

DIG DEEPER

# MONGOLIAN ECONOMY

June 2015 N° 14 (093)

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## ECONOMY

Diversify and decentralise the economy

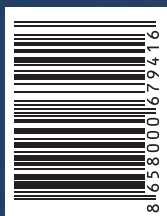
## MINING

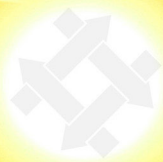
The Dawn of New Era

## BANKING AND FINANCE

Breaking the Financial Ice

# BALANCING THE FINANCIAL MARKET





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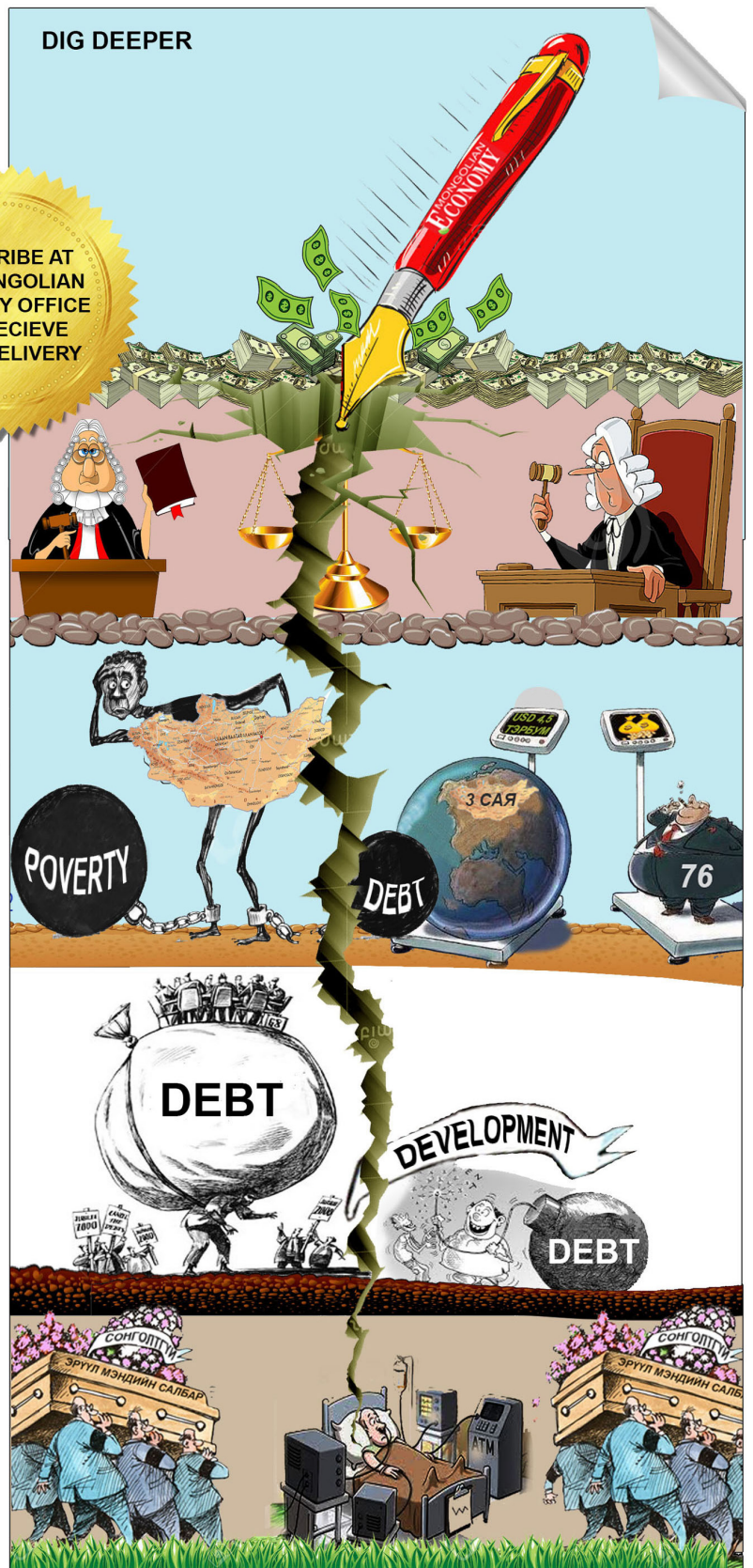
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## THE MACROECONOMY



In May of this year, the money supply (M2) is at MNT 9.8 trillion, a decrease of MNT 134.5 billion or 1.4 percent from the previous month and MNT 401 billion or 3.9 percent from the same period of the previous year. Cash in circulation reached MNT 793.7 billion, an increase of MNT 58.8 billion from the previous month, while bank deposits increased by MNT 145.8 billion from the previous month and reached MNT 1619.6 billion. The money supply on the market is decreasing, and the monetary policy committee of the Bank of Mongolia is discussing the macroeconomic outlook, changes and impact on the economy at the second quarterly meeting. In recent months, the inflation rate has been falling. The macroeconomic review by the National Statistical Office stated that currency exchange rates are expected to stabilize, and the positive news that the trade surplus increased and that OT underground mine development issue has been resolved are the determinants in the central bank's decision to bring current 13 percent policy rate.

## BUDGET

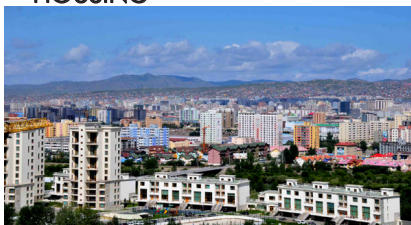
Of state budget revenue collected in May, 82.6 percent has been spent. The budget deficit is expected to increase, and Mongolia's budget balance showed a deficit of MNT 347.7 billion, which was MNT 670.7 billion lower than estimated. Clearance of the budget revenue collection is at 82.6 percent and expenditure is at 68.7 percent. The Ministry of Finance estimates budget revenue will plunge by MNT 400-500 billion at the end of the year.

## EXCHANGE RATE

The tugrik has started to appreciate against foreign currencies. The Bank

of Mongolia's average exchange rate against the US dollar reached MNT 1939.5 in May 2015 and depreciated by seven percent from the same period of the previous year. As of April of this year, foreign exchange reserves were at USD 1267.3 million, which was a 43 percent decrease from the previous year. The OT underground mine issue was resolved last month spurred investment into the country.

## HOUSING



The real estate company Tenkhleg Zuuch has revealed the May housing price index to the public. According to the study, housing prices in May were at 16.8 percent, which is a 0.2 percent increase from the previous month, a 1.8 percent decrease from the beginning of the year and a 5.4 percent decrease from the same period of the previous year. The housing price index for new homes was at 26.7 percent, which is a 0.4 decrease from the previous month. For old homes, it was at 10 percent, which is a 0.6 percent decrease from the previous month, a 5.3 decrease from the beginning of the year and 9.8 percent decrease from the same period of the previous year.

## OYU TOLGOI

The National Investment Bank of

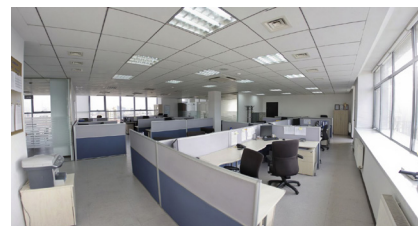


Mongolia and Resource Investment Capital conducted a study on the Mongolian mining sector in which they analysed how recent news regarding OT's second phase development will affect foreign investment and economic growth. The study found that foreign investment is

directly linked to the OT project when calculating the effects of the OT project. Mongolia has become one of the world's fastest growing economies in relation to the first phase of the project, but foreign investment has dropped to pre-OT levels. In 2012-2014, foreign direct investment in Mongolia dropped by 88.6 percent or from USD 4.45 billion to 0.5 billion, but addressing the issues related to the mine can bring rapid economic growth. The results of the study show that the project can attract new investors to Mongolia and increase fundraising capacity.

## REAL ESTATE

Before 2011, the real estate market was not so active. In the last four years, 77 office buildings were supplied to the market. Master Properties LLC released



the office market survey of April of this year. The survey covered a total of 209 office buildings. According to the survey, a total of 1078 million square metres of office area is being used, and it is expected that 26 office buildings accounting for 191,379 square metres of office area will be supplied in 2015. As of April, 169,229 square metres of empty office area, which is equivalent to an entire year of new supply, is on the market ready to be sold or leased. This may be related to unfavourable economic conditions. Eighty percent of all office buildings are located in three downtown districts. Considering the location rating, 14.3 percent of the office market are A-grade, 55.5 percent are B-grade and 30.6 percent are C-grade. Of the office buildings on the market, 77.4 percent are rented, while the remaining 22.6 percent are owned. Currently, the average price per square metre of renting an office is at MNT 32,607, which is a 30 percent decrease from the same period of the previous year.

## WORLD NEWS

## SAUDI ARABIA TO ATTRACT FOREIGN INVESTMENT



Saudi Arabia's stock markets have historically been very restricted to foreigners, but the rules have now been loosened in a bid to attract foreign investors and reduce its dependence on oil income. Oil accounts for 90 percent of government revenue, and given the recent oil market, Saudi Arabia has been rapidly using up their foreign reserves. Currently, only institutional investors with a minimum of USD five billion and five years of experience may invest. Prior to the change, the only way foreign investors could buy Saudi stocks was through participatory notes and exchange-traded funds. The Saudis aim to attract long-term investors also in order to stabilise market volatility. There are five companies that foreigners may not invest in. Four of them are because the companies own real estate in Mecca and Medina, holy cities where non-Muslims are not allowed entry. The fifth company is The National Shipping Company of Saudi Arabia. The nation is currently involved in the conflicts in Syria as well as Yemen and is soon to pursue a stimulus package as its economy slows from the previous year's 3.6 percent to the estimated 2.5 percent for 2015 and 1.8 percent for 2016.



## OBAMA SNUBBED BY OWN PARTY

Republicans and Democrats in the US House of Representatives

uncharacteristically joined forces to reject Obama's pleas to pass the Trans-Pacific Partnership (TPP) trade deal, which is vital to Obama's Asian policy agenda. There is also the question of granting the president fast-track authority, which means future trade deals such as the TPP cannot be amended by congress, but simply receive the yes or no vote. Democrats have used pro-labour aspects of the TPP deal to delay giving Obama fast-track authority. Both the House and Senate have approved fast-track authority, but in different forms. Members of the two chambers must meet and reconcile the differences if the president is to receive the authority.

## THE NEW SILK ROAD



The Xinhua news agency reported that a USD 16 billion (RMB 100 billion) fund to stockpile gold as part of its Eurasian Land Bridge initiative, sometimes called the New Silk Road. The fund will facilitate the central banks of the member states on the New Silk Road to purchase gold. The member states include 60 countries, including India. China and India together account for over half of the world's gold production and 80 percent of global consumption. There are several regions along the New Silk Road that produce gold, and gold-mining projects will be a target of the fund. The country is also establishing a domestic gold market, where gold will be priced in RMB. This development is another move in China's bid to increasingly challenge the almighty US dollar in the global economy. One ounce of gold was USD 1,181 as of June 14.

## BORING STOCKS

A working paper from the US non-profit National Bureau of Economic Research (NBER) makes the claim backed

by data that investing in boring stocks or industries may be the better choice. The NBER researchers studied what is called profitability dispersion, which is a measure of how similar profits are across entities in an industry. "Boring" industries were defined as those with more even profitability, and "exciting" industries are those with more uneven dispersions. Investing in an exciting stock such as Tesla or recent social media ventures is seemingly rather attractive, given that there is big potential for high returns, but everyone else also knows this is a hot stock. However, not as many people will be focused on other unexciting stocks, which may be undervalued and stand to gain. However, investors warn that there is a difference between unexciting industries and those in decline.

## BANKSTERS



In a speech attacking ethics in the City of London, Bank of England governor Mark Carney has called for tougher sentences for bankers who break the law. According to Carney, markets responsible for trillions of pounds are plagued by excess, collusion and corruption and have a "culture of impunity."

He stated, "The age of irresponsibility is over." The Chancellor of the Exchequer George Osborne also weighed in, agreeing with the governor and addressing why so few have faced jail time despite massive scandals. A report by the Bank of England, the Treasury and the Financial Conduct Authority recommended tougher regulation and punishment of rogue traders in financial markets. Several global financial institutions were found guilty of fraud in the foreign exchange markets, and the report calls for maximum sentences to be increased from seven years to ten years for wrongdoing. ■

# Investment Returns: 2014 Trends

By Byambaa

For Mongolia to avert an economic crisis, it must attract foreign investment to bring in foreign currency. But Mongolia will repeat the mistakes of its past if its policy decisions focus solely on foreign investment. Mongolia must promote other

investment opportunities and domestic or domestic-linked investment to reduce its dependency on the money flow of foreign investors.

In 2014, of the ten or so potential investment opportunities related to

domestic investment, several offered positive returns and several did not. While Mongolia continues to have a growing range of investment opportunities in its financial market, trends in 2014 saw returns prove often unstable.

## 1. Central bank bonds (CBB)

CBBs are an important tool for commercial banks. CBB interest allows MNT and foreign currency markets to set balance benefits, because it helps to set the standard curve. The weighted average interest rate was 10.5 percent to 12 percent in 2014.

CBB, 7 weeks, WAI, by months in 2014

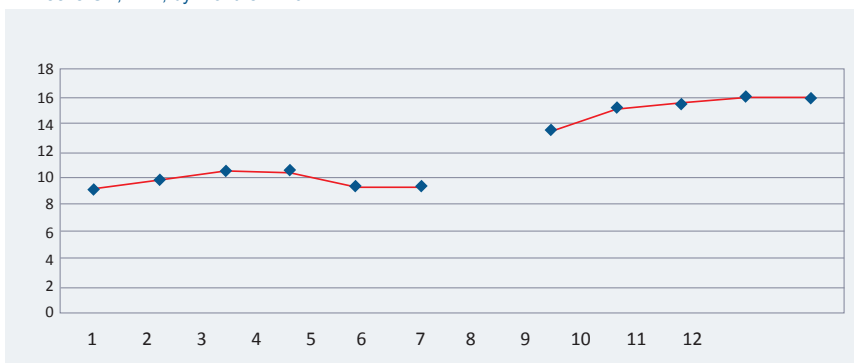


## 2. Government bonds

Government bonds are considered to be the most risk-free investment; net income is high because the interest income is exempt from taxation. A twelve weeks bond coupon rate in 2014 is shown on the following graphics. It can be seen that the interest rate started to increase rapidly starting in August.

In 2014, the government started to issue retail bonds, which created a new market for individuals and enterprises.

12 weeks GB, WAI, by months in 2014

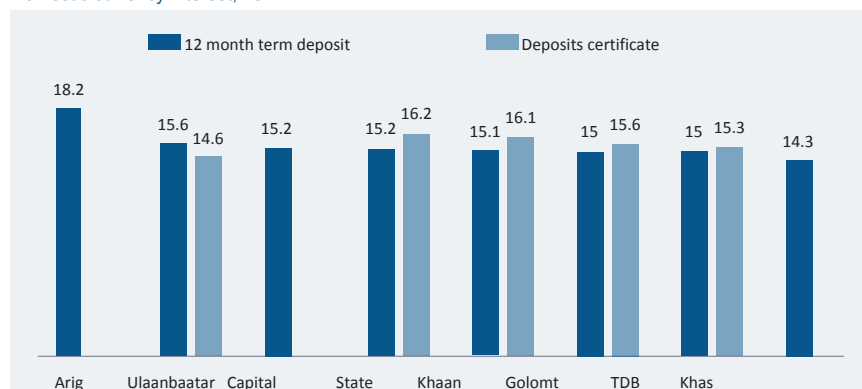


Source: Mongolbank

## 3. Mortgage backed securities (MBS)

In 2014, the Mongolian Mortgage Corporation sold several sets of mortgage backed loans, a type of asset backed-security. In the future, institutional investors can buy this bond. The interest rate of the preferred asset-backed security was 4.5 percent; on the other hand the interest rate of simple asset-backed security was 10.5 percent.

Domestic currency interest, 2014

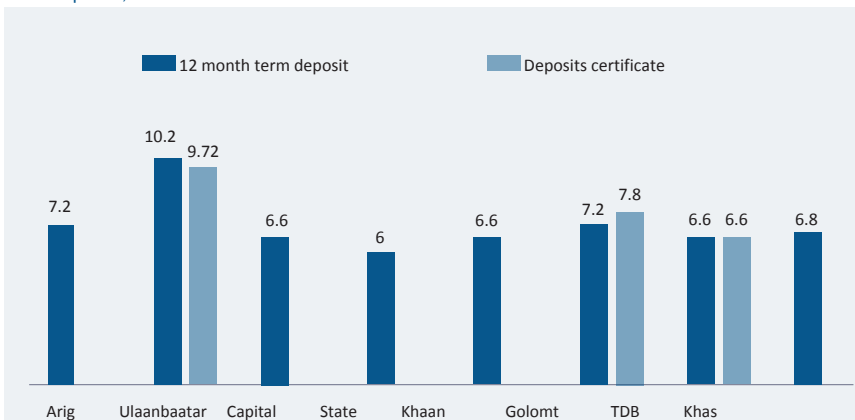


#### 4. Bank deposits, deposits certificates

Domestic and foreign currency deposits are the most popular tool for investments, as they have the highest return on investment. The term deposits and deposits certificates are quite similar, but the latter has the advantage to transfer, deposit or partially devolve because it is a bond.

Because the USD exchange rate increased in 2014, foreign currency deposits interest and benefit rate reached 19 percent to 20 percent.

USD deposits, 2014

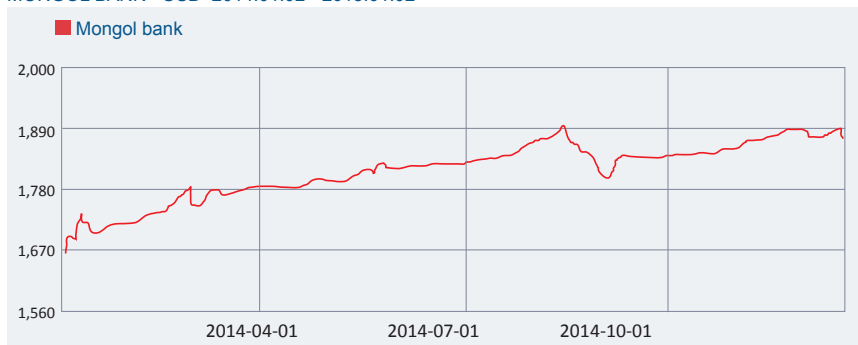


Source: Mongolbank

#### 5. Currency – USD

Compared to the first official rate at the beginning of 2014, the USD exchange rate increased 13.6 percent by the year's end. The CNY rate increased 10.7 percent during the same period.

MONGOL BANK - USD 2014.01.02 - 2015.01.02

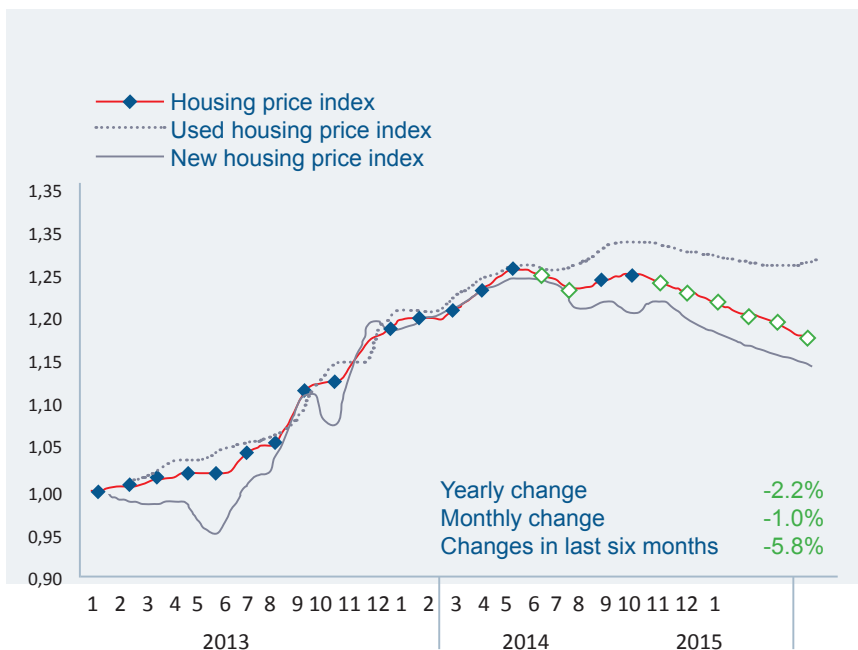


Source: www.gogo.mn

#### 6. Real Estate

Real estate, especially housing, is a very popular investment tool. In addition to housing sale prices, rental income doubles the advantage; but the seller's market is often weak, which makes it most suitable as a long-term investment tool.

Compared to the rapid growth of housing prices in previous years, prices declined 2.24 percent since beginning of 2014, the USD exchange rate increased 13.6 percent by the year's end. The CNY rate increased 10.7 percent during the same period.

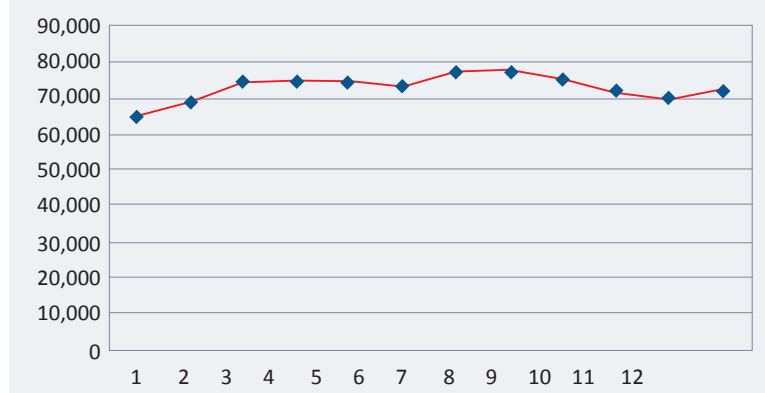


Source: Tenkhleg real estate brokerage, Active brokerage, Mongolian Properties LLC

### 7. Gold

Gold or gold backed accounts are investment tools which had relatively high investment returns in 2014. In the span of a year, the gold rate increased 12 percent.

Gold purchase rate, at the beginning of the month, MNT/gr



Source: Mongolbank

### 8. Mongolian Stock Exchange Top 20 index

The Top 20 index, which represents the top performing stocks of companies listed on Mongolian Stock Exchange, declined in 2014; starting at 16,300 it dropped by nine percent to 14,854.



Source: Bloomberg.com

### 9. Foreign Stock Exchanges

In 2014, stocks of companies operating in Mongolia also had a bad year on the foreign exchange. The stocks of Turquoise Resources (NYSE), Mongolian Mining Corporation (HKEX), Mongolia Growth Group (TSX) dropped by 45 percent last year. Considering the exchange rate increase, the deficit was a 30 percent in MNT.



Source: Google finance

### Summary

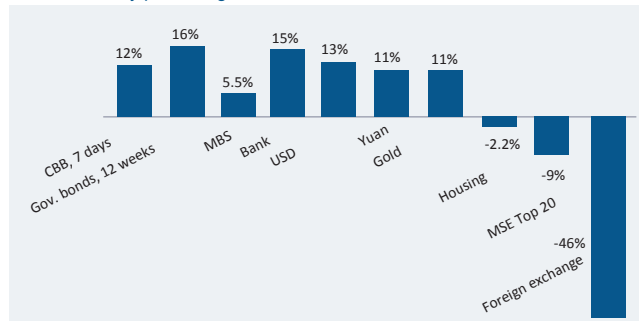
Below is a 2014 benefit comparison. Annual inflation was 11 percent, so the actual return is even lower.

CBB 7 weeks, government bonds 12 weeks, asset backed security, bank, USD, CNY, gold, housing, MSE Top 20, foreign exchange

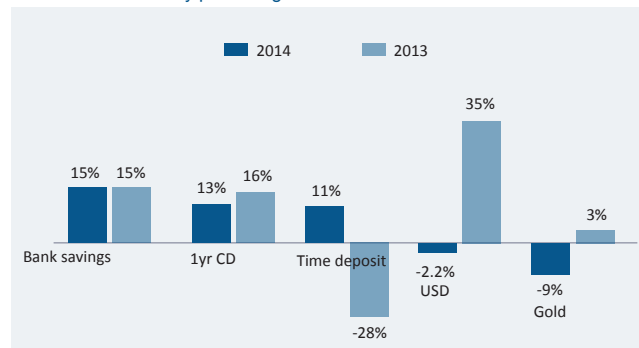
Several investment trends were similar to 2013. Gold, housing and the Top 20 index showed the biggest changes.

Bank deposits, 12 months term deposits, USD, Gold deposit, housing, MSE Top 20 index. ■

returns 2014 by percentage



returns 2013-2014 by percentage



Sojitz is the major investment and trading firm in Japan created through the merger of Nichimen Corporation and Nissho Iwai Corporation, both of which have over a century of trading history. Currently, Sojitz conducts its operations in around 50 countries worldwide through roughly 500 consolidated subsidiaries and affiliated companies in Japan and overseas.

Sojitz's business activities are wide-ranging, covering machinery and aerospace, energy and mineral resources, chemicals and plastics, real estate development and forest products, consumer lifestyle-related business, and new business development including IT solutions. Sojitz aims to be an innovative and function-oriented investment and trading company that commands industry-leading competitive advantages and earnings.



Sojitz is pursuing “multi-faceted energy businesses” incorporating businesses such as power plants and nuclear fuel into energy chain-based businesses extending from upstream resource development to downstream trading. Sojitz will actively participate in IPP (Independent Power Producer) projects in Japan and overseas (including USA, Mexico, Philippines, Pakistan, Czech Republic, Sri Lanka, China and Vietnam), as well as handle energy-related plants, and nuclear fuels and equipment.

In Mongolia, Sojitz Corporation have been operating its Liaison office since 2007 and have been engaged with local support toward businesses being implemented by Sojitz Corporation in Mongolian coal mine, power development, health care & other potential areas.

#### **Sojitz Corporation**

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## B.Lakshmi: Diversify and Decentralise the Economy

By A.Burenjargal

*We sat down with the B.Lakshmi, Director of the Economic Policy and Competitiveness Research Center, which is the general organiser of the Mongolia Business Summit.*

**-Let's start our interview by talking about the Mongolia Business Summit 2015. What are some differences from last year's summit?**

-The Mongolia Business Summit was organised in June of last year for the first time. The summit is being held separately from the economic forum because we only discuss internal issues at the Mongolia Economic Forum, so we had to organise a separate event to discuss the issues of attracting investment. People are interested in Mongolia because they come to Mongolian investment summits held in London and Hong Kong. Therefore, this summit is being organised to invite the people with whom we have established relationships to Mongolia, to attract investment and let them meet with our entrepreneurs and introduce the ongoing development works to them. As for this year, the economy is not that well and investor confidence has weakened. We need to make various attempts to attract investors during such times. Foreign countries do not receive enough information about Mongolia. The media provides them with some information about what Oyu Tolgoi (OT) is, but do not provide any actual or useful information. The summit is being organised to give concise information.

**- What opportunities do the public and private sectors have to attract investment? What were some outcomes**

**of the last year's summit?**

-The summit's purpose is to introduce large development works by the public and private sectors to investors, to sign infrastructure agreements and to support the business environment from a unified standpoint. As for last year, we signed some agreements on power plant projects. For example, we introduced the Tavan Tolgoi power plant project to people who are interested in investing in the project, and we also reported the reality on the ground to the participants. As for the project, everything is ready. The thing that is hindering the project is a guarantee from OT. The project is ready to go if OT gives a guarantee. In addition, we signed a concession agreement to build the fifth power plant. Investors have been selected. Such developments are restoring investor confidence.

**-What topics are going to be emphasised in this year's summit? What plans are there to attract investors by presenting the major development projects?**

-Erdenet Mining Corporation (EMC) is expanding their operations and increasing their production capacity by 25 percent. We all remember how the Sharyn Gol mine was on the brink of bankruptcy and how it got a second wind after switching to private ownership and attracting foreign investment. Also, important topics such as waste water processing are on the agenda. They say that 5,000 people will come to



Mongolia during the ASEM summit in 2016. Discussions about developing a good programme for the summit and its effects on the economy will be held. Tourism, traditional products, hotels, restaurants and many other sectors can benefit. Like always, there will be a theme about the megaprojects and economic development included. Even though everyone says Mongolia is a country rich in resources, we still have not started the fifth power plant project. We will be out of electricity and heat by 2020 if this project does not get moving now. We do not pay attention to maintenance. We start to panic all of a sudden. It is like how we are pouring waste water into the Tuul River because the treatment facilities are inadequate. We should think about how much time it takes to build a power plant. Who would trust us if we are constantly changing our decisions when we have not even estimated this. There will also be sessions about our country's real estate, railway, infrastructure and stock markets. Generally, we will discuss the plan about how to bring money into key economic sectors until 2030.

**-What kinds of results are you expecting?**

-The energy purchase agreement for the fifth power plant is expected to be finalised. Sharyn Gol will make an agreement to export to South Korea. Investment agreements which will give results are to be discussed. Economic conditions may be tough. However, it does not mean there are zero opportunities. Opportunities should be sought. Benefits and results come after trying and seeking. Study tours at major organisations are going to be held during the summit. As for last year, study tours were organised at companies such as Oyo Tolgoi, MAK, APU and Gobi. This year, study tours are planned to be organised at EMC and other factories. The goal is to find investment for rural areas, not only for Ulaanbaatar. Mongolia will develop as a result. This time around, study tours are going to be organised not only in Ulaanbaatar but also in the countryside. There are people who have not been to Erdenet city. Let's diversify our economy. We need to attract investment in cities and provinces other than Ulaanbaatar if we want to decentralise. The most important thing is that the people who are coming to Mongolia to invest do not have information on where and how to invest. We are not coordinating with our embassies abroad. The success of this event will be assessed by how much investment comes to Mongolia. The investors' summit is effective as it is organised specifically to tackle this challenge.

**-The Economic Policy and Competitiveness Research Center conducts research in many areas. Most recently, research into green development and the banking sector have been presented. How are the results of these studies being implemented at the policy level?**

-Our organisation specialises in conducting studies of economic policy and competitiveness and has been operating since 2010. The studies are quite effective. People have started to receive the results of studies positively. We have been conducting research on the competitiveness of provinces for quite a while now. In general, our national competitiveness will improve by focusing on local areas; we need to develop equally. The reason why people

are striving to live in Ulaanbaatar is because they are looking for jobs here with the intention of improving their living standards. Thus, jobs must be created in rural areas to reduce centralisation. By conducting research in rural areas, there is now some kind of base or foundation for research in the future. It will play a big role in directing the projects to be implemented by the government and international organisations.

**-Aside from the Mongolia Business Summit, your centre organises the economic forum annually. What are some outcomes of the forum?**

-People ask a lot about the outcomes of the Mongolia Economic Forum. I would not say that it literally gives results. The purpose is to discuss vital issues and come to a common understanding. In other words, it is a basis for hearing the voices of the private sector and society in general. It is an opportunity to meet and talk with people who propose new ideas. International organisations were telling us that Mongolia is a real democratic country. People are expressing their views freely in front of ministers and decision makers. Mongolia is a relatively open country. This year's forum was held under the theme "credibility." It gave an important signal during this time when credibility is nowhere to be found. Even when going to hospitals, we look for connections to find good doctors as we do not know who is credible. We do not trust the government and leaders to do anything. We are always suspicious of one another.

**-The OT agreement has been signed. There is the expectation that the investor confidence will be revived. What investment opportunities are there for sectors other than mining?**

-What we do is we present the projects that are more likely to attract investment. For example, it can be the fifth power plant project. We have talked about it over the past 25 years, but we still have yet to build it. We have the possibility to implement the next megaproject, but thing is that politicising projects exacerbates the issue. When a different party is elected after an election, they start to block or repeal the works of the previous government. We know how much time is spent on doing feasibility studies for

the megaprojects. When the feasibility study is developed and entrepreneurs try to attract investment, another party gets elected and completely changes everything. There are many expenses without benefits. Tavan Tolgoi tendered so many bids. Participating companies are spending money to compete for bids. A spokesman for the company Siemens said that they have participated in the bids four times, but there were no exact decisions made, so they are unsure of participating in future bids. Subsidiaries of major global mining companies were in Mongolia. They are all gone now. We have scared all of them away. As for this year, Peabody closed down their branch in Mongolia. Now only a few companies remain. We must focus on keeping them and advancing their projects. Developing our country is not that difficult. Investors are ready to join if appropriate policies can be put into effect.

**-We are one the same page. Let's talk about the investment summit. How is the participation of investors and the private sector?**

-Private firms are participating actively. Projects are going to be presented, and more than 30 investment companies are coming. Most of them are US companies, while interested companies from Singapore, Hong Kong and South Korea are also coming. The most important thing for investors is a stable economy – it does not matter that much if an economy is weak or stagnant. The government is talking about issuing bonds again.

This is a just paying off debt by taking on more debt. This means that we are adding five more years on our five years of debt. Instead of that, we have opportunities to develop other tools like capital markets. Rather than looking for the easy way out, we must improve the domestic environment so credit ratings and interest rates can improve. There is plenty of money out there. European countries are exercising a policy to incentivise the people with savings to spend their money. That money can come to Mongolia. However, the annual interest rates of bank loans are almost 24 percent in our country. How can we run a business when the financial climate is like this? ■

## The Importance of Grey Water



By G.Orkhon

We have been talking about grey water for many years. However, in the minds of many people, there remains the question as to what this means. For example, resident B.Tulga said, "It's recycling water that cannot be mixed with food," while G.Khulan said, "Is it not the water coming out of the central treatment facility?" Thus, some people are saying that grey water means contaminated water or recycled water for mining.

Article 3.1.19 of the Law on Utilisation of Urban Settlements' Water Supply and Sewage states that grey water is waste water stemming from consumer usage. Simply said, it is water after we have used it to wash our bodies and clothes. The issue of using that grey water after being treated has started to be put forward. However, there are a handful of places in the city that are reusing the waste water by purifying it.

Experts said that grey water treatment technologies were unable to be sufficiently introduced into Mongolia. S.Unen, the head of Water Supply and Sewerage Authority, said only a few companies and car washes are reusing purified water currently. Grey water can be purified to 96-97 percent, so it can be used for industrial refrigeration, cleaning and watering streets. While we are just discussing it as a possibility, the rest of the world, led by countries such as Hungary and Poland, has already started utilising these technologies and methods. The Water Supply and Sewerage Authority

is aiming to establish a top-notch water treatment facility and produce purified water out of grey and black water. For example, a national programme, simply named "Water," has set an objective to introduce advanced technologies that purify the grey water for use for purposes other than washing hands or taking showers.

Waste and waste water treatment have become a national issue for Mongolia. All treatment facilities in the city and rural areas received the very low "unsatisfactory" rating upon recent inspections of treatment facilities by the General Authority for Specialised Inspection.

According to inspectors' conclusions, the water treatment facilities are only treating 60 percent of the waste water when it should be more like 90 percent. Private enterprises are willing to participate in the improvement of treatment facilities. For example, Mongolian Organic Water LLC is offering organic or eco waste water treatment technologies. The main feature of organic technology is that it puts additional organic filters making it different from our currently used mechanical and biological filters. It re-filters and treats water with help of two to three thousand kinds of plants, fish and microorganisms. The advantage is that the required area is three times smaller than the area required for currently used treatment facilities. Also, it would treat the water

without any odours." The Ulaanbaatar treatment plant is burying their waste and silt by digging 44 hectares of land. It smells bad and the waste seeps into groundwater, having negative environmental consequences. While the current technology is economically cheaper, it is the most environmentally destructive way to get rid of waste. We are working to introduce eco technology that reprocesses the waste water for fertiliser and compost, gas, heat and electricity," said U.Batbold, Director of Mongolian Organic Water LLC.

They are intending to introduce this technology to Mongolia in cooperation with Hungary's Organika LLC. Unfortunately, their works are not advancing and sitting in waiting as relevant authorities are not giving detailed information. U.Batbold added, "We gave official letters to relevant authorities such as the urban planning and city administration. However, they are not providing the necessary information to us. They are telling us to come tomorrow or later, even though they are lauding the world's leading organic technology. It has been going for three years like this." He said that they have offered to cooperate on introducing this technology to the city's treatment facilities, but the relevant authorities just do not give definite answers.

This technology has been in-demand in the world market for the past 15 years. For example, this technology has been

introduced in Asian countries such as India and China. Also, it is being used in European countries such as Germany, Hungary and Poland, and it is known to be more durable than our current technology.

Today, we are using the clean water quite inefficiently, using it to flush toilets and wash cars, while it is possible to reuse the waste water for home purposes as well as car washes. If car washes start to use the waste water, we would be able to utilise the same amount of water for twice as much as usage as we do now, cutting our water usage by half.

Today, the city's waste water is being treated in the central waste water treatment plant and being directly poured into Tuul River. The deputy director of the Water Supply and Sewerage Authority, Z. Batbayar, gave an answer as to why we are not using the treated waste water: "Today, mining companies especially have the thought that what happens with the water does not matter as long as they have paid for it. It should not be so. There should be a certain standard or requirement to set payments according to how much waste water comes out of the final product. Mining companies

will start to control and be accountable for their water usage to avoid fines for water pollution if charges are set on their reserve and final waste products. Water treatment, recycling and purifying technologies will be introduced. Today, there is no concept of grey water and water recycling in Mongolia. Clean water will not be used in mining, car washes and toilets if this issue is resolved."

The wasteful consumption of water raises issues regarding water resources. Our water sector has been saying "Let's save water" in the last few years as the world's water resources are declining. "There were some good outcomes. Around this time last year, 165,000 cubic metres of water was used in the capital when water prices were not yet raised. Now it has decreased to 145 thousand. The residents of the capital have used 20,000 less cubic metres of water. Last year, many buildings were constructed, and factories were operating as they do. Water has been saved, despite the sharp decline in our sales," said S. Unen, explaining that promotions and increases in the price of water in all the places connected to the central system have affected this.

The price of one litre of clean water was increased to MNT 0.48 and the price of waste water was increased to MNT 0.24 for the city's residential apartment consumers. However, VAT and additional costs are not included in this price. A household living in an Ulaanbaatar apartment pays MNT 2,500 for monthly water fees, while households in Nalaikh, Baganuur and Tuv province pay MNT 1,860. Ger district households pay MNT one per litre.

In the last five years, many countries have increased the price of water to some extent. For example, the US increased prices by 27 percent, UK by 32 percent, Australia by 45 percent and Canada by 58 percent. This in turn is a human effort to save the drinking water which is dwindling day by day. Our country's per capita amount of water resource in the Khangai region is 405 times higher than the global average; however it is 10 times lower in Gobi region. Thus, we do not have the luxury of using water so inefficiently such conditions. There are many unanswered questions waiting for answers, as water supply is uncertain and the issue of equilibrating water prices is equally uncertain. ■

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Year of establishment

1969

**Business fields**  
Thermal and Renewable power business and fuel cell business



Sales revenue

2.5 billion USD

**Overseas business**  
Indonesia, Vietnam, Mongolia

No. of employee

1,072 persons  
As of Jun 2015



**Total Power Generation Capacity**

8,131 MW



**Credit rating**

AA+

# How OT Should Benefit Us

G.Munkh-Erdene

(Investment Analyst at Gauli Investment Securities)

On April 5, the Prime Minister said to the people, "We have essentially agreed on the issues surrounding OT. Now only the technical issues remain. Both sides will make official announcement soon. The financing of the underground mine development is near."

## WHAT WILL AFFECT THE PROJECT'S SUCCESS?

Of course, the rise and fall in copper prices will be a fundamental facet that will influence the stock since OT is a copper mine. The prices of shares and the prices of copper have been heavily

election created uncertainties about parliament and changes in government. If government leadership changes, would there be a loss of balance? Would OT project stall?

- The former president N.Enkhbayar was arrested. It also created political uncertainty.

- An investment law that scared away the foreign investors was approved. It reduced countries' confidence in Mongolia.

It can be said that the stock price fell sharply due to all of these reasons in the first half of 2012. However, it started to correlate with the copper price once again starting from the second half of 2012. As a result, the stock price cannot be evaluated based on the real value because political risk is a determinant. The effects of political risk are marked red in the graph. The stock price will near the true value if there is no political risks.

Tourquoise Hill Resources (TRQ) stock prices at the New York Stock Exchange



The next day, the New York Stock Exchange listed Turquoise Hill Resources' stock price rose by 11 percent. The company owns 66 percent of the OT project. Turquoise Hill has not invested in other large deposits, so their stock will grow based on how successfully the OT project will be implemented, meaning how well it can use the OT resources. Thus the answer to how we should receive the benefit of our resources might be purchasing Turquoise Hill Resource's shares.

correlated until 2012. Figure 1 shows that the close correlation between the stock and copper price was lost near the end of 2011 and first half of 2012. The stock price was rapidly falling while the copper price was steady. In other words, there was an additional factor influencing the stock rate, which was the political risk in Mongolia.

- Parliamentary elections were held in 2012. OT's initial agreement had already been approved by the parliament. Thus, it meant that it had reached a balance regarding the interests of the parties. Therefore, the

## START OF THE UNDERGROUND MINING FINANCE IS CLOSE

The financing of the OT underground mine was halted in July 2013. The stock price fell by 30 percent over the next two days. Sources are reporting that the two sides are nearing a solution on the financing of the underground mine after two years. In other words, the stock price is starting to reach its true value.

The stock price increased by 11 percent after the Prime Minister's statement on the 5th of April, then the stock price increased by 33 percent over the next one and a half months after the statement.



## TRADER

International information agencies are still reporting that the OT underground mine's financing issues will be resolved soon. The prime minister has corroborated that the underground mine's financing issue is being handled in an interview with Bloomberg TV Mongolia.

## HAS THE EXCHANGE RATE GROWTH HIT ITS PEAK? HOW MUCH WILL IT REACH IN THE LONG RUN?

OT began exporting in September 2013. Exports of USD 1.6 billion were made in 2014 and saw profit for the first time. That was only exports from the open pit. Exports will sharply increase if the underground mine becomes operational in 2019. Turquoise Hill's stock

price will also increase following this. The company estimated the investment repayment period of the project to be nine years. The stock price will increase as the project is implemented successfully in the long run. However, it is expected that the minimum price of the stock will be at USD 15 dollar if copper prices are at current levels or fluctuates around USD six thousand when the underground mine development finishes and starts to operate, and if the copper price reaches USD nine thousand, the stock price can reach USD 25. However, the stock price will fall again if another crisis occurs and the price of copper drops to USD 2,700.

## CONCLUSION

I tried to show that there is an opportunity to benefit from our large gold and copper deposit by understanding the stock market and shares during

these days when people are thinking that the OT project's returns per capita for Mongolian citizens is low.

Most people believe that government instability caused the stalling of the underground mine, which caused the current economic situation to be what it is now. However, it should be noted that it gives us an opportunity to buy the company's shares very cheap.

There is no doubt that many other mineral deposits will be entered into economic circulation in the future if we look at the big picture. In all potential cases, foreign investors will come in. However, those foreign investors are more likely to trade shares on foreign exchanges. We need to start understanding capital markets and shares from now on. How much capital we can raise is closely associated with how effectively the country can spend the resources. ■



*"SharynGol has led Mongolia's coal industry for many years, introducing advanced technologies and becoming the basis for building new generations of miners."*

– P.Ochirbat  
Former President of Mongolia

## REPORT

## The Sharyn Gol Mine and the Dawn of New Era

By Ts.Elbegsaikhan

Sharyn Gol soum of Darkhan-Uul province is located 240km from Ulaanbaatar and 70km from the provincial capital. Despite its size, its infrastructure development is even better than some provincial capitals. Sharyn Gol used to hold city status before administrative reshuffling. The soum has a railway, is connected to 110 kV high voltage lines, has an independent thermal power plant and also has 15 five-storey apartment blocks. In this "city" of more than 9,000 residents, there are two secondary schools with more than 2,200 students, and three 350-bed kindergartens. The reason why this soum has developed more than others is largely due to the 50-year-old coal mine.

People got to know about Sharyn Gol mine in the 1981 film "Not Yet Married," which depicts the Sharyn Gol mine's peak period of development, when it had 1,600 employees and produced approximately two million tonnes of coal per year. Today, mine dumps along the dirt road towards the mine's administrative building is covered with grass, plants and trees as if the surrounding nature were untouched. A half-century of history testifies their experience. After 50 years, Sharyn Gol has become a public company, and its stock is sold on the Mongolian Stock

Exchange and is included in the Top-20 index. That they are providing experience and training the new generation of miners is a fact.

Soviet experts first discovered the mine and estimated that it had 100 million tonnes of coal resources. In 2003, the government sold its 80 percent stake on the stock market, making it an entirely private enterprise. At that time, their mining machinery and equipment were becoming outdated, and because of badly stripped soil, the walls of the open pit mine were becoming steep. In 2010-2011, production dropped to 300,000 tonnes. There was an expectation that the mine would shut down altogether. Used for over 50 years, the reserves were dwindling. However, the US Firebird Management investment fund started to buy the company's shares in large quantities. They invested USD 5.1 million in their owned company and started to explore further on their licenced exploration area from 2010 to 2013. As a result, they estimated the initial mine resources at 71.8 million tonnes by JORC standards. In addition, they discovered and confirmed the "Shaazgait" deposit with 124.4 million tonnes of coal reserves. The Minerals Council of Mongolia reviewed this result and concluded that 191 million tonnes of coal can be produced and used

with current technology. Sharyn Gol JSC attracted investment and upgraded their machinery and equipment to intensify their soil stripping works. Their mining production almost doubled in 2013. Last year, operations stabilised, and they produced 700,000 tonnes and were included in top 100 enterprises of 2014. The company aims to produce 900 thousand tonnes this year and expects to produce one million tonnes next year. Their production target for the next two to three years is to reach 2.5 million tonnes.

On the cusp of celebrating its 50th anniversary, Sharyn Gol JSC is at the dawn of a new era. They say that the Sharyn Gol mine's coal is higher-calorie and better-burning than that of other Mongolian mines. Most of the produced coal exceeds 4,900 kcal per kilogram, which is the unit of measurement for coal quality, the higher the better. Consequently, heavy industries use their raw coal. The company plans to improve the quality of their coal and bring it up to 6,000 kcal. To do this, a coal processing plant was required. A plant with the capacity to process 600,000 tonnes of coal per year was put into operation. They ordered the equipment from an English company named Parnaby Cyclones, an internationally recognised company that specialises in the production of all types of mineral processing technology. They

themselves were responsible for the test configuration. Experts from Australia's JPCM came to monitor the performance. The manager of the coal processing plant, E.Munkh-Orgil, said that there were no issues during the test configuration and the plant's future is bright.

More than 90 percent of the company's employees are Sharyn Gol soum citizens. On top of this, 20 people are newly employed at the coal processing plant. Alongside them are 20 families. If we look further, the establishing of small- and medium-sized enterprises

dependent on the mine will contribute to the development of Sharyn Gol soum. Just as a small example, the company made an agreement with manufacturers in the area to produce winter boots and bought them for our employees.

E.Munkh-Orgil, Manager of the Sharyn Gol Coal Processing Plant



#### OUR WORST QUALITY COAL EXCEEDS 6,000 KCAL

**-What impact will the plant have on the mine's profits and income? What changes would there be for coal quality?**

-Our purpose in building the processing plant was to supply local customers with high quality coal and also to find export

opportunities. We intend export to Russia, the Republic of Korea and Japan by taking advantage of the railway system. As for pricing, certain costs will be added to the production cost, and we stand to earn far more than we do now. An ALS-accredited international laboratory tested the samples of raw and processed coal. The test results showed our high-quality coal to be of 6,540 kcal. For example, North Korea requires coal to be 5,500-6,500 kcal. Our worst quality coal exceeds 6,000 kcal.

**-What opportunities are there for competitiveness? Our southern and northern neighbours have vast coal resources themselves.**

- Our advantage is that we are a well-recognised public joint-stock company. We believe we have opened the door. As a result of cooperation with the Ministry of Transportation's Maritime Administration, we will have a gateway to the sea through Russian railways. Our transportation logistics partner has offered to be responsible for transportation and supply at the same time. In other words, our responsibility is to extract, process and load. We have an export market of 20 million tonnes per year if we process the coal and prepare the reserves.

B.Batbaatar, CEO of Sharyn Gol JSC



#### THE SECOND PHASE OF THE COAL PROCESSING PLANT WILL BEGIN NEXT YEAR

**-The Sharyn Gol mine has 50 years of history. They say it will operate for another hundred. How do you see the future of the mine?**

- The mine has 194 years worth of reserves if we imagine one million tonnes of coal being extracted each year. We have a bright future. Coal calorie quality is relatively high. We consider the processing plant the first phase. The second

phase will start from next year after reviewing what is possible financially. The long-term goal is to sell two million tonnes of coal per year. To do so, we need to extract 2.5 million tonnes of raw coal per year. Currently, about 430 people are working for us.

**-People have differing views on whether the company should be state-owned or completely private. Many say that management of state-owned enterprises (SOEs) is poor. The Sharyn Gol mine was also an SOE at one point. In your opinion, where do SOEs falter?**

- Criticism about SOEs being unprofitable and mismanaged can be heard in every country. Any private company works for profit, while SOEs are responsible for implementing a double policy. Thus, it diverts them from the main purpose of profiting to some extent. In my opinion, there must be SOEs. They are necessary, but it would be biased to say all companies must become state-owned. With private entities, there would be competition, and that will lead to improved quality and service

Baganuur, Shivee-Ovoo and Aduunchuluun are companies similar to us that supply coal to the energy sector. However, the state manages them. If these companies are privatised, it would be difficult to operate. Whether that is good or bad should not be evaluated solely by profits. The central region will have no energy if Baganuur and Shivee-Ovoo stop operating. ■



**SHARYN GOL JSC**

since 1965

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Discovered : 1958  
Exploration : 1958 – 1960  
Mining started : 1965  
Listed in MSE : 1993  
Privatization : 2003  
Peak Production : 2.5 Mtpa(1975-1983)  
Current Production : 0.8 Mtpa  
Subsidiary Company : Naco Fuel JSC

Address: East aisle of level 4, Landmark office building,  
Chinggis avenue – 13,  
Sukhbaatar district, Ulaanbaatar, Mongolia

# We value our experience, customers and the environment



Sharyn Gol JSC is one of the first open-pit mine and to become a trusted coal supplier to Northern region of Mongolia. Since its establishment, the company has been proudly supplying thermal coal to and keeping the lights on in 2<sup>nd</sup> and 3<sup>rd</sup> biggest cities of the country.

**Countries growing demand of energy and coal based products pushes the company to increase its production rate. The railroad development program initiated by Mongolian government is an opportunity for Sharyn Gol JSC to diversify its customer portfolio. Current production is 0.9 Mtpa ROM and**

**1 Mtpa is expected in 2017. The company has a history of producing 2.5 Mtpa from 1975 – 1983.**

Its dedicated 65km of rail spur connects Sharyn Gol JSC to Trans-Mongolian Railway, which then connects to the great Trans-Siberian Railway. This strengthens Sharyn Gol JSC's future exporting possibilities to Russia and China and furthermore; becoming a favorable player in local coal exporting market.

## Producing environmentally friendly products

As the raw coal is the main heating source for most households in urban areas; air pollution has become a major problem. The company has taken determinate action to combat air pollution by acquiring "Naco Fuel" JSC, a smokeless briquettes producer. "Naco Fuel" JSC is based on Darkhan city, 50 km north of the mine site and 220km north of Ulaanbaatar, and has direct access to rail which strengthens its possibility to easily deliver its products to major cities of the country.

Currently, technical improvements under progress and its capacity is 65K per annum.

## Aiming for a sustainable mining

Firebird Management holds 70.84% of the company's total share and introduction of new management team has opened another milestone era to the mine. Since 2010, investment worth 18.1 Million USD has been put into mine development program and expected to increase in coming years. Following actions has been taken and more are planned and under progress:

- Mine development and exploration program – 6.3 million USD
  - Full scale drilling program – JORC
- Business Development – 8.1 million USD
  - Wash Plant and Naco Fuel JSC Acquisition
- Fleet Innovation Program – 7.8 million USD
  - 8 new 65t Komatsu dump trucks
  - 6 new Nord Benz coal trucks
  - 1 new Sandvik blasting drill
  - New Locomotive purchased due to production increase and etc



## Quality Promised

Meeting and exceeding demands of customers has always been a priority. The company has purchased Coal Washing and Beneficiation Plant with 600,000 capacity from Derek Parnaby Cyclones International Limited. The plant is on - site and is under construction. An initial test has showed minimum 5,000 CV and successful operation of the plant will open exporting possibilities in the long-run.

Total Resource (air dry), SW Area. Above 300m depth								
Class	Tonnes	RD, g/cc	ASH, %	CV, Kcal/kg	IM, %	VM, %	FC, %	S, %
Measured	61,371,000	1.7	33.4	4,480	2.9	29.0	34.6	0.9
Indicated	31,222,000	1.7	35.4	4,344	2.9	27.9	33.8	0.9
Inferred	24,641,000	1.7	35.7	4,405	2.9	27.8	33.6	1.0
<b>Total</b>	<b>117,233,000</b>	<b>1.7</b>	<b>34.4</b>	<b>4,428</b>	<b>2.9</b>	<b>28.5</b>	<b>34.2</b>	<b>0.9</b>

Total Resource (air dry), Satellite Area. Above 300m depth								
Class	Tonnes	RD, g/cc	ASH, %	CV, Kcal/kg	IM, %	VM, %	FC, %	S, %
Measured	110,697,000	1.7	32.5	4,382	2.8	29.3	35.4	1.4
Indicated	48,314,000	1.7	32.3	4,352	2.8	29.5	35.4	1.6
Inferred	61,318,000	1.6	30.3	4,479	2.6	30.4	36.8	2.1
<b>Total</b>	<b>220,329,000</b>	<b>1.7</b>	<b>31.8</b>	<b>4,403</b>	<b>2.7</b>	<b>29.7</b>	<b>35.8</b>	<b>1.7</b>

## D.Angar: Effective Policies Are Needed for the Mongolian Stock Exchange

By D.Bekhbayar



*We talked with the Acting Executive Director of the Mongolian Stock Exchange, D.Angar, about stock market reforms, current issues and future development.*

**- There has been a lot of talk in recent history about improving Mongolia's capital market, yet there have been no significant changes. Why is that so?**

- First of all, the key to developing the country is coming to agreement and actually doing something to develop the stock exchange, rather than just talking. Medium and long-term plans and programmes that point out in detail the subjects that will implement those things must be developed.

**-What specific actions need to be taken? Does Mongolia have policies and regulations to develop the capital market?**

-We don't need plans and documents which are written on paper but never get implemented. The market can rapidly recover if the state takes two or three major, effective actions. The director of the stock exchange can't be the only force trying to get such a big market moving. The state needs to take care of the policy aspects on its end.

Today, every company is working under isolation. The largest companies

are corporations, but they are closed corporations. The capital market cannot develop in this kind of environment.

**- But companies like APU are still corporations.**

- In my opinion, Mongolia's major private companies such as MCS, MAK and Petrovis should be open corporations. The 100 largest US companies are also the largest by stock market capitalisation. It is the same in any other country. Yet in Mongolia, the 100 biggest companies are either private or a family business. Of course, these companies should not be opened up forcefully. However, the state should give better subsidies, incentives and exemptions to make them want to become real corporations.

**-It has been some years since there was first talk of the Mongolian stock exchange being developed in cooperation with the London Stock Exchange. Was this not a step in the right direction?**

- It was a good step. Unfortunately, the results are unsatisfactory. Despite setting the bar high, we could not reach our three-year goals because significant mistakes were made during the execution phase. Emulating London's market really was the right goal, but we could not implement it.

**-There were significant expenses in**

**cooperating with London. So, does this mean there were no results at all?**

- I wouldn't say there were no results at all. A few things did come out of the endeavour. At the very least, we updated the legal environment. The purpose of the agreement with the London Stock Exchange was to develop a global capital market. Regrettably, we can see what level the exchange is at today.

**- Global level? We are not even working that well domestically.**

-Yes. We are not even accepted in Mongolia yet. It can be seen from its performance. The reason is we are not London Stock Exchange. We aimed for a world-class stock exchange, but conditions to implement were not present. We need only look to ourselves to see why. Domestic quarrels and misunderstanding have something to do with it.

As for me, I made the stock exchange more transparent upon entering. We are where we are because we think poorly, unwarrantedly suspiciously. The London Stock Exchange is a top global organisation. It would not do anything dirty to Mongolia. We are working on sorting out domestic problems and making an association of brokers and entrepreneurs to give provide understanding of the issues facing us.

The London Stock Exchange extended the contract with us for another three years on September 9 of last year. We are trying to complete the objective and follow through with the task of becoming a world-class stock exchange. A Mongolian investment summit will be organised at the London Stock Exchange on July 1 on the occasion of the prime minister's visit to the UK.

**-We have the Top-20 index. Can these companies become more open and progressive? What is the stock exchange doing regarding this matter?**

-There is no such thing at our stock exchange at the moment. Only two or three people own the shares of a company, on closed terms. Financial activities are hardly open. Barely anyone is going to believe in such a market. A company has to have good governance to be a good example, thereby giving investors confidence, and the companies themselves will benefit from the good governance. This will also enable new companies to enter.

The stock exchange itself has to be a good role model. In recent years, several closed companies have been operating without any oversight. We have our Top-20 index. We are setting one requirement to these companies that the index comprises: "If you are included in the Top-20, you must have good governance, conduct self-inspections, and be accountable to the public." Companies are beginning to learn. They are incorporating good corporate governance principles into their way of doing business and starting to find the missing pieces to get to the next level. We are feeling the outcomes somewhat.

Recruitment of independent members to boards of directors has increased. They are starting to hold shareholder meetings in accordance with the rules, placing financial information on their websites and submitting it to the stock exchange. This is a good step. However, our main goal is not to concern ourselves with these companies, but to get Mongolia's largest companies on our stock exchange.

**-A law that requires the largest companies such as Oyu Tolgoi and Tavan Tolgoi to put a certain amount of shares on the domestic stock market**



**was ratified. How will this law be implemented?**

- It is an example of discrepancies between words and actions. The minerals law states that 10 percent of the strategic deposits must be traded on the Mongolian Stock Exchange. The parliament decree was issued in 2013. However, the law is still not being implemented. Laws must be abided by after approval.

In the future, all 15 strategic deposits must be traded on the domestic stock exchange. In doing so, the Mongolian Stock Exchange will attract global investors. We cannot attract investors if we remain with a few small or closed companies.

**-There is talk of privatising the Mongolian Stock Exchange. What would change if it switches to private ownership?**

-Privatisation plans have been submitted to the government, which is legitimately good. The state has to accept and admit that they are the worst managers. Privatisation must be seen as a possibility to bring the best technology, management, know-how, new systems and benefits. Foreign investors will not have confidence in a 100 percent state-owned stock exchange. The stock exchange itself should be a public company. The shareholders of the stock exchange should be foreign and domestic strategic investors who can

develop it rapidly over the medium term. However, I believe foreign investors should be the major shareholders, because we could not develop our stock exchange over the last 24 years. Foreign strategic investors must work on it if we want to incorporate the best management, technology, know-how and experience.

**-If we actually look at the market share of the banking, finance and capital markets of Mongolia, there is a huge gap between them. The ratio is 96:2:2. How can we close the gap in a short period of time?**

- We have these three sectors: the capital market, banking and insurance and other financial sectors. Of these three, the capital market must account for at least 40 percent of the market share. Now the ratio is 96:2:2. Banking accounts for 96 percent, the capital market three percent and rest are other financial sectors. The other sectors include insurance and micro-finance. What I'm saying is, the economy will truly develop if the capital market's current three percent share of the entire financial system increases to

40 percent.

**-There has been news that the stock exchange is working profitably in recent times. What specific things have you done after coming to the Mongolian Stock Exchange?**

- First, I emphasized making corporate governance transparent. Corporate governance rules were newly developed, and there are now set requirements for corporations.

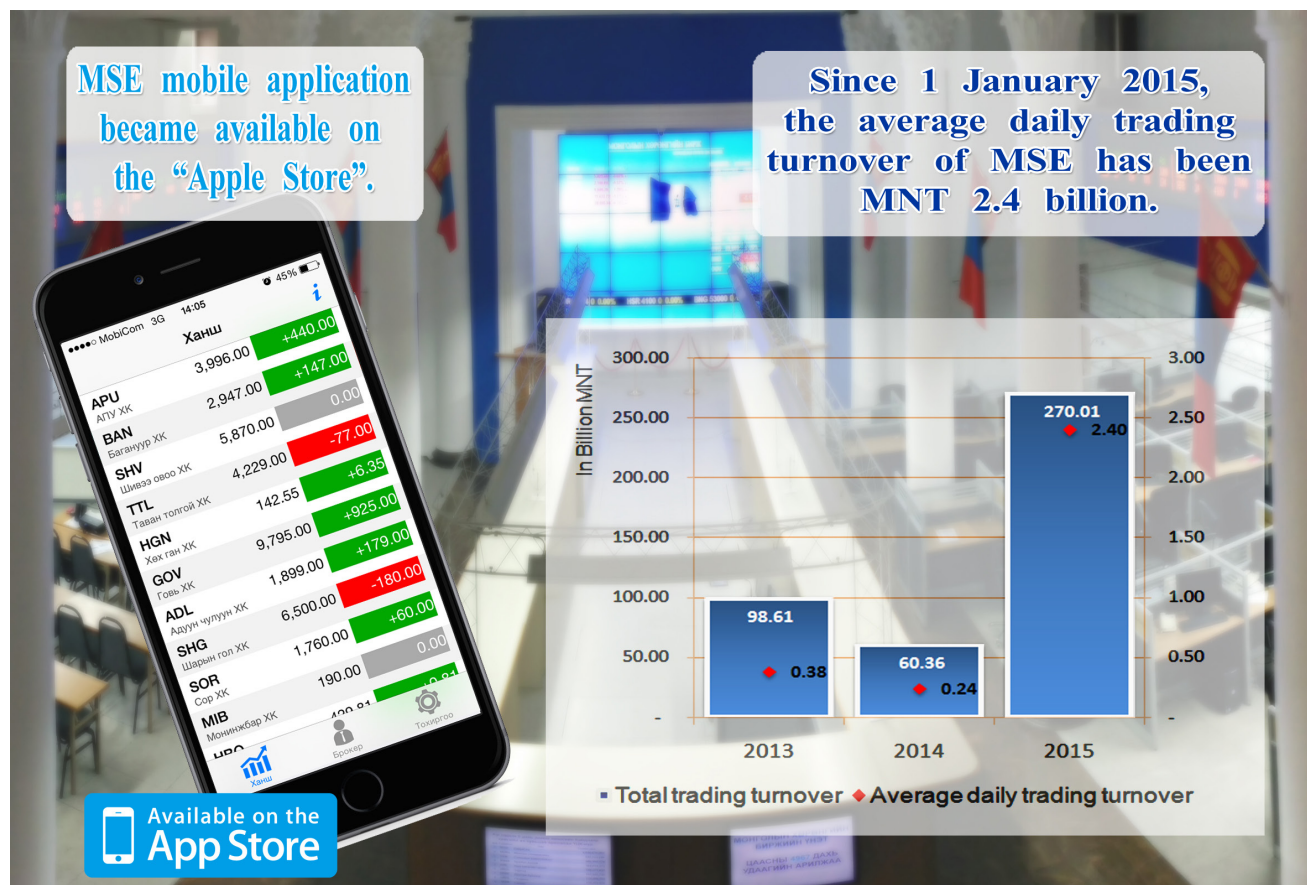
Second, distorted calculations of the Top-20 index were fixed. Investors need to have accurate information about the market. We already had the Top-20 index, and now we came up with a new index that includes all the stocks, the MSE ALL. Government securities will be on it. The stock exchange was all out of products and services; however, today we have a wide array of products and services.

There was thenotion that the Mongolian Stock Exchange cannot sell bonds and that the value of the daily volume never exceeds MNT 5-10 million. In 2015, the average value of the

daily volume reached MNT two billion. Now the bonds are struggling to meet demand. In addition, we are working to give accurate information to foreign and domestic investors and restore their confidence.

Compared to the same period last year, foreign investors have increased by 20 percent. Domestic investors have increased by several thousand percent. Another important thing is that government securities were sold in accordance with market principles for the first time. Four non-banking financial institutions and about 500 individuals have purchased government bonds. In the future, this figure will increase to thousands. Furthermore, a secondary government securities market was created. As a result of our work, BINSE JSC issued shares.

Later this month, another company is planning to issue corporate bonds. We have set goals to issue additional shares of 10-15 companies, and reach a trade volume value of MNT one trillion this year. We are working hard to put our money where our mouths are. ■





## GROUP PROFILE

ENGIE develops its businesses (power, natural gas, energy services) around a model based on responsible growth to take up today's major energy and environmental challenges: meeting energy needs, ensuring the security of supply, fighting against climate change and maximizing the use of resources.

The Group provides highly efficient and innovative solutions to individuals, cities and businesses by relying on diversified gas-supply sources, flexible and low-emission power generation as well as unique expertise in four key sectors: independent power production, liquefied natural gas, renewable energy and energy efficiency services.

ENGIE employs 152,900 people worldwide and achieved revenues of €74.7 billion in 2014. The Group is listed on the Paris and Brussels stock exchanges and is represented in the main international indices: CAC 40, BEL 20, DJ Euro Stoxx 50, Euronext 100, FTSE Eurotop 100, MSCI Europe and Euronext Vigeo.

### Key figures at December 31, 2014

- **152,900** employees throughout the world
  - inc. 58,200 in power and natural gas,
  - and 94,700 in energy services.
- **€74.7 billion** in 2014 revenues.
- Operations in **70** countries.
- **€6-7 billion** of net investment per year over 2014-2016.
- **900** researchers and experts at **11** R&D centers.

### Power\*

- **No.1** independent power producer (IPP) in the world.
- **No.1** independent power producer (IPP) in the Persian Gulf countries, Brazil and Thailand.
- **No.6** supplier in Europe.
- **115.3** GW of installed power-production capacity.
- **10.5** GW of power-production capacity under construction.
- **19** GW of installed power-production capacity in renewable energy (**16.5%** of the base).

*\* Including 100% of capacity of ENGIE assets regardless of actual holding rate.*

### Natural gas

- A supply portfolio of **1,296** TWh (**120** bcm).
- **No.3** seller in Europe.
- **No.1** distribution network in Europe.
- **No.2** transport network in Europe.
- **No.1** vendor of storage capacity in Europe.
- **346** exploration and/or production licenses in **17** countries.
- **759** mboe of proven and probable reserves.

### LNG

- **No.1** importer of LNG in Europe.
- **No.4** LNG portfolio in the world.
- **No.2** operator of LNG terminals in Europe.
- A LNG supply portfolio of **245** TWh (**16.4** mtpa) from **6** countries.
- A fleet of **14** LNG tankers inc. two regasification vessels.

### Energy services

- **No.1** supplier of energy efficiency services in the world.
- **1,300** sites throughout the world.
- **202** district cooling and heating networks operated throughout the world.



## FINANCIAL MARKETS

## Breaking the Financial Ice

By B.Enkhtsetseg

Bigger investments tend to come from stock markets in the developed parts of the world. But for Mongolian investors, bank loans are usually the preferred choice. The financial market heavily relies on banks as the other two pillars, insurance and the stock market, each share only one percent in the market.

“The financial market is much too dependent on the banking sector. Potential for returns to economy is insufficient, so banks’ ability to finance a good number of developments is

severely lacking,” says T.Gandulam, Director of the Securities Regulation Department of the Financial Regulatory Commission (FRC). She also stated that this indicates the need to develop the stock market.

The Economic Policy and Competitiveness Research Center (EPCRC) shows that total assets of the Mongolian financial market reached MNT 23.5 trillion at the end of 2014. Of that whole, the banking sector accounts for over 96 percent, while the stock market takes a

just one percent of the pie.

EPCRC analysts summarised in their economic assessment that a financial market based on a single pillar that is the banking sector reduces funding options for individuals and for businesses. Hence, there is the desperate need to develop non-banking investment sources.

“In Mongolia, many urge that more factories should be built to develop economy. But to have competitive manufacturers, the financial market has to develop. That is something the

US and China understand well," said U. Ganzorig, President of the Financial Market Association.

Currently, the market capitalisation of Mongolian Stock Exchange stands at USD 600 million approximately. The MSE adopted the Millennium IT system from the London Stock Exchange to reform the trading platform as it was the first and most significant commitment to developing the capital market. Even though there were a number of critics three years ago, it works fine nowadays. Following that, big changes were introduced to the market, such as a new law on securities as well as a law on investment funds.

Businessmen and economists who questioned said that these steps are not enough; there is still much to be done.

### MORE TO COME...

The most important question is: are there enough buyers as well as sellers of new stocks to create a liquid market?

The FRC says that they are working hard to put investment funds and management companies to work. Before talking about foreign investors, local investment sources need to be sought. One potential way to purchase securities domestically could be through the social insurance fund. Every worker in this country pays roughly 20 percent of their wages to social insurance. It amounts to a total of MNT one trillion per year. "If we allocate just MNT 300 billion from social insurance, it would be enough to buy stocks of 3-4 of the TOP 100 Mongolian companies," says U. Ganzorig.

Today, only four of the TOP 100 companies are publicly traded. It means that there are 96 more potential stocks to offer on the market. But they say that they do not have faith in raising their desired capital through the Mongolian stock market.

On the other side of the discussion, the Mongolian Stock Exchange has lowered the transaction fee for secondary market trades. The fee used to be 0.4 percent, but now it is 0.15 percent, a 60 percent decrease. The one-time registration fee and other fees related to total turnover were decreased by over 40 percent.

Trade settlement after an order is placed has been changed to one day. Moreover, new companies are to be registered within 20 days whereas it used to be 60 days. The FRC has recently taken measures to promote the stock market by releasing broker companies from service fees that equalled to 10 percent of total income of the entities.

"We lowered the high threshold for businessmen. When we had two boards, the fixed capital requirement was MNT one billion for the lower and 10 billion for the higher, and a business had to be operational for at least three years. Due to these former requirements, there is a misconception among the public that the MSE is a place for big companies. Now we have opened a third board, where start-up businesses can come. There, investors can choose profitable projects and invest in them," said D. Angar, Acting CEO of the Mongolian Stock Exchange, on activities at the MSE.

Publicly traded companies tend to attract more investment and loans as their shares are available to everyone. But we cannot say that all 200 of the MSE-registered companies are stellar. Therefore, the stock exchange is planning to do some "spring cleaning" on its list of companies. In other words, companies with stocks that are not actively traded or companies that do not fulfil their duty to shareholders are going to be delisted from the stock exchange. The policy makers of the stock exchange are moving to push out the bad stocks and bring in the valuable.

There is no shortage of people saying that bringing good stocks into the MSE must be a priority. However, private companies are not likely to break the ice and take the first step. Thus, the government is preparing a big move to let state-owned enterprises enter this market. This may not be breaking news, because this has been talked about for quite a while now. It is just now, the what, when and how have been answered.

The Mongolian Financial Regulatory Commission signed a memorandum of understanding with the Japanese analogue known as the Financial Services Agency in January 2014, opening the door for independent cooperation with

the Japan International Cooperation Agency (JICA) to implement a three-year project which will conduct the preparatory work to offer stocks of state-owned enterprises through the Mongolian Stock Exchange, issue additional shares, and help companies to get dual-listed on international stock exchanges.

T. Gandulam, Director of Securities Regulation Department of the FRC, said the project will reach completion by June 2017, and as a result of the project, four to five state-owned enterprises will be traded on the exchange, as well as two to three companies on foreign stock exchanges.

Within the scope of the project implemented by JICA, the project team has begun the training on how to select and evaluate companies planning to issue IPOs, how to meet international standards and what preparations must be made to get dual-listed on foreign stock exchanges. T. Gandulam also said that the two sides are currently working together on the selection of companies.

Relevant authorities are working on their action plan so that the first company may begin offering its shares on the stock exchange before the third quarter of next year. "We are taking into consideration the economic situation as well as internal and external factors. If possible we want to have an IPO issued sooner. We received the proposal from the State Property Committee on companies to select. The selection includes companies from sectors such as mining, energy and telecommunication," said T. Gandulam.

Developing the financial sector well means economic development in general will become easier. The current economic situation of Mongolia is giving the sign that it is high time we optimise the financial sector and utilise it more efficiently. The "Mongolian financial market reform and development programme until 2020" will soon be discussed by parliament. Such a policy document has not issued regarding this sector before.

It seems the government has finally realised that the financial sector can do a better job distributing the wealth than the state can. ■

# Banking Competitiveness Review

By A.Burenjargal

The Economic Policy and Competitiveness Research Center conducted a survey on the competitiveness of banks. At the end of last year, the financial sector's total assets reached MNT 23.5 trillion. The banking sector alone accounts for 96 percent of the entire sector. The business environment and the economic situation are still dependent on the banking sector. This financial system dependent on one sector is reducing the options available to entrepreneurs and individuals for loans and investments. The survey team noted the need to create sources of financing other than banks.

The total assets of banking sector, which is essentially the financial sector, reached MNT 21 trillion – 4.5 times higher than GDP. In developed countries, assets of developed countries' banking sectors are usually higher than the GDP, which is an indication of the sector's health and reflects the nation's economy. During 2011-2013 when our country's economic growth was high, the banking sector's growth in total assets was 30-75 percent per year. The sector's growth slowed in comparison last year in step with the slower economic growth; the study mentioned that slow growth is likely to persist through 2015. International organisations are estimating economic growth to be three to five percent this year. In May, the Oyu Tolgoi underground mine development plan was signed, creating buzz of positive expectations. In the first quarter of this year, the sector's total assets reached MNT 21 trillion, up 0.4 percent from the same period of the previous year and down eight percent from the previous quarter. Growth in the banking sector slowed from the first quarter of 2014, but is expected to stabilise. This is related to slowed economic growth, the end of the peak impacts of the programmes implemented by the government and Bank of Mongolia and due to non-increasing lending. Total loans reached

MNT 12 trillion, up by 8.6 percent from the same period of last year and down 1.9 percent from the previous quarter. A drop in business activity due to slowed economic growth along with a reduced appetite for credit risk among individuals and businesses affected this slowdown.

Discounted mortgage loans started being issued June 2013, and in the first quarter of this year, 49,000 citizens took out loans worth MNT 2.2 trillion. Bank deposits reached MNT 9.5 trillion, an increase of one percent from the same period of the previous year and a six percent decrease from the previous quarter. As of first quarter of this year, the loans-to-savings ratio reached 126 percent. Even though the banks' levels of capital are improving, the loans-to-savings ratio exceeding 100 percent means dangers in liquidity. In addition, the Bank of Mongolia has decided to increase the minimum capital requirement to MNT 50 billion with the aim of improving the banking system's ability to withstand risks.

## HIGHLIGHTS OF THE BANKING SECTOR

- The Bank of Mongolia has decided to increase its policy interest by rate 1.0 percent, bring it up to 13 percent. Parliament approved programmes and measures to overcome economic hardships. This decree reflects goals such as transferring loans of the "medium-term price stabilization programme for main staple products" left in the balance of the central bank to the government, as well as State Bank issuing USD 300 million in bonds on the international market by the first half of 2015.

Relevant parties met to make the final evaluation on the loan transfer of the price stabilisation program. They reiterated that the government should create a stable market-oriented system and take initiative to prevent cost-push inflation.

- The Bank of Mongolia changed the minimum capital requirement for commercial banks to MNT 50 billion. The deadline to fulfill the requirement varies depending on a bank's payment capacity and differing business features among banks, but the final deadline December 31, 2017.

- Trade and Development Bank issued government-guaranteed medium-term (five years) bonds worth USD 500 million and traded them on world markets. International asset management companies bought 90 percent of the traded bonds, while banks and financial institutions bought 5 percent of the bonds each. TDB has experience in issuing bonds, having issued them in the past in 2007, 2010, 2012 and 2014.

- Bogd bank was newly established last year.

Sixty-seven percent of commercial banks' total assets are concentrated in three major banks. TDB is ranked highest in market share by assets, accounting for 25 percent of the market. During the reporting period, Arig Bank showed the highest growth in assets and increased their capital by about 60 percent.

Three major banks account for 67 percent of the total deposits, medium-sized banks 27 percent and all other remaining banks account for the remaining six percent. Khaan Bank topped the list when ranked by owner's equity, TDB was second and Golomtbank was third. Other banks also showed rapid growth in owner's equity. Arig bank increased their deposits 2.5 times over. Seventy-two percent of the total assets are in three major banks, 21 percent in the next three banks and seven percent in the remaining banks. Khaan bank is the top by equity amounts; however, Capital Bank topped the list of growth rate assets with TDB and XacBank coming in second and third respectively. In addition, the combined surplus of the entire banking sector totaled MNT 78 billion (pre-tax) in the first quarter of this year. ■

INFOGRAPHIC

Structure of the financial sector, number of professional participants Total assets



96%

Banks-14  
Total assets-23  
MNT 23 trillion



2%

Non-banking  
financial  
institutions-378  
Total assets  
MNT 508 billion



0.3%

Saving and loan  
institutions-159  
Total assets  
MNT 81 billion



1%

Securities  
markets-75  
Total assets  
MNT 156 billion

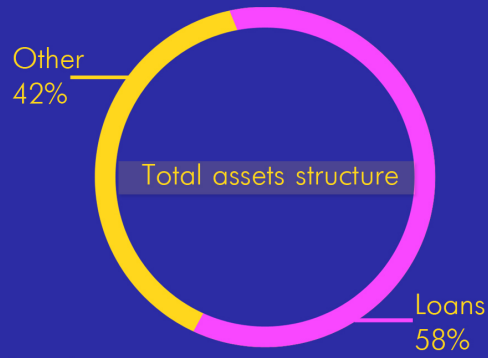
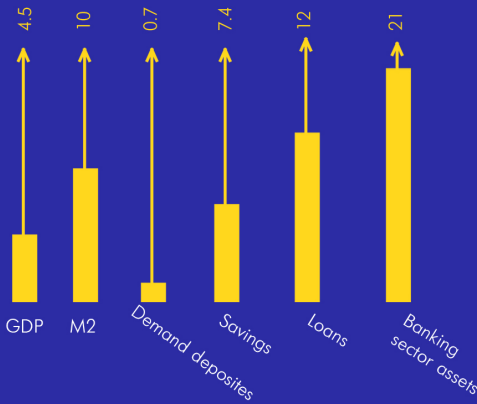


1%

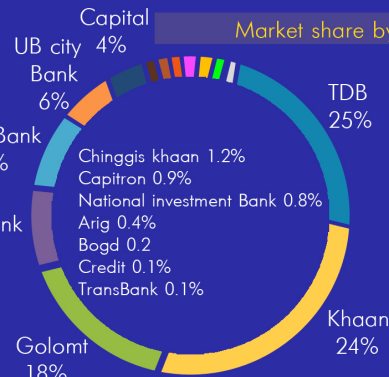
Insurance-17  
Total assets  
MNT 153 billion

Key indicators of the financial sector

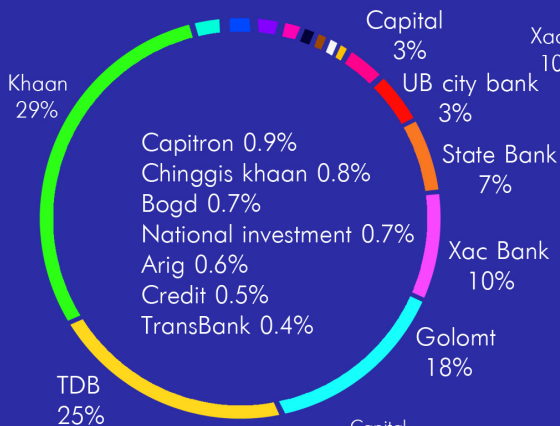
(Q1 2015, MNT trillion)



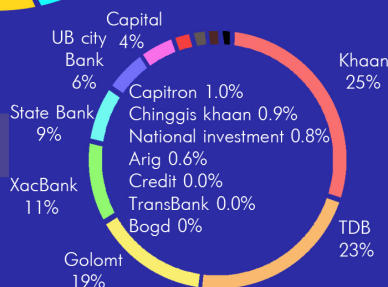
Market share by assets in Q1 2015



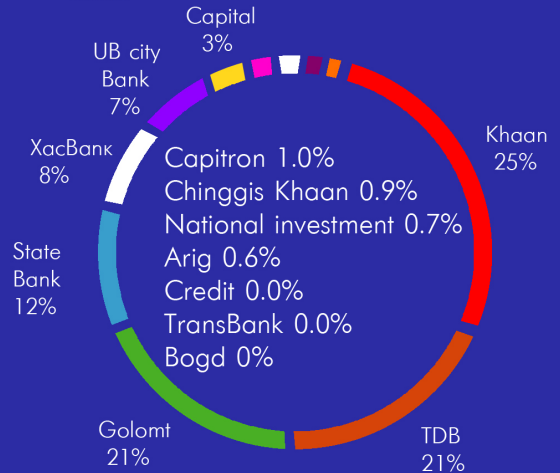
Market share by owner's equity in Q1 2015



Market share by loans in Q1 2015



Market share by savings in Q1 2015



# What Will Be the Bank of China's Role in the Mongolian Market?

*In a recent interview, Mr. Dai, the President of the Bank of China's Representative Office in Ulaanbaatar, answered a number of important questions about the Bank of China's role in Mongolia.*

## **-What has the Bank of China achieved since coming to Mongolia?**

- Since the Bank of China opened its representative office in Mongolia, we have actively communicated with commercial banks, government agencies and business enterprises. We explored the business environment and researched the financial needs of potential partners.

In cooperation with other international branches of the Bank of China, we have facilitated funding to a number of local clients. We have also received funding requests for over USD 3 billion from over 40 national and international companies. Additionally, the Bank of China has cooperated with local commercial banks and the Bank of Mongolia on project loans, trade financing, cash transfers and derivative trading.

To fulfil its social responsibilities, the Bank of China has established, together with local companies (Mongolian and Chinese), private individuals, the China-Mongolia Culture and Education Foundation and the China-Mongolia Social Development Foundation. Both of these foundations

are dedicated to supporting Mongolian social advancement. As of today, the two foundations have sponsored 31 programmes, including various scholarship programmes for Mongolian students. It initiated the Warm Winter programme, which provided over 3000 winter jackets to children of low-income families. So far, these foundations have donated RMB 2.06 million.

## **-Can you explain the purpose of the Bank of China's entry into the Mongolian market?**

-There are, essentially, two reasons why the Bank of China has made the decision to enter the Mongolian market.

The government of China is currently implementing its *One Belt and One Road* strategy, and is incorporating the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Foundation. The aim of the One Belt and One Road strategy, and its supporting institutions, is to promote mutual trust and cooperation and support economic development in participating countries, of which Mongolia is one of the most important.

In line with the strategic plan, the Bank of China will expand and eventually have 33 or more branches in the 65 participating countries. The opening of these branches will facilitate the allocation of funds, provided by the Bank of China, worth USD 110 billion that will be available for developing

infrastructure and stimulating economic growth within the participating countries. In Mongolia, the Bank of China would play an important role in the allocation of funds to developmental projects. The Asian Infrastructure Investment Bank (AIIB) and the Silk Road Foundation would also cooperate with the Bank of China to provide additional funding.

The second reason is related to the growing trade between China and Mongolia. Both the governments of China and Mongolia have publicly stated their commitment to the expansion of trade relations, and trade is expected to increase by over 65 percent within the next five years to over of USD 10 billion annually.

The Bank of China is in a good position to assist with the expansion of trade between the two countries by providing funds and expertise to Mongolian and international corporations involved in the trade between the two countries.

## **-What is the outlook for the development of trade and cooperation between the two countries?**

-Mongolia's 4,700km border with China offers an important geographic advantage for economic cooperation and trade. China has been Mongolia's biggest trading partner for many years now, and the volume of trade is expected to grow significantly over the coming

years. Additionally, the Government of China has recently proposed the idea of the China-Mongolia-Russia Economic Corridor. The implementation of this new concept would promote greater regional economic development.

During President Xi Jinping's visit to Mongolia last August, the two governments announced their intentions to significantly increase the total trading volume between the two countries. As mentioned before, the aim is to increase annual trade to USD 10 billion by 2020. This level of trade will help to underpin Mongolia's economic growth and infrastructure development.

**- What progress is the Bank of China making towards the establishment of a fully operational subsidiary?**

-In December 2012, the Bank of China was granted a licence by the Bank of Mongolia. In the same month, it also received a certificate of incorporation from the Foreign Investment Regulation and Registration Department (FIRRD). Operating in compliance with relevant laws and Bank of Mongolia regulations, the Bank of China has now been operating a Representative Office for over two and a half years.

Last summer, our officials prepared and submitted all the required documents for the establishment of the Bank of China's Mongolian subsidiary to the former Ministry of Economic Development.

By August 2014, the Bank had completed office decorations, installed furniture and equipment, tested and installed banking systems, recruited and trained personnel, and developed regulatory systems necessary for the operation of the Bank as an operational subsidiary.

However, due to the political turbulence within the Government and the unexpected merger of some Government ministries, our application has been delayed, seemingly for an indefinite period.

Regrettably, we have had no official feedback or response from either the government or from relevant administrative bodies for over a year.



**-With 2016 being an election year, and in such politically sensitive times, do you think the government of Mongolia holds an ambiguous view on the Bank of China's entry?**

-In reality, the entry of the Bank of China can only bring benefits to the Mongolian economy. The Bank of China is well positioned to provide support to both national and international corporations, and it can help facilitate the expansion of trade between the two countries.

However, we can reasonably assume that the government finds it difficult to associate itself with the Bank of China's entry in fear of negative perceptions among the electorate. The general public may not be so familiar with the extent of Mongolian-Chinese economic cooperation and may hold the perception that the Bank of China represents a threat to national security – a term often used in Mongolian government circles. As the Bank of China can only contribute to a more prosperous and more diverse economy, it may be time for more progressive members of parliament and prominent members of the business community to proactively support the Bank's entry into the market.

It is also likely that the Mongolian banks feel uncomfortable about the Bank of China's entry and are applying pressure to block the move. However, economists and business leaders generally agree that an injection of capital by the Bank of China would only stimulate the local

economy and bolster the Mongolian tugrik. The Bank of China's entry would therefore strengthen rather than weaken the position of the local banks. Opening up the banking sector would also be a positive signal to the international investment community.

**- If the Bank of China is not allowed to enter the market, what will happen?**

- If the Bank of China is not granted permission to enter the market, we, along with many national and international corporations, would naturally be very disappointed. Under such circumstances, the Bank of China would continue to operate as a Representative Office, but with only a few employees. The full benefits of the Bank of China's potential contribution to the country would not be realised.

Funds that had been allocated by the Bank of China for investment in Mongolia would inevitably be transferred to other developing countries and the potential benefits of the Bank of China's participation in Mongolia's economic development would be largely lost.

The Bank of China has, however, made a long term commitment to the local community and would continue to provide scholarships and other kinds of support through its two charitable foundations.

For the time being, we must remain positive and hope that our circumstances will change in the near future. ■



PROPERTY

Photo by B.Byamba-ochir

## Construction Today

By G.Orkhon

The construction industry has been saying that this year, the sector is unlikely to perform well and that things may pick up after the election. This sector will get out of its current rut if the government makes moves, and the economy recovers. Eighty thousand people are working in the country's construction sector, and the industry creates 130,000 jobs in related fields. The Executive Director of the Mongolian National Construction Association, G.Tumenjargal, claimed that more than 40 percent of the industry's workers were laid off as a result of the broader economic situation. It is expected that more than 300,000 people's incomes will decline sharply

if we consider the people working in related fields. G.Tumenjargal warned that the construction sector will face major difficulties and that the sector's tax contributions will decline significantly. This situation may cause a circular debt network between construction material and trade companies if the economy continues to struggle.

"The risk with the construction sector is that it may heavily affect other sectors. Companies implemented works for the state under contract, but they didn't receive the money they should get, making them unable to pay off their loans. Yet, builders are still building. The developments haven't stopped," said M.Batbaatar,

President of the Mongolian Builders' Association. Construction companies are running operations from their own resources, but in turn, they are finding it difficult to sell what they have built.

More than 7,000 thousand apartments that were put into operation last year did not get sold. It is said that 25,000 apartments will be put into operation this year, which it means that more than 30,000 vacant apartments are on the market. Those in the industry are saying that the procurement of apartments is unsatisfactory while the supply is there. According to them, the construction sector must do work during the warm periods of the year in order

to improve the economic “circulation.” To do so, thousands of apartments on the market needs to be sold. However, the prime minister noted that overdue loans are at 1.8 percent, and non-performing loans are at 0.5 percent of net loans. The purchasing power of the people is weak, and they do not have the ability to repay loans. Hence, industry officials are insisting that the government assist the construction sector in today’s economic conditions. The prime minister expressed his position about this issue by saying, “The government set the down payment amount to be 10-30 percent in the ‘General government policy on mortgages’ in order to sustain mortgage loans in the long-run, but it was usually provided at 30 percent in 2013-2014. The government will provide guarantees of up to 20 percent so that banks would bear less risk, allowing residents to pay 10 percent up front and pay the remaining 20 percent further down the line. The government will implement available measures to reduce down payments if parliament gives policy support.”

In addition, the loan criterion that apartments must be no more than 80 square metres to be included in the mortgage programme will be removed,

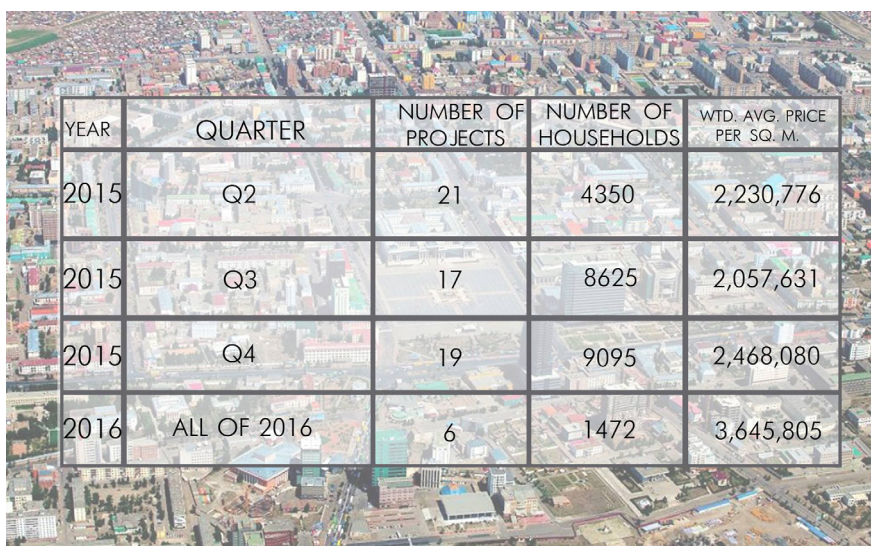
and all apartments will be able to be purchased through mortgage loans. MNT 2957.85 billion in loans were provided to a total of 67,612 citizens, and MNT 57.75 billion in grants was provided to 1,657 citizens since the mortgage loan programme started.

The minister of construction said that the ministry will address the situation on two fronts. First, construction businesses will be supported. In this scope, the ministry will prioritise cutting the red tape and improving the business environment. In addition, they are seeking opportunities to continue mortgage loans and ease lending criteria. “This time, we will prioritise boosting demand and look into new financial resources. We will focus on attracting foreign investment as the domestic resources are being exhausted,” said D. Tsogtbaatar, Minister of Construction and Urban Development. Secondly, the long-term development of this sector will be planned in accordance with policy. In doing so, they are trying to make the sector’s development “people-centred.” Being people-centred will be based on three principles: respect for consumers, ensuring employee safety and ensuring the safety of the people.

Industry experts said that the

construction sector’s future has to be viewed in the context of the broader economy. The data tells us investment in the sector rose by 4.4 percent per year. The issue at hand is why the sector is not progressing when investments are being made. There is a study which indicates that private companies have invested MNT 4.5 trillion in the housing market in the last two years. Investment increases as the industry develops. There is certain disparity if you consider the fact that construction work performed per year has increased by 10-15 percent on average since 2001. Investments by private firms accounts for a large chunk. The executive director of the Mongolian National Construction Association said that the investors are doubtful whether the real estate will be sold.

There are also obstacles such as late investments arriving late for some construction projects and lack of professional staff. The President of the Mongolian Builders’ Association, M. Batbaatar, said it appears as if development has slowed down looking from the investment and finance perspective. However, those in the sector say they are doing what they can in their given capacity.

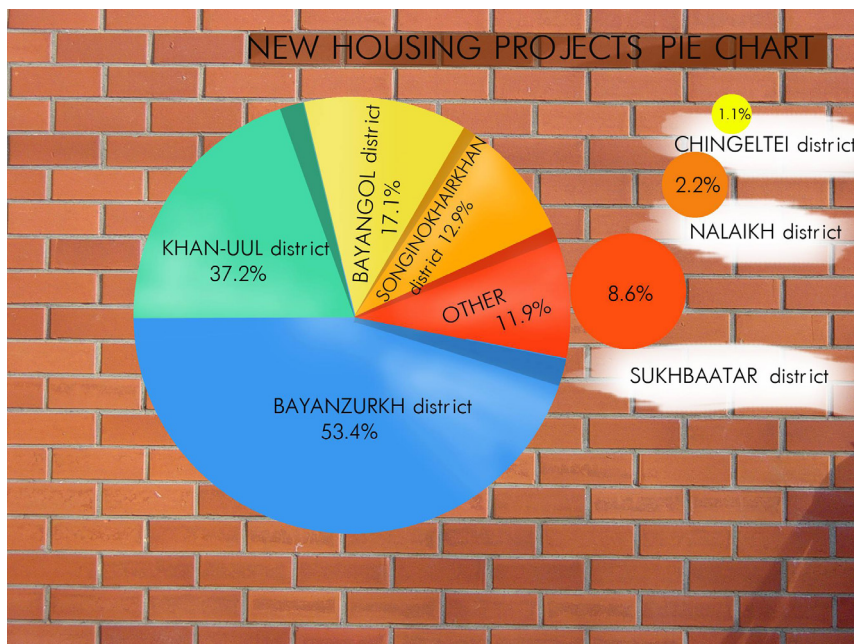


YEAR	QUARTER	NUMBER OF PROJECTS	NUMBER OF HOUSEHOLDS	WTD. AVG. PRICE PER SQ. M.
2015	Q2	21	4350	2,230,776
2015	Q3	17	8625	2,057,631
2015	Q4	19	9095	2,468,080
2016	ALL OF 2016	6	1472	3,645,805

Number of projects and households under construction by period expected to enter the market.

As for the amount of the 130 projects put into operation, 52 percent, or 68 projects totalling 19,023 apartments, are already in operation with families living in the apartments; 43 percent, or 56 projects totalling 22,070 apartments are to be put into operation this year; and the remaining five percent, or six projects totalling 1,472 apartments, are planned to be completed next year.

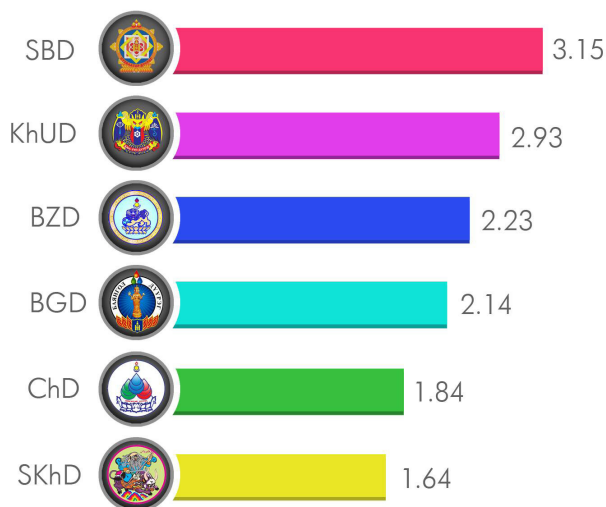
It is expected that 4,350 apartments from 21 projects will be completed in the second quarter of this year. However, this is unlikely to be achieved on time due to construction delays and slow decision making by construction authorities.



As of the 5th of May, 42,566 apartments from 130 projects are being sold at seven districts in Ulaanbaatar. The cheapest apartments are in Nalaikh and Bayanzurkh districts while the most expensive are in Khan-Uul and Sukhbaatar districts.

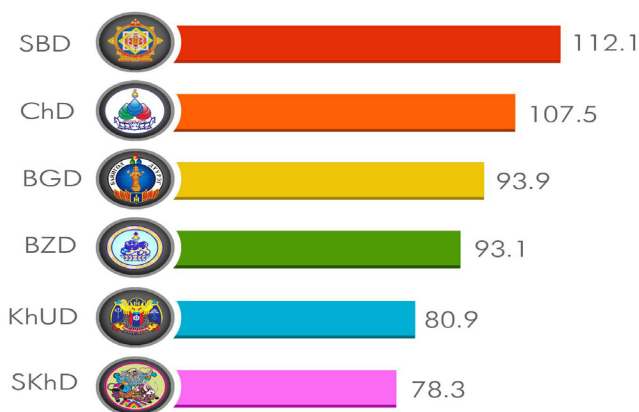
<b>KHAN-UUL DISTRICT</b>	<b>2 847 164</b>
<b>SUKHBAATAR DISTRICT</b>	<b>2 434 542</b>
<b>CHINGELTEI DISTRICT</b>	<b>2 350 000</b>
<b>BAYANGOL DISTRICT</b>	<b>2 259 098</b>
<b>BAYANZURKH DISTRICT</b>	<b>2 247 713</b>
<b>SONGINOKHAIRKHAN DISTRICT</b>	<b>1 680 722</b>
<b>NALAIKH DISTRICT</b>	<b>1 222 826</b>

THE AVERAGE PRICE PER SQUARE METRE OF NEW APARTMENTS /MNT/MILLION/



Tenkhleg Zuuch LLC reported that the housing price index showed contraction over the past six months and that housing sales decreased by nearly 27 percent in the first five months of this year. The housing price index in May reached 16.8 percent and increased by 0.2 percent from the previous month. However, it decreased by 5.4 percent from the same period of the previous year. The housing price index for new apartments is at 26.7 percent. It fell by 0.4 percent from the previous month and increased by 0.5 percent from the previous year.

THE AVERAGE PRICE OF OLD ONE BEDROOM APARTMENTS BY DISTRICT /MNT million/



The average price per square metre of a new apartment is at MNT 2.2 million.

As of May of this year, the average price an old one-bedroom apartment is at MNT 94.3 million, which is a 6.2 percent decrease from the same period of last year.

Source: barilga.mn, Tenkhleg Zuuch LLC

# Railway Development

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*According to preliminary estimates, an additional USD 800 million in funding will be required*

Mongolia ranks in 10th by copper reserves and in 12th by coal reserves. However, the infrastructure to transport the commodities to international markets has not been developed. Hence, the infrastructure to effectively deliver commodities to international markets in large quantities at competitive costs is required. Railways are the ideal solution for a landlocked country.

The "state railway policy" was approved by parliament on June 24, 2014, and it was decided that 5,600 kilometres of railway shall be built. The purpose of the new railway policy is to coordinate Mongolia's mining sector with the infrastructure development and make mining more efficient for the economy. The decision to build broad and narrow gauge railways was reached last year by leaders after long discussions on how to coordinate it. For example, broad gauge railways are going to be built on the "Arts Suuri-Erdenet", "Tavan Tolgoi-Sainshand-Baruun Urt-Khuut-Choibalsan", "Khuut-Numrug" routes and narrow gauge railways are going to be built under the "New Railway" project on the "Ukhaa Khudag-Gashuunsukhait", "Khuut-Bichigt" routes. This creates an opportunity to export the high calorie coking coal located in South Gobi faster and cheaper in accordance with the standards of the world's biggest buyer, China.

The plan is to implement the project in several stages. Phase I and II, or the build-

operate-transfer licence to build 1,800km of railways, were issued to the Mongolian Railway state-owned enterprise. The first phase includes the works to build the 350km "Sainshand-Baruun Urt" railway route, the 140km "Baruun Urt-Khuut" route and the 150km "Khuut-Choibalsan" route. After that, the second phase includes the works to build the 45.5km "Nariinsukhait-Shiveekhuren" route, the 247km "Ukhaakhudag-Gashuunsukhait" route, the 350km "Khuut-Tamsagbulag-Numrug" route and the 200km "Khuut-Bichigt" route.

The estimated cost of building 1,800km of basic railway infrastructure is USD 6-8 billion.

## ECONOMIC BENEFITS

By putting the integrated rail network into operation, not only will it lower the cost of transportation, but it will also create new export gateways to overseas markets through China and Russia. In other words, Mongolia will utilise the inactive mineral resource deposits, and the goal of selling the products to international buyers will become a reality. Furthermore, it will be the basis to effectively use the Tavan Tolgoi deposit and also large mineral resource deposits such as Nariinsukhait, Khuut and Tamsagbulag.

By putting the first and second phase of railway development into operation, it will become possible to finance the construction of the third phase of the

railway network from the income of the operating railways. Thus, Mongolia will run its own rail network linking strategic deposits and large projects, and a major economic step will be taken towards exporting more valuable, processed mining products internationally as well as establishing an industrial park. There is an estimate that approximately 5,000 workers will be required after the new railway is built.

The cost of transporting coal to the border will reduce by USD 10 per tonne and 30 million tonnes of coal will be exported per year on the Ukhaakhudag-Gashuunsukhait route alone. In 2011 when Mongolia saw the highest volume of coal being exported across the border, 22 million tonnes of coal were transported by trucks. The new railway policy also aims to help the mining sector be more environmentally friendly. In the past, the convoys of trucks driving on dirt roads were detrimental to local residents' environment and wildlife habitats. Damage to pasture, dust, soil and air pollution will be significantly reduced if the railway gets put into operation. Currently, the project is at 52 percent completion and construction of the Ukhaakhudag-Gashuunsukhait railway is at 87 percent completion. This development is being funded by Chinggis bond funds worth USD 200 million. According to preliminary estimates, an additional USD 800 million in funding will be required. ■