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MONGOLIAN ECONOMY



The next step for Erdenes
Tavan Tolgoi

European Standards in
Mongolia

Mongolia's Economy and Business Magazine

January, 2014. №01 (059)

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WAKE UP, MSE!





ECONOMY

THE REPORT Mongolia 2014

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*"The Best Magazine
of 2013"*



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MONGOLIA

Economic Growth

Mongolia generated GDP of MNT 17 trillion (USD 10.27 billion) in 2013, and the average rate of the tugrug against the US dollar was MNT 1,680. According to some experts, the rate will reach MNT 2,000 in 2014 and GDP is expected to range between USD 10 billion and USD 11 billion. The Ministry of Economic Develop projects that GDP will grow 14.8 percent and reach MNT 20.4 trillion while GDP will grow from 15 to 19 percent between 2015 and 2016.

Mortgages



Some 7,200 households are expected to participate in the state-backed 8 percent mortgage programme in 2014. State-owned Mongolian Mortgage Corporation (MIK) formed agreements with nine commercial banks in 2013 to issue 8 percent mortgages. MIK will provide MNT 322.9 billion to continue the program in 2014.

Chinggis bond

Prime Minister Norovyn Altankhuyag said the remaining MNT 360 billion from the proceeds of the Chinggis bond will be spent



on industrialisation. Open tender bids for projects are expected for 2014.

The government spent USD 114 million from the proceeds of the Chinggis bond on the purchase of a Boeing 767-300 ER airplane and USD 200 million for the improvement of the streets in Ulaanbaatar. For industry development, USD 45 million was allotted for the wool and cashmere industry and USD 13.5 million for textile production.

Some 17 additional projects are awaiting funding from the Chinggis bond.

Credit rating

Fitch Ratings downgraded Mongolia's sovereign credit rating B+, with the outlook taken down from stable to negative. The rating downgrade was a result of several factors, including the growing budget deficit to 12 percent of GDP. The breach of the debt limitation is in violation of the Fiscal Stability Law, which requires that the deficit not exceed 2 percent of GDP.

During the first ten months of 2013, the volume of loans grew to 53 percent of the total capacity of commercial banks while inflation rose 10.8 percent. Fitch projected that national debt would reach 50 percent of GDP.

Taxes

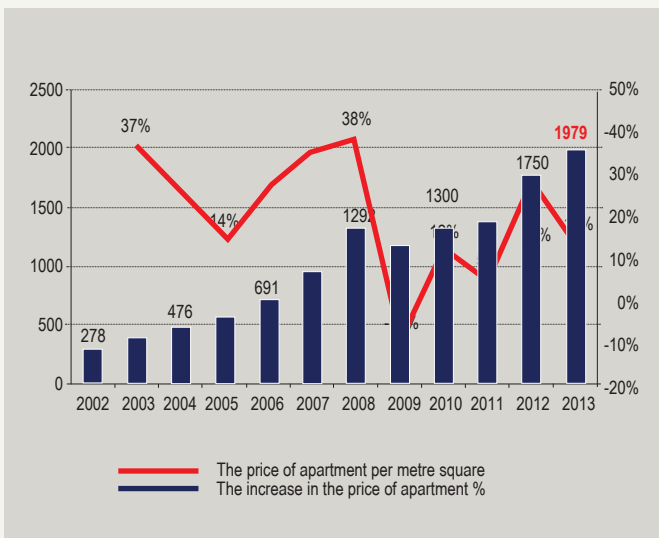
The General Taxation Department expects to generate MNT 3.3 trillion in 2014 for 48.4 percent of the state budget. The General Customs Administration is projected to generate MNT 5.2 trillion - 76.2 percent of the budget. In the past ten years, the ratio of the amount of tax collected to GDP increased 28 percent and is expected to reach 30.4 percent next year.

Revenue of the General Department of Taxation and the Mongolian Customs General Administration

	2008	2009	2010	2011	2012	2013	2014
Total revenue	2,170.5	1,972.6	3,078.3	4,468.2	4,975.8	7,257.9	6,894.8
The General Department of Taxation	1,166.0	938.8	1,545.6	2,159.5	2,335.4	3,163.6	3,334.1
The Mongolian Customs General Administration	588.6	514.9	877.6	1,421.0	1,444.3	2,331.7	1,919.9

Source: Ministry of Finance

Changes in the price of a new apartment per metre square on an annual basis



WORLD



US stocks have risen strongly over the past few days as the US economy performs better than many expected. Analysts said fears over a stock market slump after the Federal Reserve's decision to scale back its stimulus proved unfounded. The Dow Jones and the S&P have both risen more than 20 percent in 2013, while the Nasdaq is up more than 30 percent.

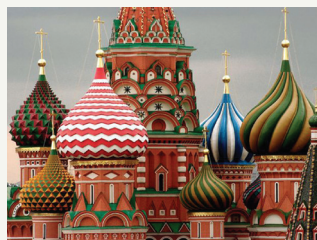


China's economic growth is likely to come in at 7.6 percent for 2013, according to a cabinet report cited by the official Xinhua news agency, just above the government's target of 7.5 percent and slightly below last year's 7.7 percent. The forecast is in line with analysts' predictions of around 7.6 to 7.7 percent in 2013, but still puts China's growth close to its weakest pace since the Asian 1997-1998 financial crisis.

The share of unprofitable enterprises in Russia's economy increased from January to October last year by 2.4 percent annually to 29.4 percent,

according to statistics agency, Rosstat. The number of such enterprises in the mining sector increased to 36.7 percent compared to 30.5 percent during the same period of 2012.

Ukraine expects a USD 15 billion bailout package from Russia to be fully disbursed in early 2014, Ukrai-



nian Prime Minister Mykola Azarov said on December 25 after Kiev received the first USD 3 billion tranche. Russia agreed to bail out Ukraine by purchasing its sovereign bonds after Kiev performed a sharp foreign

policy U-turn and refused to sign deals on political association and free trade with the European Union in late November.



France's statistics service, Insee, has said the economy would grow 0.4 percent in the last three months of the year, the BBC reported. In the third quarter, the economy contracted 0.1 percent. The statistics body also predicted growth of 0.2 percent for the whole of 2013. France was last in recession in the first quarter of this year. Other Eurozone states have shown signs of

recovery.

UK residential real estate sales have risen by 24 percent over the last year, according to HM Revenue and Customs. Seasonally adjusted figures show that 96,979 flats or houses were sold in the month of November. That was the highest number since December 2009. At the same time the number of new mortgages being approved by banks rose by 39 percent over the year, according to the British Bankers Association. In November there were 45,000 mortgages offered to homebuyers, the highest since September 2009.



Cartoon by A. Amarsaikhan

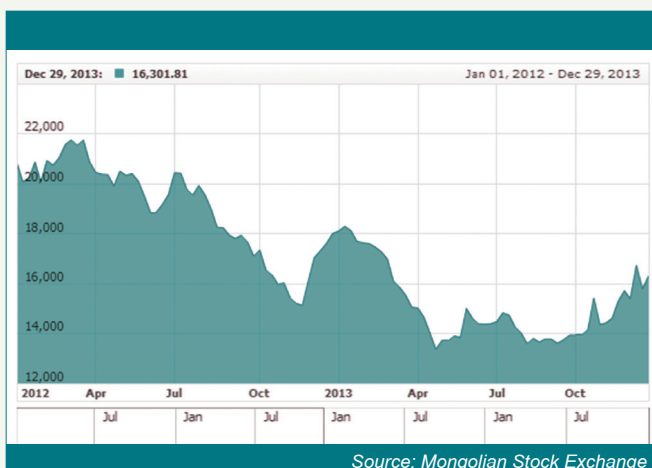
FEATURE

WAKE UP, MSE!

BY E. ZORIGT

Overview In Figures

The Mongolian Stock Exchange (MSE) has been given a bad name. In 2013, its poor performance led to a decline in capital markets and its Top 20 index. (See figures for details).



Details of trade (as of the first half of 2013)

	Stocks	Number of traded shares	Unit price	Total price	Trade date
1	Moninjar	5,150,000	301	1,550,150,000	2013.01.16
2	Darkhan Nekhii	165,000	7,900	1,303,500,000	2013.01.16
3	Gobi	203,857	4,750	968,320,750	2013.02.07
4	Mongolia Development Resources	672,177	900	604,959,300	2013.03.29
5	Hai Bi Oil	2,611,979	175	457,096,325	2013.04.09
6	Dornod Hudaldaa	12,195	8,000	97,560,000	2013.05.02
7	Shimtleeg	26,672	78	2,080,416	2013.06.07
8	Bayan Aldar	143,820	357	51,343,740	2013.06.12
Total			5,035,010,531		

Source: Mongolian Stock Exchange

From January 1 to June 28, 2013, there were 125 trades in total involving 122 public companies with 21.9 million shares amounting to MNT 12.3 billion. During the same period, total trades declined by MNT 48.6 billion or 79.8 percent compared to one year ago.

Stocks	Amount of trade		Margin	
	First half of 2012	First half of 2013	By amount	By percent
Government bond	-	-	-	-
Stocks (billion/s of MNT)	60.9	12.3	-48.6	-79.80%
Company bond	-	-	-	-

Source: Financial Regulatory Commission

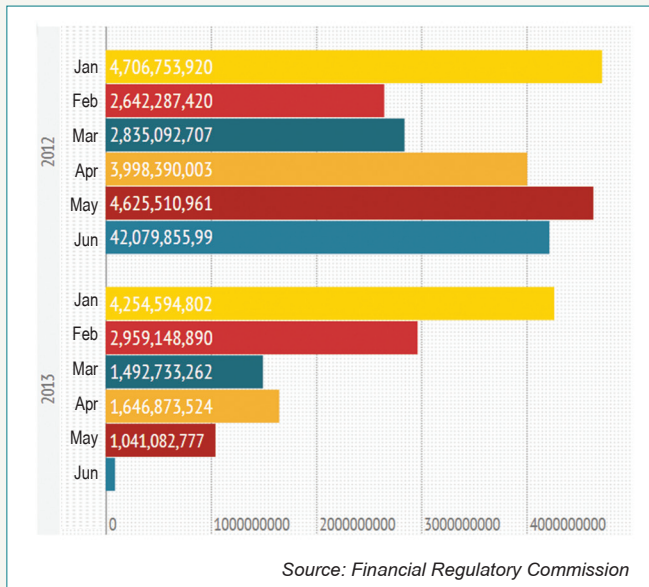
Brokerage and dealing companies

1	BDSC	BDSec	28,277,959	12,168,984,502
2	DELG	Delgerkhangaig Securities	488,751	2,753,372,949
3	ECM	Euroasia Capital Mongolia	4,457,584	2,094,819,049
4	RESC	ResCap Securities	1,545,569	1,857,821,616
5	APS	Asia Pacific Securities	418,627	499,428,890
6	GAUL	Gauli	1,707,442	472,745,179
7	STIN	Standard Investment	865,903	382,647,710
8	ZRGD	Zerged	246,052	324,828,744
9	MSEC	MonSec	208,532	316,378,738
10	BUMB	Bumbat-Altai	207,723	315,417,824
11	BULG	Bulgan Broker	192,852	296,898,651
12	MERG	Mergen Sanaa	34,477	287,866,393
13	MNET	Monet	1,365,545	269,225,518
14	ARD	Ard Capital Group	279,231	246,387,618
15	DRBR	Darkhan Broker	464,806	232,554,831

Source: Financial Regulatory Commission

During the first half of 2013, there were 83 registered brokerage and dealing companies, of which 53 companies were trading on MSE. The leading public companies in terms of trade included BDSec, Delgerkhangaig Securities, Euroasia Capital Mongolia, ResCap Securities and Asia Pacific Securities. ▶▶

► Amount of traded stocks in 2013 (compared to 2012)



► Wind of Innovation

Although the MSE's performance indicators were poor for 2013, including a decline in its trade and contraction of capitalization on the capital market, its legal setting improved in 2013, bringing innovation to the market.

"In 2013, umbrella laws related to the capital market were renewed and approved. The laws are taking effect from January 1, 2014 and have the potential to attract institutional investors. Hopefully a custodian banking service will be stabilised by the end of 2014. This means that the investment environment will be more favourable for foreign investors", said G. Saruul, deputy chief executive at MSE.

The renewal and approval of the Law on Regulation of Securities Market, the Law on Investment Fund and the Procedure on Investment by Insurance Fund have several advantages. The laws have enabled professional investors, investment funds (both open and closed) and insurance funds to get involved in the capital market.

It also provided opportunity for both national and international investors to trade their securities on MSE. This raised the number of securities on international stock markets as public company. There are some 40 foreign companies registered with the MSE that operate in Mongolia, and their total market value amounts to MNT 18 trillion. But Mongolia's capital market values a mere MNT 1.7 trillion. According to the laws, these 40 companies could directly trade their stock on the MSE. Attracting these companies would enable Mongolians to buy quality stock.

Commercial banks' domination in Mongolia's financial market means that the contribution to the growth of Mongolian companies is stifled. It also means that bank loans are seemingly small for large investors. Good liquidity attracts investors,

but Mongolia's market is not liquid.

"If I bought stocks today and want to sell them tomorrow, then the price should not be reduced substantially. That is the definition of a liquid market. But the reality here is today's stock costs MNT 1,000, but tomorrow it is likely to cost MNT 700. This is simple proof that Mongolia's capital market is insufficiently liquid.

The main reason behind this is the absence of a legal environment that protects the rights and interests of the investors, provides transparency of information, directs a cash flow into Mongolia and opens a channel in the country", said G. Munkh-Erdene, dealer and investment expert at Mandal General Insurance.

The Law on Investment Funds warmly welcomes institutional investors to Mongolia's capital market. This will hopefully increase turnover of capital in the market and improve the liquidity. When the liquidity is improved, the number of investors theoretically increases.

Expected Risk

The umbrella laws aim to make the market more liquid and increase the money circulated in the market. Enforcing these laws is crucial to developing the capital market in Mongolia. Along with law enforcement, the knowledge and skill of those who are in the market and whether they could work within the legal framework is also questionable.

Currently, there are more than 80 brokerages in Mongolia that are registered with the MSE. One-third of these companies are active. However, according to Financial Regulatory Commission staff there are even fewer active companies within this group.

According to the Financial Regulatory Commission, getting a licence to run a brokerage costs MNT 500 million. The licence for an underwriting company costs MNT 1 billion. Combining this with the licence for an investment consultant results in the high price of MNT 1.6 billion.

"I think the FRC's [Financial Regulatory Commission's] resolution is the right thing. This high price criterion would obviously be the main leverage of improving the company's value and the skill of its employees. But there is scepticism whether if Mongolian companies could still meet this criterion by July 1 of 2014. This is the deadline for when the FRC will make a decision on whether the companies need to exist in the future. If there was at least one year, it would be enough time for the current brokerages to attract more investment and improve their activities so that they can meet the criterion. But the timing is very short", said B. Dulguun vice chief executive at Tenger Capital.

In Mongolia, another criterion for investment professionals is ethics. Internationally, investment professionals need to meet strict criteria to be considered trustworthy.

In Mongolia, there is no system that evaluates brokers and dealers according to G. Munkh-Erdene: "There is almost no programme on ethics in the curriculum of the economic and financial schools. Few schools teach on the topics of ethics. ►►

- ▶ This would enable Mongolian brokers, dealers and analysts to understand the ethics and to work according to the rules to improve the confidence of investors”.

Discouraged Market

Today companies looking to issue public offerings are waiting for investors to come around again, but investors, too, are waiting for an offering worth their interest and money. Measures will be needed to wake up the investors and stimulate the flow of capital back towards the MSE.

The Financial Regulatory Commission recently approved a measure that took effect on January 1 for insurance companies to invest up to 10 percent of their reserve capital on the “A” board of the MSE. That represents a potential MNT 4 billion from insurance companies.

“Now the capital market circulation is low, but I see that it could be potentially increased to 20 to 30 times in the future”, said MSE Deputy Chief Saruul. “There will be two to three new IPOs [initial public offerings] this year”.

“We also reached a deal with the government on trading the government bond before the second half of this year. So, I see that debt market that it is going to be activated.”

The laws will also open the playing field for investment funds. The expectation is that one or two new funds will open. But if the Mongolian exchange is to attract the investment funds of those insurance companies, it will have to attract companies that can promise bigger returns. It will be up to the underwriters to shake the capital market awake.

Small business is one avenue to reach this goal.

“The government agencies, investment funds and underwriters have to work together to contribute to SME [small-and medium-sized businesses]”, said Mandal’s Munkh-Erdene. “The underwriters need to find companies to issue IPOs in a way of putting a particular criterion for SMEs.

“After the company becomes bigger, IPOs could be issued. There are many examples of this in the world”.

Options

Mongolian investors have been actively trading securities listed on foreign exchanges According to the Bank of Mongolia, stocks of USD 109 million were purchased by Mongolians during the first half of 2013. At that time, the MSE saw MNT 12.3 billion worth of stocks traded, an 80 percent decline in trade in 2012. Mongolians have been keen to trade international securities because of the more favourable investment conditions, but the laws that take effect this month may rectify those issues.

Another reason is the liquidity as stocks traded on international markets are much more liquid than the ones traded through the MSE. There has been little exposure for foreign investors on the Mongolian exchange, although Mongolia would like to attract them to the local bourse.

Progress is strong, but there is still much to be done by the MSE and Financial Regulatory Commission to attract foreign investment, and revitalize the now-sleepy exchange. ■



IPO

THE NEXT STEP FOR ERDENES TAVAN TOLGOI



Tavan Tolgoi Power Plant

BY E. ZORIGT

In 2011 the Mongolian People's Party-Democratic Party coalition passed a resolution for the free distribution of 1,072 shares of Tavan Tolgoi to every citizen of Mongolia. Everyone had to make the decision of whether to take the shares or cash of equal value. Today it is unclear when the value from those shares will materialize.

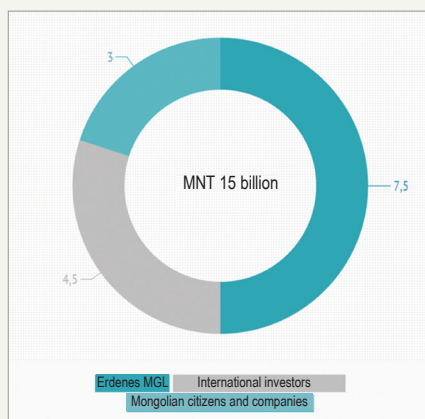
One million of Mongolia's 2.8 million citizens chose the shares instead of the cash, according to the Human Development Fund, while the remaining 1.8 million opted for the MNT 1 million lump sum. Meanwhile, shareholders have yet to receive any dividends and those who opted for the cash have not received that either.

An April 2012 resolution prohibited the trade of Erdenes Tavan Tolgoi's shares until the company was listed on the Mongolian Stock Exchange. Shareholders will be entitled to trade their stocks once Erdenes TT releases its public offering on the Mongolian exchange.

There are two types of citizens in

Mongolia: the first still await their MNT 1 million in cash while the others are waiting on yields from shares. Some 710,000 shareholders of Erdenes Tavan Tolgoi own 1,072 shares each and more than 11,000 shareholders own 536 shares each, according to the Mongolian Securities Clearing House and Central Depository. A total MNT 1 million in cash has been distributed to 300,000 citizens including elderly, disabled and students.

Investment
(MNT 15 billion)



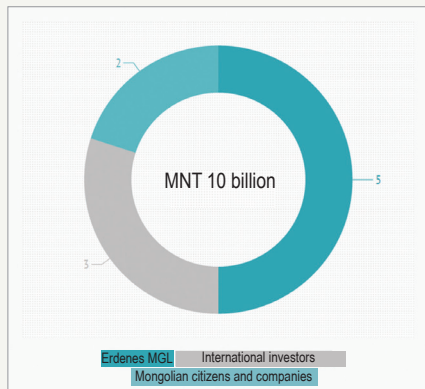
Reasons for the Wait

Allowing shares to reach their potential value is important. If Erdenes TT's shares were traded on the international stock exchange, citizens could earn yields from its shares. However, Erdenes TT is behind schedule on its touted three-city public offering in London, Hong Kong and Ulaanbaatar.

"The global market situation was not good and the price of coal was in decline last year", said Yaichillyn Batsuuri, chief executive at Erdenes Tavan Tolgoi. "Making an IPO today would devalue the shares and the price of the share may go down. Therefore, the issuance of an IPO will be discussed in 2015".

The reason behind the delay of issuing the public offering is not only about the declining price of coal. There is also the debt owed to the Aluminum Corporation of China Ltd, or Chalco as it is commonly called. By the end of last year, the remaining balance to pay Chalco was USD 160 million. Erdenes TT has been exporting »

Initial investment (MNT 10 billion)



its coal to China at the price of USD 40 per tonne. Repaying that debt would require the export of 3 million tonnes of coal, of which two million tonnes have already been mined.

According to the Ministry of Mining, the debt was supposed to be finished last year, but the lack of a railroad that connects Tavan Tolgoi to the central rail network made that impossible. The fall in coal prices was not help either.

Doubt

There are some people who say that it is just a matter of time before the benefits from the 1,072 shares they hold arrives. Some citizens sold their shares to the government and these shares were supposed to have been traded on the Mongolian Stock Exchange. Some of the companies that purchased shares are now asking for their money back. Meanwhile, shares are losing their value.

The government has promised to return the money to those companies who purchased shares this year.

Others warn that taking the cash is the wrong decision.

“Recently, some citizens have become interested in the shares, refusing the cash. We have collected more than 1,000 requests so far”, said E. Altanshagai, head of the Centre To Protect The Rights of Shareholders and Investors non-government organization.

“For citizens, it would be much more beneficial to own the shares

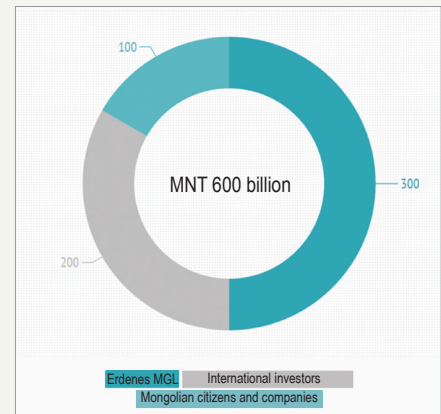
instead of having some cash. The nominal price per share is MNT 932. This price will increase in the future. According to our estimate, each share could reach MNT 10,000 in the future”.

Prediction

The total coal reserve of Erdenes TT is 6.4 billion tonnes. According to an estimate by the government, the price of Tavan Tolgoi's coal per tonne might reach USD 100 or more in coming years. According to a study by the Centre To Protect The Rights of Shareholders and Investors, the shares will trade at MNT 10,000, at both local and international exchanges, after 10 years. That would bring the value of 1,072 shares to around MNT 60 million

Tavan Tolgoi expects to produce

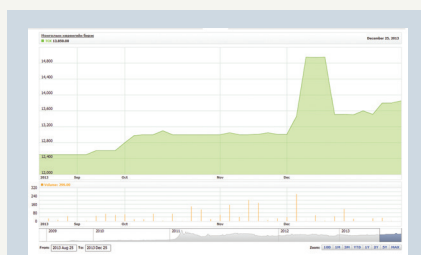
Expected future revenues (MNT 600 billion)



20 million tonnes of coal per year from 2016; the mine is expected to have a lifetime of 320 years. With that in mind citizens, should be asking themselves if the fast cash is really worth the loss of the long-term yield. ■

TOP 20

EUROPEAN STANDARDS IN MONGOLIA



Financial Statement:

Assets: MNT 18 billion

Operating cost: MNT 2.1 billion

Net profit: MNT 1.3 billion

Distribution of dividends: in 2012, dividend of MNT 100 per share were distributed.

Debt: Received credit from European Bank for Reconstruction and Development and repayment of the loan will be completed by November 2014.

BY I. OTGONJARGAL

Company name: established in 1984 with name called Talkh Chikher Combinat and it was privatised and renamed Talkh Chikher shareholding company in 1999.

Stock ticker symbol: TCK

Number of shareholders: 4,200, of which 30 percent are small shareholders.

Number of members of board of directors: 10 including the secretary.

Number of independent members of board of directors: four

Number of board members trained: Half of the members took the training course and received the certificate.

Number of employees: 670, of which 450 are factory workers.

Mission: to manufacture food prod- ►



Talkh Chikher company

► ucts that meet the food security by using modern technology according; to create a new market; and to satisfy demand.

Line of business: pastries including more than 60 types of bread, cookies, cake, biscuits and confectionaries.

Advantage that differs from competitors: it produces digestive biscuits that are good for health; some 40 percent of overall products are organic and digestive biscuits.

Food security: there are accredited microbiological and chemical laboratories that carry out tests and samples on every single process of the production

Technological innovation: programme was launched in 2003. As a part of the programme, automatic production line to manufacture round bread loaves commenced operation in 2004.

in 2006, the company created a va-

riety of shapes of loaves.

In 2008, German and Ukrainian trucks with the loading capacity of 20 tonnes were ordered and imported for the purpose of transporting Atar flour from the mill house.

In 2011, the company introduced advanced technology to manufacture digestive biscuits and deliver this new product to the market.

In 2012, conveyor line was installed to manufacture four types of oval-shaped loaves made of carrot, multi seeds and corn.

In 2013, automatic loaf-packing equipment was installed – the first of its kind in Mongolia.

In March 2014, the company plans to completely renew the production lines for cakes and pastries.

In all of the above renewals and installations, the company invested more than MNT 20 billion.

environment in and around the factory. By the beginning of this year, we are planning to open a fitness centre for our workers. The fitness centre's equipments, worth MNT 200 million, has been imported from China and maintenance worth MNT 100 million is taking place.

Our working environment is quite hot and humid so we installed a ventilation solution worth MNT 800 million. We are also installing ventilation equipment that cost MNT 200 million for the pastry cooking section in March to provide a convenient working conditions.

Talkh Chikher builds an ice town each new year. How much does this cost?

Our company is located in the most populated and the worst equipped district – Songinokhairkhan. The company created an ice town along the main road besides the factory in 2012. We were happy to see that there were a number of guests including children from the district. We decided to build a bigger and nicer ice town in 2013. It cost more than MNT 50 million and involved hiring more than 10 sculptors.

When was the last increase for employee wages?

The company has increased its employees' wages over four stages, from October 2013 to January 2014, by 20 to 25 percent because the prices of consumer goods have been increasing since June 2013, mainly due to the fluctuation in the FX rate. It is difficult to increase the wages of 670 workers. Now the wages of our employees average MNT 600,000.

What is your plan for raising your position in the pastry market of Mongolia?

We will try to advance our position in the market in 2014. The main contribution to this would be the renewal of the current production line with the automatic line. This will hopefully bring changes to flavour, quality and even the types of our products and will raise our competitiveness. Talkh Chikher has the slogan "European Standard in Mongolia", in terms of technological innovation. ■



Mongolian Economy interviewed M. Bazar-Uugan, chief executive at Talkh Chikher regarding its approach to corporate governance.

Does the company have any large-scale corporate governance frameworks?

As a part of our corporate governance, our company prefers to work in a healthy and clean workplace condition. The company is a member of the Non-Alcoholic Food Producers Association of Mongolia and has created a no-smoking and no-vodka



THE BEST MAGAZINE OF 2013

Our team is delighted to share the following news: Mongolian Economy magazine on December 24, 2013 was awarded “The Best Magazine of 2013” by the Mongolian Journalists Association.

This is our greatest achievement so far. We would also like to thank our audiences and readers for subscribing, reading and supporting our magazine.

In 2013, we worked on some special editions dedicated to the World Economic Forum’s annual meeting held in Davos in January and the 50th anniversary of diplomatic relations between Britain and Mongolia. We also started to work with an Australian consultant on further developing our online presence, and Economy TV studio’s first TV discussion programme broadcast on NTV in December.

For us, there were a number of achievements and many things learned from 2013.

“Mongolian Economy is an international economic and business bi-lingual magazine that contributes to growing professional journalism in Mongolia”, said the host of the awards ceremony.

It is very special for us to receive this award from the Mongolian Journalists Association. We are honoured and proud to receive this acknowledgement three years since our establishment.

The award also indicates to us that we have to be more responsible in the future for upholding the quality and accurate information that our readers expect. Our team will give its best effort on improving the magazine in 2014.

We kindly wish our audiences and readers to be a part of our magazine and to be in contact with us. Your further feedback and opinion is greatly appreciated.

Mongolian Economy Magazine team. ■

BYAMBAA'S COLUMN

HOW WILL MONGOLIA PERFORM IN 2014?



In Mandal Asset Management's July semi-annual update for 2013, the company reported that while the first half of 2013 showed signs of action, change and optimism, these sentiments were not always justified and supported by fundamental economic health. As expected, the 2013 year-end performance was not particularly strong. Yet, in 2014 Mongolia's economy is expected to show two-digit growth – among the highest globally.

The global environment in 2013

2013 concluded with higher optimism as opposed to the cautiousness shown earlier in the year. In 2013 financial institutions again saw weak year-end growth forecasts, averaging 2.5 percent for the world, 1.7 percent for the United States, -0.4 percent for the euro zone and 7.7 percent for China.

Economic growth seemed to be tough. In the coming years, hopefully growth can translate into the development of a sustainable and resilient economy.

Mongolia in 2013

Consistent themes for Mongolia in 2013 were a sharp decline in foreign direct investment (FDI), a highly volatile currency, a decline in inflation, the Chinggis bond, and a large trade deficit. As predicted, economic shifts occurred that took the country from FDI financing to bond financing, from mining and exploration to infrastructure development, and from private sector-based economy drivers to that of the public sector.

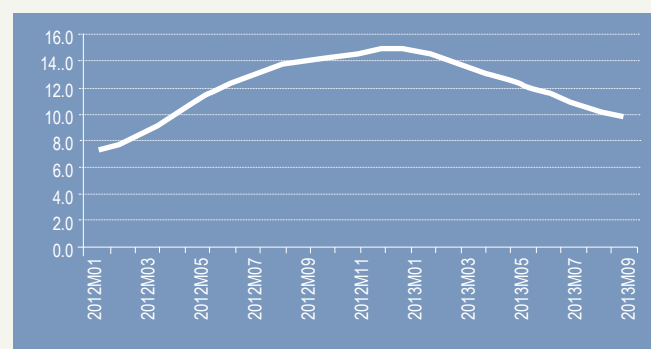
The drain in FDI has aggravated existing fundamental structural weaknesses in the economy, such as a lack of a diversity, a reliance on imports and an unsound banking sector. ▶

Table 1. 2013 GDP growth forecast

	World		US		Eurozone		China	
	2013	2014	2013	2014	2013	2014	2013	2014
Fitch	2.3	2.9	1.7	2.6	-0.4	0.9		
OECD			1.7	2.9	-0.4	1	7.7	8.2
Citibank	2.5	3.2	1.6	2.6	-0.3	0.8	7.6	7.2
World bank	2.2	3	2	2.8	-0.6	0.9	7.7	8
IMF	3.1	3.8	1.7	2.7	-0.6	0.9	7.8	7.7

Source: cited institutions as of Jun-Dec 2013

Table 2. Annual Inflation, %



► Figure 1 shows a snapshot of the macroeconomic health of Mongolia, scoring six major economic criteria on a scale of one to seven points (seven being the best and one being the worst score, with break even at 4) for the second and third quarters of 2013.

2013 third quarter data put the economic health score of the country at a break-even 4.0. That score was a better performance from the same period of last year by 0.5 points, but lower than the first quarter of 2013 by 1.5 points.

Double-digit GDP growth, subsiding inflation and a low rate of non-performing loan (NPLs) have contributed to the positive results (note: Savings Bank's portfolio is cleared from the banking sector indicators).

Downward movements were a result foreign exchange fluctuations, a high foreign trade deficit and state budget deficits.

What main movements will shape the economy in 2014?

There will be several important factors that will have a major impact on economic performance in 2014.

Political Stability

Despite the formation of a new government in 2012 and peaceful presidential elections in 2013, political stability is still somewhat delicate. Several times throughout 2013 there were calls for government resignations. Recently, the proposals for the resignation of the finance minister and economic development Minister are prime examples of instability.

Oyu Tolgoi

The outcome of negotiations between the government and Oyu Tolgoi on the second phase of financing will be a major factor of influence. While both parties progressed on the current stage of the project, underground mine development financing remains undecided. Oyu Tolgoi will have a direct impact on the country's economic performance and more importantly on the inflow of FDI.

Samurai Bond

The issuance of the yen-denominated Samurai bond by the Development Bank of Mongolia will decide whether prior investments made in infrastructure will transpire or not. ►►

Figure 1. Macro-economic health matrix

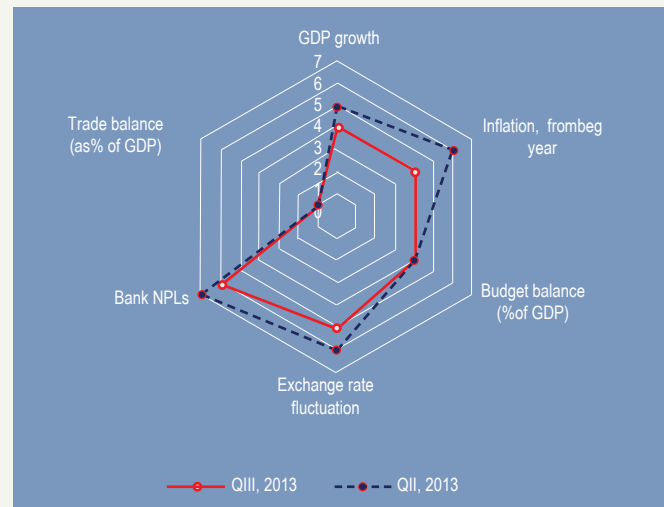


Figure 2. FDI decline, % yoy

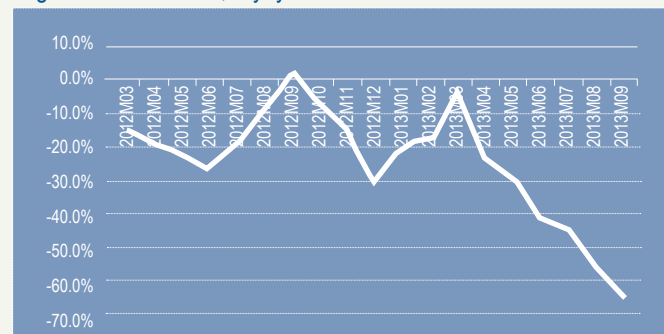


Figure 3. Foreign trade balance, mln USD in 2013

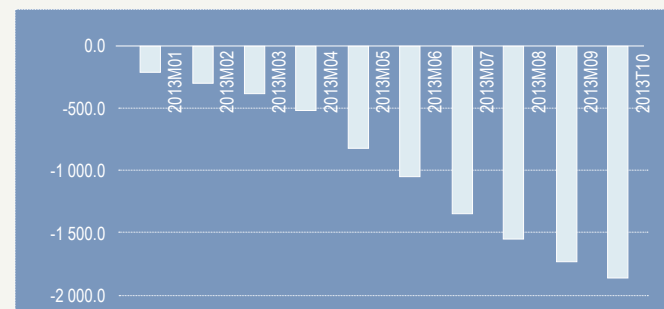
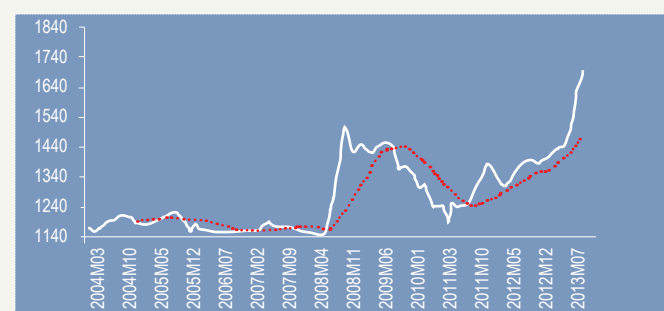


Figure 4. Exchange rate, USD/MNT and 12-month moving average



▶ Central Bank Policies

The scaling down of the subsidized mortgage loan programme and others will have major impacts along with the challenges seen throughout 2013 that continue to next year – with the inflation rate and foreign exchange stability being the chief among them.

Trends in 2014

Although the Government is taking some proactive measures to resuscitate the investment environment, realistically FDI will not improve until late 2014.

The Bank of Mongolia announced its target inflation rate of 8 percent. With limited effective tools at hand and fluctuations of the national currency continuing, inflation is more likely to reach 12 percent for the year.

It is unlikely there will be a significant turnaround in the growing trade deficit in 2014. However, higher copper prices on the global markets and exports from Oyu Tolgoi will help it narrow.

Exchange rate fluctuation will remain a key risk throughout 2014, as we do not see major foreign currency inflow and because the Bank of Mongolia's official reserves continue to decline.

Expected 2014 Year-end Results

Overall, Mandal predicts GDP growth next year to remain at around 10 percent. Samurai bond proceeds will soon arrive and the infrastructure projects that started in 2013 will continue throughout the coming year. There are also a number of large development projects due to start in 2014.

Progress made in lowering inflation in 2013 will be harder to preserve in 2014, with perceived currency instability and higher inflationary expectations estimated at around 12 percent or higher. However, the report expects that housing prices will stabilise.

The 2014 state budget approved by the State Great Khural was within the legal limitation of 2 percent of GDP. Meanwhile, the public debt ceiling has become a huge concern as the government pursues the issuance of new debt. Large repayments should be made in 2018 and a public debt-management plan should commence for the next few years.

The banking sector is not immune to sudden shocks, as we have seen with the failure of one of the country's largest banks in 2013. While NPL rates are expected to stay relatively low, the concentration of risk is high, especially in the mining, trade, agriculture and construction sectors of the economy. Commercial loan interest rates have averaged at 18.7 percent for 2013 and are expected to remain at around 18 percent in 2014.

There will be major changes in factors of influence over the exchange rate. Sharp swings to the national currency still occur. Mandal forecasts that the exchange rate will remain at around MNT 1,600 per US dollar by the end of the year. The worst-case-scenario analysis for the tugrug has it climbing as high as MNT 1,920. ■

Mandal forecast for key indicators in 2014

Indicators	2013 (forecast at July 2013)	2013 (performance)	2014 (forecast at Dec 2013)
Indicator	8	11.5 (Q3)	10
GDP growth, percent	10	11.1 (Nov)	12
Inflation, percent	18	18.6 (Nov)	18
Loan inter- est rates, percent	1700	1719 (Oct 30)	1600
USDMNT exchange rate, end year	8	5.3 (Oct)	6
NPL rate, percent			

Main macroeconomic risks in 2013

Negative consequences	High	<ul style="list-style-type: none"> Foreign investment outflow 	<ul style="list-style-type: none"> Distress in some segments of the construction sector, especially for office buildings 	<ul style="list-style-type: none"> Heavy involvement of the government in the private sector A growing budget deficit Growing public debt Instability in the exchange rate of the tugrug Growing inflation
	Medium	<ul style="list-style-type: none"> New Chinese government policies not favourable to Mongolia 	<ul style="list-style-type: none"> Liquidity scarcity at banks A scarcity of loans and more NPLs, creating instability in the banking sector 	<ul style="list-style-type: none"> Plunging global commodity prices A growing foreign trade deficit Growing prices of imported fuel from Russia
	Low	<ul style="list-style-type: none"> Disease epidemics and pandemics in neighbouring countries Natural disasters 		<ul style="list-style-type: none"> Slow recovery of the global economy
		Low	Medium	High
Probability of occurrence				

AGRICULTURE

THE WHEAT POINT



BY S. ZAYA

Mongolia has grown ever closer to meeting domestic demand for wheat consumption since it introduced its campaign for the cultivation of arid land. After years of troubles, agriculture saw a restoration with the new opportunity for development in the sector. Yet, the country still struggles to meet the country's demand.

Mongolia imports vegetables and wheat flour from China and Russia. This year Mongolia had to import 100,000 tonnes. As much as 400,000 tonnes was expected from Mongolian crops this year, but production fell some 30,000 tonnes short, mainly due to climatic conditions and the use of

outdated equipment.

Since 1990, the total volume of wheat production has ranged between 75,000 and 125,000 tonnes a year. In the past three years, however, production soared to between 300,000 and 400,000 tonnes.

Now, even with an expected stockpile of 200,000 tons of wheat each year from the Agriculture Development Fund, production is falling short of demand.

Price Stabilisers

The Price Stabilisation Programme set the price of a kilogramme of wheat flour at below MNT 550. In the past four years, Mongolia has managed

to meet domestic demand, with some exception for a small volume of imported wheat flour in remote areas, and imported wheat flour has become more expensive than domestically produced flour.

In order to keep a consistent price, the Agriculture Development Fund began stockpiling the commodity to prevent any scarcity of the commodity. However, the fund's stockpiles have fallen far below its target each year, accumulating just 13 percent of its goal of 190,000 tonnes for 2013.

Wheat consumption has averaged 187,700 tonnes a year between 2007 and 2012, according to the agriculture ministry. Consumption is expected to rise, however, with 267,000 tonnes in demand expected for 2014. The depreciation of the tugrug has resulted in a decline in imported wheat flour, but domestic producers were unable to live up to the challenge of meeting domestic demand.

Now the Ministry of Industry and Agriculture is calling for 100,000 tonnes of imported wheat flour. They said the imported wheat would be used at factories in Mongolia rather than be stored at the Agriculture Development Fund.

Competition in Crops

In 2010 and 2011 the wholesale price of wheat flour was MNT 350,000 a tonne before falling to MNT 280,000 per tonne in 2012. The price cut was an effect from increased domestic production.

Mongolia saw wheat cultivation cut by 20,000 hectares nationwide while ▶▶

▶ the amount of land dedicated to rapeseed production expanded. Farmland for rapeseed tripled last year from 25,000 to 79,000 hectares that year.

However rapeseed crops can be seriously detrimental to the land. China has nearly halted its production completely, which has allowed the price to nearly double to MNT 700,000 to MNT 800,000 a tonne this year.

The Ministry of Industry and Agriculture suggests that the amount of land area dedicated to rapeseed crops not exceed 15 percent of all farmland in Mongolia. Last year the profits were too tempting for farmers, however, and 19.5 percent all farm land was used for rapeseed crops.

The effects of poor agricultural management were seen in the United States in the 1930s, when the exhaustion of farm land in the Great Plains set off the conditions for the dust bowl - about a decade's long period of devastation from dust storms and drought.

Rapeseed is recommended by the ministry as a crop to be planted once every four years time because of the harm it can have on the farm land. Too many years growing rapeseed leaves the land arid and without nutrients for future crop growth. Mongolian farmers lease the land from the government for a set number of years but face no consequences for exceeding the ministry's guidelines. If the government maintains ownership of the land while refusing to step in and dictate how the land should be used, the farmers will not have any incentive to change their practices.

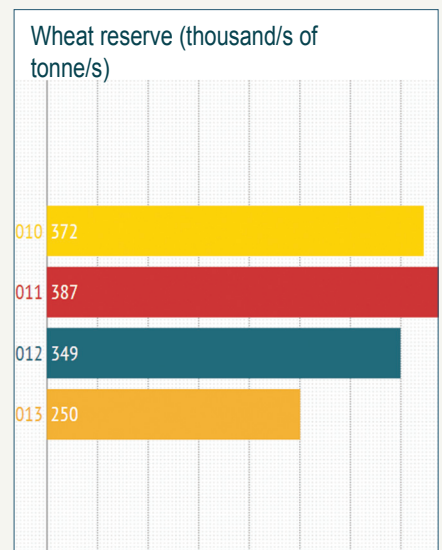
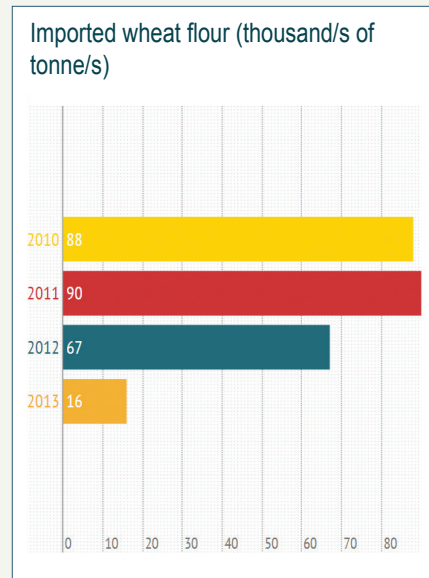
A different variety of rapeseed was imported from Germany in 2013 that is advertised as an alternative with less repercussions to the land.

A Miser Pays Twice

Wheat is a strategic product. The carelessness of the agricultural ministry may be directly responsible for the need for wheat imports because the wheat farmers saw the price paid to

them cut 29 percent to MNT 250,000 a ton.

The quality of imports from Russia and Kazakhstan are lacking as well, and customs taxes exacerbate the price. In Russia, wheat is sold for USD 280 a tonne, or more than MNT 400,000. Tax exemptions for the import of wheat would see Mon-



Эх сурвалж: Үйлдвэр, хөдөө аж ахуйн яам

golia pays nearly USD 30 million for 100,000 tonnes of wheat.

The government is hurting the industry by restricting the price of wheat, although the stockpiles are helpful. Unless policy changes are made, Mongolia will never be able to remedy its dependence on imports. ■



LAW

GOLD WEIGHS IN ON THE ECONOMY

BY B. BAYARTOGTOKH

A bill for greater transparency that came before the State Great Khural has yet to be decided on, dashing the hopes of those who operate within the gold industry who had hoped for a quick approval. The bill aims to accumulate greater gold reserves by the central bank and put an end to the black-market gold trade.

The law stands to cut the royalty collected by government in half, from 5 percent to 2.5 percent, for gold miners who sell their gold to the Bank of Mongolia. Law makers hope the tax cut will create added incentives to sell gold through legal channels, including to the Bank of Mongolia, to boost its reserves after years of growth in the illegal trade of the precious metal.

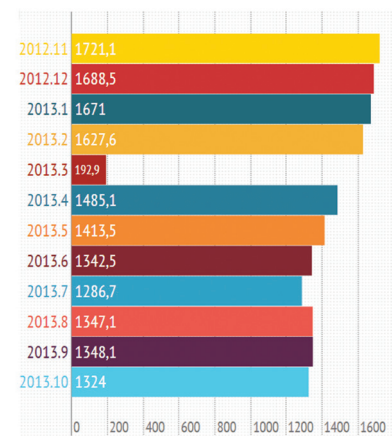
Some 24 tonnes of gold was mined in 2009, when the precious metal was subject to a 2.5 percent royalty in 2009. The volume of gold mined has

been in decline each year since the Law on Price Rise Tax on Some Products took effect, dropping to a mere four tonnes in 2012.

The Bank of Mongolia's gold reserve falls below that of the past. Miners have extracted 130 tonnes of gold over the past two decades, while the central bank's reserves saw little growth. With 5.8 tonnes of current gold reserves at the central bank, some economists have posited that a greater storehouse of gold reserves would boost the tugrug. Having a larger gold reserve at hand in the central bank might also help to attract more foreign currencies for a more diverse portfolio of central bank holdings.

"In the past, gold was commissioned to the Bank of Mongolia and the central bank issued Mongolian tugrug using those commissions. But now the situation has changed because there are four ways to attract foreign currencies in the world... but our advantage

Average price of ounce gold (USD)



Source: Mineral Resources Authority

is gold", said Naidansurengiin Zoljargal, governor at the Bank of Mongolia.

Central banks around the world have built up gold reserve to insulate their economies from global shocks. Mongolia has 128 gold miners for its central bank to draw from and in the past few years it has built up reserves of 20 tonnes.

Gold exploration in Mongolia first picked up in the 1960s, when the Soviet Union entered joint ventures for mining with Mongolia for deposits such as the Tolgoityn Ord gold deposit in 1974. During that time, Mongolia was mining between 700 and 800 kilograms a year compared with 7.6 tonnes in 2013.

Mining started to pick up again after Mongolia had recovered from the shock of the transition to a market economy. The first huge blowback from miners was the 68 percent Prof- ▶



its Windfall Tax passed in 2007. The excessive taxation forced many local miners to turn to the black market for trade, according Mining Minister Davaajav Gankhuyag.

"The volume of gold mined declined while the price was on the rise", said Mining Minister Davaajav Gankhuyag. "This was due to the approval of the windfall tax law. The volume of gold mined illegally increased because they wanted to avoid tax".

"Another factor was that the approval of the Long Name law, which caused cancellation of 1,336 special licences in total".

Approval of what is commonly known as the Long Name Law, or the Law to Limit and Prohibit Mineral Exploration and Mining Operations at the Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas, exacerbated an already bad situation. The law forced out the professional miners, he said, which left those deposits free for the so-called "ninja" artisanal miners to take over.

The Ministry of Mining has estimated that over 70,000 ninja miners operate in Mongolia.

Government mining officials hope the new legislation on gold mining will remedy the decline in legitimate gold mining, breathing new life into the industry, while better regulating it against illegal activities. According to the central bank governor, the illegal trade is costing Mongolia a great deal in lost taxes and royalties, and was most likely putting Mongolia's gold in the hands of Chinese traders".

"Gold that is mined in Mongolia should not be sent to the Bank of China", said Zoljargal. "The current situation has something like 100 percent of gold mined exported abroad and Mongolia is imposing a mere 5 percent tax on the export".

Approval of the gold bill would be more beneficial to gold producers, said parliamentarian Badmaanyambuugiin Bat-Erdene. It also be might able to attract foreign currencies for the reserve, said Bat-Erdene, who notably was one of the main proponents of the Long Name Law. The Gold Pro-

ducers Association said the bill could see the return of gold activity from 2004 and 2005, when Mongolia was mining between 21 and 24 tonnes of gold a year.

But not everyone is in agreement, with some members of the opposition Mongolian People's Party and independents questioning whether the law may have some to do with the Oyu Tolgoi copper-gold mine.

"USD 90 million from royalties is expected to be generated from Oyu Tolgoi", said independent parliamentarian Ts. Davaasuren. "If the royalty goes down to 2.5 percent, some USD 37 million will be subtracted."

A spokesperson from Oyu Tolgoi denied the allegations, however, pointing to the stabilised taxes from the 2009 investment agreement.

"The law, which offers a reduced royalty on pure refined gold sold to the Mongolian central bank, would not apply to the company because it produces minerals, including copper, gold, silver, and molybdenum, in

concentrates—not pure refined form," said the spokesperson. "Moreover, the company's royalty rate for all products in concentrates was stabilized in the 2009 Investment Agreement".

Not covered by the investment agreement, however, are the gold reserves subject to the Oyu Tolgoi-Entree Gold license. The spokesperson declined to comment.

While approval of the gold mining bill would mean a reduction of up to USD 50 million in taxes to be paid by miners each year over the five-year lifetime of the law, it could bring an additional USD 2 billion in gold reserves for the central bank annually as well.

Preliminary estimates by the Ministry of Economic Development have also projected USD 8.5 billion to USD 10 billion in additional foreign currency reserveS generated.

With the exchange rate value of the tugrug swinging back and forth so frequently in 2013, the added stability from a diverse reserve portfolio in the central bank would be welcomed by many. ■

POLITICS

OYUN RANKS AMONG WORLD'S TOP PERFORMING FEMALES IN MINING

BY B. BYAMBATSOGT

Mongolia's leading female politician Minister of Environment and Green Development Sanjaasurengiin Oyun was included in the 100 Global Inspirational - Women in Mining list by the British organization Women in Mining (WIM).

According to the organisation's Chairwoman Amanda Van Dyke, "The mining industry had fewer women on its boards and in its senior executive positions than any other major global industry, and by a considerable margin."

WIM, a non-profit organisation dedicated to promoting the employ- ➤



ment, retention and professional development of women in the mining and minerals sector, selected 100 women out of a selection of 500 based on their lasting impact in the industry and their effect on other women in the industry. The women recognised are not awarded any statuettes or certificates – but are simply named for their distinguished work within the mining industry.

“Those we selected stand out in a number of ways”, said Van Dyke in her foreword while explaining how difficult it was to choose those named on the list. “They have a lasting impact on the industry. They support other women in mining, and the communities and environments impacted by the industry. We wanted to make sure that regardless of career stage, discipline or jurisdiction, the end result also encapsulated how diverse and high achieving women in our industry are.”

Oyun was the only Mongolian to make the list,

“She began her career at multinational mining company Rio Tinto but after the murder of her brother, a prominent Mongolian politician, she entered into politics. Oyun founded the Civil Will Party and has chaired a number of key standing committees, focusing in particular on legislation to improve anti-corruption, election financing and the Millennium Development Goals.”

Most of the women who made the list have had at least 20 years’ experience in mining. Many women were

noted for their work in NGOs to support women in mining, the rights of mine employees, supporting legislature concerning flexible work hours, supporting the local communities residing near mines and assisting women who planned to work in the mining industry.

Another woman recognised was Maria Consuelo Araujo, chief executive of Colombia’s largest gold mining company Gran Colombia Gold, who is known for leading several community and cultural initiatives in the areas where Gran Colombia operates. Initiatives include land donations to families, promoting educational initiatives for girls, introducing music programs and bringing safe drinking water to local towns.

Maryse Belanger, Senior Vice President of Technical Services at Canadian Goldcorp Inc is noted for being an active advocate for women in mining, working tirelessly to further the careers of women working in this traditionally male-dominated industry.

Another exceptional woman in the

mining industry named was Sandra Collins, who was the first woman to study mining engineering in Queensland and the second in all of Australia. In 1985 Collins appealed against, and gained an exemption from, legislation that prevented women from working underground in order to work and study for her underground mine management certification.

Collins’ leadership of organisational diversity councils also helped to secure paid maternity leave, flexible hours, part-time work and equitable pay and policies for many women in the industry.

One of the catalysts for the list was WIM found that companies with women on their boards significantly outperformed those without, in terms of recorded profits, resource-to-reserve definitions and sustainability, among other metrics---. So while those women have done much for equality, they have likely contributed largely to the successes of the companies they work for as well. ■

OYU TOLGOI

A TRANSITION YEAR FOR OYU TOLGOI

BY B. BAYARTOGTOKH

We have just entered 2014, which has many wondering how will the economy perform this year? Oyu Tolgoi is one of the major players in the economy, and Mongolia will for sure be dependent on the mine for the coming decades.

Mongolia made its choice in 2009 for Oyu Tolgoi to stand as the main pillar of its economic development. In 2013, Oyu Tolgoi’s production was launched. The board approved USD 1.3 billion for investment costs for Oyu Tolgoi in 2014. The state bud- ▶

get has projected total sales revenue of USD 2.6 billion this year from Oyu Tolgoi.

In 2013, Oyu Tolgoi produced 250,000 tonnes of copper concentrate in total. The mine reported the delivery of 70,000 tonnes to the Gants Mod warehouse at the Chinese border point, of which some 20,000 tonnes has been purchased by Chinese copper mills, according to Oyu Tolgoi.

This year is supposed to be a transition period from development to production for Oyu Tolgoi and a resolution to the conflict over investment for the underground mine shaft and other longed-contended issues of negotiation. The greenlight for the underground mine would mean a sharp increase in the volume of production from Oyu Tolgoi.

Oyu Tolgoi expects to produce 690,000 tonnes of copper concen-

trate in 2014. The mine's plans have it producing 200 times as much as Erdenet Mining, once Oyu Tolgoi's production stabilises and production output increases.

For Oyu Tolgoi, last year was full of negotiations. It also was a special year when it started its mining operation and export to China. The investors marked the year of 2013 as a historic year. This year there will be an increase in the production, improvement in efficiency and greater benefit from Oyu Tolgoi. Hopefully, this year will also bring greater political stability now that the elections are complete. 2014 will be an opportunity that should not be missed out by Oyu Tolgoi.

This year could also be the start to the transition to an underground mining operation in conjunction with production from the open-pit mine.

Recent negotiations held between Rio Tinto and the government of Mon-

golia are likely to see an end before Tsagaan Sar, the Mongolian lunar new year, said board member Chuluuntseregyn Otgolchuluu. Of the total 30 issues under contention, some 21 issues have been resolved. Otgolchuluu said that both parties had reached an integrated deal.

The ongoing negotiations will be focused on discussion over the underground mining operation and creating conditions for greater cooperation between the government and investors. Talk will also cover the approval of a feasibility study for the underground mine shaft.

If the negotiations are a success, the underground mine shaft is expected to be put into operation by this summer, said Oyu Tolgoi board member Davaadorjiin Ganbold at a December 23 press conference.

Otherwise, Mongolia can expect more delays. ■





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 December:

BUSINESS

OYU TOLGOI APPROVES 2014 BUDGET

The Oyu Tolgoi LLC board of directors unanimously approved the company programme, plan and budget for 2014. The decision was taken at the quarterly board meeting held in Ulaanbaatar from December 11 to 12.

"It's great to have unanimous board support for the project's coming year", said Craig Kinnell, president and chief executive officer of Oyu Tolgoi. "This is a sign of confidence in the entire 8,000-strong Oyu Tolgoi team. After safely ramping up production this year, we're now looking forward to our first full year of exporting business".

Source: Turquoise Hill Resources Ltd.

ERDENES TT UNLIKELY TO PAY \$160M DEBT TO CHALCO IN 2013, SAYS CEO

Erdenes Tavan Tolgoi LLC will not likely meet its target for paying off debt owed to Aluminum Corp. of China Ltd. (Chalco) by the end of this year, its chief executive told newspaper Uls Turiin Toim.

"To date, we have paid off about 60 percent of total debt and the remaining amount is about USD 160 million out of USD 350 million", said Erdenes Tavan Tolgoi Chief Executive Officer Yachil Batsuuri.

The state owned coal miner will sell 600,000 tonnes of coal on top of the one million tonnes of coal already sold for a net profit of USD 70 million to USD 80 million, Batsuuri said. A six-month halt in shipments was the primary factor for delayed payment of total debt owed, he said. Although production at Tavan Tolgoi was on target, he said, the transportation issues prevent it from making the sales required to fully pay of its debt.

"The coal being extracted from the East Tsankhi of the Tavan Tolgoi site is fully devoted to paying off the Chalco debt of USD 350

million and therefore, in order to work benefaction, we have been developing the West Block since July and started to export coal from September this year", said Batsuuri.

He said Mongolia had successfully negotiated new terms for coal sales after months of selling its coal reserves at a below-market rate. The current deal is due to expire at the end of 2013, he said. He added that Erdenes Tavan Tolgoi plans to issue shares on international markets in 2015.

Source: Info Mongolia

ECONOMY

FITCH AFFIRMS TWO MONGOLIAN BANKS AT 'B'; REVISES OUTLOOKS TO 'NEGATIVE'

Fitch Ratings on 16 December revised the outlook on the Long-Term Issuer Default Ratings (IDRs) of Khan Bank LLC and XacBank LLC to "Negative" from "Stable". At the same time, the agency affirmed the two Mongolian banks' IDRs and viability ratings at 'B' and 'b'.

Ratings on the two banks could be downgraded if pressures on asset

quality and liquidity intensify. Persistent local-currency depreciation would reduce borrowers' repayment capacity and could lead to accelerated deposit withdrawals given the country's high level of dollarization. The banks' ratings also remain sensitive to the withdrawal of credit stimulus, as this could result in asset deterioration on slowing economic growth or higher inflation. Further decline in the government's international reserves could also trigger a negative rating action, as the banks' currency-related risk is counterbalanced by the authorities' swap facility and unlimited foreign-currency conversion. Both banks' ratings are also sensitive to any changes in their steady access to capital from private-sector owners.

The rating actions are as follows: Khan Bank Long-Term Foreign-Currency IDR affirmed at 'B'; Outlook revised to Negative from Stable Short-Term Foreign-Currency IDR affirmed at 'B'; Long-Term Local-Currency IDR affirmed at 'B'; Outlook revised to Negative from Stable Viability Rating affirmed at 'b' Support Rating affirmed at '4' Support Rating Floor affirmed at 'B' ▶

► XacBank Long-Term Foreign-Currency IDR affirmed at 'B'; Outlook revised to Negative from Stable Short-Term Foreign-Currency IDR affirmed at 'B' Long-Term Local-Currency IDR affirmed at 'B'; Outlook revised to Negative from Stable Viability Rating affirmed at 'b' Support Rating affirmed at '5' Support Rating Floor affirmed at 'B'.

Source: Fitch Ratings

MONGOLIA SCORE FALLS ON POLITICAL RISKS INDEX FOR MINING INVESTMENT

An annual survey by Behre Dolbear of political risks saw Mongolia decline 5 points in an index ranking Mongolia 19th out of 25 countries.

Mongolia this year received a score of 26.9 compared with 32 last year. Leading the countries surveyed was Australia, down 0.7 points from last year. Russia, with a total score of 17.1 compared with 16 last year, was the lowest ranking.

The 25 countries considered in this year's survey are ranked based on seven criteria:

- the country's economic system,
- the country's political system,
- the degree of social issues affecting mining in the country,
- delays in receiving permits due to bureaucratic and other issues,
- the degree of corruption prevalent in the country,

- the stability of the country's currency, and
- the competitiveness of the country's tax policy

Each criterion is rated on a qualitative scale from one (worst) to 10 (best) that reflects conditions that promote investment growth in the mining sector. The maximum score attainable for a country is 70 points.

Source: Behre Dolbear Group

POLITICS

MINERALS POLICY ENTERS FINAL DISCUSSIONS

The government published a final draft of Mongolia's State Policy on the Minerals Sector for 2013 through 2025.

"We have reviewed the proposed State Policy on the Mineral Sector, which we feel will be a positive step forward if passed", said the Source.

The proposed policy is divided into four main sections: rationale, principles, main policy and implementation-results. The major points stressed in the policy include transparency and responsible mining. The law sends the message that growth is going to be driven by private sector participation and the intent to provide a stable investment environment, technological innovation and value-added activities.

Key priorities of the law since it was first unveiled include stability of taxation and the legal environment, an end to any discrimination between foreign and

national investors, and the preservation of strategic resources and deposits.

This most recent version saw the inclusion of a new section supporting development of local areas and the interests of local citizens. Other key elements include exploration—which would see greater government regulation for strategic mineral deposits while cutting down bureaucracy and conducting scientific research—production support, and local support.

The new draft has removed the risk assessment section and replaced it with a section on implementation. This includes the improvement of the legal environment and producing of relevant regulations, programmes and projects to take place between 2013 and 20205.

"We believe that this policy will take us one step closer to attracting investors and supporting private sector development in Mongolia", said the Source. "Despite current investor hesitation, this state policy, in addition to the new amended Minerals Law set to pass next year, will further encourage investors to enter the market and will build support for the junior mining community".

Source: Mongolian Investment Banking Group

PARLIAMENT UNANIMOUSLY BACKS "SMART GOVERNMENT" INITIATIVE

Parliament has unani-

mously backed President Tsakhia Elbegdorj's "From Big Government to Smart Government" initiative for government reform concepts, having signed a joint statement of support on December 13.

The joint statement gives full support to the president's initiative, and commits to cooperation for its undertaking. This includes support for enhancing government systems and policies in line with democracy and a market economy, improving the capacities of public services, and curtailing government intervention into private business affairs. Also included are protections to private business, including establishing government structures for rule of law, support to domestic industries, and honoring contracts. The fight against corruption is another main prerogative.

On November 16 the Office of the President of Mongolia organised a national consultative meeting on this topic at the Government Palace. Elbegdorj next met with members of the parliament on December 9 to organize an open dialogue with representatives of parliament for an appeal for them to sign the joint statement.

Reaffirming the commitment of the Mongolian lawmakers to a breakthrough reform of the government, the leaders of parliament and independent members signed a document for the reform on December 13.

Source: Montsame ■