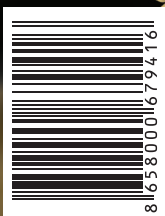


Gold Dealer Scandal 2: The Second Great Debt



B. G. G. G.

Your comprehensive guide to the coming
year's global economy

The World in 2016

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MONGOLIAN
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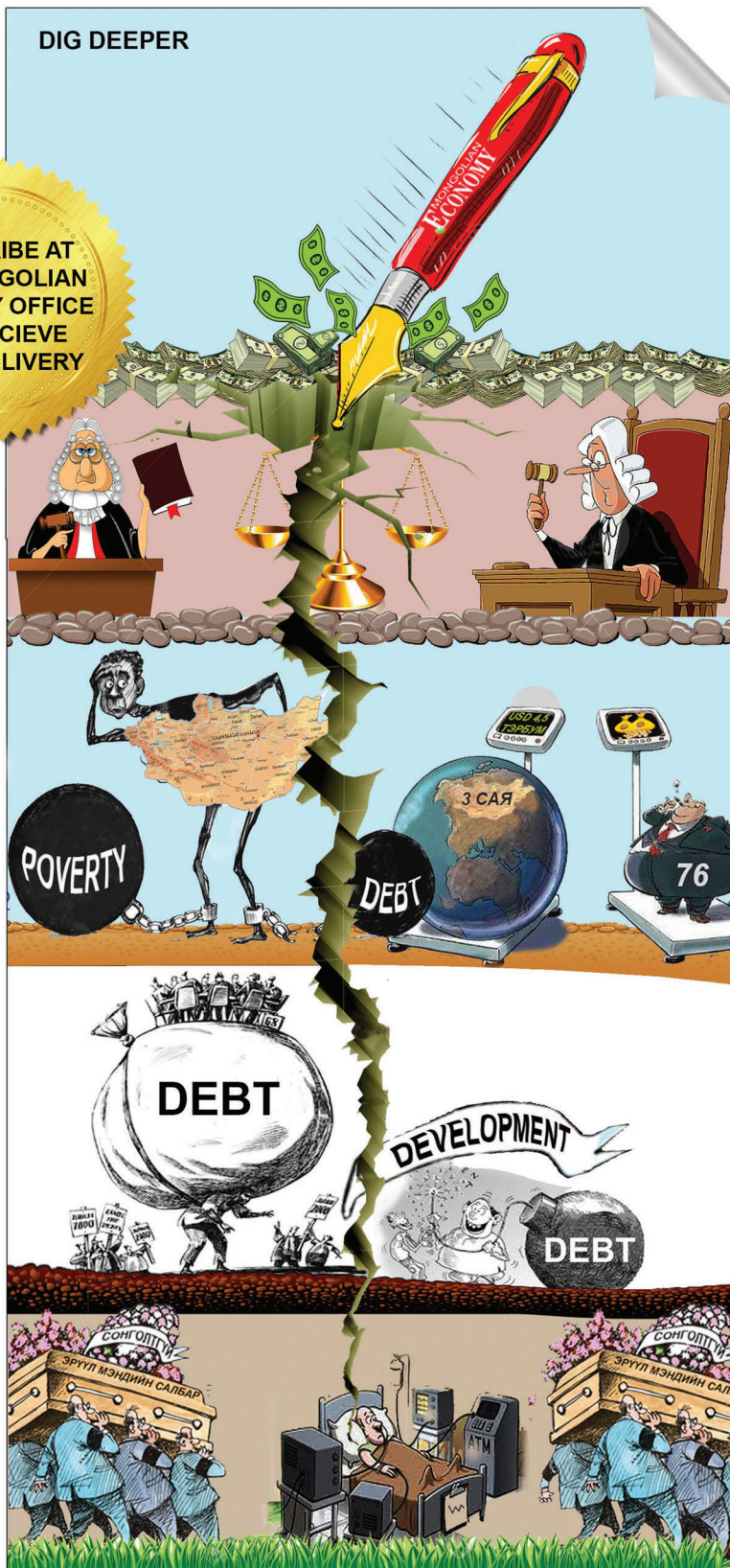
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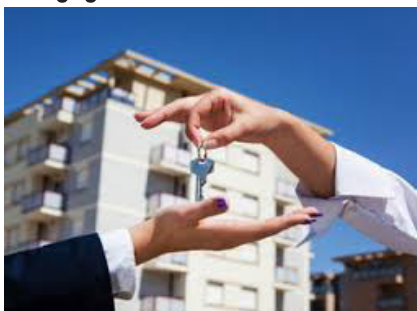


Cooperation



Under the scope of works to establish an economic corridor between China, Russia and Mongolia, China will take steps to support Mongolia's industrial development. During his visit to China, Minister of Industry D.Erdenebat discussed building copper concentrate smelting and refining plants, China's investment in meat processing factories in provinces bordering China and export of refined products to China. The two sides also agreed to establish a working group in order to boost efforts to establish cross-border economic free trade zones.

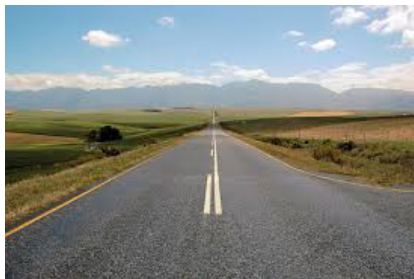
Mortgages



As of August, 1,106 people have been granted MNT 60.9 billion in mortgage loans, bringing total outstanding loans figure to MNT 3.2 trillion. Currently, a total of 73,949 people have mortgage loans. In addition, eight percent interest loans account for 74.5 percent of the total outstanding mortgage loans. The Bank of Mongolia reported that loans from banks' own sources accounted for 23.5 percent of the total outstanding loans. The majority of the outstanding mortgage loans, 68.3 percent, are 16-20 year term loans; 18.9 percent are 11-15 year term loans; 10.7 percent are 6-10 year term loans; and 2.1 percent are 1-5 year term loans. In addition, officials say the rate of overdue loans is increasing as can be seen from mortgage loan repayment figures. The percentage of

overdue loans of the total outstanding mortgage loans has increased for three months in a row, reaching 2.5 percent.

Roads



It has been decided that the "6.2-km paved road to Aglag monastery" project shall be implemented. Khansuun Zam LLC will work on this project in accordance with the concession agreement. Furthermore, Minister of Industry D.Erdenebat ordered that the work to establish an agreement in accordance with the relevant laws and regulations be started. The draft agreement states that the concessionaire should complete construction of the paved road by December 15 of this year and will be reimbursed the costs of investments made to the project at the end of next year.

Trade



Mongolia will co-organise the "Mongolian-Chinese manufacturers and traders expo" from the 23rd to the 27th of next month in the city of Hohhot in the Inner Mongolian Autonomous Region. Minister of Industry D.Erdenebat met with the Vice Minister of Commerce of the PRC, Gao Yan, on the 17th of September in Beijing. China is planning to provide RMB 70 million in funding and organise a 49,000-square-metre venue to host around 10,000 representatives from the countries' manufacturing and trade

companies. The exhibition is set to be organised alternately once every two years. By regularly organising such an expo, vast opportunities open up for Mongolian manufacturers to supply their products and services to the Chinese market.

State Budget



Mongolia has been included in the "Open Budget Survey" since 2006 and this was the fifth time the country participated in the survey. According to the survey results, budget transparency in Mongolia is poor. Previously, Mongolia scored 18 out of 100 points in 2006, 36 in 2008, 60 in 2010 and took a backward step to 51 in 2012. As of 2015, there has been no progress since 2010 and the score remains at 51 points. The Open Budget Survey assesses three components of budget accountability: public availability of budget information, opportunities for the public to participate in the budget process and the strength of formal oversight institutions, including the legislature and the national audit office. In recent years, the government has been producing comprehensive budget reports; however, mid-year and administrative budgets not being produced and published brought down Mongolia's score.

WORLD NEWS

Aussie PM Ousted

Tony Abbott, who assumed office in September 2013, was ousted from office in a 54-44 vote by the Liberal Party



of Australia. Replacing him is Malcolm Turnbull, a former party leader himself and Communications Minister. Turnbull is viewed as being more moderate than his predecessor, whom some have said to be one of the most socially conservative PMs in recent decades. A major reshuffling of the cabinet is likely. Abbott remained in office after a similar vote, which he won by a narrow margin, in February. The former PM aimed to improve the government's image over the next six months, but opinion polls showed no improvement by Abbott's self-set deadline. As for Turnbull, although he is more popular in the opinion polls, most of the people who prefer Turnbull to Abbott also prefer Australia's opposition Labor Party. However, the centre-right Liberal Party, the leader of the ruling coalition of four parties, still firmly controls both chambers of Australia's bicameral parliament.

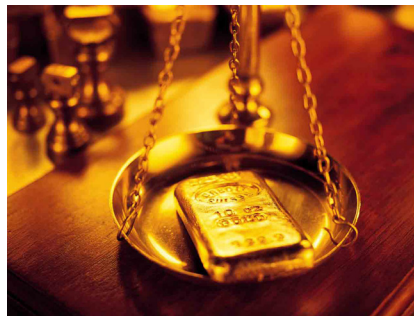
UK Labour's New Leader



Jeremy Corbyn, a socialist former union organiser, was elected the leader of the UK's Labour Party. In the elections held in May, Labour suffered a crushing defeat and saw its then leader, Ed Milliband, step down. The divisive question of who the new leader would be saw the party debate whether the new leader should be more leftist or closer to the centre of the political spectrum. Corbyn secured

a confident victory, claiming 59.5 percent of votes, and his election is seen as a reflection of voters' frustration with the current political climate. Immediately after the results were announced, several senior Labour politicians stated they would be stepping down, reflecting the challenge Corbyn will face in uniting his party and forming a shadow cabinet. Though he has been in parliament since 1983, the seasoned lawmaker has long been on the sidelines until recently. Corbyn's rise to leadership has drawn parallels to US anti-establishment figure Bernie Sanders, also a socialist and currently campaigning to secure the US Democratic Party's nomination as the party's candidate for the 2016 presidential election. The new Leader of the Opposition's platform includes things such as ending austerity, reducing British involvement in wars, raising taxes on the wealthy, cracking down on tax evasion and re-nationalising certain industries.

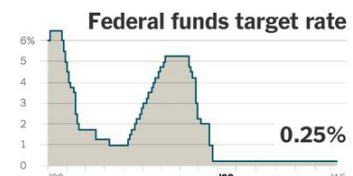
The Great Indian Gold Rush



India is the world's largest consumer of gold, importing more than 1,000 tonnes per year. Ministers are now planning to invigorate gold mining in India and believe that more than USD 3.8 billion worth of gold can be mined near the city of Kolar in the southern state of Karnataka. The Secretary of the Ministry of Mines stated that in the coming two or three months, about 80 mines will be put to auction. Despite government attempts to disincentivise personal consumption of gold, demand for gold in India is still strong. Indians purchase gold for financial security, to potentially sell in the future. Gold is also widely used for ornamentation, and more than 3,000

tonnes are stored in temples across the country where Hindu worshippers donate the precious metal. The city of Kolar has a history of mining that goes back to British colonial India. In those days, most of the gold was shipped back to the UK, and a young, independent India nationalised Kolar's mine in 1956. An expert stated the mine's "glorious period" was up until the 70s; however, the mine was shutdown in 2001 after quarrels between unions could not be resolved. With the current insatiable appetite for gold, the mines are being revived.

US Rates Unchanged



The September meeting of the Federal Reserve announced that the central bank's policy interest rate would remain unchanged, staying between zero and a quarter percent. The last time the Fed raised interest rates was in June 2006, well before the onset of the global recession. Many thought September would be the month that interest rates would be raised in nearly a decade, but it seems there will be at least one more month of near-zero interest. The Fed cited "global weakness" in the decision and also mentioned that they are monitoring "developments abroad." The decision to keep rates steady signals a more pessimistic view on hitting their inflation target and overall growth. Now, four of the 15 members of the Federal Open Market Committee, the chief organ for implementing monetary policy in the US, believe that a rate hike will not come in 2015, and forecasts estimate that the US will not hit its inflation target of two percent until 2018. Although the economy has made good progress in terms of recovery, some aspects, such as wages and the housing sector, provide enough for the Fed's Board of Governors to hesitate over rate hikes. ■

State Budget to be Amended to Make Up for Deficit

By G.Orkhon

Experts from the International Monetary Fund and the World Bank predicted that Mongolia's state budget deficit will reach almost MNT one trillion by the end of the year. In the first eight months of this year, the budget deficit totalled MNT 769 billion. Though the deficit was MNT 630 billion in July, another MNT 130 billion was added in just a month. Decreased foreign investment and increased expenses of goods and services are the main contributors to the growing deficit.

Parliament approved this year's budget expecting a deficit of MNT 400 billion, but already reality has exceeded

expectations by over MNT 300 billion. Some economists say that the authorities approve short-sighted budgets without doing the necessary research in order to appeal to the public. In other words, approved budgets always end up needing amendments.

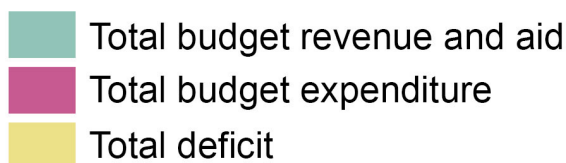
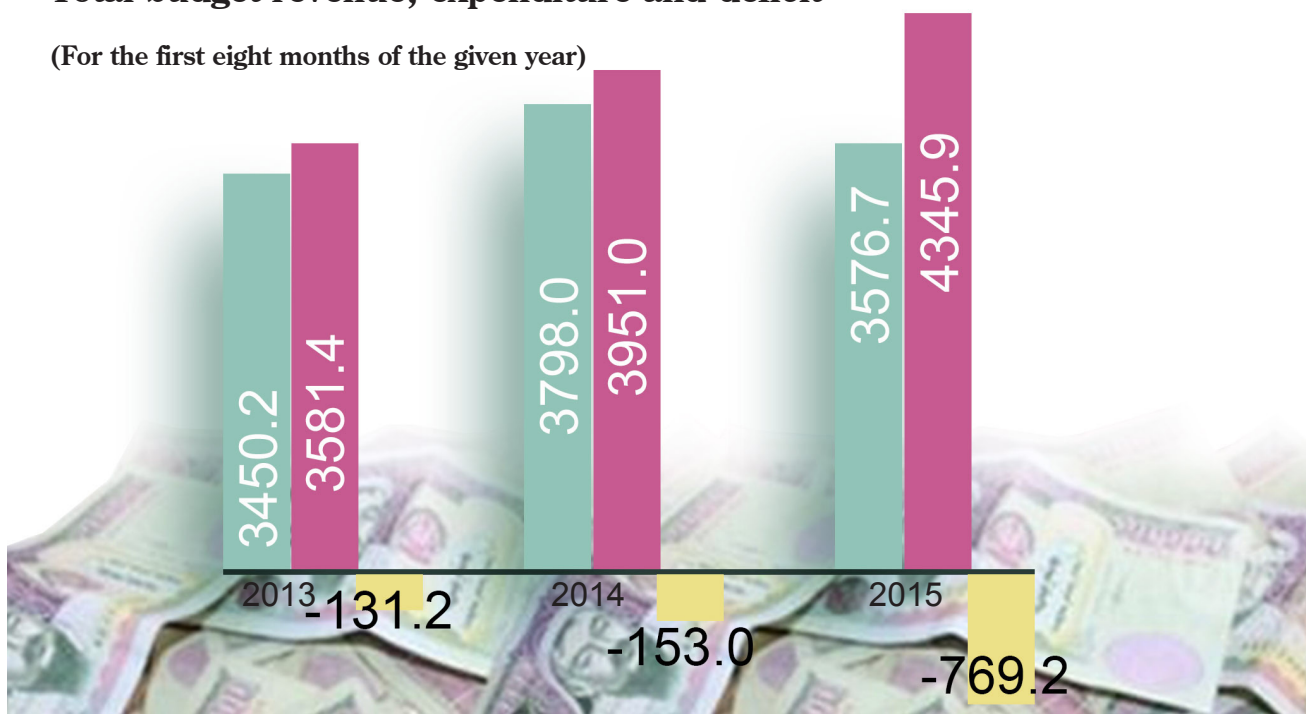
Mongolia's budget had a deficit of MNT one trillion for two consecutive years in 2013 and 2014. As a result, amendments to be made to the budget were expressed in trillions instead of billions, and it is the same story again this year. Economists had stated that budget revenue may fall short by MNT 900 million when the budget

was approved. "Budget revenue and expenditure estimations were too high. It is likely to see disruptions ranging from MNT 500 billion to one trillion," said N.Dashzeveg, economist and Director of "Mongol Institute."

In a nutshell, parliament has been approving rather irresponsible budgets for a quite a while. Economists attributed this to poor forecasting of the budget. Many people criticise the fact that in recent years, relevant institutions have developed the mind-set that they can just amend the budget when facing a deficit. Economically, it is not a good thing to make such amendments. "A

Total budget revenue, expenditure and deficit

(For the first eight months of the given year)



bad precedent will be set if budgets get amended so frequently. Budgets need to be approved in such a way that amending them later is discouraged. Unfortunately in recent years, budgets have been getting approved with unrealistic expectations. Amending the budget when it doesn't reach the approved figure is becoming a habit. Looking back 10 years, the state budget has doubled every three years," said B. Tuvshintugs, Director of the Economic Research Institute.

It has become clear that this year's budget will also be amended. The Secretary of State of the Ministry of Finance, Kh. Gantsogt, noted that expenditures must be reduced in response to revenue, as there will be little income until the end of the year. "Today's deficit is at about two percent, and it is expected to reach three percent if we continue on as we have in the past. We are preparing to make amendments to the budget and present them soon to

the government. According to the budget law, the budget can be amended if the budget deficit exceeds three percent," he said.

The first measure being taken by the Ministry of Finance is to defund projects that have not begun and other activities and works that cannot be completed this year. After that, expenditures deemed unnecessary will be cut. For example, they are preparing to slash potential expenses such as foreign and domestic missions. The price of copper, the main export product of the economy, has fallen significantly since the budget estimation. Kh. Gantsogt announced it is impossible to directly recover this revenue. The Ministry of Finance is going to take measures to tighten its belt as revenues are not coming in.

Ministries were warning in advance that the budget deficit is likely to increase and that revenues would fall short. Although the government had stated that they were taking measures to cut costs,

not enough could be cut. The growth of the budget deficit is blatant given that amendments are to be made. Only three months are left until the end of the year, so it should be clear that costs cannot be cut sufficiently, and income cannot increase significantly in this short span.

As for foreign financing, grants and loans that may come during this time frame, the Asian Development Bank is likely to provide some assistance. Negotiations for a USD 150 million loan agreement are underway with the bank. The State Secretary of the Ministry of Finance stated there is no other immediate source of money that will come into Mongolia.

An attitude of "buy now, pay later" has taken hold in parliament in recent years. Next year's budget must be approved by November 15. Just because that is the deadline specified by law, that does not mean the state budget cannot be given more forethought and planned ahead. ■

HOUSEHOLD BUDGETS

Household Budgets: No Room for Savings

By G. Baatar

We are presenting once again to our readers the "Household Budgets" column, which had been discontinued for a while. This time around, we want to show you the family budgets and monthly expenditures and incomes of the ordinary households of D. Erdenee and Kh. Enkhtuvshin.

A Finance Minister Hesitant to Take on Debt



D. Erdenee's family of four lives in Bayanzurkh district. He is almost 80 years old, and his wife G. Nalai is 75. In this family, she is the minister of finance. The two live with their two grandchildren. One grandson works at Talkh Chiher LLC, and the other is a university student. The couple receives combined pension of MNT 780,000 every month. In addition to this, MNT 500,000 in "aid" comes into their family budget from their six children per month. Thus, the family's minister of finance works with a budget of MNT 1,280,000 per month. Deciding how to allocate this money is grandma G. Nalai's obligation and right. The grandson has only recently joined the company where he works, so his salary is relatively low. The other grandson receives a student stipend of MNT 70,000 per month, which is enough only for himself.

Their rent and utility combined with the

tenants' association fee and internet bill comes to MNT 130,000 per month. They spend MNT one million on food and buy meat in bulk twice per month. They said their family of four eats meat equal to MNT 100,000 per month. "Rent and utility fees are increasing. Oh, I also forgot to mention the money spent on medicine. When this frail body gets sick, my children try to give me an additional five or ten thousand tugriks," said G. Nalai. The two elders spend about MNT 60,000 per month on medicine. G. Nalai regularly takes stomach medicine, and D. Erdenee takes medication for his blood pressure. On top of this, they have to purchase pain relief medicine. Their expenditure exceeds their budget, which makes them able to only afford some of the necessary medicine. Both of them use mobile phones and spend about MNT 50,000 per month for service. G. Nalai



said they spend no small amount on household goods such as soap and laundry detergent. She buys four kilos of laundry detergent for MNT 22,000, but that gets used up in less than a month. She noted that the price of consumer goods, especially imported goods, is increasing drastically.

D.Erdenee said that his wife G.Nalai is quite a cautious minister of finance. Some time ago, she was able to save MNT 100-200,000 per month. However, now there is no chance to save money, when barely affording monthly consumption needs. Cases of sudden, unplanned expenses are common, because many people visit the elders regularly. On such occasions, the minister's forecast strays from expectations, and they run out of money by or before the end of a month. Only when G.Nalai comes to her wit's end, she calls her children, because she hates to borrow from people and be indebted. "Repaying a loan is difficult for us who live on pension. It'll be difficult for the children if we die with debt," she

said. Considering some other households, this family's income is not too bad, but is sufficient only for their expenses. They dish out the most for meat and utilities.

Barely Scraping by

More often than not, it is the wife who manages a household's finances. However, resident of Songinokhairkhan district Kh.Enkhtuvshin, the husband, manages the household's budget by himself. His is a family of five. His wife stays at home and watches their three-year-old daughter.

Their two sons are grade school students. The 37-year-old runs a small shoe repair shop and earns MNT 500-700,000 per month.

Kh.Enkhtuvshin earns MNT 20-30,000 per day by repairing and polishing people's shoes. The money he earns barely keeps up with the household's consumption, as there are four other mouths to feed at home. He spends 30 percent of his daily income on work materials, and his net profit per day is around MNT 10,000. As for him, the largest expense is work place rent. He rents a venue smaller than eight square metres for MNT 80,000 per month in order to get by. Because there is no heating, he uses an electric heater during winters.

He spends his monthly budget mainly on food, electricity and school supplies for the kids. The electricity bill per month is usually MNT 10-20,000 per month because they live in the impoverished ger district. They usually buy 25 kilos of flour for their monthly usage and buy other foods in turns, as they cannot afford to make bulk purchases. Kh.Enkhtuvshin said they receive children's assistance of MNT 60,000 per month from the

state, which helps out their family greatly. Before giving birth, his wife used to work as dishwasher and janitor at various places. Naturally, it helped a lot when she used to work. However, the family's minister of finance Kh.Enkhtuvshin is now doing it alone.

"For now, at least I can feed my children with my salary. The prices of goods are increasing rapidly, so people like us are cutting back on consumption. Prices are out of control," he said. The biggest problem he faces at the moment is the preparation of firewood and coal, for winter is coming.

These are just two examples epitomising the budget deficits families are facing. There is no room for savings. On the one hand, it may be a good thing that G.Nalai prefers not to borrow. On the other hand, her six children are helping their parents as much as they can. However, people who do not have such relatives to seek for help are looking to banks and financial institutions to receive loans.

As evidence of the country's worsening economic situation, the National Statistical Office reported that the value of non-performing loans has reached MNT 865 billion, because 14 out of every 100 tugriks loaned are non-performing. Kh.Enkhtuvshin is a person who tries to spend less than his income. However, he spends all he earns in order that his wife and children not starve. It is obvious that other households are also tightening their purse strings just as these two families are. However, the real question is: what do we do when, even after all the cutbacks, it is still not enough? ■

DISCOVER MONGOLIA

The Monster Menacing the Town

By E.Zorigt

A horrendous monster that goes by the name of "Populism" menaced the town of "Mining" and established its own rule in Mongolia. The people unfortunate enough to fall under this monster's influence suffered and forgot what happiness meant. So, the smartest folks in town and the elders met

in secret in order to defeat the monster. They named their meeting "Discover Mongolia," hoisted their banners with the slogan "For Mining without Populism" and discussed ways to overcome the monster and slay it.



The Monster's Sidekick

The suffering of the mining sector was not solely due to populism. The global economy has not turned out as expected not too long ago and is not expected to improve in the near future. It is not only Mongolia. Almost all of Mongolia's mining products depend on demand from China. China's economic moderation has affected the prices of Mongolia's main export products – coal and copper – such that current prices are lower than what they were six years ago. The hideous monster gained a sidekick. To confirm this numerically, economic growth in developing countries in East Asia was 6.9 percent last year, while this year it is expected to decrease slightly to 6.7 percent. China's 7.4 percent growth of last year is expected to decline to seven percent for the next two years according to the World Bank's "East Asia Pacific Update." Although developing Asia's economic growth fell only marginally, the decline of commodity prices related to this slowdown is hindering growth even more so for small countries dependent on commodity prices, such as Mongolia.

White Knight or Sleeping Beauty?

Whenever there is a monster, a hero must rise to the occasion and defeat it. But who is going to be this hero? Some are waiting for the white knights of business known as foreign investors. However, are they the heroes that will slay the monster, or are they themselves sleeping beauties also waiting for a saviour? Whichever is the case, we certainly need a valiant hero to deal with this monster.

Since 2009, approximately USD two trillion in investment was made in emerging markets, but somehow half of that

fled away in just a year. S.Narantuguldur, Director of Khan Investment Management LLC, said investors are choosing low risk, low reward markets over high risk, high reward ones during such uncertain times. As for Mongolia, it is rated slightly lower than emerging markets; it is a "frontier market." S.Narantugultur gave a speech on the topic "Obstacles in attracting foreign investors to Mongolian projects".

According to his speech, apart from the aforementioned macro-economic factors, the main things that scare away investors are the unstable political and legal environment and no guarantees it will be stable in the future. For example, the Investment Law adopted in 2013 was going to have in it a provision that requires the approval of two-thirds of parliament in order to make amendments to the law. However, this effort was quashed as the provision was excluded from the law, saying it conflicted with the constitution. In addition, the detention of foreign citizens became a substantial barrier to foreign investment in Mongolia. Hence, it seems like investors are sleeping beauties who are also waiting for their hero rather than the white knight who will defeat populism.

The Real Hero

A wise person said that there is the danger of getting completely enveloped by the monster if the unrest is not calmed quickly. Researcher M.Dagva stated, "There are three cycles in our country: the commodity price, business and election cycles. If the election syndrome, a decline in mineral prices and unfavourable business conditions somehow coincide with each other, it's hard to imagine how the people would react." There are many instances of when the economy almost went bankrupt due to the sudden onset of symptoms of the chronic

neurological disorder that occurs every four years after an election, when the new government takes over and tries to take control of everything. For example, the infamous 21,000 tugrik disbursement to the people, the long name law and windfall taxes come to mind. However, these are just a few examples from 20-30 cases. "It seems like no one remembers the other cases.

In these days of populism taking over the country, it is hard to imagine what would happen if these cycles overlap. But the state always increases taxes and tightens regulations

whenever a slight improvement is seen. When things get bad, they start cutting taxes and changing laws. No one is going to have faith in us if we continue to be like this. We need a solid legal environment and policies to counter these cycles," added M. Dagva. A mineral resource governance and policy research team which develops such policies needs to be established as soon as possible. If this can be achieved, it would become the true hero that can slay the monster. Only then can the investors we are so eagerly anticipating wake from their slumber. ■



MACRO-ECONOMY

Economic Recovery and Capacity Still Problematic

By Ts. Buyan

Several core economic indicators are showing positive trends. Annual inflation dropped to 6.6 percent in August, down from the 13.7 percent of the previous August. At the end of August of this year, M2 money supply reached MNT 9,964.4 billion, which is a 1.04 percent increase from the previous month and 1.7 percent decrease from the same period of the previous year. Demand deposits reached MNT 774.4 billion, a 2.03 percent increase from the previous month. In July of this year, foreign exchange reserves reached USD 1.71 billion, an increase of 1.3 percent from

the previous month and 26.5 percent from the same period of the previous year. The current account deficit at one point reached 27 percent of GDP, but has decreased to 6.4 percent in the first half of this year.

Such weak points in the macro-economic environment have begun to show signs of improvement as foreign trade and balance of payments figures have begun to turn around. Although foreign investment is still a significant issue, excessive consumption has declined. In 2011, USD 4.6 billion in FDI came into Mongolia; however, import consumption

increased alongside the influx of capital, and the trade deficit increased almost five-fold. In 2012 and 2013, this figure continued to climb to seven.

Foreign exchange reserves were bleeding out because the levels of import consumption remained level while FDI declined. However, the trade deficit and import consumption began to decline when the central bank tightened monetary policy.

Experts claim that the changes in the MNT rate are due more to seasonal fluctuations rather than a result of the related macro-economic indicators.



Every year around August, depreciatory pressures on the tugrik increase along with increased economic activity. Looking at the current exchange rate, demand and supply have both reduced.

Factors such as imports declining by 30 percent, tighter fiscal and monetary policies, reduced consumption by citizens and private entities and a general slowdown in economic activity all contributed to the decreased demand for foreign currency and the stabilising of the exchange rate. In addition, a higher inflation rate causes the purchasing power of a currency to deteriorate, and the currency depreciates. The tugrik's inflation rate is relatively low this year due to tight monetary policy, and this is also one of the reasons for the decline in demand for foreign currency.

Even though key macro-economic indicators seem to be moving in a desirable direction, economic recovery and potential still remain problematic. In particular, budgetary performance of the first seven months of this year did not go as planned. Economists at the Bank of Mongolia warn that a high budget deficit negatively affects the current account and creates demand for USD. Stagnant and slow investment projects to be financed from the budget are playing a significant role in this. Total deposits

reached MNT 7.2 trillion, an increase of 7.03 percent from the same period of the previous year. However, domestic currency deposits reached MNT 5.07 trillion, a decrease of 1.5 percent from the previous month and 6.8 percent from the same period of the previous year.

As such, the government announced that they will continue with a tightened fiscal policy by reducing expenditures, financing and unnecessary spending. According to the debt management law, the government has the possibility to raise around USD one billion from international markets by cooperating with local banks and financial institutions. They plan to take a USD 150 million soft loan from the Asian Development Bank as their first move in this endeavour.

First half GDP growth was at three percent. This figure was 4.4 percent in the first quarter. The Asian Development Bank forecasted growth remaining at three percent at the end of the year. However, the central bank projected economic growth of about five percent this year. Most importantly, agriculture is the key sector when talking about economic growth. Demand for mining commodities that sustained economic growth over the last few years is continuing to decline in foreign markets, driven largely by the economic moderation in China.

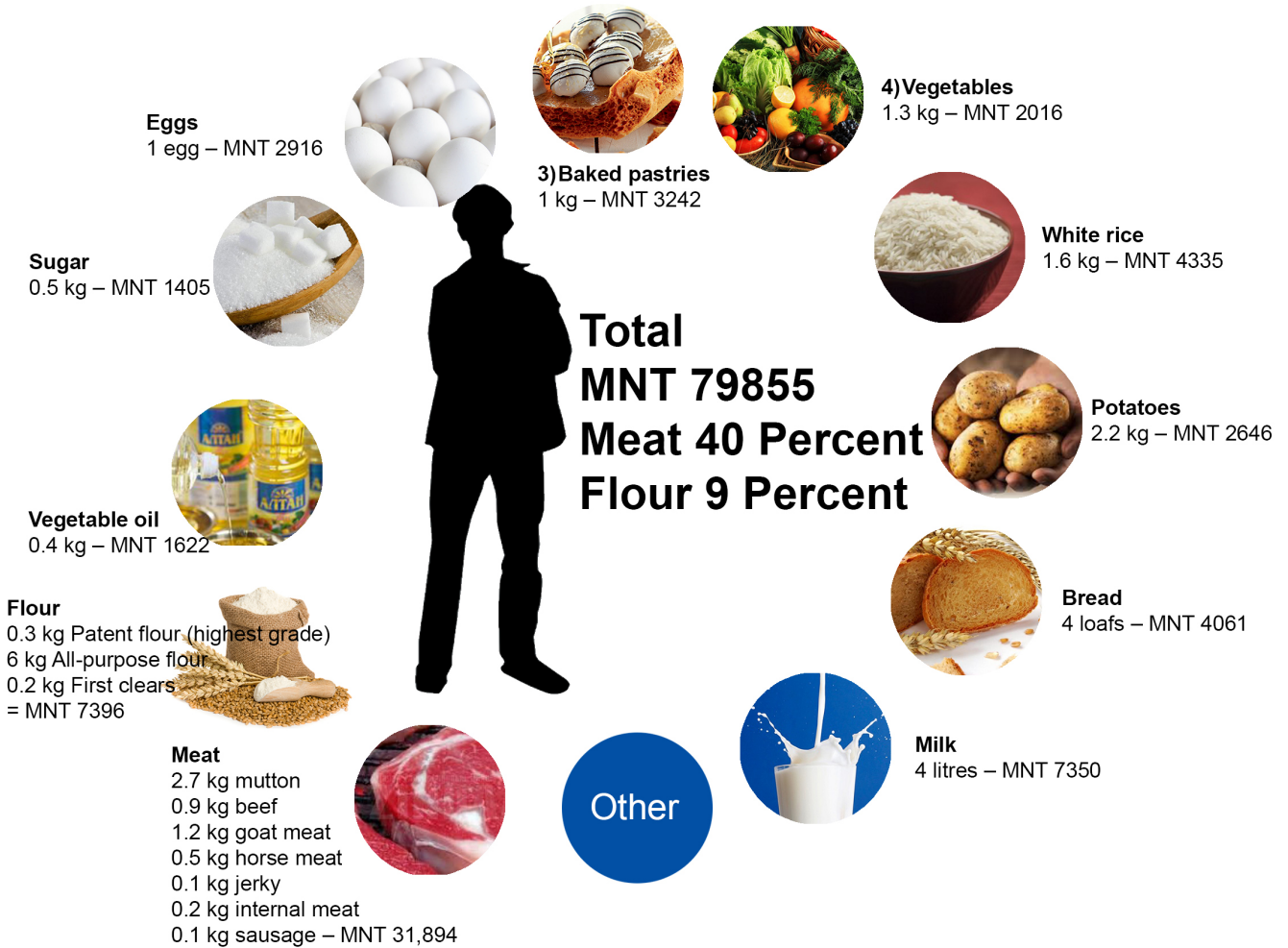
Prices of mining commodities are unlikely to see a rebound anytime soon. Coal exports have fallen by 22 percent and iron ore by 19 percent, while exports of copper concentrates increased by 10 percent, oil by 16 percent and gold by 35 percent. Yet, net exports in terms of USD have decreased by 9.1 percent from the same period of the previous year.

As for internal factors, large projects that would have a strong impact on the economy remain idle. Even though parties have reached an agreement on the Oyu Toloi underground mine plan, significant action has not been made as of yet.

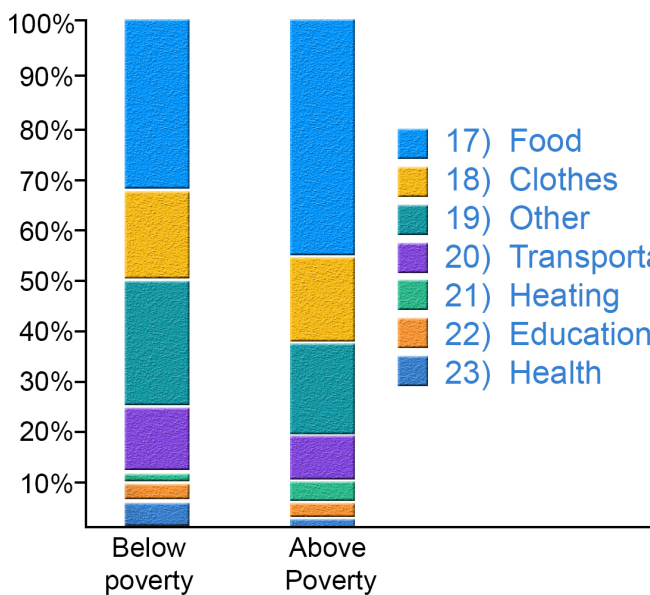
The issue of repaying bonds looms over the government in the near-term. The way to get out of this deadlock is easier said than done: attract investment. If the OT project's second phase financing were to be successful, investment would flow into the country. However, the sector's officials have differing views on just how possible it is to see investment levels similar to those of 2011, especially in this declining mining market.

There is still the dire need to boost other sectors and bring diversification and balance to the economy. Over the past two years, we have learned all too well the dangers of putting all our eggs in basket. ■

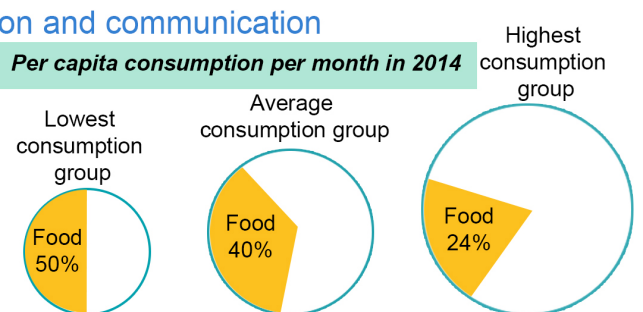
Monthly food consumption of a person near the poverty line



Per capita consumption per month



	Above poverty	Below Poverty
Food	104,624	52,778
Clothes	16,125	4,110
Other	16,607	2,231
Transportation and communication	10,868	6,973
Heating	52,092	18,018
Education	40,058	9,089
Health	70,918	17,815
Total	311,291	111,015



Poverty line by region

Regions	Province	Poverty line
Western region	Bayan-Ulgii Gobi-Altai Zavkhan Khovd	164200
North-Central region	Arkhangai Bayankhongor Bulgan Uvurkhangai Khuvsgul Orkhon	167200
South-Central region	Govisumber Dundgovi Dornogovi Umnugovi Darkhan-Uul Selenge	164300
Eastern region	Dornod Sukhbaatar Khentii	160800
Ulaanbaatar	Ulaanbaatar	185400

Fully Reaping the Benefits of the ASEM Summit

By G.Orkhon



Mongolia is hosting the Asia-Europe Meeting (ASEM) in 2016. For ASEM member countries, 2016 is an especially important year because it is the 20th anniversary of the founding of the organisation. The organising country will thus take on elevated responsibility. We sat down with the senior official for ASEM preparations, Ambassador extraordinary and plenipotentiary to Switzerland, L.Orgil, to talk about preparations for the Summit.

- How are the ASEM preparation activities going? In September, the working group had several emergency meetings. What decisions were made at these meetings?

- Broadly speaking, preparations are on-going. A National Council to ensure ASEM preparations was established by a presidential decree. Administrations of ministries and agencies and also representatives from several organisations such as Mongolian Hotel Association are included in the National Council. Six working groups are regularly meeting to discuss each of their own areas, and necessary things are being introduced to the National Council for them to make decisions on. For example, the people who are going work on the renovations of 40 selected hotels are involved in international training sessions. It is estimated that around MNT 150 billion is required for preparations for the meeting. In addition, many journalists are expected to arrive. Last year's meeting in Milan expected 800 journalists, but

more than 1,000 journalists turned up to cover the proceedings. Since this summit is being held in Mongolia, journalists will write about our country to the world. There is much to be done in this area. First of all, we must give an understanding about Mongolia to foreign media. We will invite several renowned international media organisations to Mongolia before the summit to provide introductory information in advance.

Also, the ASEM website was launched and a special team is working on dispersing information related to preparations and the meeting in Mongolian and English. The media and advertising work group met on the 10th of August. We are going to station the meeting's integrated media centre in two places. Media personnel will also be provided with a special zone at the Shangri-La hotel, which will host the ASEM assembly, and Sky Resort, which will host the meeting of the heads of 53 states.

- How are you acquiring the necessary funds for this undertaking?

- The Government issued a decree to let the Development Bank of Mongolia finance the money to be provided to hotels. Other costs are being addressed in different ways. Of course, a lot of funding is required, but we are seeking to resolve this with less pressure on the budget through public-private partnerships and foreign aid. For example, the European Union is covering 100 percent of the training costs for

translators and interpreters. As a country organising the ASEM summit for the first time, we will host the guests within our own potential and capacity. It does not have to be extravagant. However, we will try to receive guests as hospitably as possible, as is our culture and tradition. On the other hand, other countries understand that we are organising the meeting within our means. There are some countries willing to support us on a bilateral basis.

- The EU pledged to provide support for the preparations. What exact kinds of support would that entail?

- The EU established the ASEM platform in 1996, and it has been 20 years since. As the founder of the meeting, the EU is an active participant. At the beginning of last July, a large group of delegates from the EU visited Mongolia. They discussed a number of subjects and exchanged their views on areas such as meeting organisation, documentation of the meeting and interpreters. Within the meeting framework, the EU agreed to help train interpreters, and they selected six interpreters for high-level, professional, synchronous English translation training. Soon they will have trained for almost four to five months under an intensive training programme. As the organising country, we will develop two documents that will come out of the meeting. A statement that came out of last year's meeting in Milan had around 40 clauses and included key issues the world is facing today. Finally, we will prepare

events for the commemoration ASEM's 20th anniversary.

- What will be the point of emphasis at next year's ASEM Summit?

- The heads of 53 states will decide together what to discuss. This coming November, the ASEM Foreign Minister's meeting will be held in Luxembourg. Certain decisions on what will be discussed could come out of that meeting. ASEM seeks to informally develop discussions of Asia-Europe cooperation based on three areas of focus, which are politics, business and culture. ASEM tries to resolve issues as informally as possible by involving each party. On the occasion of the 20th anniversary of ASEM, we will review the past 20 years and outline the future of ASEM. We have to develop a draft document of an Ulaanbaatar declaration by reflecting all parties' opinions. The EU is exchanging their opinions with us on the development of this document. China, one of the most active members of ASEM, is a country that seeks improve the meeting's methods. Thus, we are exchanging opinions on what support we can expect from China. Several meetings related to ASEM, such as ASEM youth and ASEM parliament, will be held at the beginning of next year. The Asia-Europe Foundation (ASEF) will provide assistance in the organisation

of these meetings.

- How do you see Mongolia's place in ASEM?

- The main issue discussed within ASEM is its future and in what form this platform shall continue into the future. The first principle is that ASEM is not a negotiation body. It is a body that informally exchanges views on how to resolve issues related to all the economic sectors, such as climate change, water, disasters and how they relate to the cooperation of Asia and Europe. It has been 20 years since we started exchanging views. Some countries are proposing to aim for specific results from meetings in the future. On this matter, Mongolia's position is that this body should continue as a dialogue and discussion platform, but we should also start trying to achieve clear objectives from these discussions. We joined this organisation relatively late in 2008. In a span of 20 years, Asia-Europe economic and trade relations have increased considerably. This is a result of ASEM. The next priority is how to make it more effective. This is where we stand.

- How do you see the ASEM summit benefiting Mongolia?

- It must be viewed from various angles. Asia has become a major global finance and trade region. We often

discuss development issues. Organising the Asia-Europe Summit is Mongolia's most significant contribution to the relations between the two continents. Historically, Mongolia used to be the bridge between these two continents. At the moment, we are once again becoming the bridge between the two continents in terms of railways and air routes. In addition, our country is the historical, spiritual and economic link of the two continents. This meeting holds significance as it will strengthen these links further. It will also present an opportunity to the two continents' economies and business sectors to realise the physical links, which are rail and air routes. The heads of 53 states will come to Mongolia for the first time. It will be promotional for Mongolia. We are getting another chance to reintroduce Mongolia to the world from a different angle. Today, the world knows us for mining, Genghis Khan and history. Now we have an opportunity to present our country from a unique developmental standpoint, to show the world that we play our own role in global development and are contributing to it. We must use the ASEM summit to demonstrate ourselves. If we can utilise it well, this can be a great opportunity to develop Mongolia's tourism sector. ■

SPOTLIGHT

The Gold Dealer Scandal 2: The Second Great Debt

By G.Zandanshatar

We sat down with Member of Parliament and former Minister of Foreign Affairs, G.Zandanshatar. He has worked as a guest political science and international studies researcher at world-renowned Stanford University for nearly two years. In recent years, he has been focusing on foreign and domestic policy issues in Mongolia and has been conducting research on debt issues. He is an economist and has worked as a professor at universities and as an economist at Khan Bank and Bank of Mongolia (BoM). Our conversation focused mainly on the issue of Mongolia's debt.

Mongolia's debt has reached 180 percent of GDP

1. The first gold dealer scandal

The central bank of Mongolia suffered a loss of USD 100 million as a result of findings in a case of fraudulent inter-bank transactions 24 years ago in 1991, around the same time Mongolia became democratic. The affair went down in history as the gold dealer scandal because 4.4 tonnes of gold from the state reserves were used to pay for the losses. This gold dealer's scheme was worth MNT 9 billion according to black market rates of the time. It was the first great case of fraud in the history of Mongolia. This was the beginning of when accountability in governance began to slip and economic parasites were born.

2. The formation of the new great debt:

According to the IMF’s debt sustainability study, Mongolia is at risk of falling into a liquidity crisis in the near term, and the data on the matter is still incomplete. Mongolia’s current total debt has reached USD 21.6 billion, including USD 1.5 billion from the Chinggis bonds, JPY 30 billion from the Samurai bonds, and MIAT’s loans used to purchase aeroplanes. The country’s total foreign debt is equal to 180 percent of GDP. Government-related debt (which by current definition does not include the Development Bank’s or BoM’s debt) has reached USD 3,556 billion; the BoM’s debt USD 1876 billion; bank and depository institutions’ debt USD 3,352 billion; and loans between entities have reached USD 10,533 billion. Our country’s foreign debt first reached MNT one trillion in 2002, and by 2014, it had increased 14-fold and reached MNT 14 trillion. The current reality is that Mongolia’s outstanding debt has already exceeded the ceiling of 58.5 percent.

3. The second gold dealer scandal:

MNT four trillion distributed to a few companies under the “Price Stabilisation Programme” and debts on loans going to towards 888 different projects are among the huge external and internal debt. This is what I mean by the “Gold Dealer Scandal 2.” The strangest and most unbelievable thing is that our country now has three investment budgets: the state budget, Development Bank loans and BoM loans. What is the reason for not including this huge amount of money in government budget reports, separating and hiding it?

Our economy would not have been in such a state if such massive amounts of loans, debt and spending were put into projects that benefit the economy. The exchange rate with the USD would not have climbed to MNT 2000 if all of these loans were spent on export supportive, import substitutive projects. This year, Mongolia has to pay USD 996 million worth of external debt and then has to pay a total of USD 4 billion in 2016 and 2017. Twenty-four years ago, our country was able to afford to pay for the gold dealer scandal thanks to the 4.4 tonnes of gold remaining from the socialist era. What do we have now? What policies are being adhered to in order to cut inefficient expenditures, to increase taxes and to receive further loans?

The people have the right to demand the details about this debt from Prime Minister Ch. Saikhanbileg and the President of the BoM, N. Zoljargal. There’s even a historical precedent of making such demands.

4. Are the government’s studies and estimates of the debt in line with reality?

According to the international debt research organisation study, Mongolia is in the list of 14 countries that are at high risk of a debt crisis. We are even ahead of Mozambique, notorious for its corruption. Where are we being dragged by these social viruses of utter irresponsibility, crop loss due

to the drought, a crisis of governance, partisan politics and internal quarrels? Perhaps towards a debt crisis. Are there any sound policies or plans to prevent this potential development?

I mentioned that the real government debt-to-GDP ratio already exceeds 58.5 percent. The fact is they have exceeded the debt ceiling, and thus, have broken the law. According to the amendments made to the stability law made on January 20, 2015, government debt-to-GDP ratio expressed using present values must not exceed 58.3 percent in the fiscal year of 2015, 55.0 percent in 2016, 50.0 percent in 2017 and 40.0 in 2018. The surprising thing here is the inclusion of the word “present value” initiated by S. Bayartsogt MP when he was the minister of finance. They must not have taken into consideration the

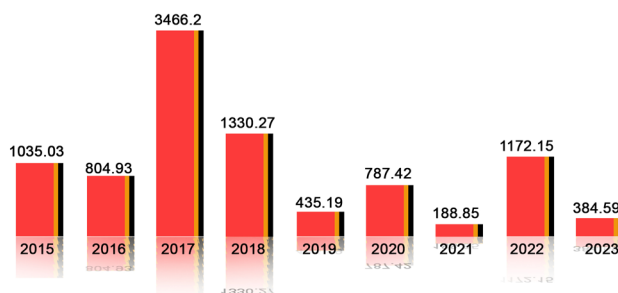
Indicators	2014	March 2015	June 2015	July 2015
Government debt				
Outstanding government debt (nominal)	12,629.7	13,006.3	13,682.9	14,055.4
Outstanding government external debt (nominal)	9,351.9	9,726.8	9,914.5	10,064.1
Outstanding government internal debt (nominal)	3,277.8	3,279.6	3,768.4	3,991.3
Outstanding government debt (present value)	10,535.1	10,594.9	11,322.8	11,549.4
Outstanding government debt (present value) / GDP	48.0%	44.2%	47.2%	48.1%
<i>In reality</i>				58.5%
Economic indicator				
GDP (present value)	21,937.2	23,988.5	23,988.5	23,988.5

World Bank’s recommended level of 40 percent at the time. Today, we cannot solve the debt issue if we do not analyse the problem.

Chart 1: Government debt estimate discrepancy (MNT billion)

There is almost no country that calculates government debt using present value. The outstanding government debt is MNT 13,006.3 billion in nominal terms. Outstanding debt-to-GDP ratio is 44.2 percent at present value and is expected to reach 58.3 percent by the end of the year. This report is a deliberate attempt to conceal the debt records and create confusion. According to the indicators by the CPIA system that the World Bank uses to measure countries’ policies and institutions, the debt ratio reached 57 percent at the end of 2014. Then, how did the government estimate this figure to be 40 percent? They devised their own method and made amendments to the law. If we take into account the World Bank’s warning levels, our country’s external debt indicators are likely to deteriorate dramatically by the end of 2015.

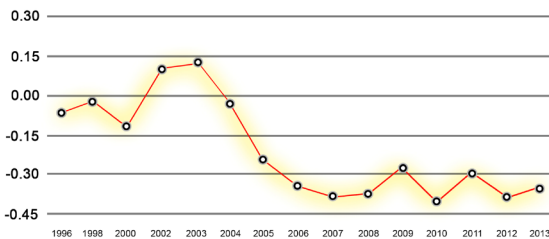
Total external debt repayment timeline



Total debt obligation (USD million)

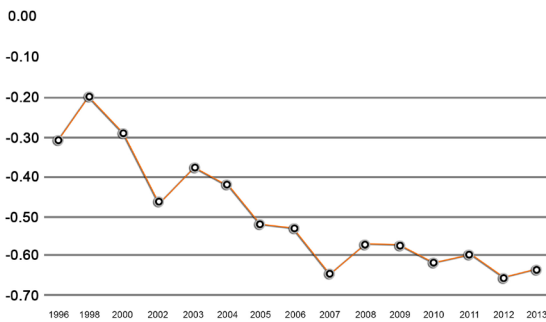
Until the end of 2011, there was only one type of external debt, which were foreign loans, but starting in 2012, two forms – government external bonds and government guarantees – were added. In other words, the government of Mongolia issued bonds on foreign markets and secured the bonds through the Development Bank for the first time. Government loans accounted for the 100 percent of the external debts until 2011, but government loans accounted for 49 percent, guarantees for 16 percent and eurobonds for 35 percent in 2012. In 2013, government loans accounted for 50 percent, guarantees for 16 percent, and eurobonds for 43 percent in

Хууль эрхийн засаглал (Rule of law)



2013. In 2014, government loans accounted for 44 percent, guarantees for 26 percent and eurobonds for 31 percent.

World governance indicators

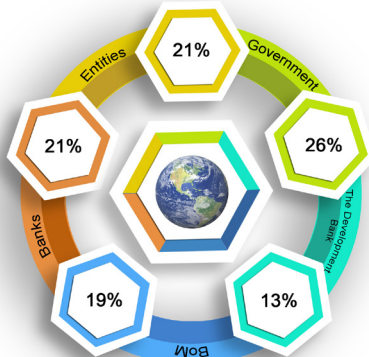


5. What’s the reason for such inefficient external debt?

As for movements in Mongolia’s rule of law indicator for the past 17 years, it has fallen drastically since 2004.

As for government effectiveness for the past 17 years, it also began declining rapidly in 2004.

Composition of total debt obligations /2015-2023/



On April 29, 2014, S&P downgraded Mongolia’s credit rating from BB- to B+, citing the rise in external government debt. They also stated reasons such as an unstable legal and policy environment, decline in exports and increased pressures on the balance of payments by implementing an expansionary monetary policy.

The above graph estimates that 55 percent, or USD 10.8 billion, of the total debt to be public debt, including debts of the government, the Development Bank, and the BoM. Factors such as forecasts of copper and coal prices on the global market being weak in the medium term, China’s economic growth slowing down, Russia and China’s mining partnership and import duties on mining products set by the Chinese government are likely to be a significant negative impact on our external debt repayment situation.

6. Conclusion and demands

The “People Power” coalition is submitting the following demands to the government and the BoM and demanding a formal response to after it examines the Mongolian government’s external debt and future outlook.

First, let’s establish transparent glass accounts for debt. The government’s understanding of debt must be improved. We demand that accurate information about the country’s debt be reported to the people via glass accounts.

For this:

A. Accurate debt estimates must be issued according to the methodology of the IMF and the World Bank by unifying the external debts of the government, the BoM, and the Development Bank.

B. International standards that calculate the debt ceiling by nominal value rather than present value must be introduced during the 2016 budget discussions and implemented post haste.

C. The contradicting debt reports from the Bank of Mongolia and the Ministry of Finance must be resolved, and the debts of the Bank of Mongolia must be included in government debt.

Secondly, research and estimates on how to pay the USD 580 million obligation of the Development Bank bonds, the government’s Chinggis and Samurai bonds’ principal and interest payments to be paid starting from 2017 need to be developed and included in the 2016 budget by the ministry of finance, but only after debt assessments have been made consistent and accurate.

Thirdly, open, public debate based on the status of glass accounts must be organized and facilitated. Expenditures must be slashed. The government needs to urgently develop policies and plans on how to repay the principals of the Development Bank bonds and Chinggis bonds, which will begin to be repaid starting in 2017 and get these plans approved by parliament. ■



G.Zandanshatar: Mongolian Political Economy Infected by Virus, Needs to Be Reformatted

By D.Bekhbayar

We sat down with Member of Parliament and former Minister of Foreign Affairs, G.Zandanshatar. He worked as a guest political science and international studies researcher at the world renowned Stanford University for nearly two years. In recent years, he has been focusing on foreign and domestic policy issues in Mongolia and conducted research on debt issues. He is an economist and has worked as a professor at universities and also has an experience as an economist at Khan Bank and Bank of Mongolia. Our conversation focused mainly on the issue of Mongolia's debt.

- You have been doing a lot of research on the economics and politics of Mongolia and published many articles and even a book. How do you see our

country from a researcher's perspective? Your opinions and assessments are quite different from others.

- The fact is Mongolia's economy is running a fever and is ill. If it were a smartphone or computer, it's jamming because it has a virus. If it's not reformatted, the virus will not be removed and it will continue to contaminate other files. Essentially, we need to find the root of the current political and economic virus and clean it. After that we must develop a new set of policies and universally abide by them.

- What is the virus plaguing the economy?

- This virus is a "crisis of trust." The economic crisis, liability crisis, rule of law crisis, institutional crisis and governance

crisis are five viruses interlinked with each other. Our country is in the top eight states with debt crisis because of this infectious virus. According to information from international research institutions – the IMF, the World Bank and research institutions in China – Mongolia is being labelled as a country that is likely to fall into a debt crisis. According to the IMF's debt sustainability study, Mongolia is at risk of falling into liquidity crisis in the near term. Even the data on debt is incomplete.

- What is the government doing to get rid of this virus?

- The main factor pushing Mongolia into a debt crisis is weak rule of law and corruption, according to the studies conducted by international

research institutions such as Heritage in 2015. There is no accountability in governance because the rule of law is weak, and the legislature is weak as a result. According to the World Bank's governance indicators, Mongolia's has been stumbling over the last ten years. Previously, there was an improvement from time to time, but it was inconsistent. All of these create a heavily indebted, irresponsible country. We need a policy that will completely reformat all of these to fix it, but a coherent set of policies is not being implemented.

- You have introduced the term "Gold dealer case-2." Would you please tell us more about this?

- Our country's total debt is at USD 21.6 billion. The total debt to GDP ratio has already reached 180 percent.



First, the USD-MNT rate would never have reached MNT 2000 if all the loans were allocated to export supportive, import substitutive loans that will develop the country. Secondly, there is the issue concerning the benefit of loans worth MNT 3.8 trillion meant to stabilise prices distributed by the Bank of Mongolia and Chinggis bond loans distributed to 888 companies. Now Mongolia has three budgets without oversight: are the state budget, Development Bank loans and Bank of Mongolia loans. This is what the "Gold Dealer Scandal 2" is. Private external debt used to be recorded in banks' balance statements and reported to the central bank when I used to work in banking. MNT 21.6 billion is not a completely accurate estimation because this system is not being adhered to now.

We need to take into account foreign currency payment balance estimates, but the foreign debt data is incomplete, and it has become clear that they contradict World Bank and the IMF reports.

Thirdly, increasing the debt ceiling and the government's estimations of today's are founded on inaccurate methods of measurement. The ratio of debt to capacity to take on debt should not be calculated using current prices. Debts of the Bank of Mongolia, guarantees by state industries such as MIAT and debts of the Development Bank must all be accounted for in the total debts of the government. I used to teach about the current and future value of corporate finance in universities. Hence, I believe that the estimates of the debt-to-GDP ratio are being calculated incorrectly in order to confuse the people by breaking the law.

The reality is our country's debt has already surpassed the ceiling. Financial data are being inaccurately reported. For example, Mongolia's debt-to-GDP ratio is at 48.1 percent according to the estimates by the Ministry of Finance. This is a ratio that was calculated using present value. It should be noted that this figure is 58.5 percent when calculating by the method used by the World Bank and IMF. It means the debt ceiling has already been exceeded.

- Our relevant agencies explain this by saying that other countries' debt ceilings and amounts of debt are much higher. What would you say about this?

- The total amount of debt is not an issue. The IMF had warned Germany that its debt-to-GDP ratio is 74.7 percent and that its total debt has reached EUR 1.8 trillion. Japan's total debt reached USD 11 trillion, and its debt-to-GDP ratio is 245 percent. However, these are countries with huge export industries. In other words, paying back the debt from export revenues is not a problem as they are countries that produce value-added products. However, Mongolia is dependent on a single market and exports mining products. China's economy is slowing down. The Shanghai Stock Exchange's plunge tells something. Our country's economy is dependent on one country and few products, so it has a high risk of debt to foreign markets.

Debt repayment depends on the capacity of the economy and export of products. But we are unable to repay the debts as we spent the USD 1.5 billion Chinggis bond, the Samurai bond and loans from the Development Bank on sectors that do not produce value added products.

- How and from what sources the loans and debt will be paid is uncertain. How do you see this situation given your studies and research?

- This year we must pay back around USD 960 million. The exchange rate will rise again when this amount of money leaves the economy. On top of that, the most difficult issue is that we have to repay USD 3.6 billion in 2017. A USD 500 million repayment of the Chinggis bond is due to January 2018.

- What are your proposals for the implementation of policies in the future?

- Copper and coal price forecasts on the global market are weak in the medium term. China's economic growth is slowing down. Factors such as Russia and China's mining partnership and tariffs on mining products set by the Chinese government are likely to show a significant negative impact on our external debt payment situation.

Thus, we need to establish transparent "glass accounts" for before anything. The government's understanding of foreign debt needs to be improved. Real information about the country's debt must be reported to the people via glass accounts.

Secondly, accurate debt estimates must be issued according to the methodology of the IMF and World Bank. International standards that calculate the debt ceiling by nominal value rather than present value must be raised during the 2016 budget discussions and implemented immediately. Thirdly, contradicting debt reports from the Bank of Mongolia and the Ministry of Finance needs to be resolved by including the debts of the Bank of Mongolia in the calculation so government debt. The government must urgently develop the repayment policy and plan for the Chinggis bond and Development Bank bonds to spur discussion by discussed by experts and researchers. Fourth, cut unproductive budget expenditure at levels and transition to a policy of austerity. ■

Prospective Economic Relations of Mongolia and India

By L.Gangerel

In recent times, economists and social scientists have been warning people about one particular thing: the Mongolian economy becoming too dependent on one country, China. It has been sternly recommended that Mongolia find a way to get out of this dependence by attracting foreign direct investment in key strategic sectors from “third neighbour” countries such as Germany, Japan, India and South Korea.

From this standpoint, prospects of improving economic relations with India should be raised, as India has historical and cultural ties with Mongolia and has expressed an interest in strategically deepening their relations with Mongolia.

Below are foreign trade statistics between Mongolia and India over the last six years.

Import/Export (USD million)	2009	2010	2011	2012	2013	2014
Exports from Mongolia to India	1.0	0.6	1.4	6.0	0.8	3.0
Imports to Mongolia from India	11.5	16.8	45.3	54.2	34.2	12.7
Total trade turnover	12.5	17.4	46.7	60.2	35.0	15.7

Mongolia’s level of export to India is extremely low, and the two countries total trade turnover is also very low compared to our biggest foreign trade partners such as China, Japan and the Republic of Korea. In addition, India made a total of approximately USD 7.0 million worth of foreign direct investment in Mongolia up to 2015, and more than 20 Indian-invested enterprises in information technology, food services and other service sectors are operating in Mongolia. That basically sums up the current Mongolia-India trade situation.

One indication exemplifying India’s initiative to counter China’s influence on other Asian economies is Prime Minister Narendra Modi’s official state visit to Mongolia in 2015. For this visit, several preparatory steps were taken in order to lift Mongolia and India’s economic relations to a new level.

First off, India agreed to grant concessional loans worth USD one billion to Mongolia’s infrastructure sector. Secondly, the main strategic sectors of the economic relations between two countries will be minerals (especially uranium), medicine, milk and dairy products, education and information technology. Thirdly, the two countries will establish a joint investment fund, so Indian companies can work with public and private companies and invest in Mongolia in the spirit of partnership.

When I met with the Ambassador of India to Mongolia to clarify the above mentioned issues discussed during the Indian PM’s visit, I noticed that our government needs to work on the agreed obligations more intensely and give more information about the regulatory environment of Mongolia’s economy and business sector to Indian investors and companies.

The relevant ministries of the two countries are working on the specifics of the USD one billion loan to Mongolia from India. Mongolia needs to carefully consider the infrastructure projects and provide the required materials on time. The process of establishing a joint investment fund is just at the negotiation stage, so this undertaking needs to be intensified. This joint investment fund will play an important financial role in developing the above-mentioned strategic sectors. Our government needs to diligently produce the related research, data and documents in order to further develop the strategic sectors.

Finally, it is advisable that the government effectively realise these agreements made with the Indian PM in order to reduce heavy reliance on one country and attract large investments from other countries. ■

MONGOLIAN ECONOMY

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MONGOLIA: HEART OF DEMOCRACY

Here Comes Cash Floods

Dig Deep!



Banks Enjoying Stability, for Now

By A.Burenjargal

Commercial banks are the pillar of the financial sector. According to the President of the Mongolian Bankers Association, O.Orkhon, banks have their own capital and assets to tap into during these times of economic difficulty when liquidity and cash flow is inadequate. How can they maintain their stability, and what measures need to be taken in the future? The directors of the four major banks publically discussed the answer to this question alongside representatives from the Bank of Mongolia while at the Invest Mongolia 2015 conference, which discusses the economic situation, progress of major projects and investment-related issues.

Nearly 500 foreign and domestic representatives attended the ninth annual conference organised by Frontier LLC. "Mongolia has not lost the attention of the international community. We're projecting a negative image saying the economy is declining. However, we saw that foreigners are still seeking and interested to work with us," stated Minister of Energy D.Zorigt. The various sessions and panels sought to provide foreign as well as domestic investors with clearer understanding and information, with the highlight of the conference being the discussion concerning happenings in the financial sector and risk policy.

A nation's budget, financial system, investment climate and standard of living are all social indicators directly linked

to the banking sector. One example to illustrate this is the fact that people living below the poverty line still have not managed to find housing up to this very day. The issue of the 20 percent mortgage down payment guarantee programme of the government was brought up. O.Orkhon added, "It's another opportunity for people who could not afford to pay the 30 percent down payment. However, people get to pay the remaining 90 percent from their income. Also, the repayment period has become 20-30 years. Although the monthly payments are lower, it also means people have to pay off the loan for 10 more years with interest. On the one hand, it's a measure to house people in times of crisis, but credit pressures on citizens and banks increase in terms of economy." The banking sector was mentioned, since the rate of non-performing loans is expected to increase. In the first quarter of this year, loans totalling MNT 3.1 trillion were issued to 72,400 borrowers. Overdue loans were at 1.8 percent and non-performing loans at 0.5 percent in June. Seeing this, measures to avoid additional risky loans are being taken.

The current economic situation did not suddenly spring up out of nowhere. However, economists are viewing this as an opportunity to calculate risks better than when the crisis started in 2012. Moreover, the rate of non-performing loans reached 17 percent in 2009, when the economy was in dire



straits. Today, preventive measures are being taken in order to avoid a situation similar to 2009, when some financial institutions even went bankrupt. Operations to establish a fund to insure against bad loans by pooling resources are being implemented. O.Orkhon also mentioned that the equity capital of the four major banks being 16-17 percent of total assets is a good indicator.

Talking about the banking sector's performance being linked with the overall poor performance of the economy, Director of the Monetary Policy and Research Department of the Bank of Mongolia D.Boldbaatar stated, "There is an estimate that the rate of bad loans will reach 10 percent by the end of the year. Banks do have sufficient capital. This year will likely pass with banks just scraping by. Even for the coming few years, decent growth is not projected. The state budget's revenue shortfall is undoubtedly related to unnecessary expenditures. In previous years, we did not accumulate surpluses, and increased expenditures as revenues increased. Now, there no way to balance the budget other than by cutting spending in line with falling revenues.

The aforementioned issues were discussed during the banking sector meeting, and conference organiser and CEO of Frontier LLC, Masa Igata, said that "While it is undesirable to pay off debt with more debt, there is no way other than getting help from investors by presenting the reality of the situation. Major Mongolian banks are stable for now, but they may tire out if there's no source of money. Thus, they need to organise their management as flexibly as possible."

This is a clear example of the Mongolian economy's dependence on international markets. Hence, instead of depending on large projects requiring massive investments, we need to diversify the economy and strengthen the core sectors in order to establish a basis for long-term sustainability.

Norihiko Kato, CEO of Khan Bank:

Overdue loans at commercial banks are high, especially overdue loans related to the construction sector and the eight percent interest rate loan programme. The economic downturn has been continuing for over a year. Overdue loans and banks' asset growth could have deteriorated even more rapidly than it did. The indicators are where they are due to relatively prudent actions taken. As for this year, banks are not experiencing growth. The Bank of Mongolia also advised banks not to provide USD loans, which was timely advice in my opinion.

L.Oyun-Erdene, CEO of Golomt Bank:

Although there may be risks, we need to look for opportunities. The ratio of total loans of the banking sector to GDP is 50 percent for Mongolia. In most developed economies, this figure around 150 percent on average. We have an opportunity to increase this figure. Mongolian banks can grow, develop and find opportunities to provide loans. There are some concerns with overdue loans and other problems facing sectors such as mining, construction, manufacturing and trade. These sectors have loan difficulties because they are dependent on foreign currencies, so we really need to think about what opportunities there are down the road. Also,



Invest Mongolia 2015 conference

we are adhering to a policy of providing loans to other sectors and supporting agriculture, small- and medium-sized businesses and import substitutive industries.

M.Bold, CEO of Khas Bank:

Not every sector is going through difficulties. Positive trends observed in the banking sector should be noted. Having prepared well for two years, commercial banks in Mongolia signed onto the "Sustainable finance agreement." Thus, sustainable finance principles are being implemented when giving out loans. This is a relatively new initiative as banks made the agreement in cooperation with one another. Sustainable finance is a process that assesses the project by its environmental and social impact and decides whether to grant loans. Starting this year, we set criteria on environmental and social impact for applicant companies. Mining companies can therefore plan significant costs related to the criteria. As for social impact, one elementary criterion we will check is whether applicants paid social security dues for their employees into state the budget.

Graeme Knowd, Managing Director at Moody's Investors Services:

Similar to many other developing countries, Mongolia's sovereign credit rating is B2. Mongolia is relatively stable compared to other developing Asian countries. As for potential risks, the overdue loans indicator needs to be clearer. It is an indicator that measures confidence in relevant banks. In the

current situation, focusing on keeping overdue loans from piling up is important. Whether Mongolia has reached the trough of the downturn must be measured by various indicators. One of them is the rate of overdue loans. I believe the Mongolian banking sector will see some positive indications. The key is to provide sustainable growth. By looking for opportunities based on facts and reality, things can really turn around for the good.

D.Boldbaatar, Director of Monetary Policy and Research Department at the Bank of Mongolia:

I agree that Mongolia's financial sector needs to expand. The most important thing in terms of innovation is a new law establishing the framework for movable assets to be used as collateral has been approved. This has opened many windows of opportunity for banks as well as to entrepreneurs, and it is also an opportunity to expand businesses. In addition, it's a good showing of there being no shortage of funds for commercial banks.

I see it as an opportunity to address the challenges we are facing now. The Bank of Mongolia will work to make innovative changes and will continue to diversify the financial sector. We are also working on mitigating risks surrounding overdue loans. All in all, the standing of commercial banks is strengthening. The levels of equity capital are improving. Their performance has exceeded the requirements we had set. ■

COPPER



Gloomy Forecast for a Rusty Market

By G.Orkhon

Copper prices on global markets remain rusty, and an upturn will not be seen in the near term. Some forecasts predict that prices will stoop further and will bottom out in 2016.

International experts conclude that the price of copper will remain at USD 5,000 per tonne for five more years. They also believe that despite waning growth in consumption, three million tonnes more than currently demanded will be used over the next five years. This means demand will decline, and structural changes in supply may also take place. The new copper deposit to be put into operation in South Africa next year is a reflection of the changing market. However, prices will drop again as a result.

Copper prices will rise if the demand were to increase in 2018 and 2019. During the Invest Mongolia conference, the CEO of China's CRU Group, John Johnson, said a copper price of USD 6,500 per tonne could come about starting in 2019. Experts' forecasts seemed to have come true as copper prices decreased for three days in a row due to China's stock market plunge, as well as its slowdown in production. In addition, the London Metal Exchange forecasts that the base purchase price per tonne will be roughly USD 5,720 in December. That month, copper prices are likely to decrease by 0.4 percent, while the Shanghai Stock Exchange estimated the November purchase rate reducing by 0.8 percent.

The situation is that Mongolia's revenues from this market are likely to

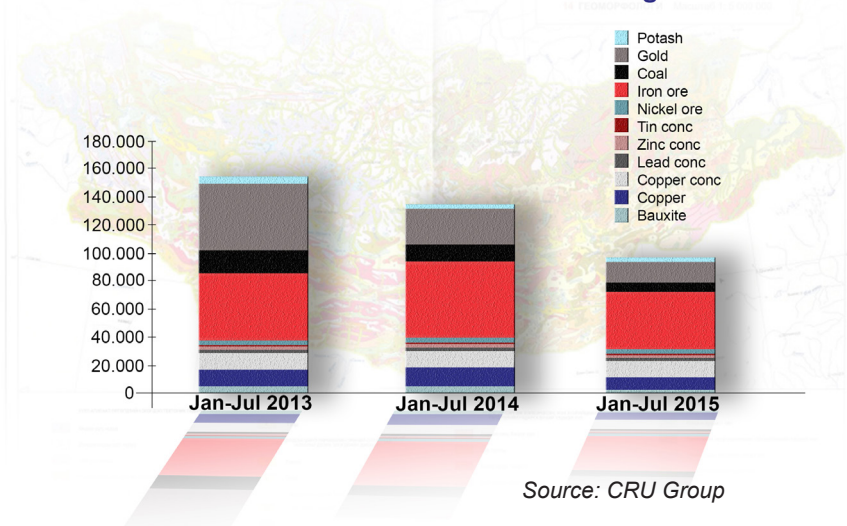
decline in the near term, as is reflected in the declining index of 10 staple commodities supplied from Mongolia to China. The issue is not lack of output, but rather low prices. On the other hand, John Johnson also stated China's economic moderation has spurred major changes in the minerals market. "In the past six months, the prices of 10 staple commodities, led by coal, have dropped by 40 percent. The main changes in the balance of supply and demand in the market are linked to the price drop. Therefore, the changes on the supply side will have a considerable effect in reaching the next equilibrium. Currently, there is no such balance," he said.

According to China's statistics on January to July imports over the past three years, USD 150 billion has been

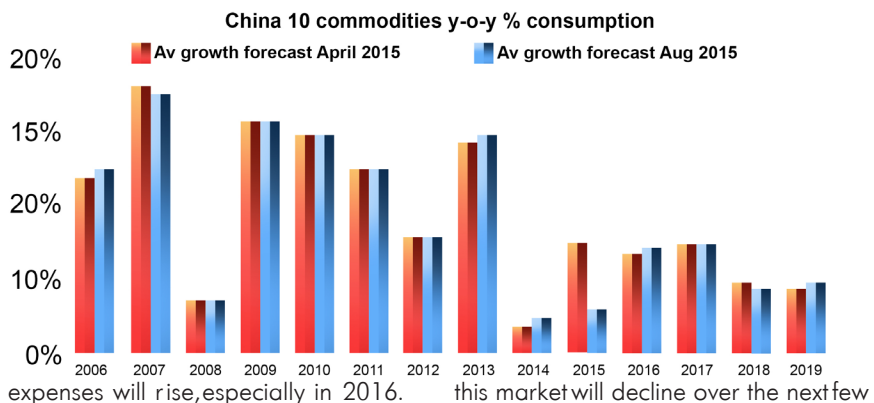
wiped out from the top 10 commodities imports. That is a decline equivalent to twelve times Mongolia's GDP. This situation has affected many mineral-exporting countries. On the one hand, copper prices fell due to increased supply. On the other hand, demand in the minerals market is comparatively low nowadays. The Chinese government has stated they will focus on the supply side and pursue a more sensitive policy over the next five years.

China is in the process of reforming its tax environment and monetary policy. Experts noted that expenses in China are rising: companies working in the minerals market have high expenses. According to the researchers at CRU Group, commodity prices, led by copper, coal and iron ore, will decline and

\$150 billion wiped from China's imports of top 10 Commodities in 2015-that's a dozen Mongolia's!



2015 demand prospects downgraded and CAGR just 2.9% over next 5 years



expenses will rise, especially in 2016.

Hence, many international researchers forecast that Mongolia's revenues from

this market will decline over the next few years due to the falling prices. In 2014, 70 percent of Mongolia's total export

earnings were from the aforementioned products. "Due to the fall in prices, Mongolia's revenues will decrease by USD 800 million this year. It will be a loss of USD one billion if comparing uses prices from the previous period," added John Johnson.

What happens in the future depends on the price outlook. Unless there is a clear change in production, commodity prices will not increase until 2019. However, experts noted that Mongolia's revenues could increase after 2019 depending on output. Seeing as prices will not rise in the near future, ramping up production is the only way to boost revenues. ■

Real Estate Sector Patiently Waiting on Demand

By G.Tushee

Having not been to the nation's capital for six years, my mother told me, "I'm getting dizzy looking up at all these buildings. There are so many new buildings I've never seen before in Ulaanbaatar." Only recently has she gotten used to the rapid transformation of the city.

Many new buildings have been erected around Chinggis Square, formerly known as Sukhbaatar Square. Everywhere you look, there are glassy towers. Meanwhile, global luxury brands such as Zara, Gucci and Dolce & Gabbana have been opening branches in the capital.

At first glance, Mongolia's real estate sector seems to be moving forward with some momentum. However, many would beg to disagree with that analysis if issues such as modern, adequate parking, colour schemes of buildings, landscaping and efficient power sourcing were to be considered.

Real estate trends were highlighted in this year's Invest Mongolia conference. Despite the country's economic woes, companies are still interested in building and investing in construction projects. Real estate located downtown or in Zaisan are still in demand, with demand

for office space dominating the overall demand in the sector. Experts say that now is an opportune time to buy office space financed by long-term loans, as price have dropped due to an increase in supply to meet the demand. As for companies and investors, experts say that they need to supply what the market needs in order to maintain stability in the current economic situation.

Despite officials counting on the invisible hand to equilibrate the market, more than 30,000 apartments are sitting empty, waiting for their owners. People are sure to wonder what the banks will do when the amount of construction projects being propped up exceeds the demand, given that mortgage loans make up the majority of loans from commercial banks. In 2010, around 16,000 people had loans, while today this number has reached 60,000. Of these loans, 2.3 percent are overdue loans, and non-performing loans account for less than one percent. According to the CEO of Khan Bank, Norihiko Kato, overdue loans are not a major issue. The key issues are that people's income levels are insufficient to receive loans and government guarantees are not cash. Specifically, the government

guarantees only the 20 percent of 30 percent mortgage loan down payment. However, relevant authorities are yet to finalise this decision.

People are willing to purchase modest apartments within their financial means. "This market is expected to slow in terms of supply and demand, but there will still be significant demand for housing," said Norihiko Kato. Sixty percent of the 1.4 million residents of Ulaanbaatar need apartments, and to make this happen, 200,000 need to be built over the next five years. Director of Asia Pacific Investment Partner, B.Tsendsuren, said investment in this sector equates to 7.8 percent of GDP. He expects USD 10 billion in FDI to make its way to Mongolia over the next two years, as investment in and the development of the real estate sector has increased rapidly over a short period. The sector's experts noted that it is a good time to invest in the real estate sector, even though FDI has declined from previous years.

Though it may seem as if the housing units being supplied are out the reach of people's financial possibilities, demand is still undoubtedly there. The sector's officials hold firmly that reforms in the sector are soon to come. ■



Ayumi Konishi: Pessimism about the Economy Is Not Justified

By O.Tuvshin

Mongolian Economy magazine sat down with Mr. Ayumi Konishi, Director General of the East Asia Department of the Asian Development Bank (ADB). Mr. Konishi is responsible for ADB operations in the People's Republic of China and Mongolia and fielded a mission to Mongolia on August 24-28, 2015 to attend the Central Asia Regional Economic Cooperation (CAREC) National Focal Points meeting on August 24-25 and hold consultations with high level officials in Mongolia. CAREC also had a ministerial conference on the 24th of September in Ulaanbaatar. This interview was conducted on August 17. Some dates and plans mentioned in the future tense have already past.

Everyone knows what the Asian Development Bank is, but not so many people know what CAREC is. Would you tell us a bit more about CAREC?

The CAREC programme is, as the name suggests, an economic cooperation programme of 10 central Asian countries including Mongolia to work together for shared prosperity among the members. The first senior officials meeting of the programme was held in 2001, and Mongolia became a member in 2003. In addition to the central Asian republics, two autonomous regions of China – Xinjiang and Inner Mongolia – are members of CAREC. Under the programme, Mongolia has received

about USD 530 million of assistance for CAREC-related investments and 10 projects. If I say a little more to give you a better feel of the CAREC programme through the actual projects, the improvement of the road from Ulaanbaatar to Zamyn Uud was carried out as CAREC corridor 4B. This was a contribution of the CAREC programme. Under the CAREC framework, we are also developing the western regional road which passes through Khovd and Bayan-Ulgii, connecting China to Russia through Mongolia as the corridor 4A. We really hope the improved road connectivity will enhance Mongolia's integration into the greater regional community. That's the infrastructure part. The software part is also something interesting. Under the CAREC programme, there is an initiative to harmonise the customs process, or the border-crossing arrangement, and make it easier and faster to promote the movement of goods and people. The China-Mongolia traffic is a pilot programme for the joint customs control, under which there was an agreement to allow the Chinese trucks from the Tianjin port to drive straight to Ulaanbaatar or to allow Mongolian vehicles from Ulaanbaatar to drive down into China. This kind of agreement has been reached. I understand that the first batch of the vehicle traffic will start in the middle of September.

You mentioned the entryway between Mongolia and China at Zamyn Uud. I have been there myself, and it was extremely chaotic to say the least. Is CAREC addressing that kind of issue regarding the capacity of the road?

The road was improved; that was step one. The next project we are working on there will be the improvement of the border facilities. So there will be more money put into developing those border facilities as well as procedures through collaboration with China. The process will be simpler. We are looking at one stop, so you don't have to spend time on both sides of the border. There is also another project we are working on, which we hope will be approved very soon, to improve the facilities for what we call SPS, sanitary and phytosanitary standards. It's a technical term and what it means is, for Mongolia, the import and export of meat, dairy products or food-related items will be easier. As you know, agricultural exports have a very big potential, because of Mongolia having so many animals. But for Mongolia to export more meat, whether the products meet the sanitary standards internationally has to be checked at the laboratories. There has not been improvement in harmonising this sanitary checking and requirements to import and export food-related items. One of the initiatives under CAREC, which will be one of the decisions reached

at the upcoming ministerial conference in September, is to improve and harmonise these sanitary requirements to have greater food-related trade. We also have a project ready to improve laboratory facilities within Mongolia. If you think about it, food-related trade involves many government agencies such as the ministries of agriculture as well as customs. Consolidating several separate procedures to a well-coordinated one is very important to make the system effective. This kind of "software improvement" is also something we work on at CAREC.

You talked about the upcoming ministerial conference, and one of the points of emphasis will be the coordination of agricultural and meat products. Will there be any other points of emphasis that will be discussed by the 10 nations?

CAREC has four working groups: transportation, energy, trade facilitation and trade policy. These four working groups will report on their achievements and present their future work plans, so endorsing each sector coordination committees' reports will be an important task of the ministerial conference. In the area of transportation, improved road safety will be highlighted as one of the key issues. In the trade facilitation and trade policy areas, the harmonisation of the efforts to strengthen food and agricultural trade safety, or "SPS standards," will be highlighted. In the area of energy, they are looking at formulation of new strategies, including the development of more renewable energy. Energy trade will be one of the issues they will be looking into. One important thing discussed at the national focal point meeting to prepare for the September ministerial conference was a recognition that now many countries are interested in substantially stepping up their contribution to regional connectivity.

One of the well-known examples of such "interest" is China's One Belt, One Road initiative. We hear that China is prepared to put in a lot of money toward the improvement of regional connectivity infrastructure. But actually it is not only China. When you look at South Korea, they have been advocating the "Eurasia initiative," which is another vision for

improved connectivity between Asia and Europe. President Park Geun-Hye started talking about this in 2013. Prime Minister Abe of Japan has been talking about the need for increasing investment in high-quality infrastructure. There is also Russia's willingness to invest in regional infrastructure. New development banks such as the Asian Infrastructure Development Bank or the development bank of the BRICS countries are also talking about focusing on the need to improve regional infrastructure. What we discussed and what we hope to be discussed at the upcoming ministerial conference is to promote CAREC as an effective platform for countries to share their vision and take full advantage of these many countries' interest in investing more in infrastructure. If I make the story a little simpler, we, the ADB, welcome China's One Belt One Road initiative, just as we welcome Japan's and South Korea's interest in increasing investment in regional infrastructure. However, we also need to note that One Belt, One Road vision is still just China's vision. In order for such a vision to be realised, it needs to be supported by all the concerned countries on the other side of the border. The concerned countries also would like to see harmonisation of China's investment with that from China, South Korea, Japan or any other offers. Where there is a meeting of the minds, we can actually expect projects to start happening. If CAREC can be a useful platform for all the concerned countries to develop a shared vision, I think that would be very nice.

Regarding the One Belt, One Road policy, as you said, it's China's vision, but it affects the region at large. What exactly is Mongolia's place in China's vision of this One Belt, One Road undertaking?

As I observe, the One Belt, One Road initiative has two aspects: international and domestic. Internationally, China is prepared to help other countries develop better infrastructure connectivity; that's one part of it. The other part of it is that within China, they are encouraging many provinces to take advantages of better connectivity with other countries. The Xinjian and Inner Mongolia autonomous regions are changing their vision for the future. They will not

just look at China's internal, domestic market, but the development strategies of Xinjian or Inner Mongolia will look at the relationships with other countries around them. That means there will be good opportunities for Mongolia to take advantage of. As I said, it's China's vision. The next step is for Mongolia to present its own vision, not just with China, but also with other central Asian countries. It is not just an issue between China and Mongolia. We should be looking at the CAREC region as a whole. I certainly believe it's very important for Mongolia to look at its potential with such enhanced relationships with other countries. China's One Belt, One Road vision can certainly be a very important opportunity which Mongolia may be able to take advantage of.

So we have the external and internal aspects. You talked a lot about roads, would you say something about the legal environment? More specifically, it is often talked about in the international community and foreign business owners that the legal environment in Mongolia is inconsistent.

I think there are still many difficulties. Overall, the legal environment for foreign investment can be improved and has to be improved to take full advantage of the improved connectivity. We need to see investment coming in not just for the mining sector, but for the development of other industries. If Mongolia can attract more investment, that would be desirable, but right now, as you mentioned, whether the domestic legal system gives enough comfort for prospective investors to come in is an issue.

I think of it as "the chicken or the egg" dilemma. If there were more interest from foreign countries and potential investors to invest more in Mongolia and other CAREC countries, then those companies will express their views and desires for improvements in the legal system, saying it can be improved this way and that way. Then, by government authorities listening to those desires from outside potential investors, you can actually improve your domestic systems faster. There is also an element that companies choose locations with better legal environment. Because of this, together with the ministerial conference on the 25th of September,

we will have the investment forum for CAREC on the 24th. Since it is being held in Mongolia, there will be special attention to Mongolia. We are really hoping to profile CAREC's vision as a whole and Mongolia as a desirable investment destination for the foreign private sector. We have to promote more interest in the region from foreign private sectors. Through that, we can probably expect many of the domestic processes to improve.

Don't you think that in this chicken-or-egg dilemma, eventually someone has to take the first step to pull the other side? A potential foreign investor can draw up his list of desires saying "if Mongolia makes these changes to the legal environment, we would be more interesting in coming to Mongolia and investing in Mongolian entities." It sounds like if the investors come, then the Mongolian government will have to make the necessary changes, but of course investors will be hesitant to come before the reforms are made. How can we break this circular deadlock?

The key is to improve communication. I am not talking just about Mongolia, but all the CAREC countries. Are they really listening to the voices of the potential investors closely enough, trying to pick up good ideas? Some of them may be too far out of reach, but there are what people call the low-hanging fruits – some easier areas to improve. Those things don't have to happen overnight. As both sides increase communication, making incremental improvements, I strongly believe that Mongolia has good potential. But let's face it. We have been talking about potential for a long time. How to convert potential into reality is what we have to be working together towards, and for that, the essential thing is really to improve communication. There has to be more open conversation.

Communication is very important in any relationship. We often call it the "high school dance party syndrome," where the boys and girls are just standing by the wall. Somebody has to ask the girl, "Hey would you like to dance with me?" Then the conversation can start. If both sides are just standing on opposite sides of the dance hall, nothing is going to happen.

That is a nice analogy. In general, when I speak to average Mongolian

people, they feel pessimistic about the future and outlook, at least in the short term. Regarding the next year or two, it seems as though the average Mongolian person is rather worried about his or her own personal future in the context of the economy. How justified do you think this pessimism is?

I don't think pessimism is justified. Regarding the economic situation, there are some concerns, such as the agriculture sector suffering from the drought. That may force us to look at rather difficult short term prospects for economic growth.

Some people are looking only at the mining sector. The mining sector goes up and down. It is a very volatile sector, responding to the international market's situation. But as you said, if we are to focus on ordinary people's lives, as Mongolia keeps making efforts to diversify its economy, developing small and medium-sized enterprises and trying to find new opportunities, then I think there are many opportunities to diversify its products and sell more to other growing markets. Mongolia has been focusing on mineral export to China. China's economy is transforming from a manufacturing- or industry-led economy to a more consumption-led, service industry-led growth. If Mongolia starts marketing more towards Chinese consumers, then that is going to be a different opportunity. As the Japanese economy and other Asian economies improve, there will certainly be more opportunities.

I would say that pessimism is not necessarily justified on two grounds. One is if we focus not just on the mining sector, but much broader economic opportunities, then through diversification, there are great opportunities. That is one. At the same time, at least the mining sector is getting moving.

We have the agreement on OT-2 (the underground mine). Of course, we are not in a position to comment on any specific deals, but at least the government is resolving some of the disputes or difficulties in striking such an agreement. Hence, Mongolia's mining sector can improve its contribution to the economy. So, I really don't think the pessimism over Mongolia's future economy is justified.

Having said that, particularly this year, the agriculture sector's performance as a result of the drought is a cause for concern. There is also the upcoming election next year. We do hope that Mongolia's macroeconomic management will be stable through this election year.

Going from the average Mongolian to macro-economic management: Mongolia has a considerable amount of debt. It will have to start paying back this half-billion dollar first tranche of the Chinggis bonds quite soon. Is there any risk of Mongolia becoming a Greece-like state?

I don't think so. If we are to talk about the absolute amount of debt against Mongolia's total mineral deposits, then still the debt is very much at a prudent level. I also do not necessarily think Mongolia's debt level is unreasonably high by international standards. The key will be effective debt management and macroeconomic management for the next two or three years, as the Chinggis bond maturity is coming up.

Then, we have talk about repaying or rolling over that debt. So there will be some issues and difficulties in that process. In terms of the total stock of debt, it is not that high. We can make sure that the Mongolian economy continues to grow at a reasonable level. I also think that the key is the effective use of the borrowed funds, as well as the pricing of the loans.

Even if you are running your own business, you borrow some money and invest it in the expansion of your business. Then, through greater revenue-earning capacity, servicing that debt becomes much easier. We will be talking about much more revenue, and the relative size of the debt becomes small. We are taking the view that, especially in the next couple of years or so, it will be a bit of a difficult period in terms of macro-economic management, or cash flow management, but even so, Mongolia should keep investing in essential infrastructure. Investment in improving people lives – education, health – should not stop. We would be talking about doing something bad for the future generation. What kind of investment will be an effective investment to contribute to future prosperity? Return on investment is something Mongolia

should really be focusing on.

I do not believe in the view that because the situation looks difficult, Mongolia should stop borrowing any money. I don't believe that is the right stance. Very soon we will be approving a loan of USD 150 million to support social welfare programmes in Mongolia, because this year with the revenue shortfall, it will be difficult for Mongolia under the Fiscal Stability Law's ceiling of five percent to

have enough revenue to keep providing social welfare programmes. Does that mean they should stop? The damage to society would be too great. Hence, we think that Mongolia borrowing USD 150 million more from the ADB at this juncture to go through a bumpy year in terms of revenue is fully justified to make sure that society and lives keep improving.

Then as Mongolia comes back to a normal pace of growth, it will become

much easier to repay that loan. It is very important for Mongolia to look at the terms of the loans and the effectiveness of the use of that money. The upcoming ADB loan is actually very cheap, with a 15-year repayment period. So, the repayment will be easier as greater revenue streams come back to Mongolia. Using that, Mongolia can repay the loan. That is something we want people to understand. ■



First Full Custodian Services in Mongolia

Nomura Research Institute (NRI), a leading provider of consulting services and system solutions, announced on September 24, 2015, the successful go-live of its Custody solution with Golomt Bank of Mongolia, a pioneer among Mongolian banks in introducing initiatives to accelerate development in the regional financial sector.

In August 2014, Golomt Bank became the first custodian bank in Mongolia to obtain the Custody Operations licence from the Mongolian Financial Regulatory Commission. The NRI Financial Solutions for Custodians has enabled the bank to establish a fully equipped custodian service offering tailored services a wide spectrum of financial activities with a comprehensive suite of products, services and tools.

"We went through a careful process of evaluation of all the solution offered by various vendors before deciding on the NRI Financial Solutions for Custodians," said Zorig Gongorjav, Executive Vice President and Head of Custody Division at Golomt Bank. "We chose NRI for its robust, scalable, flexible and future-ready architecture as well as functionalities that include safekeeping of assets, securities settlement, corporate actions, client communication, cash and treasury management and many others. We are very pleased with the domain experts and experienced IT engineers from NRI Financial Technologies India. They made it possible to launch the solution within only three months by working closely with Golomt Bank personnel."

The NRI Financial Solutions for Custodians, customised for the Mongolian market, combines the mature market sophistication of functionality and design with the flexibility required for emerging markets. Some of the salient features of the solution include: Straight-through processing for trade capture, Real-time communication capability with Clearing and Corporation, Depository & Clearing Banks for settlement processing etc. "We are thrilled to have been selected by such a leading progressive institution as Golomt Bank," said Toru Watanabe, President of NRI Financial Technologies India. "NRI is committed to bring sophisticated technology solutions to emerging markets to provide robust and highly scalable platforms with the view that establishing world class IT infrastructure can boost investor confidence and fuel market growth."

About NRI: Nomura Research Institute, Ltd. ("NRI", TYO: 4307), established in 1965, is an independent, global IT solutions and consulting services provider with annual sales of 405.9 billion yen as of FY ending March 2015. With front-to-back support for the buy- and sell-side, NRI's tradition of innovation has positioned them as a trusted international market leader. Leveraging NRI's global consulting business, NRI is able to provide innovative financial IT solutions for investment banks, asset managers, banks and insurance providers. For more information, visit www.nri.com. ■