some three things are needed to develop the capital market: an improved legal setting; a fair judiciary system; and financial resources. Capital can be grown from a combination of these three.

There is a lot to be done for the banking sector. For example, the banks need to develop the capacity to issue large loans. On the other hand, banks still lack the capacity to fund mega projects in Mongolia. So, the banks should increase their capacities to attract more investment.

Many in business criticise a preference for lending to mining operations. For example, people who run businesses in livestock or farming complain they have not been able to receive funding from Chinggis bond proceeds. How do you respond to this criticism?

Khurelbaatar: Every bank has its own character. Also there are some common services provided by banks. Trade and Development Bank mainly focuses on providing services for large companies. Mongolia's political and economic settings have a substantial impact on raising funds.

Our bank contributes to the economy, ranging from attracting investment to issuing bonds. But assessment over the banks depends on the assessment of the country.

Although banks have attracted investment in the past, credit raters have downgraded Mongolia's sovereign credit rating as well as its banking sector. What have been some of the consequences of this?

Khurelbaatar: The government's 100-day action plan has been approved by the the State Great Khural. The hope is that this plan will be fulfilled. Mr. Bold is one among its working group.

The banks raise funds by issuing bonds in foreign markets. We pay taxes for the interest on those bonds. If the plan included a reduction of interest rates, then the interest rate of our borrowers could also be reduced. The hope is that everything will be fine if the plan is

implemented.

Batsaikhan: I would say several things on the future development of today's banking system. It is said that the sector has reached a relatively high stage of development because it comprises 95 percent of Mongolia's financial market. From the point of international standards, Mongolia's banks are still small. As the economy grows faster, more requirements will be required for the banks for the need to grow their assets.

Also, it is important to have strong legal coordination for further stable development of this sector. The development of this sector is already overtaking the development of its legal setting.

Internet-based solutions have already been developed and are being used by banks while the legal setting that should be regulating these processes is still insufficient. Mongolia is creating difficulties for itself for the issuance of loans.

It is necessary to reduce inflation and introduce innovations for registration. When a loan is issued in a foreign country there is no need for an asset guarantee. Instead, the account is leveraged. No money is circulated outside the account for foreign banks. This is because of clear and accurate registration, so the account is more efficient than real assets.

In Mongolia's case, banks ask companies for real estate guarantees. This is because of the large size of the black economy. This means some transactions are not processed through official bank accounts. According to unofficial data, some 40 percent of Mongolia's economy is involved with the black economy.

Ganbold: I am optimistic that the future of Mongolia's banks will be bright. We know what wealth we do have, and we are learning how to trade our wealth at an international level and make it valuable. When the country's economy expands, it is believed that banking and other sectors will be developed.

Businesspeople say that it is hard to get a loan from the banks. There are two sides: On the one hand, the main ►



Photo by B. Byamba-Ochir

Chief executives of Mongolia's largest banks consider that a legal regulation would be important in the further sustainable development of banking sector of Mongolia

▶ product provided by the banks is loans, which is meant to profit. It means that the banks are interested in issuing loans. On the other hand, the banks have to be responsible for the loans because they use the deposits of companies and individuals to lend. Because this is the case, we cannot issue loans to irresponsible citizens or companies.

The government bond works the same way, giving all the risks to the government because it has to fund companies with the proceeds of the bond and repay it after two or three years. So, Mongolia's manufacturers need to meet the same requirements of the banks.

What should be done to stabilise foreign exchange rate fluctuations? And is it fair that companies are prohibited from selling products in exchange for foreign currencies while banks are able to lend in foreign currencies.

Bold: The weakening of the local currency against the US dollar means, in plain words, that US dollars are absent from Mongolia's market. The currency is one of many products in the market, just

like bread. If there is a lack of bread in the market, its price goes up. The only solution is to get out of this situation.

Mongolians should learn to manufacture products on their own. We need more than talk. We should at least learn to manufacture food products and garments. In this way, we could overcome the challenge of the exchange rate.

Mongolia has a very small reserve of foreign currencies. The national reserve itself is quite small so that the government and the banks mainly aim to attract sources for lending from abroad. This sort of loan arrives via foreign currencies. So, the banks were given the privilege to issue loans in foreign currencies, in accordance with the relevant law.

If other organisations and companies in Mongolia started setting the prices for their products and services with foreign currencies, then Mongolia would not need a local currency.

Batsaikhan: Every business has risk management. It is up to the company

if it wants to obtain a loan in a local or foreign currency. If it wants a loan in the local currency, we cannot force it otherwise. Depending on the purpose of the spending for the loan, the banks have to decide which loan is suitable. The exchange rate does not always increase, sometimes it decreases.

There is a story that businesspeople were profiting from the depreciation of the exchange rate. On the other hand, there is a misunderstanding among the public that the banks earn more profits when the exchange rate increases. The banks also sees losses from this because the banks' financial resources belong to somebody. So, the increase in the exchange rate goes to deposit holders.

In the future, we need to reduce the interest rate on savings. This would benefit the capital market. These factors are interrelated and it would not bring good results if this issue was explained from any one perspective.

Kato: I have nothing much to add. I think we have to be fully aware that most ordinary people's earnings are in ▶

▶ the Mongolian currency and they spend in the tugrug. Those people should be aware that loans in foreign currencies are associated with foreign exchange risks.

As Mr. D. Batsaikhan has just mentioned, it is up to the judgement of a business to generate revenue in foreign currency or to trade actively using foreign currency loans. They can use foreign currency loans at their own financial risk. If you are aware of it, you won't be very surprised about these circumstances.

As for interest rates on loans, the interest rate on banks' timed deposit are still above 15 percent which is higher than the inflation rate. We would like to encourage people to save more as deposit rates are still beating the inflation rate. Then, eventually, it will reduce our interest costs and lead to a reduction in interest. The more we produce domestically, the more inflation falls. The Mongolian tugrug will continue to be weak and buying other countries' products will be more expensive until we achieve this. So let's focus on domestic production and savings.

Some foreign banks are opening representative's offices in Mongolia. They are expected to open branches soon, too. What would these bring to the economy, especially to the banking sector?

Bold: Currently, there are five foreign banks with representative offices in Mongolia. So far, Mongolia's private companies have received USD 2 billion in financing from these offices and some foreign banks without offices in Mongolia.

They have shown the possibility to carry out a study on loans and provide their services via the offices, without establishing branches in Mongolia. This is just the beginning.

There is a great opportunity to continue this in the future. In addition to the representative offices, there are also plenty of opportunities for other foreign banks to invest in Mongolia through the purchase of shares of Mongolia's commercial banks. So, banks consider all these opportunities as more suitable for the current economy and legal setting. ■

DEPOSIT INSURANCE

AVOIDING BANKRUPTCY

The failure of Lehman Brothers Holdings triggered the economic crisis of 2008 and was a big lesson for those left in its wake. The financial sector, particularly bankers, serves as the artery of the economy. To protect this, countries have deposit insurance systems to promote financial stability.

Deposit insurance has been implemented in many countries to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due. The Mongolian Deposit Insurance Corporation (MDIC) started operating in July 2013. The Deposit Insurance Law was passed in January. MDIC's deposit insurance is capped at MNT 20 million (USD 11,065) per bank. That compares with the limit for Korea of roughly USD 45,000 and USD 200,000 for the United States.

For a developing country like Mongolia, it's unrealistic to use advanced economies as a benchmark. But looking at the deposits of Mongolia, 99 percent of total savings is less than 20 million. Internationally, countries are required to have a deposit guarantee scheme for at least 90 percent of the deposited amount. Thus, now 99 percent of Mongolian account holders are technically insured.

The Deposit Insurance fund of MDIC has MNT 115 billion to pay off, making it hard for the bank to save money at this moment. Initially, the fund was fed by the Bank of Mongolia with a major donation of MNT 50 billion, along with the government's MNT 35 billion initial funding.

At the end of last year, MDIC was given MNT 23 billion by the banks; it is supposed to be funded by insurance payments made by the banks. MDIC is not only obligated to sit on the fund, but to raise its value by investing in bonds and through other low-risk investments.

"The funding of MDIC will increase by MNT 30 billion from bankers' payments each year. After five years, we will be able to cover the risks of small- and medium-sized banks. The payment will be cut off if the fund reaches the adequate level within the next 10 years," said, B. Lkhagvasuren, chief executive officer of MDIC.

On average, major banks are calculated to pay about MNT 6 billion annually based on a 0.3 percent settled fee for deposit insurance. But some bankers say that there are a few issues that need to be addressed regarding deposit insurance regulations.

Trade and Development Bank's retail banking director, B. Bayarmaa, said that the fee needs to be settled differently for banks. Common practice worldwide is to set at a lower fee for banks with a good credit rating that have been audited by an international auditor.

"We talked to MDIC about it. And we understand that they are ready for any improvements," Bayarmaa added.

The deposit insurance fee is not considered a burden to banks; bankers think that fees should be scaled differently depending on the circumstances. Government says it must promote "Mongolians with savings" while imposing taxes on the interest earned ▶▶

- ▶ from accounts with more than MNT 100 million, when only MNT 20 million of it is insured.

Low Threshold

There are a number of cases found in international banking where one player knocks off another while putting a knife to its economy. For instance, the 2008–2011 Icelandic financial crisis was a major economic and political event involving the collapse of all three of the country's major privately owned commercial banks. During the crisis in 2008, the government let its banks collapse instead of bailing them out, as they proved too big to save. Its European counterparts saved the day.

In Mongolia, the failure of Anod and Zoos banks were the major cause of negative growth in 2008. By then, the Mongolian government played the hero role to pay off all deposits with tax income, to which all Mongolians contributed. But today if such a thing happened in the banking sector, the MDIC would handle this matter. But not with tax payers' money.

However, MDIC's fund is currently too weak to be the buffer. The biggest risk to the people is the bankruptcy of a big bank.

In 2008, The United States Office of Thrift Supervision (OTS) seized Washington Mutual Bank from Washington Mutual, Inc. and placed it with the Federal Deposit Insurance Corporation (FDIC). OTS took action after the withdrawal of USD 16.7 billion in deposits during a nine-day bank run (amounting to 9 percent of the deposits it had held on June 30, 2008). The FDIC sold the banking subsidiaries (minus unsecured debt and equity claims) to JPMorgan Chase for USD 1.9 billion.

For Mongolia, MDIC has already faced its first challenge. Savings Bank went bankrupt last year, when it was one of the biggest banks in Mongolia. The bank would have required MNT 400 billion in reimbursements, which was eight times more than MDIC's total funds. Government instead opted to absorb the bank into its state-owned commercial bank, State Bank.

MDIC, which is sometimes mistakenly seen as an opponent of insurance companies, can only insure deposits. MDIC might be a new participant in the market, but it is not an opponent. ■



**DEPOSIT
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CORPORATION**

INSURED
DEPOSIT
**PROTECTED
SAVINGS**



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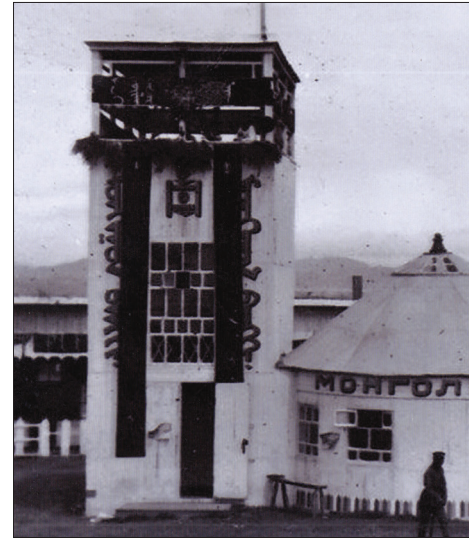


For more detailed information please visit
www.dicom.mn

HISTORIC PHOTOS



Yumjeegin Tsedenbal, head of the Mongolian People's Revolutionary Party (left) and Khuderchuluun, head of General Commission at the Bank of Mongolia, meeting senior bank staff in 1984



Suvdaa, leading counter of General Commission at the Bank of Mongolia



General Commission at the Bank of Mongolia, located here between 1932 and 1966



The Bank of Mongolia 22 staff members, including four Mongolian staff in 1924



The Bank of Mongolia



Prime Minister of Mongolia B. Tserendorj meeting the Bank of Mongolia's staff during the central bank's first anniversary



State prize winning economist G. Dayanjams



The Bank of Mongolia, 1960

Source: the Bank of Mongolia

GREEN ECONOMY

BANKS BAND TOGETHER FOR GREEN DEVELOPMENT



Mongolian Bankers Association's members planted trees in Ulaanbaatar City National Park for the 90th anniversary of the development of banking sector in Mongolia on May 16, 2014

BY KH. KHULAN

Banks play an important and unique role for sustainable development because of their intermediary role in the economy, according to Marcel Jeucken, a research economist at the Dutch Rabobank Group.

“A bank creates opportunities for sustainable business through its financing policy and it’s influential through its paid activities,” he said. “Moreover banks have an enormous comparative advantage with respect to the knowledge and information they have about various market sectors, legislation, and market developments. Thus, banks can deploy these instruments and knowledge in a focused way and stimulate sustainable business.”

Sustainable financing of environmentally friendly and socially responsible development has been supported worldwide. If Mongolia’s banking sector makes up 95 percent of the financial system alone, for how much of Mongolia’s green development are banks responsible?

Sustainable Finance

The Dutch Development Bank FMO, Trade and Development Bank, International Finance Corporation, the Mongolian Bankers Association, and the Banking and Financing Academy launched the “Sustainable Finance Forum” in May 2013. ▶

► The first step for the programme was to have commercial banks sign an agreement in November of last year vowing to calculate the benefits and risks of the projects to finance. The agreement also holds banks responsible for assessing possible negative impacts on the environment that the projects they finance will have.

The agreement holds banks accountable for the consequences of the ventures they finance. "If the businesses would operate not only for profit but for environmentally friendly activities and for the wellbeing of the people, then they would be on the sustainability path," said President of the Mongolian Bankers Association M. Bold.

Commercial banks are planning to develop a mutual policy agreement for environmental and social issues to fall in line with their lending policies by January 2015.

Loan analysts at XacBank and Trade and Development Bank have noted that guidelines should dictate that applicants should not be given a loan unless they meet the environmental criteria or reach consensus with the local community.

There are numerous banks that already have initiated green policies for themselves over the last several years. For instance, the XacBank, Khan Bank, and Trade and Development Bank have demonstrated good practises for Mongolia's financial sector.

XacBank

XacBank has embraced its triple bottom line mission: "Planet, People, Profit" since 2002. Also, it joined the Global Reporting Initiative (GRI) and the UN Global Compact in 2007. XacBank has made itself accountable for adhering to social and environmental principles and reporting on its activities in this area. In 2008, it approved its Social and Environment Management Policy, focusing on financing small business, and establishing its "eco banking" department.

The director of the eco banking department, G. Tuul, said XacBank required that clients fill out environmental impact and client poverty reduction report before they could become eligible for a micro loan. XacBank is then able to apply a discount on its interest rate, depending on how well their reports meet criteria imposed by the bank. XacBank has been financing energy efficient solutions and providing concessional loans for eco micro businesses since 2009.

It expanded its support for for green businesses, with another programme last year that supports small business participating in emissions reduction. XacBank voluntarily receives assessments from Planet Rating, a non government organisation that specialises in rating financial organisations on its environmental impact. XacBank employees also initiated Golden Fund for Development- X.A.C in 2003 to employ environmental activities. The group is responsible for the 30,000 trees planted by Xacbank employees to establish the Xac Togol green space.

XacBank has also stood up against the air pollution in Ulaanbaatar with its energy Efficient Product Distribution

programme. That programme has implemented projects by the Millennium Challenge Account Mongolia, the government's Clean Air Fund (CAF), and the Ulaanbaatar-Clean Air Project since 2010.

Trade and Development Bank

Trade and Development Bank launched its Environmental and Social Responsibility Policy in September 2012. Initiated by Dutch Development Bank, Trade and development has cooperated PricewaterhouseCoopers. Since then the bank has paid great attention to fostering "sustainable financing." They have developed a comprehensive set of policies on environmental and social issues and guidelines to implement them.

Heads at Dutch Development Bank have highlighted Trade and Development's achievements, noting that it is the first bank to implement into its financing business international best practices for the environment and society. TDB's acting director of for risk management, D. Delgermaa, said that holding itself accountable for its environmental and social impact is efficient and stands up to international practices.

Trade and Development also has an internal initiative to save paper and electricity.

Khan Bank

Khan Bank approved its own environmental policy to establish criteria for lending in 2009. Then, 2011 the bank reformed its environmental and social principles, said B. Enkhbayar, an environmental expert at Khan Bank, and launched risk assessment standards for the environment and communities in January 2013.

The Khan Bank founded the Khan Bank Foundation in 2007, to carry out over 200 projects and up until 2013. One example of its achievements is the Khan Bank Forest initiative, which was first launched in 2008. For this programme the bank has planted 15,000 trees outside of schools, kindergartens and its own bank branches.

Furthermore, Its Young Leaders initiative has helped launch environmentally friendly and socially responsible projects by the Zorig Foundation over the last seven years.

Mongolian Sustainable Finance Principles (Draft)

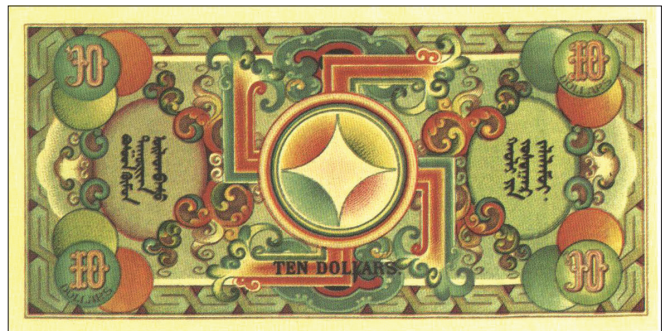
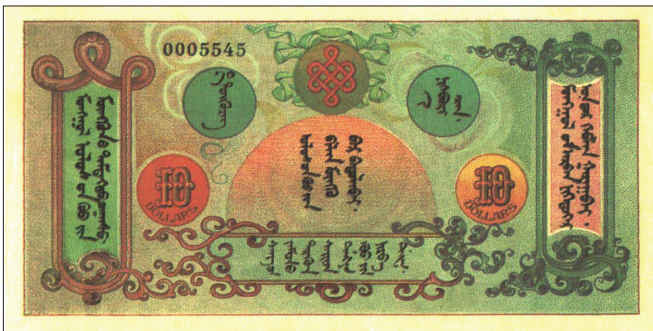
1. Protect our natural environment
2. Respect human rights
3. Protect our historic and cultural heritage
4. Promote the green economy
5. Promote financial inclusion
6. Promote transparency and accountability
7. Complying with a list of items prohibited for financing
8. Practice what we preach

(Source: MBA) ■

BANKNOTES

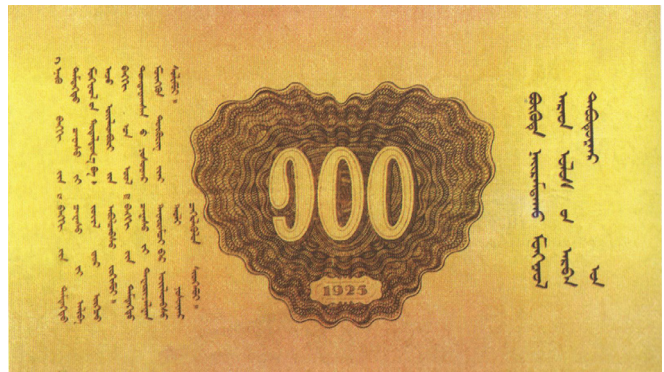
Banknotes printed between 1921 and 1924

After the People's Revolution in 1921, then-Finance Ministry issued a banknote called a "dollar" that was printed in Soviet Union and total amount was 3.5 million. Money increments included 50 cent, 1, 3, 5, 10 and 25 dollar banknotes.



Banknote issued in 1925

According to the first Constitution of Mongolia, approved by the State Great Khural, the following banknote featuring the national emblem was printed in the Soviet Union and was termed the tugrug. The banknote was officially taken out from the market in 1966. However, it was not used for transaction after the 1940s. There were banknotes for 1, 2, 5, 10, 25, 50 and 100 tugrug increments.



Banknote printed in 1939

One side has the national emblem while the other side has an image of Sukhbaatar, a hero of the People's Revolution. This banknote was officially taken out from the market in 1966. However, it has not been used by the public since 1955.



Banknote printed in 1941

This banknote was approved by the State Great Khural in 1940 and printed in the Soviet Union. As the national emblem was changed to images of traditional livestock, the emblem was printed on one side with the same image of Sukhbaatar. The banknote was also officially taken out in 1966.



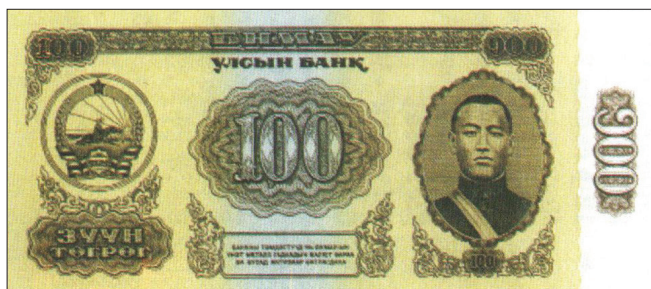
Banknote printed in 1955

This was approved in 1940 and looks almost the same as above one, but the only difference was that it was written in Cyrillic letters instead of ancient script. It was also taken out from the market in 1966.



Banknote printed in 1966, 1981 and 1983

The banknotes were printed in Soviet Union in 1966 and it was officially taken out from the market in 1994. There were banknotes for 1, 3, 5, 10, 20, 25, 50 and 100 tugrug increments.



Banknote printed in 1993

According to the Constitution of Mongolia, approved on January 13, 1992, the People's Republic of Mongolia was changed to Mongolia. Substantial changes to banknotes were made afterwards. There are banknotes for 1, 5, 10, 20, 50, 100, 500, 1,000, 5,000, 10,000 and 20,000 tugrug increments.

