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If an individual participates in a privatisation scheme alone, chances of winning are low. Hence, people understood that they can win the bid if they united and combined their money, partaking in the bid by trusting Ch.Gankhuyag, CEO of Ard Financial Group.

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Although Australia is far more developed than Mongolia, its economic structure shares some striking similarities with that of Mongolia.



Imagining UFOs

Almost everyone in the business field says that the presence of a foreign bank is missing. *page 10*



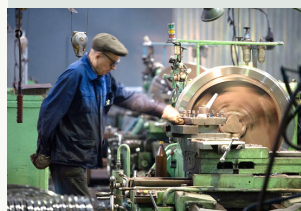
According to the hardhats

Currently, there are 8,000 fully commissioned and 25,000 half-complete apartments waiting for buyers. *page 12*



Who is Oleg Belozyorov?

Since childhood, he regularly took the train between his hometown and the capital city of Riga, Latvia. *page 18*



Older workers are no competitors for the young

Results of research by Sergei Roshin and Viktor Lyashok of the National Research University Higher School of Economics. *page 22*

Mongolia

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HONG KONG

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Mongolia

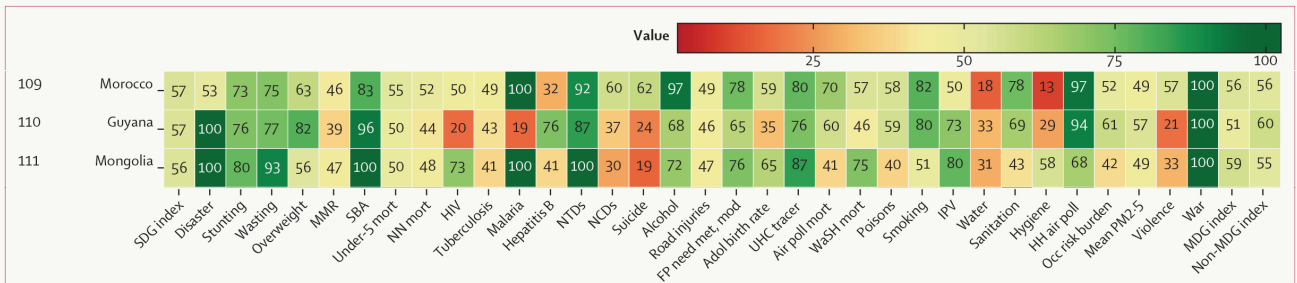
Health and development

A study titled “Measuring the health-related Sustainable Development Goals: Global Burden of Disease Study 2015” based on the UN’s health-related Sustainable Development Goals was published this year. More than 1,870 collabo-

rators from 124 countries and three territories were involved in this study, ranking 188 countries according to 33 indicators. Iceland, Sweden and Singapore were the countries with the highest health-related SDG index, while Mongolia ranked 111th.

Such a performance is not all too bad, relatively, but the study showed that Mongolia needs to focus on issues related to suicide, crime and water.

Source: The Lancet



Credit rating

According to Trading Economics, Standard & Poor’s credit rating for Mongolia stands at B- with a stable outlook. Moody’s

credit rating for Mongolia was last set at B3 with a negative outlook. Mongolia’s credit rating is at risk of getting dropped yet again

within the next three months. Fitch’s credit rating for Mongolia was last reported as B with a stable outlook.

2017 Budget

The government has submitted the draft for next year’s budget to have deficit of MNT 2.6 trillion (9.9 percent of GDP). Next year’s budget revenues are estimated to be MNT 5.9 trillion and expenditures MNT 8.5 trillion. Minister of Finance B.Choijilsuren stated economic growth is

estimated to reach three percent in 2017 with the implementation of certain major projects, also signaling that there may be a possibility to increase wages and pensions. In addition, it is reflected in next year’s draft budget that there will be no new taxes or tax hikes.

Meeting

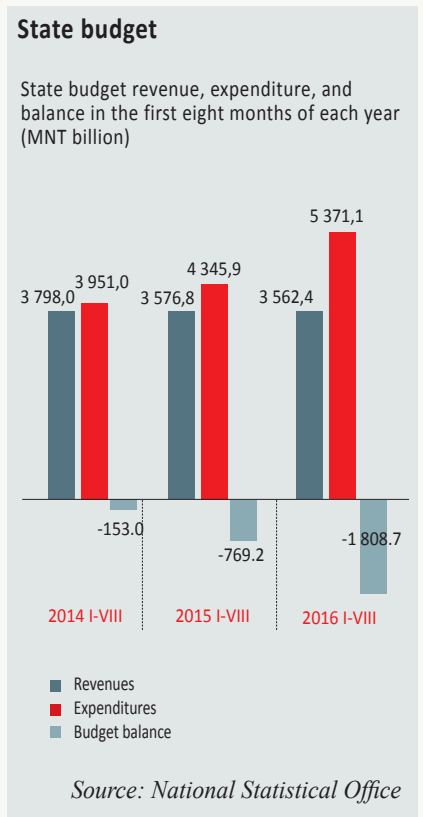
Mongolian Minister of Foreign Relations Ts.Munkh-Orgil met with Russian counterpart Sergei Lavrov during the 71st Session of the UN General Assembly. During the meeting, he mentioned the significance of the medium-term programme on the development of the Mongolian-Russian

strategic partnership and expressed his desire to adopt a detailed plan for implementation sooner rather than later. The programme encompasses issues such as immediate information exchange on stopping cross-border outbreaks of infectious diseases and cooperation on prevention.

Employment

Unemployment has been declining since the beginning of this year, with the rate standing at 11.6 percent in the first quarter of the year while it decreased to 10.4 in the second quarter. However, these figures are

higher than the same period of the previous year, as people aged 15-34 account for over three-fifths of the unemployed according to the National Statistics Office.



World

Volatile president

Philippine President Rodrigo Duterte has been mired in controversy since taking office in June 2016. Recently in late September, Duterte stated that he would pay visits to China and Russia this year to redirect foreign policy and maintain open alliances, straying from the special relationship with the US. In early September, US President Obama cancelled an official state visit to the Philippines after Duterte called Obama a “son of a bitch.” In addition, Duterte has also pursued a brutal “war on drugs” in which more than 3,000 people have been killed. Human rights organisations accuse Duterte of engaging in extrajudicial killings. Economically, the Filipino peso has tumbled to a seven-year low, and a significant amount of investment has fled from the Philippines. President Duterte, however, remains defiant in the face of his critics.

The Philippines is arguably the most pro-America country in the world, with 92 percent of Filipinos having a favourable view of the US in 2015.

Global trade



The World Trade Organization (WTO) has reassessed its forecasts for global trade growth this year, cutting it by over one-third. In April, they estimated the figure would be 2.8 percent for 2016, but has revised this to 1.7 percent. The slowdown in China and Brazil as well as decreasing imports in the US were cited as reasons for the new forecast. It is unusual for the fact that trade tends to grow faster than GDP over the long term, but the WTO says trade will grow at 80 percent the rate of GDP growth, signifying a “reversal” of globalisation. “The dramatic slowing of trade growth is serious and should serve as

Colombia peace deal



The Colombian government and the Revolutionary Armed Forces of Colombia (FARC) signed a peace deal to put an end to the internal conflict lasted over half a century. The peace accord still had to be ratified in a referendum, however, and voters narrowly rejected the peace deal, with 50.22 percent of voters voting “No.” The 52-year conflict costed the lives of more than 220,000 people, or 260,000 by some estimates, and displaced over eight million people from their homes. The FARC will also be removed from the EU’s list of terror groups, in which it was listed since 2002. The FARC’s origins are rooted in the conflict which followed the assassination of political leader Jorge Eliecer Gaitan and the US-supported anti-communist Cold War era policies that Colombia’s leftist factions opposed.

a wake-up call. It is particularly concerning in the context of growing anti-globalisation sentiment,” stated WTO Director-General Roberto Azevedo.

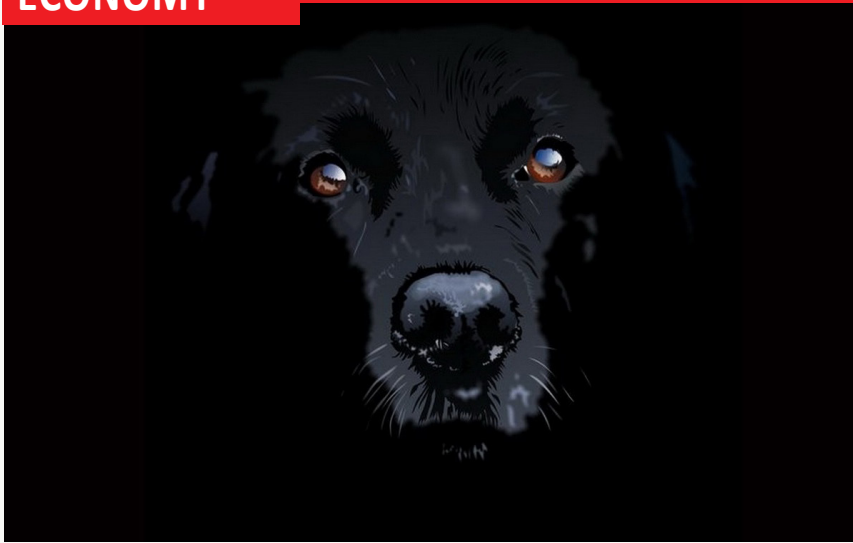
Sanction breached

The US announced that the country has placed sanctions on the Chinese firm Dandong Hongxiang Industrial Development Co and four of its executives, saying the company helped a North Korean firm evade sanctions related to proliferation of nuclear weapons. Korea Kwangson Banking Corp, the firm in question, has been under US and UN sanctions for the aforementioned. The charges filed by the US Department of Justice say the Chinese firm acted as a front for the North Korean company in order to evade sanctions and engage in international money laundering.

Although China is an ally of North Korea, its government does not support its nuclear programme and has expressed willingness to step up cooperation with the US on North Korea.

Chinese industry

Profits earned by industrial enterprises in August rose 19.5 percent to RMB 535 billion (USD 80 billion), the fastest monthly rate since August 2013. Annual profit growth was 11 percent in July. However, certain sectors such as steel are still not doing well, largely due to excess supply. Furthermore, while manufacturing profits rose 14 percent from the same period of the previous year, mining profits fell a whopping 71 percent. The Asian Development Bank revised its growth forecast for China to 6.6 percent for 2016, up from 6.5 percent. ■



Mining

What to do with the dog?

BY B.UURIINTUYA

"Although the price [of coal] has been rising, reduced production during low supply is impacting domestic activities," reported the China Iron and Steel Association. Bloomberg reported on its website that this growth and demand is profitable to producers and suppliers other than China. In addition, the higher price of coking coal is to stay until 2018, as Goldman Sachs raised its 2017 coking coal price forecast by 64 percent to USD 135 per tonne and its 2018 estimate by 47 percent to USD 125.

China has played an important role in all of these. President Xi Jinping's government ordered miners to lower output to the equivalent of 276 days of production, down from 330 days, creating demand on the global coking coal market and raising the price. Further, flooding in China's northern region means having to rebuild coal transportation and logistics infrastructure.

It is said that India's steel production will overtake China's steel production, and the combined gross domestic products of Indonesia, Thailand, Malaysia, the Philippines and Vietnam will rise by about a third to USD 3 trillion in the five

years to 2020. Momentum like this might help maintain and increase steel and coking coal consumption over the next five years. Thus, it raises expectations that the super-cycle's upturn, which was considered quite far away, may actually be approaching us.

Although China's demand for coal increased, it should be noted that its consumption has decreased. More specifically, China's consumption since February has decreased by 60 million tonnes compared to the last four years. Also, the industry output has declined by more than 10 percent.

A milkless cow and dog products

According to data by the National Statistical Office, Mongolia has exported 13.7 million tonnes of coal this year, an increase of 42 percent from the previous year. However, the coal industry's revenues remain low. Mongolia did not export such a high amount of coal even during the mining boom. Currently, Erdenes Tavan Tolgoi is responsible for the majority of coal exports, exporting one tonne for USD 27 to the Chinese market. Authorities are saying they will

increase this to USD 30 per tonne.

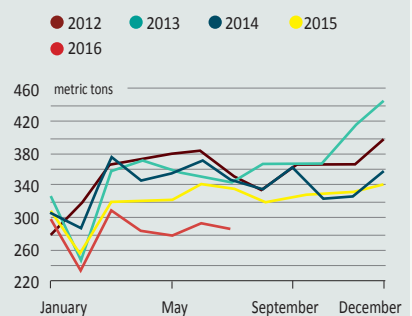
However, price of coking coal ranges between USD 140-150 per tonne across the border. Just four years ago, the mining industry was the country's cash cow, and coal the star product. Mining is a now a dry cow on BCG growth-share matrix, and coal is the dog product. On top of this, the Tavan Tolgoi deposit has become similar to a chained dog without any news other than the disputes surrounding it. Its coal is being exported at USD 30 per tonne.

Mineral economist and researcher L.Naranbaatar said: "The spot price of coking coal from Australia to the northeastern coast of China has increased by 171 percent since the beginning of the year to reach USD 208." Tavan Tolgoi's main market is Tangshan, where the steel factories of Baotou and the northeastern region are concentrated. Tavan Tolgoi's coking coal is "hard coking coal," or second grade coking coal. Currently, the price of HCC coal has increased to CNY 1000 (USD 150) in Tangshan and CNY 969 (USD 145) in Baotou. Moreover, L.Naranbaatar warned that the Tavan Tolgoi deposit can get squeezed out of competition as Australia, Indonesia and Russia are decreasing its coking coal mining and transportation costs as well as constantly increasing their supplying capacity by selling tax-free coal based on favourable terms of foreign trade with China.

Analysts are naming coking coal as the fastest-growing mining product of 2016. Unfortunately, L.Naranbaatar said that this global growth is not being reflected in Mongolia. In particular, companies such as Energy Resources ▶

Burned Out

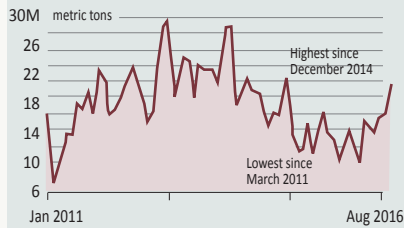
China's apparent coal demand has been running about 60 million tons short of prior years



Source: China Customs General Administration, National Bureau of Statistics of China, Gadfly calculations

Best of Times, Worst of Times

China's coal import volumes have surged from their lows earlier this year



Source: China Customs General Administration, Bloomberg

- ▶ are unable to raise their coal prices due to the lower-than-market export price of Tavan Tolgoi's coal. On top of this, China has started to keep to the strict position of keeping Mongolia's cash cow milkless and complements that policy by spreading the message that reducing coal consumption is good for the environment.

What should we do with the coal?

An annual report by Sinosure (China Export and Credit Insurance Corporation) ranked the credit ratings of 190 countries, and places such as Mongolia, North Korea, Afghanistan and Sudan ranked at the bottom with CC and C ratings. It has been a while since there was any good news about foreign investment flows into Mongolia. Meanwhile, the economy has worsened and foreign exchange reserves are being depleted. Bonds repayment obligations draw closer as Mongolia has to pay USD 1.3 billion just in 2017. Some economists and analysts say that talking about value-added products for a country like Mongolia with poor industrial development is a non-starter. During the last Mongolia Economic Forum, it was said that accumulating capital reserves by exporting every possible value-added product during price growth is the right move.

A steady appreciation of price that may continue for the next five years is being noticed. It is an opportunity for Mongolia to compete. In order to do so, there is the need to build the railways talked about for the past decade. In addition, the state needs to focus on zeroing the debt to Chalco and revising the contract to be profitable to Mongolia, as well as directing mining policy to make the sector independent of a single country. ■

L.Naranbaatar: Companies at Tavan Tolgoi killing each other

BY B.TUYA

Although the global market price of coking coal is rising, it is not the case in Mongolia. Tavan Tolgoi (TT) coal is still being exported for USD 27 per tonne, which is heavily being criticised during this economic slump. We sat down with L.Naranbaatar, a mineral economist and researcher, to talk about solutions on how to increase the price of TT coal and overcome the economic difficulties.

-The price of coal is expected to rise. What possibilities are there for Mongolia to take advantage of this appreciation?

-According to statistics on the first eight months of this year, the export volume of coal increased by 45 percent, yet revenues increased by only four percent. In other words, Mongolia was unable to ride the wave of the price increase of coking coal. Looking from the financial reports of Erdenes Tavan Tolgoi, the company had a deficit of MNT 247 billion in the first half of the year, and MNT 737 billion in accumulated debt. Selling its coal at such a cheap price risks bringing down the value of the TT deposit and may cause other companies operating at this deposit to go bankrupt. Therefore, the immediate solution is to increase the price of the Erdenes TT mine's coal in accordance with the market principles. It is possible to increase the price to USD 51-72. It can be USD 51 at the very least by reducing transportation and tax charges, as well as loading and unloading expenses at the Tangshan base price. The USD 72 price is calculated from the base price at the Baotou market. Erdenes TT can earn profits and pay back that never-ending debt to Chalco within a year if this can be done.

-Today, TT coal is being exported for less than USD 30 per tonne. Is there any possibility to modify the



agreement with Chalco such that the mine can be profitable to the state in correlation with the global price growth? They say the company can at least operate in the green by increasing the per tonne price of its coal to USD 55. Would you say a bit more about this?

-There was news posted on the website of Erdenes TT. It said the company is aiming to increase its price of coal in the fourth quarter to USD 30 per tonne. This is simply not enough. The price of coal in quarterly agreements in China, Japan and Australia are at least 50 percent higher than prices in the third quarter, so Mongolia cannot just sit still saying it is increasing the price by three dollars. It is doubtful whether the marginal profit of the company can reach one dollar at USD 30 per tonne. The outstanding debt to Chalco is USD 95 million. This means that the debt obligation will be fulfilled by exporting additional 95 million tonnes of high quality coking coal. If we estimate that the company exports 5-8 million tonnes of coal per year, it means it would take 12-19 years.

The reason for the company's inef- ▶

► efficiency is also related to high production costs. For example, Erdenes TT's contracted mining company is a Chinese company called TTJVCo. The company is performing one cubic metre of extraction for USD 5. Energy Resources does it for USD 2.92 and Tavantolgoi JSC for USD 2.9. If we convert that to per tonne production costs, Erdenes TT's cost is USD 26, Energy Resources USD 12 and Tavantolgoi JSC USD 15. Thus, Erdenes TT's production costs are higher by USD 11-14 per tonne compared to other companies. It is doubtful that the company can profit if we add managerial and loan interest costs on top of this. The main challenge is that TTJVCo's exploration expenses are being paid by raw coal in agreement with Chalco. TTJVCo is taking the raw coal to Inner Mongolia for concentration at washing plants and earning profit by selling it through a commercial broker called Winsway. Bloomberg reported that Winsway made CNY 199 or USD 30 net profit from each tonne purchased from Mongolia in August by washing the raw coal and selling it. While Erdenes TT is operating under a deficit, the Chinese companies Chalco and Winsway are earning profits. Only the Chinese side is winning in this situation. We have to sell the coal for at least USD 55 per tonne if we want to sell in consistency with current market prices.

-How is the price set on the Chinese side?

-Erdenes TT's coal price is being determined by Chalco's debt payment index. What kind of price index increases the price just by three dollars, when the global market price has increased by 171 percent since the beginning of the year? Changes need to be made in this pricing index and methodology. For example, TT's enriched coal needs to be consistent with the Tangshan price at the Gants Mod port, and then the TT coal price should be calculated. Otherwise, there is no way to increase the price of enriched coal by just using the Chalco index. If we estimate that Erdenes TT sells coal for USD 55 per tonne and sells five million tonnes of coal annually, the company would be able to make USD 146 million in profit. From that, the company would be able to pay USD 95 million debt to Chalco.

The Ministry of Mining and the new

administration of Erdenes TT must find another option beneficial to Mongolia if the provisions of the international agreement made between the previous management of Erdenes TT, Chalco and TTJVCo cannot be amended. In addition, if the company exports enriched coal instead of raw coal in consistency with the minerals policy to export processed products, the benefits will remain for Mongolian citizens and entities involved in export activities, tax revenues from exports will also increase.

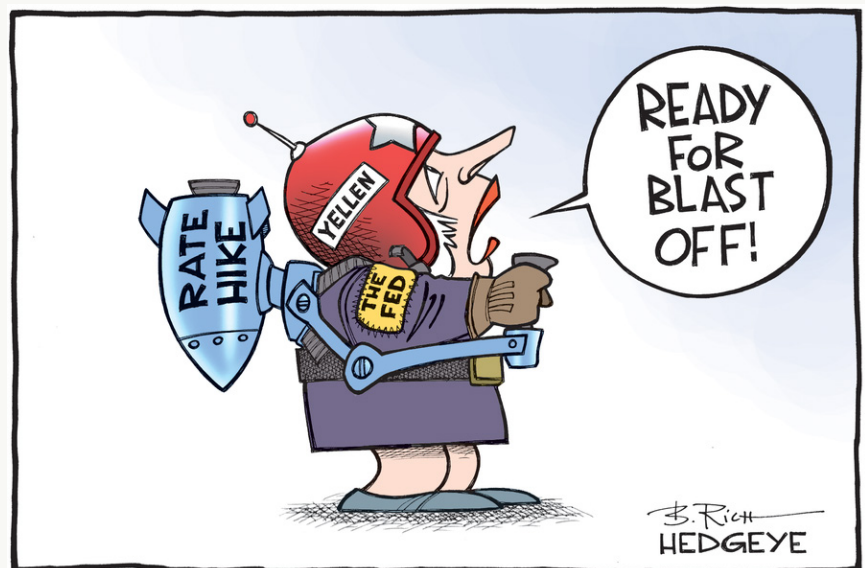
-How should companies operating in the coal industry efficiently use this period of rising coking coal prices? In your opinion, is it possible for them to "mend their wounds"?

-If Erdenes TT does not increase its coal price, there will be no talk of mend-

ing wounds, but rather deepening wounds. Companies operating at the TT deposit must unify their policies and develop a one-window price strategy. They are killing each other by dropping their prices to compete. Looking at the coal export volume from TT, Erdenes TT has made 80 percent of the low-cost coal exports, while Energy Resources and Tavantolgoi JSC have utilised just 10 percent of their capacity and have stalled over the past two years. Such cannibalistic competition can also be observed at companies operating at the Nariin Sukhait deposit. Therefore, the pricing index must be calculated from the base enriched coal. By doing so, unfair competition will be limited and the TT deposit can be used more efficiently. The 1072 shares will be revived, and taxes and fees to the state will increase. ■

Banking and finance

Imagining UFOs



BY TS.BUNIA

People's thoughts on aliens changed after James Cameron's *Avatar* hit the big screen in 2009. Before *Avatar*, all the films about aliens described high-tech alien aggression towards the human race. Even today such films are still being made.

Aliens are too distant and abstract

a topic for Mongolians. However, the belief that "economic hitmen" and foreign banks are the real danger that threatens the existence of the state is widespread among citizens. However, it has been 26 years since Mongolia has opened up to the world. Almost everyone in the business field says that the presence of a foreign bank is missing. ►

► Reasons to fear

“Looking from the examples of countries that underwent financial crises, it was common for small developing economies similar to Mongolia to further worsen the crisis due to mismanagement of financial liberalization,” said B.Munkhzaya, Director of the Economic Department of the Institute of Finance and Economics. According to her, should foreign banks operate in the country, their scope of activities must be set.

The experience of South Korea in the 1970s shows that because loans provided by foreign banks were short-term, they strongly influenced the exchange rate depreciation. Hence, we must carefully consider the reasons behind banks’ interest in operating in the Mongolian market. The economy would have no gain if such banks are investing with the objective of making a quick buck, according to Munkhzaya.

On the other hand, the situation may remain the same, no matter how low the loan interest rate is, if the foreign banks are providing foreign currency-denominated loans. Will the banks bear the risk of exchange rate differences or borrowers? Banks would prefer to provide foreign currency loans in order to minimize such risk. In such a case, wealthy foreigners will have an open opportunity to play the exchange rate differences in a small and weak market. Munkhzaya said that even if these banks provide loans at one percent interest, the borrower might still end up paying back the loan ten-fold as the loan will be in a foreign currency. Naturally, foreign currency loan grants and payments create more demand for foreign currency.

Therefore, she says that foreign banks must provide MNT loans in order not to raise demand for foreign currency on the market and heap more burden on domestic borrowers. However, it is uncertain whether foreign banks would agree to such a stipulation. In addition, low interest loans would be impossible if the loans are provided by MNT.

Regulations to make their money circulate longer in Mongolia are necessary. It is easy to withdraw money during short-term investments, while it long-term investment makes it impossible to leave the game so easily, even if there

are exchange rate risks.

Furthermore, there are cases of countries’ financial systems becoming dependent on foreign banks. Perhaps, specifying the maximum amount of assets might be the solution to this issue. How much money can the market absorb?

In order to properly manage the financial liberalisation, the stock exchange needs to open up and allow foreign investors to play in the Mongolian capital market. Munkhzaya said that there is a necessity to attract low cost, long-term investments through the stock exchange without taking out loan from foreign or domestic banks. She reminded that the state needs to develop legislation and regulations in advance by calculating the risks should they decide to allow the entry of foreign bank. It’s always better to do something with care from the start, instead of having to worry about it later.

Room for more

We sat down B.Erdenebat, a professor at the National University of Mongolia, to talk about the issue of bringing in a foreign bank. He mentioned that there is external and internal pressure and said: “The banking sector needs competition.”

Today, the weighted average interest rate of bank loans provided to domestic entrepreneurs is at 20 percent. Loan interest rates of non-banking financial institutions and savings and credit cooperatives are much higher. He explained that competitiveness of entities compared to foreign companies gets weaker as the loan interest gets higher.

If a project gets financed through loans, the profit must exceed the loan interest payments. There are not too many businesses exceeding 20 percent profit according to international practice. B.Erdenebat noted that opportunities are also shrinking for Mongolians. “The mining and construction sectors are in a very difficult situation,” he said. “The options are narrowing when we try to look for other types of business with more profit than those sectors. In general, illegal activities are becoming the only profitable ones.” Mongolia is a free-to-compete market. Mongolian producers are competing with producers abroad. There are only a few entities that can work at a 20 percent marginal profit rate

in such competitive market.

Major global markets such as the US, the EU and China are lowering their loan interest rates in order to support their economies. By doing so, investors seeking high profits are becoming more interested in those markets.

B.Erdenebat emphasised that the market and society develops with competition and ultimately consumers become the winners. “Look at the unemployed young people in the streets, when they could have been working in factories. Factory profits will never exceed 20 percent. So, where should these people go?” According to him, one way to overcome the current economic difficulties is to give cheap loans to enterprises. That would make the private sector more profitable and able to pay back the loans, he says.

The banking sector is a monopolistic competition market that you cannot just enter or exit at will. “The profits of current banks may fall when a new, strong player enters the market,” he said. He added that domestic banks might lose the game, if they do not improve their operations and prepare for competition. He also reminded that the state obviously has to estimate the positive and negative consequences and externalities.

The years without foreign “invasion”

Over-concentration and lack of competition occurs in countries that have restrictions on foreign banks. For example, five major banks make up almost 60 percent of the banking sector in Russia. This phenomenon is also observed in Mongolia as the top five banks currently account for 80 percent of the sector. This is part of the reason behind their high cost of financing and interest rates. During Prime Minister J.Erdenebat’s meeting with each sector’s representatives, many complaints about domestic banks were heard, saying that they show no interest in expanding their activities, introducing new services and products or entering foreign markets.

Another reason why loan interest rates of commercial banks are so high is due to the high cost of raising funds and inability to attract long-term deposits. On the other hand, it also indicates that there are no customers to deposit their money ►

► for long periods in domestic banks as they have no trust in them. Yet, business needs time and cheap loans.

The result of a study conducted by Stijn Claessens, Asil Demirguc-Kunt and Harry Huizinga in 2000 involving 7,900 banking and finance institutions of more than 80 developed and developing countries showed that foreign banks are much better at cost efficiency and effectiveness than domestic banks. In addition, the number of banks operating in a country is more important than their assets. They

came to the conclusion that the more foreign banks enter, the more competition gets created in the sector.

In addition to the Bank of China, it has been a while since five foreign banks, including Sumitomo Mitsui Banking Corporation (SMBC) and Bank of Tokyo-Mitsubishi UFJ (BTMU), opened their representative offices in Mongolia. Since the citizens of Mongolia have already become business partners with the world, this trend of viewing foreign banks as “UFOs” needs to be put to an end. ■

developed statistics on professional personnel employed in the construction sector. Also, given the seasonal nature of Mongolia’s construction sector, employees’ social security payments are a complex issue. When applying for a loan or seeking other social services, the first thing customers need to show is the social security booklet. If there have been disruptions in payments (say, from October to April, when a construction worker did not work), it makes the individual far less likely to qualify for a loan. Company representatives also mentioned that they have had to cut a great number of employees due to the overall economic situation.

Thirdly, there is a lack of policy support for domestic construction material producers. Intense development is taking place across Mongolia, particularly in Ulaanbaatar. Many foreign-invested companies are involved. Foreign-invested companies are largely interested in purchasing imported construction materials, especially from the countries where they are receiving investment. Thus, they have their own construction material manufacturing and assembly network. In addition, the attending representative of the Mongolian Construction Material Manufacturing Association stressed that a large amount of cheap construction materials of inadequate quality come from China and that this significantly hampers the market for construction materials manufacturers.

Fourthly, there is the issue of sales. Many apartment buildings are commissioned but many remain unsold, and then there are the unfinished construction projects. Currently, there are 8,000 fully commissioned and 25,000 half-complete apartments waiting for buyers, said D.Tserenjigmed, President of Mongolian National Construction Association. Due to decreased housing orders, indebted companies with no income have become unable to complete their construction works. At the same time, customers who pre-ordered apartments are demanding the keys to their apartments. Above all else, company executives pleaded the Prime Minister continue on with the eight percent mortgage loans. ►

Real Estate

According to the hardhats



Prime Minister’s meeting with the construction sector

BY TS.BUYAN

Prime Minister J.Erdenebat, Head of the Cabinet Secretariat J.Munkhbat and Minister of Construction and Urban Development G.Munkhbayar held an official meeting with the representatives of the construction sector on September 13. Key economic issues, such as whether the eight percent interest mortgage loan programme will continue and how to revitalise a construction sector in decline, are related to this sector’s ups and downs.

The key issues

To summarise the opinions of professional associations and companies present at the meeting on the challenges facing the construction sector, nearly everyone said that construction companies have fallen into a debt network. Representatives of companies said that they want to push back loan repayment schedules and to be exempted from interest rate payments to commercial banks.

Secondly, the issue of human capital was raised. As of yet, there is no carefully



Photo by B. Byamba-Ochir

► Some solutions

Loan financing from domestic banks require collateral and interest rates are high. On top of this, companies cannot get sufficient financing as domestic banks do not account the technology introduced by companies as collateral. Therefore, construction representative asked for government guarantees in order to broaden opportunities for cheaper loans from foreign banking and financial institutions, for which the prime minister has expressed his support.

There was a proposal to send construction workers to Japan or South Korea during the winter stand-still under an agreement as a solution to the sector's seasonal woes. In doing so, construction workers' social security payments would not get interrupted and income would become stable. Owners of construction companies said that there is the possibility for about 100 thousand construction workers to get their own apartments through the eight percent mortgage loan programme, which some companies have already started to independently implementing.

In order to protect the market for manufacturers of construction materials, there is a need to require a certificate of conformity from import goods. Otherwise, unreliable construction materials will continue to flow in. In addition, construction

companies hold that one way to solve the issue is to give preferential treatment for companies that have supported domestic production in state procurements and tenders.

There was also the idea of dismantling construction materials import networks by mandating purchase of domestic products.

There were a number of proposals to tackle the issue of sales. Firstly, a proposal to continue the mortgage loan programme and remove limits on square footage was raised several times. In addition, some companies consider that it is possible to sell the apartments to tenants by withholding the rent payments if the square metres area of rental housing gets increased. It was also suggested that downtown office buildings can be put into circulation by introducing office building mortgage services. Another solution may be providing access to the mortgage programme to Mongolians living across the border. According to studies, citizens living abroad have a higher capability to purchase and are interested in being able to access the mortgage loan.

Criticisms

In addition to the representatives of companies, senior experts and researchers attended the meeting. They strongly criticised state policy and

decision-making, as well as the greed of companies. L.Shagdarragchaa, Professor at the Mongolian University of Science and Technology, condemned the expensive demolition of old buildings while it is possible to extend the life of buildings with renovation. He also stated that companies have raised prices under the guise of increased construction material costs, which, according to him, is superficial.

The head of the Construction Quantity Surveyors Association, D.Sanj, reminded that the state takes back land issued for construction purposes should it go unused for two years. He said that many people are reselling land after not using it and that this issue needs to be resolved. He also made the statement that resolving infrastructure issues and providing residents with a possibility to build their own comfortable homes is more important than redevelopment plans for impoverished ger districts.

The participants also criticised that there is a lack of expertise in operations and that the urban planning policy is headed in the wrong direction, saying that urban development policy is lacking not only in Ulaanbaatar, but on the national level.

At the end of the meeting, the prime minister noted that the government will organise meetings with representatives of each sector every year. ■

Expert opinion

Deflation and the Bank of Mongolia



BY B.TUVSHIN
(ECONOMIST)

Deflation has taken over Mongolia. The consumer price index has been continuously falling for the past 24 months, as inflation was -0.2 nationwide and -0.6 percent in Ulaanbaatar in August, signalling that the economy is in dire straits.

Deflation is caused due to two reasons: over supply of goods, or cash shortage in the market. Deflation and economic crises are closely related to each other. As deflation is much more worrying than inflation, central banks of countries try to overcome it as fast as possible.

Though it may sound like deflation is not so bad, as price of goods go down, the revenues of companies will take a hit, and they will start to cut back on costs if this situation continues for long. In other words, companies will lay off employees and reduce salaries. Furthermore, companies will come to a standstill or even go bankrupt. Thus, unemployment will increase and purchasing power will decrease, perpetuating the vicious circle of deflation. The only way to get over this situation is to increase the money supply.

However, the Bank of Mongolia (BoM) has significantly increased its policy interest rate by 4.5 percent to make it 15 percent, when in fact, they should have reduced the interest rate at a time when inflation has been falling for the 24 months. In order to make sense of this, monetary policy needs to be explained in a broader scope.

Counter-cyclical policy

Any economist will tell you that monetary counter-cyclical monetary policy is needed for Mongolia. In other words, central banks tighten the money supply when GDP growth is high in order to mitigate risks such as economic bubbles.

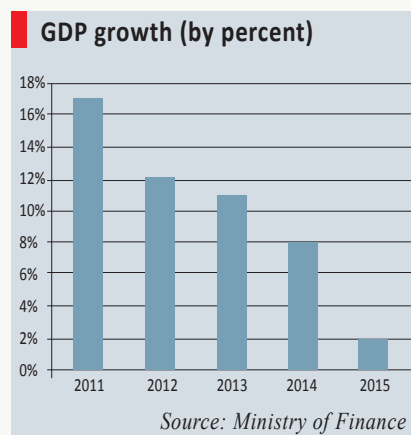
Then, when growth slows down, they increase the money supply to support the economy. While the BoM should know best about implementing such policies, it does not seem like they do, which is drawing some attention.

For example, the central bank increased money supply during the double-digit growth years of 2011, 2012 and 2014 and reduced it after those years when growth slowed. Personally, I do not understand why the central bank sharply increased its interest rate by 4.5 percent at a time of deflation and stagnating growth. The BoM explained that it increased its policy interest rate in order to stabilise the exchange rate. However, we need to take another look as to whether that is actually the main reason. It is true that the policy implemented by the central bank has stabilised the MNT exchange rate in the short term. However, it will clearly have a very negative impact on the business environment and economic growth in the medium and long term. Isn't the economic crisis the biggest issue for us?

GDP growth, which was 17.3 percent in 2011, has continually fallen since then, dropping to 2.3 percent last year. Forecasts by international organisations say that Mongolia's economy will see 0.5-2.7 percent growth this year.

On one hand, foreign exchange flows have fallen due to reduced foreign direct investment and falling commodity prices on the global market. On the other hand, there is a shortage in state budget revenues due to the economic crisis, and government investment has significantly decreased. It is inevitable that there will be a shortage of money in the market with the BoM increasing its interest rate and tightening monetary policy.

In August, M2 money supply decreased by 0.5 percent from July previous month.



Furthermore, as a result of the BoM increasing its policy rate to 15 percent, commercial banks have also increased their loan interest rates to 19-20 percent annually. Loan growth is slowing and mostly showing negative indicators – banks are reluctant to provide new loans. Naturally, this is understandable. Providing loans to entrepreneurs entails high risks when non-performing loans are increasing during this economic crisis. Instead of lending, banks can just purchase the central bank bills that will pay 15 percent interest. There is no risk for commercial banks and is more profitable. However, it is business owners who are on the losing end.

As a result, taking out a loan from commercial banks is becoming ever more difficult. Firstly, it is difficult to meet the high credit threshold. Secondly, it is difficult to pay the high interest rates. Taking out a loan with an annual interest rate of 20 percent is impossible at this time when we are experiencing deflation. Borrowers would have to sell their products at low prices after taking out a high-interest loan, when the people's purchasing power is further declining.

As a result, companies earn less revenue and could even be on the path to bankruptcy further down the road. Unemployment and poverty will increase. In such conditions, falling into a very troubling economic crisis would be just a matter of time. In order to avoid this, the central bank must loosen its monetary policy and supply the money the economy lacks.

In general, countries try to encourage businesses and the real economy by using monetary policy during a recession. Increasing money supply supports an ailing economy. Yet, Mongolia is implementing a policy to further worsen the situation rather than helping. Hopefully, the BoM and the members of the Monetary Policy Council will take this issue into account in the upcoming meetings. ■

2016 forecast on Mongolia's economic growth (by percent)

| | |
|---------------------|-----|
| Ministry of Finance | 3.4 |
| The World Bank | 2.7 |
| IMF | 2.5 |
| ADB | 0.5 |

Source: Ministry of Finance

Outlook

ADB: Mongolia's economy to grow by 1.4 percent



The Asian Development Bank forecasts 0.3 percent growth in 2016 and 1.4 percent in 2017 for Mongolia. Yolanda Fernandez Lommen, Mongolia's Country Director of the ADB, cited the Oyu Tolgoi underground mine project and the agriculture sector that is expected to begin to recover from next spring as key factors in economic growth. On September 30, Lommen presented the results of the ADB's 2016 Asian Development Outlook. Inflation is forecasted to be around 3.2 percent until the end of this year and will increase to 5.4 percent in 2017. The government measures to keep the prices of staple food products and fuel stable as well as the increased supply of money by expansionary fiscal policy are the main factors for the rising inflation rate. However, Lommen also noted that the main cause of economic decline was off-budget spending.

Structural reforms needed

"Mongolia's economic prospects are bright if the major projects in the mining sector can take off and if the state budget and balance of payments deficit can become positive in a short time," said Ms. Lommen. The first economic development challenge for Mongolia will be to ensure sustainability and accessibility of the economy dependent on the mining. The ADB mentioned in its report that it is time for the Mongolian government to rein in uncontrolled budget spending and make reforms to the economy.

Debt obligations will burden the 2017 budget

Mongolia's net foreign exchange reserves have started to show negative figures, and the state will start to pay off foreign debt in 2017-2018. These will become a burden on next year's budget, and future budgets will continue to run deficits. Foreign exchange reserves reached USD 1.3 billion at the end of July due to the most recent foreign loan taken by the government. The volatility of gold, coal, copper and iron ore prices on the global market, foreign investment availability and foreign loan repayment are the main economic risks for the 48 countries of Asia, according to the ADB. ■

Government

The Government of Mongolia deliberated the following issues at a regular meeting of the cabinet on September 28.

No new taxes or tax hikes

The cabinet decided to submit draft bills on the 2017 State Budget; 2017 Social Insurance Fund Budget; 2017 State Budget's budget framework statement; 2018-2019 budget forecast; and the other relevant draft bills to parliament. No taxes will be levied in 2017, nor will tax rates be increased.

Offshore money and accounts prohibited

In recent years, people's trust in government has fallen due to it being revealed that several state officials owned accounts or shares of foreign companies in places notorious for offshore dealings. Thus, the cabinet discussed amendments to the "Law on Regulating Public and Private Interests in Public Service and Preventing Conflicts of Interest" and submitted its proposals to parliament.

The draft amendments include provisions to prohibit higher-up public officials – those who must declare their income to the Independent Authority against Corruption (IAAC) – from owning accounts, transferring money or establishing legal entities in offshore banking regions, and also set out the accountability conditions.

Out of 110 countries' 13,140 joint and fully invested companies registered in Mongolia, 920 (seven percent) are companies with offshore investors. In 1990-2015, a total of USD 14.2 billion in foreign investment was made into Mongolia, with USD 10.8 billion coming from offshore zones countries.

On receiving loans

The cabinet has decreed the "Draft Bill on the Approval of the Financial Cooperation Agreement between the Government of Mongolia and the Government of Austria" to be urgently discussed by parliament. Mongolia will be exempted from the principal payment of the EUR 40 million loan for five years. The loan term is 18 years and the annual interest rate is 0.0 percent. The government is planning to spend the loan on funding on infrastructure, water in rural areas, sanitation, waste, waste water, traffic safety, railway, education, technology, vocational training, health and social welfare projects. ■

Source: Government Media and Public Relations Division

Railway

No obstacle to opening the Mongolian corridor today



BY S. OTGONTSETSEG

Freight volume between our two neighbours Russia and China increases by 30-60 percent in every year. An international plenary meeting, on issues such as keeping this freight volume between the two countries growing, increasing Mongolia's involvement in transit freight transportation and its regional economic participation, was held on September 14-15 of this year. The XXV Plenary Meeting of the Coordinating Council on the Trans-Siberian Transportation (CCTT) was organised by Mongolian Railways JSC under the auspices of President Ts. Elbegdorj.

More than 180 delegates from 20 countries in Asia and Europe were in attendance, including the Ministry of Transport of the Russian Federation; the Commonwealth of Independent States (CIS); railways of Baltic, Europe and Asian countries; sea ports and ship companies of China, Norway, Russia and Latvia; international freight forwarders and administration and representatives of insurance, security and information

technology companies. As the scope of the meeting expands year by year, results of cooperation have come out. For example, the number of routes from Asia-Pacific countries to Europe increased from 13 to 26 last year alone.

"We are offering the most favourable transit route with an integrated legal environment and simplified freight application system that will pass through the fewest borders. About 30-40 days are needed to deliver goods through Suez Canal, but freight can be delivered within 14-17 days by using the Trans-Siberian route," said Oleg Belozorov, Chairman of the CCTT and President of Russian Railways JSC, in his opening speech. G.I. Bessonov, Secretary General of the CCTT noted: "Organising the plenary meeting of the CCTT in Mongolia was not a coincidence. This country is becoming the hub to attract, assemble and concentrate Eurasian freight due to its advantageous geographical location."

Minister of Road and Transport Development D. Ganbat stated: "Since the trans-Mongolian railway corridor is

an inseparable part of the Trans-Siberian railway and the shortest route connecting Asia and Europe, our objective is to let that freight pass through Mongolia and get more involved in regional logistics networks. Within the framework of this objective, the Mongolian government is administering a policy to increase the capacity of its railways, organise transit transportation, reform Ulaanbaatar Railways JSC and increase the number of corridors connecting China and Russia."

On the first day of the meeting, Bessonov said: "In fact, there is no obstacle in completely opening the Mongolian corridor today. A special group of experts who will assess the capacity of this corridor is arriving tomorrow." As he mentioned, experts had a separate meeting on issues such as developing information technology in Northeast and Central Asian railways and the integrated transportation sector within the framework of the UN Economic and Social Commission for Asia and Pacific (ESCAP) project.

The Trans-Siberian corridor is a world class transport network that has been at the centre of transport relations between Asian and European countries for many decades. The corridor passing through Mongolia is the shortest amongst the other corridors connecting Central Asia and Europe, which can save time and money.

Two days is too short a time to hash out every minor detail. Although I tried to personally meet with Oleg Belozorov, the President of Russian Railways, Mr. Bessonov said that he had already flown to Moscow in order to attend another important meeting. A few hours arriving in Ulaanbaatar, Mr. Belozorov delivered his opening speech to kick off the CCTT meeting and was able to have an official meeting with Mongolian Speaker of Parliament M. Enkhbold, Prime Minister J. Erdenebat and Minister of Road and Transport Development D. Ganbat.

As the result of the meetings, the two sides (Mongolia and Russia) agreed to establish a joint working group that will look into increasing the volume of transit freight and resolving related issues. Ulaanbaatar Railway's

► general shareholders' meeting was held concurrently with the CCTT meeting. In addition, the internal security of Russian Railways and Ulaanbaatar Railway JSC signed an agreement to cooperate on cargo security.

The next plenary meeting of the CCTT will be held in Beijing. In this regard, we met with L.Davaapil, Deputy Director of Ulaanbaatar Railways responsible for management issues, to learn about what needs to be done by the next meeting.

The main goal is to resolve the issue of reducing transit freight tariffs and passing time through Mongolia, taking into account our internal resources and capacity. Currently, transit transportation cross time is estimated to be 36 hours, and we need to take immediate measures to reduce it to 28 hours. If this can be achieved, more freight will pass through Mongolia and Mongolia's railways will become an inseparable part of the global rail and road network. Thus, it means the Trans-Mongolian railway's value will increase.

Mongolia's railway development was always connected to mining, and now we have reached a deadlock. The concept of railway development based on transit transportation is being studied. Although we have talked for many years about gaining access to the sea, this goal has never been fully realised. In 1991, we reached a transit agreement with China. Even though the Chinese side says that we can use any port we want, the reality is not like that. There are two reasons why the agreement is not well implemented. First, the UN Convention on the Law of the Sea is more like a declaration, as it just says that land-locked states have the right to have access to the sea but has no regulatory mechanism. It says, "In order to have access to the sea, a state must negotiate with the transit country." However, we get stuck after that. We believe that we have potential in the global transport market. Ulaanbaatar Railway has transported about six million tonnes of freight at the peak in its history. Today, 97 percent of the freight is container freight, so we need to focus on this area. ■

Cooperation

All we need is cooperation

BY O.TSETSEG

We sat down with G.Bessonov, Secretary General of the Coordinating Council on Trans-Siberian Transportation, to talk about the results of the Plenary Meeting of the CCTT held in Ulaanbaatar.

- What are your thoughts on the results of the XXV Plenary Meeting of the Coordinating Council on Trans-Siberian Transportation (CCTT)?

- We are satisfied with the results of the meeting as it was no accident that we came to Mongolia. We believe that there are many untapped opportunities for transit transportation in Mongolia. Nowadays, transportation service market is highly active with many choices of routes. However, since the main growing freight bases are in China, there are several routes from China to Europe. For example, ports in Kazakhstan and the Far East, border crossing beyond Lake Baikal and the border town of Naushki can be mentioned. In a sense, Naushki means Mongolia. We analysed why such large amounts of freight are not passing through the territory of Mongolia. Compared to the aforementioned places, Mongolia has high tariffs and poor infrastructure, which is something we discussed. As a result, we have agreed to reduce tariffs and were able to get the support of the Mongolian government. The government of Mongolia has given special attention to this meeting as it was held under the auspices of President Ts.Elbegdorj, which was a great honour for us.

Secondly, Oleg Belozarov, Chairman of the CCTT and President of Russian Railways, met with the members of Mongolia's parliament as well as the prime minister to discuss all these issues. Ulaanbaatar Railway has also proposed an initiative to establish a transportation corridor. In this context, there was a



proposal to establish a logistics centre at the Mongolia-China border. It would be a good thing to establish a capacity logistics center there as the infrastructure there is weak and large amounts of freight is transported by road vehicles. Freight will be transported to this center by vehicle and will be transferred directly to the 1520 mm gauge rail of the Mongolian side. Thus, Mongolian Railway's income will increase, and jobs will be created. Thirdly, it has the potential to change the image of Mongolian Railway, bringing it into the arena of international transport relations.

In general, the transportation corridor is not a brand new idea, and we have already reached an agreement on the usage of this corridor. However, this issue was not just resolved by the three sides of Russia, Mongolia and China as this proposal attracted attention of expediter companies. The reason is expediter companies that have their own logistics centres and container parking have already been carrying out freight transport activities, so we would not be opposed to an existing Russian company investing in such a logistics hub. Should this be the case, it would make things very interesting. ►

▶ and it would also be quite beneficial for the Mongolian side.

- **Seeing from the words of Oleg Belozorov, it seems that the Russian side supports the proposal to use this corridor. What is position of the Chinese side?**

- The Chinese side is also supportive of it, because land transportation currently accounts for less than one percent of the freight from China to Europe. Basically, all this freight is being transported by sea, so both paths can be used. For example, what would be the sense in transporting freight through the territory of China and Kazakhstan, when the freight base is in the north-east of the country? About three-quarters of China's freight is handled in the north-east of the country, much closer to the Mongolian border. Furthermore, there is an agreement to establish an "integrated transport space" signed by the heads of the three states. This work is in progress. The key thing is that now we have made a clear, practical step in this direction within the framework of the meeting.

- **When will the results of the discussions be released?**

- You know that such a huge undertaking does not immediately materialise. Freight transportation itself is a technology, so this technology needs to be developed. This requires a certain amount of time. We think 10-14 months will be required if we get to work on this today, because producers will not start their work immediately given that they need to plan and develop the routes, make agreements and deliver freight to various locations. On the other hand, railways require a significant amount of investment, and so, to be optimistic, the results will start to show after 12-14 months.

Although Mongolia is included in the Trans-Siberian route, the proposal by the Chairman of Ulaanbaatar Railway, L.Purevbaatar, to make Mongolia a connector branch and a hub of transport distribution is a different issue, because he has set a proposal to establish an integrated tariff corridor within the countries included in the cooperation and improve regulations. We will seriously consider what to do in the future and see the possibilities of the working groups within the CCTT. Overall, it is relatively easy to establish any additional structures,

but there will be the question of results. Still, the current cooperation mechanism is there. For example, each side is showing a willingness to come together and we have

the support of our respective governments. All we need is cooperation.



Oleg Valentinovich Belozorov: Russian statesman and administrator, Ph.D. in Economics, Acting State Advisor of the Russian Federation - 1st Class, and President of Russian Railways JSC

Who is Oleg Belozorov?

Oleg Belozorov is said to have an exemplary career, with most of it spent in Saint Petersburg, Russia. It was written in the Russian newspaper Kommersant about his time in Saint Petersburg that "He is one of the founders of dozens of small- and medium-sized enterprises in a variety of fields including medical plants and pottery production."

On August 20, 2015, Oleg Belozorov was appointed as the President of Russian Railways. The decree on the appointment was signed by Prime Minister Dmitry Medvedev. Medvedev said: "Most recently, he served as the Deputy Minister of Transport, so he is an experienced person who was responsible for road and railway development." He was the only state official on the Board of Directors of Russian Railways in addition to Andrey

Ivanov, Deputy Minister of Finance. "The Board of Directors of Russian Railways cannot consist of totally new and unproven people. In this context, we consider Stepashin, Deputy Minister Ivanov or Belozorov as very promising people," said the previous President of Russian Railways Vladimir Yakunin during a 2015 board meeting.

Yakunin, who was 67 years old back then, led the company for a decade. Critic of corruption Alexei Navalny revealed the luxury of President Putin's closest people, including D.Peskov, spokesman of the Kremlin and V.Yakunin, President of the Russian Railway, arousing public displeasure during a recession. V.Yakunin, who was already in hot water, voluntarily stepped down from his position in order to run for office of the Federation Council of the Kaliningrad region. O.Belozorov, who was young and had clean history, was appointed in his place. The media buzzed that he is being prepared to be the next prime minister.

In December 2015, Belozorov ▶

► announced that he is going to publicly declare his income and assets in accordance with the Russian government's requirement of executives of public companies. By doing so, he showed that he was cut from a different cloth than V.Yakunin, who said "[declaring my income] is a forceful interference in my personal life" and threatened to resign from his position if forced to declare his assets. V.Yakunin has no history of declaring his personal income information to the public, and it is regarded as one of the many reasons behind his resignation.

When Belozyorov was appointed in August 2015, a poll among analysts and researchers was conducted by the Kommersant newspaper. The analysts described him as a high-level manager who does not politicise things. It also said that he was able to fulfil his objective of reducing corruption while serving as the head of the Russian Road agency, although he is a very cautious person who does not like to speak in absolutes.

Belozyorov was born in Ventspils, Latvia into family of physicians of the city polyclinic. Since childhood, he regularly took the train between his hometown and the capital city of Riga. After becoming a student, he travelled between St. Petersburg and Riga on a night express train. Ever since then, his life has been connected to railways.

In 1992, he graduated from the

St. Petersburg State University of Economics and Finance with a degree in economics and industrial planning and worked for several transportation and logistics companies after graduating. Belozyorov's career went to new heights thanks to the diligence and perseverance of his working years at Rosaftodor and taking a managerial position at Lenenergo JSC. In 2000-2001, he worked as the head of the Financial and Economic Department of the RF President Plenipotentiary Representative of the apparatus in the north-western federal districts. Analysts concluded that the year 2000 was the turning point in his career.

Head of Russian Railways

After announcing the appointment of Belozyorov, Prime Minister Dmitry Medvedev demanded that the new head of the company lead the budget and investments of Russian Railways JSC in line with the current state of the Russian economy: to reduce costs by 10 percent and to bring order to passenger transportation.

After a month, the prime minister proposed that he relieve the company from non-vital assets, such as the football club Lokomotiv and the television channel RZD-TV. One of Belozyorov's move as head concerned personnel changes in the company, which worried the First

Vice-President and other vice presidents. However, he found opportunities to save resources while continuing to support the corporate health and sports sector, in particular railway hospitals and clinics and the sports club Lokomotiv. He also found the funds to keep RJD-TV alive.

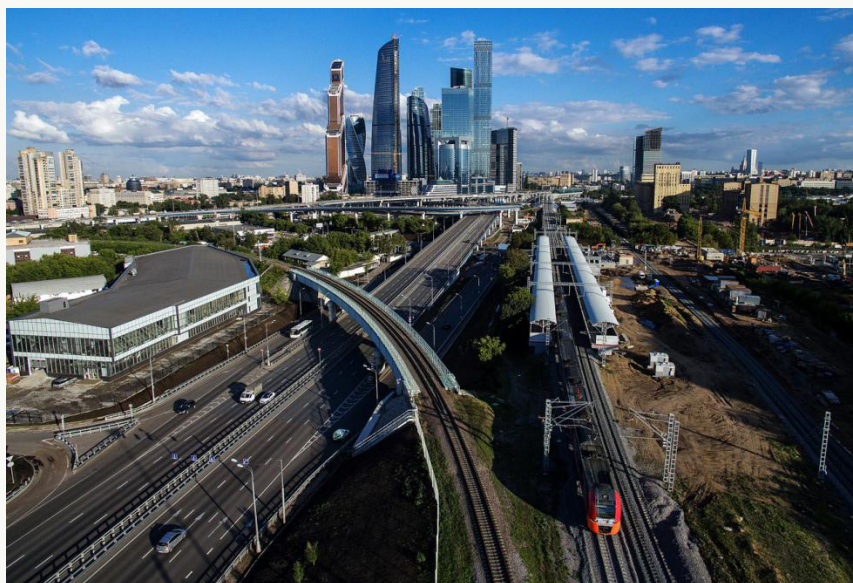
Belozyorov also promoted the idea that tariffs for transportation of goods consignors should be flexible, depending on the fluctuations in the market prices of transported goods. This idea was a significant impetus for the first Russian high speed railway project. At the beginning of this year, a revised schedule for the construction of a high-speed rail line between Moscow and Kazan was announced to the public, and regular service is planned to start from 2021 according to the schedule. Belozyorov said that the key railway event of 2016 was the launch of Moscow's Ring Railway in the second half of the year.

Interfax named the most important facts of Belozyorov's first year: reforming a significant part of the senior management of Russian Railways, the abandonment of infrastructure subsidies, providing benefits for the summer travel of schoolchildren and students, as well as incentives to reduce the burden on the industry through nine percent indexation of freight tariffs.

Personal life

Belozyorov married his wife Olga in 1994 and has two children with her. His son Matvey, born in 1996, is a student studying journalism. His daughter Veronika is currently in 10th grade. Other private information about him is difficult to find. Since his grade school days, he has seriously trained in athletics, in particular, by running. He prefers a healthy life style and likes to fish. His high school's record for the 400 metre sprint set by Belozyorov remains unbeaten to this day.

The declaration on the website of Russian Railways JSC says Oleg Belozyorov earned RUB 86.2 million in 2015. It says: "This amount is the sum before his current position, especially from deposits in banks, as well as income from the sales of apartments in St. Petersburg, the land and the house in the Saint Petersburg region, which amounted to almost half of the total." ■



The Lastochka electric testing out the new Moscow Central Ring prior to opening.

Capital Market

Crowd-funding finance

BY TS.BADRAL

Mongolians are uniting, combining their strength to be owners of more wealth.

It all started rather simply. It began with an announcement for a privatisation bid on the old, defunct printing house, across the northeast corner of Sukhbaatar Square. Near the end of December of last year, Ch.Gankhuyag, CEO of Ard Financial Group posted on his Facebook page: “Who says the people can’t participate in a large case of privatisation by uniting?”

If an individual participates in a privatisation scheme alone, chances of winning are low. Hence, people understood that they can win the bid if they united and combined their money, partaking in the bid by trusting Gankhuyag. About MNT one billion was raised by various people in the span of one month. Unfortunately, the valuation of the building was higher than the amount of money gathered and prevented them participating in the bid. However, this did demonstrate that people are very interested in the stock market and that they want to make investments with higher returns than savings accounts at banks.

Thus, since they already gathered some funds, they decided to use that money for another beneficial investment and create more wealth together. A closed meeting to establish “Investor Nation” JSC was held in January of this year and the first shareholders’ meeting was organised in February to select its board members. This company founded by the combined effort and investment of 560 people now has 800 shareholders. Now they are now ready to create more wealth through the stock market.

On August 25 of this year, a vote on the board of directors’ proposal to merge Investor Nation JSC with Jinst Uvs JSC

was held among the shareholders with 96 percent in support. They also decided to set the price of one share of the company at MNT 1250 at the meeting. The share price of Investor Nation was set at MNT 1000 when the company was first established, while it had risen to MNT 1554, meaning the market capitalisation of the company grew by 50 percent. Moreover, a shareholders’ meeting of Jinst Uvs JSC was held in July and it too supported the merger.

A closed joint stock company, such as Investor Nation, has two ways of getting listed on a stock exchange. The first is issuing an IPO. The other is a reverse IPO, or reverse merger takeover. A reverse takeover is a type of merger that allows a private company to be publicly traded without having to do an IPO. It is done by a private company purchasing enough shares of a public company to control it, with the bought public company effectively becoming a shell for the private company.

Investor Nation has chosen the second option, because issuing an IPO at a time when the economy is in a downturn makes it less likely to be a success. Thus, the company purchased 85 percent of the controlling interest of Jinst Uvs JSC, which is listed on the Mongolian Stock Exchange but has been inactive for quite some time.

The vision of the company is to establish a bank with the mission of amassing its assets through the funds of the people to serve the people. It is also to incorporate FinTech into its operations. It is not an accident that Ard Financial Group owns 31 percent of Mongol Post. People residing in the 365 soums in the 21 provinces of Mongolia may get better service from Investor Nation bank with the help of the postal system.



According to B.Tamir, Executive Director of Investor Nation JSC, the bank must be the people’s bank. Other countries have cooperative banks that are not that different from the principle of Investor Nation. In other words, such cooperative financial institutions are becoming more common. Researcher G.Enkhnaast said that there are two possible ways to establish a “people’s” bank, or public ownership bank. First, people must unite to establish an investment fund and become a shareholder of a bank through the investment of the fund. The other option is to establish a cooperative bank.

It can be said that Investor Nation has chosen the first path. Although their first objective was to establish an investment fund, they decided to establish a closed joint stock company as the Law on Investment Funds was just recently adopted, and there is little to no experience of establishing an investment fund in Mongolia.

In addition, operational scope is limited within the legal framework. According to the law, it is possible to establish two types of investment funds. Even if they tried to establish a closed fund, it would not facilitate their objective to have as many shareholders as possible. As for an open fund, the capacity to make investments would have been limited as it would mean being able to invest only in companies listed on the MSE and government securities.

Open funds have no possibility of seeking out more effective investment options such as LLCs and promising start-ups on foreign stock markets.

They use the term “people’s” because the largest shareholder out of the 800 invested MNT 50 million, approximately 4.5 percent of the company. Indeed, about 90 percent of the shareholders own shares amounting to MNT 1-2 million. Nobody is a power player. ▶

B.Tamir: We will establish our bank in three years

We sat down with the Executive Director of Investor Nation JSC

- How is progress on the reverse IPO?

- We are currently in the process of transferring the assets of Investor Nation JSC to Jinst Uvs JSC, and the former will be liquidated. Then, the MSE-listed Jinst Uvs JSC will change its name to Investor Nation JSC. In doing so, the stocks of all of our shareholders will be listed on the stock exchange. As for the pricing on the stock exchange, one share will be around MNT 1250-1500. We have received requests from the initial 560 to purchase more shares, and there are many people interested in becoming new shareholders of the company.

- Is there a plan to issue a secondary public offering (SPO) after getting listed on the MSE?

- First of all, getting listed on the stock exchange is in itself a big step. We see it as getting one step closer to our objective of becoming a bank. Our governance will improve as liquidity and monitoring improve after becoming listed. Trading the shares and making new investments will become easier. However, all of the shares to be listed at the moment have owners. We will discuss any potential SPO afterwards, as we expect demand for our stock to increase after getting listed. We are also currently deliberating the question of getting Ard Credit and Ard Insurance listed on the MSE next year. Furthermore, Ard Financial Group might also issue stock on the MSE.

- We understand that the bank you

want to establish will differ than traditional commercial banks. Would you elaborate on that?

- Mining is the fastest growing sector in Mongolia. However, this sector is volatile and too dependent on market forces abroad. On the other hand, we see the banking sector as the steadiest



industry. Today there are 14 commercial banks in Mongolia, most of them owned by major groups or foreign-invested. Customers of these banks are paying huge sums of money to them on things other from loan interest, such as ATM fees, account fees and fees for card purchases.

So, we ask why people cannot be the shareholders of the banks and benefit from their bank's profits. The key difference from other banks is that it will be the people's bank. Currently, we have 800 shareholders, who, naturally, will be interesting in customers of their own bank.

Secondly, there are 30-40 bank branches per 10,000 people on average in developed countries, while in Mongolia it is 78. This translates to unnecessary costs and too large a structure. Service centres

have more than 10 ATMs, for example.

In recent years, the concept of "FinTech" has been sweeping the global financial market. Internet banking without physical branches is becoming more common. Then there are bank branches that have no tellers. People are using services just by communicating with a screen. If there is a need to meet with a banking professional, people can just make an appointment for an online video chat session. Hence, we aim to introduce the best solutions FinTech has to offer and eliminate inefficient, unprofitable operations.

- When will the bank be established?

- Today, our company's market capitalisation is about MNT two billion. The money amassed from the people was MNT 1.6 billion. In other words, our market capitalisation has grown by making profitable investments. The minimum level of funds for a bank is currently MNT 25 billion and will become MNT 50 billion next year. We expect our funds to significantly increase as the number of investors increase. For example, we have set a goal to reach MNT five billion next year. If our fund can accumulate MNT 50 billion, we can establish the bank immediately. This is one possibility.

Another option is to cooperate with a non-banking financial institution to establish the bank. For example, Ard Credit is also aiming to become a bank in the future. In addition, we can take advantage of the privatisation of a bank. Perhaps, bidding on the privatization of the State Bank could be an option for building up the people's bank. Some banks on the market are selling controlling interest in the company. There is the possibility of establishing a bank by purchasing their controlling interest through negotiation. In any case, the plan is to establish our bank in two or three years. ■

Employment

Older workers are no competitors for the young

Translated BY S.OTGONTSETSEG

Raising the retirement age does not lead to an increase in youth unemployment

Young (20-24) and elderly (60-64) workers in the Russian labour market do not compete with each other, found researchers Sergei

elderly increased to 30.2 percent from 20.3 percent; however, this figure has been decreasing for the past seven years. This may be due to the relatively higher level of pensions, as well as lower wages of older workers compared to younger ones. Thus, in 2005, the net income of 60-64 year-olds was at 93 percent



38 percent of older workers are employed in industrial and agriculture sectors

Roshin and Viktor Lyashok of the National Research University Higher School of Economics. The study was based on an analysis of population-based surveys conducted between 2000 and 2014 by Russia's state statistics agency Rosstat.

In 15 years, youth employment dropped to 51.6 percent from 57.5 percent, which is partly related to young people's desire to obtain higher education over work. Over the same period, the employment of the

of the country's average wage, which was 10 percent higher than 20-25-year-olds. In 2015, the average earnings of both age groups were equal to 86 percent of Russia's average wage.

The level of education of the young and elderly has also gotten closer. In 2006, employment of young people with higher education was 10 percent lower than that of 60-64 year-olds, whereas by 2015, the gap had narrowed to five percent (25.1 and 30.2 percent ▶

▶ respectively). The percentage of those with secondary and vocational education in both groups has been almost identical in the last 10 years. However, behind the similar level of education lie major differences in qualifications. Young people tend to choose education in economics or the humanities, while the elderly have obtained almost twice as much technical education.

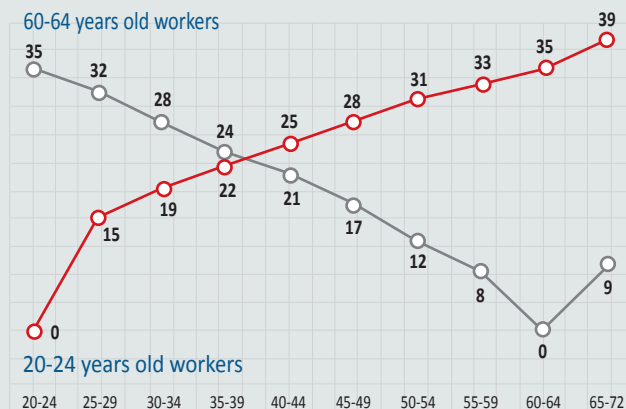
An equally large contrast is in occupational structure. Thirty-eight percent of older workers are employed in industrial and agricultural sectors, while for young people, that figure is 22 percent. Older workers are employed two times higher in the education and health sectors, while young people are 2.5 times higher employed in the trade and finance sectors and 1.6 times higher in state administration. “The young are aiming for rapidly developing industries while the elderly for less developing,” the researchers concluded.

The “occupational dissimilarity” index calculated by Roshin and Lyashok showed that 20-24 and 60-64 year-olds are more complementary to each other rather than competitive with each other in the labour market. The fiercest competition is between workers of similar age, while complementarity increases as age difference increases. In order for the occupational structure of 20-24 and 60-64 year-old to become identical, it would necessitate changing the workplace of 35 percent of employed people in one of these groups. “The young and elderly in the labour market are not interchangeable,” Roshin concluded. “Perhaps this will not be the case forever, but for now it is.”

The risk of rising competition for jobs between the elderly and the young due to fears regarding the sustainability of the pension system has politicians worried, as a reduction in the labour force means retirement age would most likely have to be increased. In 1999, the International Labour Organization said that the main political dilemma is choosing between early retirement and the financial sustainability of a pension system in order to support youth employment. The Assistant to President of Russia Andrei Belousov; Minister of Labour Maxim Topilin and State Duma Deputy Andre Isayev expressed that

Occupational dissimilarity index young and old, %

The higher the index value, the two age groups’ occupational difference increases while the professional competition between them decreases (by structure of employment). For example, in order to make the structure of employment of 20-24 and 60-64 year-olds become identical, 35 percent jobs of one of these groups need to change.



Source: Labour market study by the National Research University Higher School of Economics

they are concerned that growth of elder people’s employment may lead to an increase in youth unemployment in Russia. In China, these concerns are the official reason for not raising the retirement age – 60 for men and 50 for women).

Studies have consistently refuted the concerns of politicians. The Center for Economic Research at Peking University found that in the case of older people, not only do they not compete with young people, but the contrary: a one percent growth in elder people’s employment led to a 0.3 percent increase in youth employment and a 0.45-3.45 percent increase in young people’s salaries. A US study conducted by Boston College arrived at a similar conclusion. Rene Boheim of the Johannes Kepler University Linz in Austria noted that labour studies conducted on the labour markets of Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden and the UK all showed a positive correlation between elderly and youth employment, meaning when one increases, so does the other. Boheim says that politicians have no need to worry as the economy can accommodate for both groups. He took widespread growth of female employment in the second half of 20th century as an example: women have not ousted men from the labour market, but on the contrary – the growth of disposable income of families where two people earned has created a new demand and prompted companies to hire more workers. ■

Olga Kuvshinova

Source: *vedomosti.ru*

Opinion



Noteworthy Australian state policies

By L. Byambaa (Director of Investment and Financial Research NGO)

Although Australia is far more developed than Mongolia, its economic structure shares some striking similarities with that of Mongolia. For example, the mining and agriculture sectors play important roles in the economies of both countries, and the two nations also boast a vast territory rich in mineral resources and millions of livestock. The macro-economic conditions and risks the two face are also similar. Both countries' export markets are highly dependent on China and vulnerable to volatility in global commodity prices.

Yet, the Land Down Under is also different from Mongolia in that it was able to successfully implement various prudent policies to reduce macro-economic risks, diversify the economy and ensure long-term sustainable development. Australia's GDP structure and current development levels are a testament to this. Although this country makes up only 0.3 percent of the world's population, Australia was able to become the 12th largest economy in the world at nominal prices, and its GDP was AUD 1.6 trillion (USD 1.2 trillion) in 2015. Let's take a look at some of the Australian government's priority policy areas.

Free trade

Australia is committed to ambitious measures in the area of foreign trade, particularly free trade. Within the framework of the Trans-Pacific Partnership (TPP), new agriculture markets will open for Australia, and its export volume in services, investment and advanced technology manufacturing will increase respectively. Eleven signatory countries in the TPP agreement will enjoy a 98 percent discount on Australia's beef, mutton, milk and dairy products, crop, rice, wine and sea products, and this is estimated to bring approximately AUD nine billion into the Australian economy.

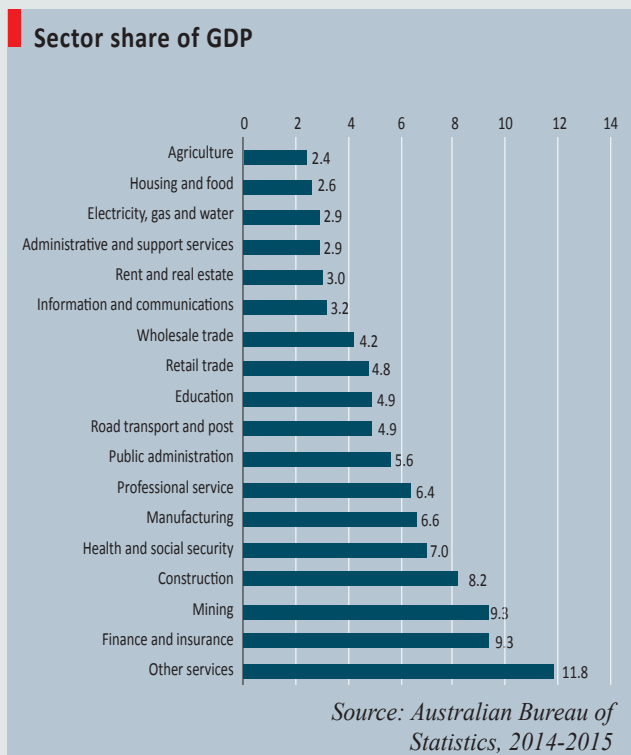
In addition to foreign trade, increasing export revenues from fishing and forestry products and revenues of primary producers as well as providing support for sustainable usage of natural resources are included in the agriculture policies of Australia.

Furthermore, Australia has come to an agreement on a free trade deal with China. After the ratification of the agreement, minerals, energy and various products going from Australia to China will be exempted from 92.9 percent of imports tariffs and will reach 99.9 percent after four years, when the agreement begins to enter full force. Currently, tariffs on 1,710 goods are gone, and tariffs on 5,579 goods have been reduced. Starting from January 1 of next year, a significant number of goods will also be added to the exemptions list. The agreement states that the necessary tariffs will be exempted within four years, all at the beginning of each year.

The tariff discount will cover many agricultural products such as milk and meat, and the agreement has much significance for Australia as it means the Chinese market will become much more open for Australian goods and services. In addition, significant discounts will be levied on Australian export products such as engines and vitamins, which account for a substantial percentage of the foreign trade conducted of the country.

International education

The international education sector has become one of the five fastest growing sectors in Australia. In 2015, approximately AUD 19 billion came into the economy from this sector. Australia ranks third behind the US and the UK, with half a million international students studying in Australian higher education institutions. ▶



► This success came about thanks to the special attention given by the Australian government. The “National Strategy for International Education 2025” was developed in order to continue on with this policy. The following eight goals have been put forward as part of this strategy:

- Building on a world-class education, training and research system
- Delivering the best possible student experience
- Providing effective quality assurance and regulation
- Strengthening partnerships at home and abroad
- Enhancing mobility
- Building lasting connections with alumni
- Promoting our excellence
- Embracing opportunities to grow international education
- They consider that Australia can take 720,000 foreign students by 2025 with the implementation of these goals.

Innovation

In late 2015, the Australian government approved the National Innovation and Science Agenda, recognising that new ideas in innovation and science will deliver the next age of economic prosperity. The National Innovation and Science Agenda Report says that innovative technological companies have higher competitiveness than traditional industries and can account for more market share. For example, 1.4 million new jobs were created by firms in operation for less than three years over the period 2006-2011, while employment in mature businesses, in contrast, fell by 400,000.

The Agenda says that the government will support innovation by investing in enablers such as education, infrastructure and science and research; incentivising the business investment; and removing regulatory obstacles such as restrictions around employee share ownership or access to crowd-sourced equity funding. In this context, the government is investing around AUD 9.7 billion in research and development in 2015-2016.

The agenda is focusing on four key pillars in order to foster innovation in a comprehensive manner.

Culture and capital: Australians are renowned for their smart ideas, but they often believe that they fail to back the ideas and turn them into commercial realities. They will establish a special investment fund to support new ideas and start-ups by cooperating with the private sector.

Collaboration: Australia’s rate of collaboration between research

and industry is the lowest in the OECD, so they affirm the need to incentivise this type of collaboration. They will change funding incentives so that more university funding is allocated to research that is done in partnership with industry; and invest over the long-term in critical, world-leading research infrastructure to ensure the researchers have access to the infrastructure they need.

Talents and skills: It is considered that too few Australian students are studying science, maths and computer science in schools. In order to resolve this issue, the government will support the embrace of the digital age by all Australian students by promoting coding in schools to ensure their students have the problem solving and critical reasoning skills for high-wage jobs. It will also link Australia to other innovative economies and change the visa system to attract more entrepreneurial and research talent from overseas.

Exemplary government: Government has consistently lagged behind the private sector in innovation. Australia’s government will lead by example by becoming more innovative in how they deliver services and make data openly available to the public, making it easier for start-ups and innovative small businesses to sell technology services to the government.

Infrastructure

In the beginning of 2016, Australia approved the first Australian Infrastructure Plan for the next 15 years. The report of the plan says that more than 30 million people will call Australia home, and Asia will represent around two-thirds of the world’s middle-class population by 2031, creating huge demand for Australian produce and skills. Therefore, they hold that they need to transform their infrastructure base and meet the following objectives:

- Strengthen their global role as an exporter of resources, services and products, with improved networks and gateways that boost connectivity;
- Meet their needs as a highly urbanised nation, enhancing the liveability of their cities and fostering skilled jobs and innovative businesses that cities create; and
- Underpin their prospects for sustainable growth, by focusing on resilience and whole-of-life asset management.

Conclusion

Every country in the world faces certain barriers and challenges. Some of the few examples above show that these challenges and obstacles can be overcome if the state administers sustainable policies based on scientific rationale and calculations. ■