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MONGOLIAN ECONOMY

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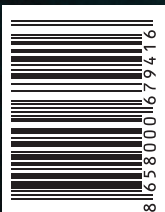
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2015





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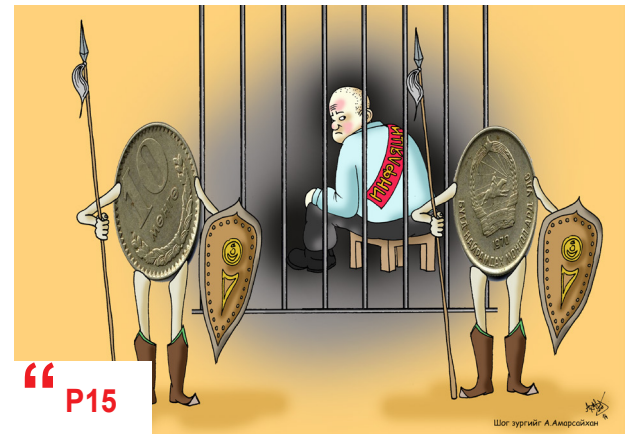
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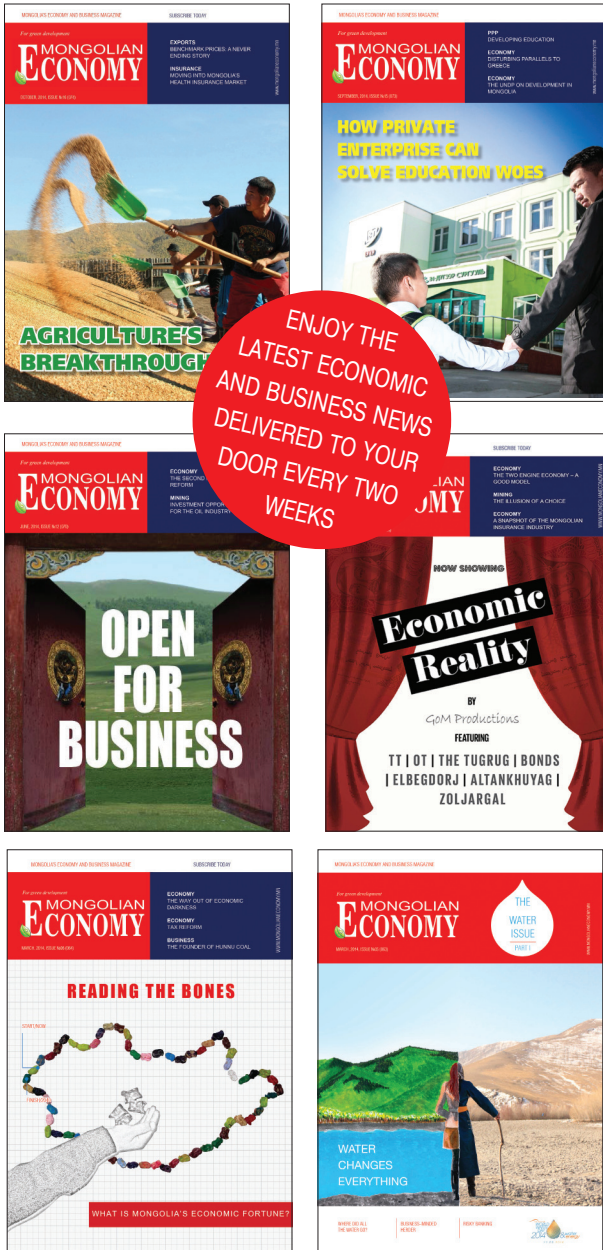
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MONGOLIA

Housing update



The Central Bank, seeking to address the rampant need for housing in Ulaanbaatar, has actively supported programmes for citizen housing in recent years. In 2013, they issued MNT 582.8 billion for new housing, MNT 872.1 billion for refinancing housing loans, MNT 296.1 billion for subprograms supporting the production of construction materials, MNT 429.5 billion for increasing the housing building supply, and MNT 70 billion for ger district infrastructure improvement and land releases from the government. A total of 16,500 household accommodations were commissioned, while over 14,685 citizens took housing loans from banks. Since the figures were collected in 2013, housing prices have risen by 26 percent.

Targeting tourism

Mongolia ranked 99th globally in a competitive index of tourism in 2013, according to the Ministry of Culture, Sports and Tourism. The Ministry is targeting 90th place in 2017, and 80th by 2020. To help promote tourism, Mongolia is to attend the ITB Berlin 2015 travel trade show as a partner country next March. Participation in the event can increase the number of tourists to the country by 20 to 30 percent, according to Ministry officials. The push for tourism and the major presence at ITB Berlin is to grow the sector into a larger contributor to the domestic

economy. The event offers Mongolia the opportunity to project abroad its image as a tourist destination, which will directly and indirectly help develop culture, entertainment, infrastructure, roads, agriculture, production and services back home.

Stock exchange

The Mongolian Stock Exchange has started cutting its costs in response to the worsening condition of the economy. A 23 percent reduction of total expenses means the removal of the positions Head Vice President, Vice President, and their drivers, the canceling of bigger purchases, and improvements to the internal structure. Employees of the stock exchange were hit with a salary reduction of 30 percent. Despite the downsizing and efficiency measures, the Mongolian Stock Exchange continues to carry out numerous positive initiatives, such as renewing the collaboration agreement with the London Stock Exchange for an additional three years, rebuilding the government bond trade, renewing the complex rules for monitoring, registration and membership, and obtaining approval for the renewal by the Financial Regulatory Commission.

Reinsurance need



Mongolian insurance companies reinsure their risks with foreign companies. By the third quarter of 2014, MNT 23 billion had been paid abroad for the year. The

first domestic agricultural reinsurance company is to be established in connection with the approval of this year's Law on Livestock Index Insurance. P.Tserendejid, Head of the Policy and Planning Department of the Insurance Office of the Financial Regulatory Commission, said that the continued increase of reinsurance fees results in rising currency outflow abroad. The activity for creating a national reinsurance company has been under way in order to increase the capacity of insurance companies and limit cash outflow abroad to a certain level. Specialists confirm that the creation of such a company will bring positive benefits to the economy and help in the development of Mongolia's insurance sector.

WORLD NEWS

Rio Tinto update

Glencore plc, an Anglo-Swiss mining company ranked tenth on the 2014 Fortune Global 500, is ramping up plans for a takeover of Rio Tinto Group, according to Bloomberg News. Ambitious Glencore CEO Ivan Galsenberg—who spearheaded his company's 2013 USD 29 billion acquisition of former mining-giant Xstrata—has expressed continued interest in acquiring Rio Tinto, including a failed USD 160 billion takeover proposal rejected by Rio in July. As part of any potential takeover process, Glencore would seek to sell off several Rio Tinto assets—the most likely sale to be Mongolia's Oyu Tolgoi mine project. During Glencore's merger process with Xstrata, Xstrata was forced to sell its USD 6 billion Las Bambas copper mine in Peru to the Chinese.

As Mongolia's Oyu Tolgoi mine remains in stasis—with no political or developmental progress on the horizon for its multi-billion dollar phase II expansion—the mine has turned into a short-term liability for Rio Tinto and any potential acquirer. Chinalco, a Chinese state-owned multinational aluminum company—and Rio Tinto's biggest shareholder, owning nearly 10 percent—is likely to be the most ready buyer of Rio assets in any potential Glencore acquisition. Because Glencore attempted a merger with Rio Tinto in July, British law requires a period of wait before their next bid—allowable as soon as April 2015.

China-Australia free trade agreement



China and Australia have signed a Declaration of Intent for a Free Trade Agreement (FTA) between the two countries, after more than 10 years and 22 rounds of negotiations. China will remove barriers to Australian exports of dairy, beef, sheep and wine. The tariff on coking coal is to be removed right away, while the tariff on thermal coal is to be removed within two years. The FTA was signed during Chinese President Xi Jinping's visit to the Australian capital of Canberra. China is the largest market for Australian exports—especially agricultural and mining products. Within 10 years, 95 percent of Australian exports entering China are to be tariff-free, including copper, gold, oil, and iron ore.

Putin to visit India

Russian President Vladimir Putin is to visit India in December, to strengthen ties as Russia faces continued economic sanctions from the West amidst the drawn-out crisis in the Ukraine. Russia seeks to diversify its energy exports, and is looking to expand a future oil or gas pipeline into India. Russia and India have a long history of trade and strategic partnership, which will likely increase as newly elected Indian Prime Minister Narendra Modi seeks stronger economic relations with Russia. Expansion into the Indian market comes only months after Russia's USD 400 billion Gazprom energy deal to construct a pipeline into China.

Indonesia's budget control

Indonesia has ordered officials to eat local street food at meetings instead of fancy foreign fare and to stop holding lavish parties, the latest moves by the new government to crack down on bureaucratic excess. Snacks such as cassava, steamed corn and yam cakes should be served at official gatherings, while the number of guests invited to high-ranking bureaucrats' parties should be limited to 400, a minister said. President Joko Widodo, who took office last month and is known as a modest figure from a humble background, has made reining in official spending and trimming back the graft-ridden nation's bloated bureaucracy a key goal. He has already slashed travel and meeting budgets for next year, and last week sought to lead by example when he flew economy class to Singapore for his son's graduation, winning widespread praise online. ■

MONGOLIA THE LATEST ON TWITTER

Thomas Eriksson @ThomasE_UNDP Nov 28

Only 528 #Mongolia has voted on <http://vote.myworld2015.org/> - they say education, healthcare & honest govt most important

Voters for My World 2015—the United Nations Global Survey for a Better World—can select six issues that are most important in their lives. Voting is a direct way for people to share their voice globally and to help shape a better world.

UNESCO @UNESCO Nov 27

#IntangibleHeritage: Just inscribed on our Representative List #Mongolia<http://ow.ly/EYmKD>

Mongolian knuckle-bone shooting has been inscribed on UNESCO's Representative List of the Intangible Cultural Heritage of Humanity. Knuckle-bone shooting is a team-based game where players flick domino-like tablets from a smooth, hand-held wooden surface towards a target of sheep knuckle bones.

Jargalsaikhan @SJJargalsaikhan Nov 20

US, UK, France joined by #Mongolia among others as fund tops \$9 billion #GreenClimateFund<http://www.rtcc.org/2014/11/20/green-climate-fund-who-pledged-what/>

Mongolia has pledged USD 50,000 to the Green Climate Fund, a fund within the United Nations Framework Convention on Climate Change and the centerpiece of efforts to raise USD 100 billion by 2020. The fund supports projects, programmes, and policies to assist developing countries in fighting climate change.

UNFPA Mongolia @UNFPA_Mongolia Nov 19

#Rightnow, #Mongolia-n Delegation joins 480 women in Bangkok to call on govts to reaffirm #Beijing20 commitments

The United Nations Population Fund (UNFPA) joined an UN-led conference in Bangkok, Thailand, where journalists, civil society, and government representatives from around Asia-Pacific met to advance gender equality in the region. Several Mongolian journalists, civil society participants, and government delegates were in attendance at the 'Asian and Pacific Conference on Gender Equality and Women's Empowerment: Beijing+20 Review.'

Schattendoppelganger @Erdembayar_ts Nov 29

The factory has a capacity to produce 1,600 km long railway, so it means we have the capability to produce cheaper railways. #BerenMetal

Mongolian company Beren Group is building a domestic iron ore processing factory to provide for internal demand, the first step in domestic railway production.

Duuren T @TDuuren Dec 1

The copper price falls, the USD rate rises--they could eventually meet.

#the2thatfallandrise

The copper price at the Chinese marketplace reached USD 6,738 per tonne in October of this year, a 1.94 percent fall from September. Meanwhile the dollar exchange rate strengthened to MNT 1,895.



Photo by B.Byamba-Ochir

Newly elected Prime Minister Ch.Saikhanbileg.

NEW GOVERNMENT

THE PRIME MINISTER'S BIG WORKLOAD

BY S.ZAYA

Two weeks have passed since Ch.Saikhanbileg was elected the 28th Prime Minister of Mongolia, and while the rumored names of potential ministers fly around the government house, the Prime Minister appears foremost focused on the economy.

Prime Minister Ch.Saikhanbileg has expressed his view of government activity as thus: "first is the economy, second is the economy, and third is

the economy." This has created a public expectation that the weakening economy will soon be revived. "Important economic issues must be solved in a disciplined and timely manner. The new government will have a disciplined time frame of 'as soon as possible'. The Prime minister will focus solely on the economy. Therefore, all the powers to solve day to day issues will be fully transferred to the ministers. That means that every minister will be a prime minister within their sector," states Ch.Saikhanbileg.

The Prime Minister agrees the Mongolian economy is on the verge of a crisis, so it is interesting how and by what means he will avoid it. Researchers have repeated that Mongolia will always face potential crises as long as its economy follows the mining sector. J.Delgersaikhan, from the Finance and Economics Institute says: "We would not be facing such a difficult situation if the Chinggis Bond, Samurai Bond, and other bonds were spent to expand the development and diversity the economy of Mongolia. Therefore, »

- ▶ recently approved parliamentary laws should be integrated and ordered to develop mining, industry and agriculture together, to create a farsseeing policy that can develop our country.”

Increasing the debt threshold?

As the dollar exchange rate rises beyond MNT 1,900, weakening the national currency and the buying capacity of citizens, many are wondering how the economy can ever improve. The new government will continue the activities of the former government, according to Ch.Saikhanbileg. Unmentioned, however, is how the new Prime Minister will pay back the Chinggis Bond and Samurai Bond loans of the previous government. Meanwhile, Ch.Saikhanbileg urges: “We need the USD 1 billion soft loan that was promised by Chinese president Xi Jinping during his visit to Mongolia, to finance long-term profitable projects, such as road, railway and infrastructure. By taking the mentioned soft loan, we shall be able to release the Chinggis Bond money, to be put toward road and railway projects.”

How wise is it to take out another big loan? Finance Minister Ch.Gankhuag approves of the loan, but with conditions. “We can take the loan. But first we have to move forward with Oyu Tolgoi expansion and the railway development issues. We look like we have more debt, although we haven’t taken any additional loans. State debt has reached 60 percent of GDP because of the variation in the currency exchange rate. We cannot take more loans until deciding these issues.”

Supporting national projects

The released bond money will be used for creating a fund for private sector investment guarantees, and financing production projects to support exports and replace imports. According to the Prime Minister, only by doing this can the Chinggis Bond be repaid in 2018. For the aforementioned works, the soft loan from China will play a similarly significant role.

Financed megaprojects include the construction of a coal gasification plant, two railways and the Taliin Zam (Steppe

Road). The development of two new power stations are to follow.

With an aim to support the private sector and rally business in the fight to avoid a crisis, the Prime Minister looks to focus on creating a more open and welcoming

“First is the economy,
second is the economy,
and third is the economy,”
said Ch.Saikhanbileg of his
government’s priorities.

business environment. Such draft bills as the Law on Special Permits and Licenses and the Law on Economic Transparency are to be immediately reviewed in parliament for approval, to

remove the current barriers to mining expansion and private sector growth.

The Prime Minister is also considering use of the ‘bail out’ method, successfully applied by a series of countries during the 2008 global financial crisis. At present, companies do not have the collateral for additional bank loans.

According to a survey of 180 companies willing to invest in Mongolia, 140 stated that their decision will depend on progress with the Oyu Tolgoi and Tavan Tolgoi mines. The Prime Minister says: “We have been talking about Oyu Tolgoi and Tavan Tolgoi for years. So it is high time we move forward on two or three additional strategic deposits. Mongolia has a population of just 3 million and budget just over USD 10 billion. The correct policy change, while moving ahead with two or three big projects, can sharply avert a crisis.” Strong words. It is up to the Prime Minister and his government to deliver. ■

BUDGET 2015

FLAWS IN THE NEW BUDGET

BY S.BATZAYA

The Mongolian government is tightening its belt with the 2015 State Budget, and many Mongolian families will have to do the same. The number of state officials is to be drastically cut. 345 employees, newly appointed in vice, deputy and consultant positions, will be fired to save MNT 3 billion, followed by 540 scratched state work positions to save MNT 4 billion and slashed expenses for goods and services to save another MNT 32 billion.

The 2015 budget operates under the assumption that current 13 percent

inflation will be cut down to 7 percent by the end of 2015, and that economic growth will be 7 percent for the year.

The balanced total revenue of the 2015 total budget is to be MNT 7,159.9 billion, or 29.8 percent of GDP. The total budget expenditure against the balanced revenue is MNT 7,599.2 billion, or 31.7 percent of the GDP. The result is a MNT 439.2 billion budget deficit, or 1.8 percent of GDP. The 2015 budget shows an increase of 4.1 percent over this year’s balance, and an over 20 percent increase since 2013.

L.Amar, economist at the Local ▶

▶ Representative Office of the Asian Development Bank, notes: “Expenditure should be limited by revenue. State revenue is forecasted to be the same as the previous year’s revenue. But the growth is calculated to be 20.2 percent more in the coming year’s budget. It’s not easy to reach such growth. Economic growth has been slow. The government predicted 7.5 percent growth—but only if bigger projects are solved in the beginning of next year, and their investments are made accordingly. But the political situation has changed, which creates uncertainty for next year’s budget.”

Cuts in education and health

Budgeted provisions for investing in Mongolia’s future have been significantly reduced. Professor R.Delgersaikhan, from the Financial Management Faculty of the Institute of Finance and Economy, says: “Investments of previous years have continued, but additional financing for these have not been budgeted. Some works requiring continued investment have been left behind—especially the budgeting for the education and health sectors. The budget is the core financial source for state policy implementation. It is not a good for it to reduce the education sector’s budget. Pre-school, primary and secondary education represents the future of Mongolia. Our country will develop along with high quality education, with a quality environment to study.”

While lawmakers say that they are continuing to invest in the education and health sectors, budgeting for medical organizations and major medical centers has been reduced by MNT 2 billion to 3 billion, according to surveys conducted by the Open Society Forum. Budgeting for Vocational Training Centers was similarly reduced by MNT 100 million. “It is not good for lawmakers to say

that Mongolia will support production and development of the workforce, when they simultaneously reduce their budgets,” says L.Amar.

Lowered expectations for mining sector



Parliament continues to approve large money flows separate from the state budget, avoiding the provision that dictates the budget deficit should not exceed 2 percent of GDP

2015 coal exports are expected to reach 20 million tonnes. This is a far more realistic figure than the 31.4 million tonnes planned for 2014—when the actual amount barely staggered to 10 million tonnes. Such miscalculations greatly influence the budget, and add countless obstacles

to state policy implementation. To compound the estimates, the 2014 balanced price for coal was calculated to be as high as USD 80 to 130 per tonne—of course, prices for the year never reached that height. The government welcomed such an erroneous oversight when it appeared likely to gain MNT 217.2 billion in taxed revenue from coal exports for the state budget. The current price for 1 tonne of Mongolian exported coal is between USD 35 to 50. A total of MNT 1,126 billion was to be accumulated from the mining sector according to this year’s budget. Yet as commodity prices fluctuate to the whims of the world market, prices have remained lower than expected. Researchers warn of a continued decline in the price of copper.

A unified budget

Economists and researchers have repeatedly stressed the need for a single budget that includes all state expenses. Money flow outside the budget has reached alarming amounts over the last two years. To economist J.Delgersaikhan, the state budget should be unified. Yet parliament continues to approve large money flows separate from the state budget, avoiding the provision that dictates the budget deficit should not exceed 2 percent of GDP. The provision, known as the Law on Budget Stability, is a law that parliament has broken time and again when setting aside expense for the Development Bank of Mongolia.

Despite repeated calls by domestic and international experts for a single, unified budget of Mongolia, expenses of the Development Bank remain separate once more in the 2015 budget. L.Amar stressed the importance for expenditures of the Development Bank to be included in the budget, as that would see it enter the realm of the Law on Budget ▶▶

- ▶ Stability, and lead to tighter budget discipline.

The need for a budget amendment

The inflation rate at the end of 2015 is scheduled to be 7 percent, according to the budget. This is greatly dependent on economic conditions and the success of policies to be carried out. A strong monetary policy can ensure 7 percent inflation, as long as it curbs inflationary pressure

with both traditional and nontraditional policy tools. Meanwhile, the currency exchange rate has been calculated at MNT 1,750. L.Amar says that tacking the currency rate to a targeted number is not suitable for a country like Mongolia, with such a small economy and insufficient currency reserve. Rather, the currency rate should be based on demand and supply, while being freely convertible, to protect the economy from negative outside influences.

Prime Minister Ch.Saikhanbileg was

not yet in power when the 2015 budget was under review. He has since called for the need to amend the budget in the near future, as it was approved before his election and provided for a now void government structure. A budget amendment is necessary due to the government restructuring on the horizon. Expenditure and revenue planning, and money flow outside the budget, are to be the main issues in any discussion of a budget amendment in parliament. ■

BUDGET 2015

EXPENDITURE DETAILS

BY E.ZORIGT

Mongolian Economy magazine herein provides a comprehensive list of budget expenditures from the recently approved 2015 state budget.

The 2015 budget has two important new features. First: a change in the expenditure strategy for long-term projects. Total financing is to be provided upfront for the completion of projects, instead of varying fractions of the total renewed year to year. Over 80 percent of total projects in the 2015 budget are to be completed within the year.

Second: projects that were put on hold for 2014 are once more included in the 2015 budget. This includes the commissioning of development projects for 34 kindergartens, 10 power transmission lines, 53 schools, 18 dormitories, 14 sports halls, a swimming pool, 37 cultural centers, and 27 hospitals.

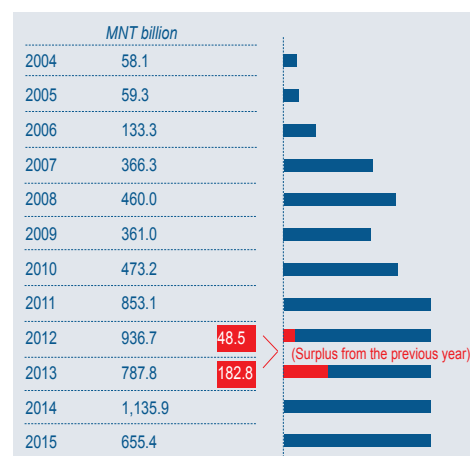
Number of projects and years of completion; from 2015 State budget investment

Number of projects	End in 2015	End in 2016	End in 2017, 2018
457 project	393 project	60 project	2017-3/ 2018-1
100%	85.9%	13.1%	0.8%

Number of projects and years of completion; from 2015 Development Bank investment

Number of projects	End in 2015	End in 2016	End in 2017
22 project	19 project	2 project	1 project
100%	86.4%	9.1%	4.5%

State budget revenue over the years



2015 budget expenditures

#/A	General Heads of the budget	Amount (MNT million)
1	Head of the Presidential Office	7,676.2
	Operational expenditure	7,676.2
2	Speaker of The Parliament	27,327.9
	Operational expenditure	25,175.3
	Expenditure financed by foreign loan and aid	2,152.6
3	Chairman of the Constitutional Court	722.4
	Operational expenditure	722.4
4	General Judge of the State Supreme Court	3,902.7
	Operational expenditure	3,902.7
5	Chairman of the General Court Council	54,854.8
	Operational expenditure	54,854.8
6	Chairman of the Human Rights National Committee	849.5
	Operational expenditure	849.5
7	State General Prosecutor	20,386.6
	Operational expenditure	17,445.0
	Capital expenditure	2,941.6
8	Secretary of the National Security Council	2,124.5
	Operational expenditure	2,124.5
9	General Auditor of Mongolia	8,556.3
	Operational expenditure	8,556.3
10	Chairman of Independent Authority Against Corruption of MGL	9,927.7
	Operational expenditure	9,927.7
11	Chairman of the Financial Regulatory Commission	3,654.2
	Operational expenditure	2,550.8
	Expenses financed by foreign loan and aid	1,103.4
12	Director of State Affairs Council	630.7
	Operational expenditure	630.7
13	Chairman of the National Statistical Office	8,665.8
	Operational expenditure	8,665.8
14	Chairman of General Election Commission	950.2
	Operational expenditure	950.2
15	Chairman of the State Committee for Organizing the Plea/exculpation Activities	683.4
	Operational expenditure	683.4
16	Prime Minister of Mongolia	86,526.4
	Operational expenditure	72,573.3
	Capital expenditure	7,083.6
	Expenses financed by foreign loan and aid	6,869.5
17	Deputy Minister of Mongolia	113,777.4
	Operational expenditure	88,002.3
	Asset expenditure	21,235.1
	Expenses financed by foreign loan and aid	4,540.0
18	Chairman of the Government Affairs Office	22,847.0
	Operational expenditure	14,939.7
	Capital expenditure	4,368.7
	Expenses financed by foreign loan and aid	3,538.6
19	Minister of Environment and Green Development	80,463.7
	Operational expenditure	58,661.6
	Capital expenditure	8,389.5
	Expenses financed by foreign loan and aid	13,412.6
20	Minister of Foreign Affairs	56,552.9
	Operational expenditure	52,317.9
	Asset expenditure	4,200.0
	Expenses financed by foreign loan and aid	35.0
21	Minister of Finance	2,296,634.1
	Operational expenditure	1,100,832.8

	Expenses financed by domestic sources	63,471.8
	Asset expenditure	62,435.3
	Expenses financed by foreign loan and aid	24,516.3
	Government bond main payment	898,654.1
	Main payment for foreign project loan of the Government	141,400.6
	Main payment for domestic loan of the Government	5,323.3
22	Minister of Justice	425,307.0
	Operational expenditure	367,825.3
	Asset expenditure	57,481.7
23	Minister of Road and Transportation	324,449.4
	Operational expenditure	25,555.8
	From it: Specific transfer for land relations and cadastre	7,014.7
	Capital expenditure	145,896.6
	Expenses financed by foreign loan and aid	152,997.1
24	Minister of Defense	201,345.1
	Operational expenditure	184,985.8
	Asset expenditure	8,818.1
	Expenses financed by foreign loan and aid	7,541.2
25	Minister of Education and Science	1,140,965.9
	Operational expenditure	941,128.5
	From it:	
	Specific transfer for pre-school education	246,795.3
	Specific transfer for general education	526,932.0
	Loan from domestic sources	21,837.2
	Asset expenditure	168,454.2
	Expenses financed by foreign loan and aid	9,546.0
26	Minister of Culture, Sport and Tourism	214,791.8
	Operational expenditure	98,997.0
	From it:	
	Specific Transfer for cultural service	42,335.6
	Specific Transfer for public sports	138.1
	Specific transfer for culture and public sports	10,515.9
	Asset expenditure	115,794.8
27	Minister of Mining	98,341.7
	Operational expenditure	39,442.1
	Asset expenditure	42,997.3
	Expenses financed by foreign loan and aid	15,902.4
28	Minister of Industry and Agriculture	167,608.0
	Operational expenditure	117,260.5
	Loan from domestic sources	2,100.0
	Capital expenditure	21,978.6
	Expenses financed by foreign loan and aid	26,268.8
29	Minister of Labour	410,859.7
	Operational expenditure	371,367.5
	Expenditure financed by domestic loan	24,000.0
	Capital expenditure	14,912.3
	Expenses financed by foreign loan and aid	580.0
30	Minister of Human Development and Social Welfare	409,050.3
	Operational expenditure	392,243.8
	From it: Specific transfer for children development and protection	6,554.1
	Capital expenditure	14,386.9
	Expenses financed by foreign loan and aid	2,419.6
31	Minister of Health	606,131.4
	Operational expenditure	484,866.9
	From it: Specific transfer for medical first aid service	99,440.1
	Capital expenditure	57,625.4
	Expenses financed by foreign loan and aid	63,639.2

Source: the Ministry of Finance

BUDGET 2014

LOW REVENUE, NO DEVELOPMENT

B.BAYARTOGTOKH

The Ministry of Finance announced that state revenue, as of October 2014, is MNT 778 billion lower on the year than initially projected in the 2014 State budget. Such a steep drop in revenue will put a serious damper on development.

The projected budget revenue for 2014, when it was planned a year ago, was to be MNT 6.8 trillion. State revenue is now forecast to fall 12.5 percent short, equal to MNT 850 billion, by the end of the year. M.Batgerel, chairman of the department of the unified fund for local development at the Ministry of Finance says: "The budget revenue of

Mongolia has fallen with the decrease of commodity prices on the international market." Current macroeconomic conditions affecting major export prices and their quantities have been the main influence on the less than expected budget revenue.

In the 2014 budget created a year ago, the economy was to expand by 14.8 percent and reach MNT 20.4 trillion by the end of the year, effectively doubling Mongolia's economic capacity. But economic growth in the first half of 2014 was a relatively meagre 5.3 percent. The Ministry of Finance responded at the time by targeting 7 percent growth for the remainder of the year; yet this estimate

has proved to be less reality than prayer. Last month, Mongol Bank released incredible news that total 2014 economic growth is now projected to be a dire 3.6 percent.

State investment expenditures budgeted for 2014 were to be around 1.1 MNT trillion, with new projects receiving MNT 930.3 billion, or 81.4 percent of total budgeted investment. Projects included the construction of 69 kindergartens, 49 schools, 28 dormitories, 30 hospitals, 27 cultural centers, and 681 kilometers of paved roads. In addition, five treatment complexes and 1,032 meters of concrete bridges were scheduled to break ground. Unfortunately, because of the horribly ▶▶



► misjudged budget calculations, nearly every development project has amounted to nothing but wasted paper. The budget, even without the development works, barely manages to finance its wages, pensions and bonuses with bonds.

That budget revenue is fully dependent on a single, faded sector highlights the necessity to diversify the economy and widen revenue channels. The export revenue of coal, iron ore, copper, gold and fluorspar, the major contributors to the budget for years, decreased by 22 percent in 2014. Coal purchase prices in

China likewise have fallen by 40 percent due to economic conditions in China. Only a third of the 31.4 million tonnes of coal exports projected for 2014 have been exported to date. The mining sector should be bringing in 12 percent of total project revenue, equal to MNT 1.4 trillion. But with iron ore exports decreased by 36 percent, it's clear that revenue will continue to fall short.

When Mongolia's 2014 budget was first released a year ago, the World Bank issued a report deeming it 'too optimistic'. Meanwhile, the Ministry

of Finance ironically regarded it at the time as "a budget of lessons learned," after similar underestimates plagued 2013. Parliament member R.Amarjargal says, "It will not be a surprise, if the budget deficit reaches MNT 1 trillion at the end of the year." He added that the 2013 budget revenue was MNT 1.5 trillion less than expected. A budget without revenue cannot pay its expenses, so the construction of schools, kindergartens and other projects will be rare for the time being, while their competitiveness will only rise. ■

MONETARY POLICY

2015 MONETARY POLICY CHANGE

B.BAYARTOGTOKH

As the economy worsens, Mongol Bank looks to incorporate several traditional and non-traditional reforms into its 2015 monetary policy. Non-traditional monetary policy measures by the Central Bank include long-term accommodation or housing loans. By October 2014, the number of loan mortgages had reached over 63,000 for the year. However, the success of the housing loan programmes—brought about by an exceedingly popular 8 percent interest rate—may be jeopardized if the high demand for loans leads to a prolonged increase in inflation. In November, Mongol Bank President N.Zoljargal noted the Mongol Bank would change its policy to limit the demand.

An agreement with Russia will bring about additional reform. The Prime Minister announced that Mongol Bank is to establish a direct currency swap agreement with the Central Bank of Russia. The monthly pressure on the dollar exchange rate from fuel imports



will be eased by the agreement. Foreign trade with Russia would be paid in Russian rubles, transferring the biggest expenses to rubles and improving the inflation rate.

N.Zoljargal described 2015's monetary policy as one of "low, constant inflation, financial sustainability, and balance for the macro economy"—not an easy challenge for the Central Bank or the ►

► new government. The dollar is currently equal to MNT 1,900, creating a total loss of budget balance that has reached 24 percent of GDP. Foreign direct investment has declined dramatically to MNT 5.8 trillion. And megaprojects that play a dominant role in the economy have slowed in recent years. Whether Mongolia has hit bottom or will fall further into decline remains to be seen in 2015, after monetary policy reforms take effect.

After 40 days of discussion in parliament, members tasked Mongol Bank with several directives. Among the directives is a unified information structure for macroeconomics between the government and Mongol Bank, to strengthen budget and monetary policy ties. In addition, Mongol Bank is to intensify the renewal of the social insurance and pension fund structure, and improving the legal environment of the Mineral Recourse Fund.

Yet above all Mongol Bank must decrease and hold inflation at a low rate. In October 2014, inflation reached 12.1 percent for the year. Mongol Bank

Whether Mongolia has hit bottom or will fall further into decline remains to be seen in 2015, after monetary policy reforms take effect.

is fighting to reduce and hold inflation at 7 percent. Low, constant inflation is an important aid for the medium and long term sustainable development of the country's economy, the growth of the middle class, and the competitive capacity of the national currency. Mongol Bank is to collaborate with the Financial Regulatory Commission to provide the sustainability of the national currency. For an import dependent country like Mongolia, holding the inflation to two-digit numbers looks to be an ongoing headache for its Central Bank. ■



MONEY

HALTING INFLATION'S RISE

BY E.ZORIGT

My wife, the finance minister of the household, has recently been a bit dissatisfied. To blame is the poor condition of the country's economy, which has put pressure on the family budget, cut our income, and raised the price of meat and flour. Our household finance minister would not be so upset if Mongolia's Central Bank, the main organ to fight inflation, could only keep its promise to prevent prices from rising 10 percent. Mongol Bank's dream is to hold inflation at 8 percent until the end of 2014, lowering it to no more than 7 percent in 2015 and 2016. If the Central Bank did as promised, then today they would be collaborating with the government on inflation limitation, providing key links between monetary and budget policies as the two work side by side improving the macroeconomic situation. But the situation has only worsened, while prices have risen 12.1 percent.

Inflation's rise

A detailed breakdown of inflation from the National Statistics Commission shows that the main reason behind the rising rate is the weakening of the national currency. The tugrug has weakened for two reasons. First, prices for export products have continued to fall. Second, direct foreign investment has all but disappeared. As the supply of US dollars decreases, the increase for its demand only strengthens the dollar.

There are numerous long- and medium-term factors affecting inflation. One factor is the current high denomination value of Mongolian notes. Financial adviser professor at the Business Institute of Mongolian National University, L.Oyun, clarifies: "Inflation is the rise in rate. The rate rise is expressed by the national currency. Inflation has seen the tugrug's small denominations lose their value. A survey entitled 'Demand and supply of ►

▶ national currency small denominations' has been conducted since 2005. In the frame of the survey, are several independent studies, one of which asks 'Is there any country without small denomination currency?' Mongolia does have a demand for small denominations." When considering the currencies of other countries, the average note is 100, while the highest might reach 2,000. Few countries have denominations as high as 5,000 or 10,000 bills. "The higher currency denominations we have, the greater the decrease in value of small denominations," says L.Oyun.

One cent, one von, one mao—each of these small denominations have little value in their respective countries. The 'Demand and supply of national currency small denominations' survey has shown that Mongolians likewise have little use for 1 to 50 tugrug bills. If we do not value the small denominations, there will be no goods available to purchase with them. In short, all products will be expressed by large denomination notes, thus resulting in even further price increases.

"The higher currency denominations we have, the greater the decrease in value of small denominations,"
says L.Oyun, a professor at
Mongolian National University's
Business Institute.

Returning to small denominations

The main objectives of the monetary policy are to maintain a low and constant inflation rate, to provide the sustainability of macroeconomics and the financial sector, and to improve economic immunity. But the monetary policy is limited in its powers, and results often cannot be achieved in a short period of time. The most proven way to hold inflation in check in the short-term is monetary reform, which can generally be understood as regulating money supply. The 'Demand and supply of national currency small denominations' survey team states: "Due to present conditions,

it would be better to reform the 20,000 tugrug note in the market. There are varieties of methods to reform the monetary note. A zero can be removed from the digits—even three or four zeroes. This is a way to fight inflation." If Mongolia pursues such measures to increase the monetary value, it would stop inflation's rise. Russia successfully implemented this method a few years ago. Russia, Kazakhstan, and Belarus had been trying to lower inflation for a long time, but they only achieved progress after instituting such currency reform. Russia turned the old 1,000 ruble note into the new 1 ruble, thus enabling the improvement of the small denomination value and inviting the appearance of cheaper goods.

Raising salaries

While prices have risen, salary rates have continued to drop. Salary sizes are known to be intimately tied to the inflation rate. Income sizes are a product of sales growth. Low income means less spending and fewer sales, as more people have less money to spend on production and services, thereby decreasing production. If the downward spiral continues long enough, you have an economic crisis. Therefore, indexation should be applied, to maintain the purchasing power of the general public during a period of prolonged inflation.

Economist J.Delgersaikhan, Professor of Financial Faculty at the Institute of Finance and Economics, notes that government wage indexation should not go beyond the level of inflation, as if wages exceed rising prices, it will only result in increased inflation. This means that the MNT 500 billion budgeted for government salary and pension growth next year should be increased to match inflation. The Ministry of Finance says that salaries and pensions could rise by 2.5 times. The Ministry is hesitant to increase salaries, as doing so would further increase the budget deficit. L.Oyun offers: "The influence the budget deficit has on the economy is interesting, as it provides economic growth. Therefore, there is no need to worry much about the budget deficit. A salary increase will raise the budget deficit, but production and products will grow with the salary increase. That is why the

salary should be raised by indexation."

In conclusion

There are other methods to hold the inflation rate. China, the main contributor to our economy, raises supply in order to offset inflation. If the price of a certain product rises, China increases the supply of that product; a dominant manufacturer, China can afford such a practice. Unfortunately, J.Delgersaikhan says, Mongolia "has no such possibility to increase the supply. But we still hold prices to support domestic producers in order to have a long-term decrease of inflation. Holding the prices by force will bring nothing but a negative influence to our economy." ■

UPDATE

PRIVATISATION 2.0

BY S.ZAYA

Mongolians today still lack understanding of privatisation. Many recall the end of the socialist period, when the government privatised and formerly state-owned companies were sold to the people. However most conclude that privatisation has been making the wealthy even richer, resulting in an ever-increasing gap between the nation's rich and poor.

Privatisation has had its downsides. Many entities in the social sector that have been privatised are no longer the successes that they once were. Several who have owned entities have stopped delivering the services that were previously provided by the state. Since transfer to private ownership, the Mongolian Children and Youth Theater has changed the routine of its main activities—disappointing for an institution that once was a positive influence on the minds of children. ▶

▶ Similarly, one of the leading circuses in Asia has had its development stop as a result of privatisation. Nevertheless, there are more successes. To name a few: NIK, Gobi, Makh Impex, APU, and Darhan Nekhii.

As stated in the parliamentary resolution draft 'About approving the main directive of 2014-2016 state property privatisation and re-structuring', privatisation is to continue. As privatisation moves forward, D.Bolormaa, head of the State Property Management Office of the State Property Committee, remarks that "We have to learn from the past mistakes in privatisation and carry out collaborative action rather than single ownership. Better privatisation efforts should focus on a company's contribution to the economy. In the early years of privatisation, there were only a few companies that were capable of running activities on behalf of the state. But now the conditions for state property privatisation have been better managed."

The private sector has more opportunity for success than the public sector after a certain period of development. There are few sectors where the state is a necessity--mainly in the maintenance and usage of infrastructure, road development, buildings, ministries, and schools. Potentially 22 state-owned and state-shared entities are to be privatised, as per the resolution draft that is to be discussed in parliament. Privatisation is to occur through open bidding and share issuance.

Parliament to decide

A proposal to privatise four companies in the beginning of 2015 is included in the draft resolution, which is scheduled to add MNT 153 billion to next year's budget. The fall session of parliament has yet to decide which of the 22 entities will go into private hands. This includes 49 percent of MIAT proposed to be privatised through domestic airline companies. Is it risky if the state shares the national airline company with a private company? D.Bolormaa notes: "All private air companies are working with losses as they run separate domestic services. If these companies were united, the losses could be removed. Foreign companies entering our market work profitably, as they are well developed and entering the market ready prepared. Therefore, we have to be united to protect our market."

The State Property Committee is insistent that collaborative or shareholding forms will be applied when selling state-owned companies, instead of just selling the property to a single owner. It stresses that if the property passes into the hands of collaborative owners, it has a greater chance of control, efficiency and success. The State Property Commission has been working on the management of the companies to be privatised. Parliament will decide which of the companies will be sold on the Stock Exchange and which will be sold in bids. They look to avoid single ownership and the

establishment of monopolies. As the draft goes to vote, lawmakers are the key personnel in deciding the issue of better privatisation.

Legal entities to be fully privatised

1. The Erdenet-Bulgan power distribution network, a state-shareholding company, and the Baganuur, South Eastern power distribution network, a state-owned company; interested private companies must widen and renovate techniques and technology, decrease expenditures, and provide quick and reliable services; by open bid;
2. Tsagaan Shonkhor, state-owned factory; by open bid;
3. The Orgil Spring Sanatorium, state-shareholding company; has the condition to not alter the current activity or direction; by open bid;
4. The Institute of Cinema Arts; to propose state-owned shares to other shareholders; then to announce open bidding in case of refusal;
5. Auto Impex, state-shareholding company; to propose state-owned shares to other shareholders; then to sell the shares through the stock exchange;
6. Khutul cement and lime, state-owned company; state shares to be sold through the stock exchange;
7. Monsam LLC, state-owned company; by open bid;
8. Rental of the auto road equipment; state shares sold by open bid;
9. The traditional medical science, technology and production corporation; Erchim corporation; Armono corporation and Agricultural Techniques Science; and the technology and production cooperative; each with the condition not to alter their activity or direction; only available to sector scientists and researchers; by closed bid; ▶



▸ Legal entities, where state ownership will be reduced

1. To restructure the Mongolian Stock Exchange; not less than 34 percent of its shares to remain under state control; 66 percent for strategic and financial investors; step by step and open selling of shares on the Mongolian Stock Exchange and on reputable foreign stock exchanges;
2. To transfer the 'Fund for Supporting Agriculture', a state-owned factory; not less than 34 percent of its shares to remain in state ownership; privatise 66 percent step by step;
3. To transfer the Agricultural Stock LLC into a shareholding company; not less than 34 percent to remain state ownership; privatise 66 percent through the Mongolian Stock Exchange;
4. Issue additional shares equal to 34 percent shares of the Mongol Post, a state-owned shareholding company; sold through the Mongolian Stock Exchange;
5. Retain not less than 51 percent of MIAT, a state-owned company; sell up to 49 percent of its shares through open bidding;
6. Add state-owned shares of Mongolian Electric Communication, a shareholding company; sell up to 34 percent to attract investors;
7. Retain not less than 34 percent of Information and Communication Network, a state-owned company; sell up to 66 percent to similar companies;
8. Sell up to 20 percent of state shares of Shivee-Ovoo, a shareholding Company; on the Mongolian Stock Exchange and reputable foreign stock markets;
9. Issue additional shares up to not more than 50 percent of state-owned shares of the Baganuur Shareholding Company; sell on the Mongolian Stock Exchange. ■

AUSTRALIAN VOLUNTEER

SHE ARRIVED A VOLUNTEER, BUT LEFT AS FAMILY

BY I. OTGONJARGAL

In October 2013, we at Mongolian Economy magazine added a new member to our staff, Elizabeth Hoo. Lizzy, as she is affectionately known, was one of the young and energetic specialists from the Australian Volunteers for International Development (AVID) programme, chosen by the Australian Government to work in Mongolia. The program aims to achieve sustainable development outcomes through capacity building, skills transfer and institutional strengthening.

We had made many attempts to have such specialist from the moment of our magazine's establishment. After two years of strong effort, our wish came true—beyond our wildest expectations. Lizzy is the most clever, mindful and powerful lady. I am so honoured to express such words and more about her. She completed her one year work assignment in Mongolia this October and returned to her home country, Australia.

The day that such a young, energetic and gentle lady came to work with us seems as bright and vivid to me as if yesterday. But it has been over a year since she arrived and a month since we said our goodbyes. Before her arrival, the AVID programme representative office in Mongolia congratulated us for being selected and gave us tips for welcoming the foreign expert. They kindly asked us to pay attention to some issues that might arise; the volunteer, coming

from a country with a mild climate, might have trouble adapting to Mongolia's harsh winter weather, and may get a cold; or they may have difficulties with local food, or other adjustments to their new environment. It is true that the cold and smoky winter is harsh even for Mongolians, so we were a bit afraid to receive a foreign expert for the first time, and worried whether she would fall ill or have any trouble. Fortunately, Lizzy never had even the slightest gripe. She lived just like a Mongolian. She adapted to Mongolian conditions unlike many foreigners. Lizzy was different from others.

During her time here, she managed to form an agreement with the Australian government and took on a huge responsibility. She experienced the extreme winter cold, spring wind, hot summer, and calm autumn days. She ate Mongolian food without every refusing, saw the natural beauty of Mongolia during holidays, and returned to Australia before the winter came again. There was not a single day that she fell ill or asked for a day off. Lizzy expressed her spirited adaptation to living and working productively in Mongolia by saying: "Foreign people working and living abroad often have high expectations that get in the way. I tried to see things as they were in reality and live a normal life and work." She added that her experience working with the media sector in Japan might have been a factor for her appointment to Mongolia.

Although Lizzy majored in business marketing, there was nothing she couldn't do. She has the capabilities ▸



► of writing and editing articles, media consulting, and working as a graphic designer. We witnessed day after day her abilities as a talented marketer. In each task and duty, she used her years of solid experience from working in her native country. She made us understand that Mongolia needs experts like her, who are able to adapt to any kind of profession, not limited to specializing in one major field.

For our three-year old magazine, Lizzy initiated many innovations, building the foundation for a variety of new activities. She expressed that it was easier to introduce and implement new ideas and incorporate her knowledge and experience as we were a new organization and open to change. She was especially fond of the independent and sovereign status of our magazine. She paid her utmost attention toward maintaining this sovereignty, ensuring we hold to the highest international

standards and most independent editorial policies. We learned a lot from her. She conducted a series of face to face training sessions, together with the English Editor, for our magazine's graphic designer, journalists and management. Many of our subscribers and readers noticed the positive change and innovation, from the cover design to the last page of our magazine, and expressed their appreciation. Such was the outcome of Lizzy's training sessions.

We would like to express our deepest gratitude to Elizabeth Hoo for her efforts to share ideas to bring out the best results from our staff. Hopefully, her experience is filled with nice memories. Once she shared her opinion about the development of Mongolia, saying: "The quality education of many Mongolian youth can easily be seen just by interviewing them for job vacancies. Many of them have graduated from two or three institutes or universities and

speak two or three languages. They should be proud. And I am confident that Mongolia, equipped with such intelligent and educated young people, will have greater development into the future."

She even promised to return to Mongolia in five years, to see the achievements of our country. She looks forward to the touching moment when she can see the new successes of Mongolian Economy magazine, to which she contributed so much of her labor, her early years and her young energy. We shall be awaiting her visit in anticipation, and looking forward to seeing our Lizzy after five years. I hope that by then our team will have expanded our operation and grown our achievements.

You, so young but so clever and strong for your age, are mindful, sensitive and very modest for a foreigner living and working here. We wish you every success in your work, happiness in life, and good health. ■

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