



GOVERNMENT OF MONGOLIA

POST-CRISIS GROWTH AND POVERTY REDUCTION: EXPERIENCE

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Territory	18th largest country in the world 1,565,000km ²
Population and population density	135th in the world 2.832 000 citizen (2006) 1.8 people/km ² on average 180 people/km ² in Ulaanbaatar, the capital city
Political structure	Parliamentary democracy from 1991, with 2 large parties (MPRP and Democratic Party), a number of smaller parties, currently with a 3 rd coalition government in 4 years
Current Prime Minister	S. Batbold (MPRP), whose party holds a majority of in 76 seats parliament after 2004 general elections
Government	Coalition Government of MPRP and DP
Current President	Ts. Elbegdorj (nominated from Democratic Party), in office since 2009
Main Religions	Buddhist (90%), Muslim (5%), Shamanist and Christian (5%)
Life expectancy	62 years for men, 67 for women
Literacy rate	95%

- ◆ Started transition to market economy in 1990 under extremely difficult conditions
- ◆ Mongolia has fully overcome transition to market economy by 2000
- ◆ In 2004-2008 Mongolia is one of fastest growing countries
- ◆ Between 2004 and 2007 GDP per capita increased from 720.9 USD to 1971.5 USD or 2.7 times
- ◆ In terms of PPP GDP per capita has reached 3400 USD in 2009

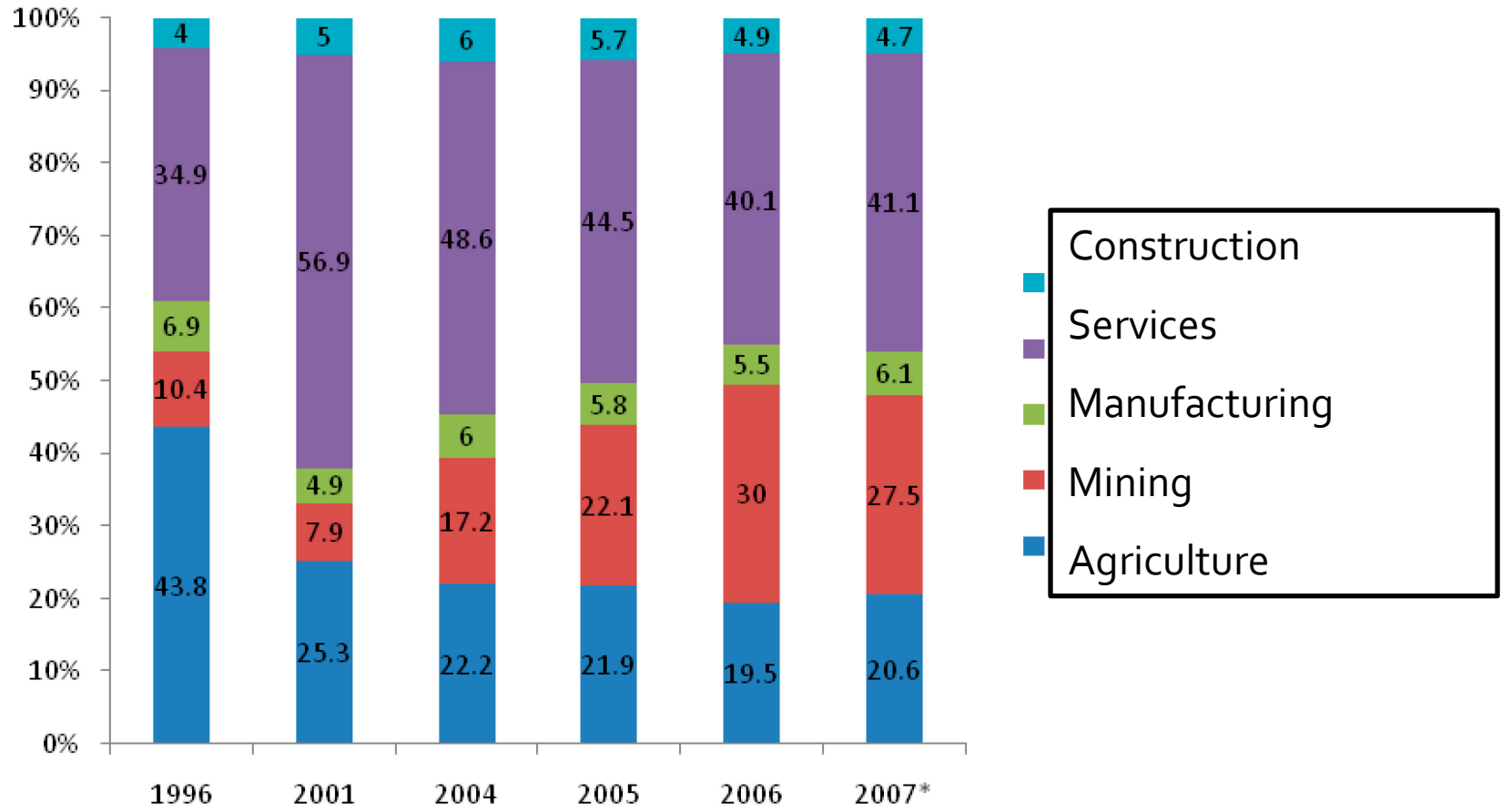
Growth rate (real GDP)



I. World economic crisis and its implications for Mongolia

- ◆ Before 2008-2009 crisis, Mongolia experienced a serious impact of world markets' commodity boom
- ◆ Double impact:
 - ◆ As a copper, gold, minerals exporting country, the commodity boom resulted in fast increase in budget revenue and balance of payments surplus
- ◆ In 2006, authorities instituted a windfall gain tax 68% on commodity price windfall gain
- ◆ As a result of commodity boom, both budget and foreign trade had surpluses
- ◆ Overheating of economy

Structure of economy

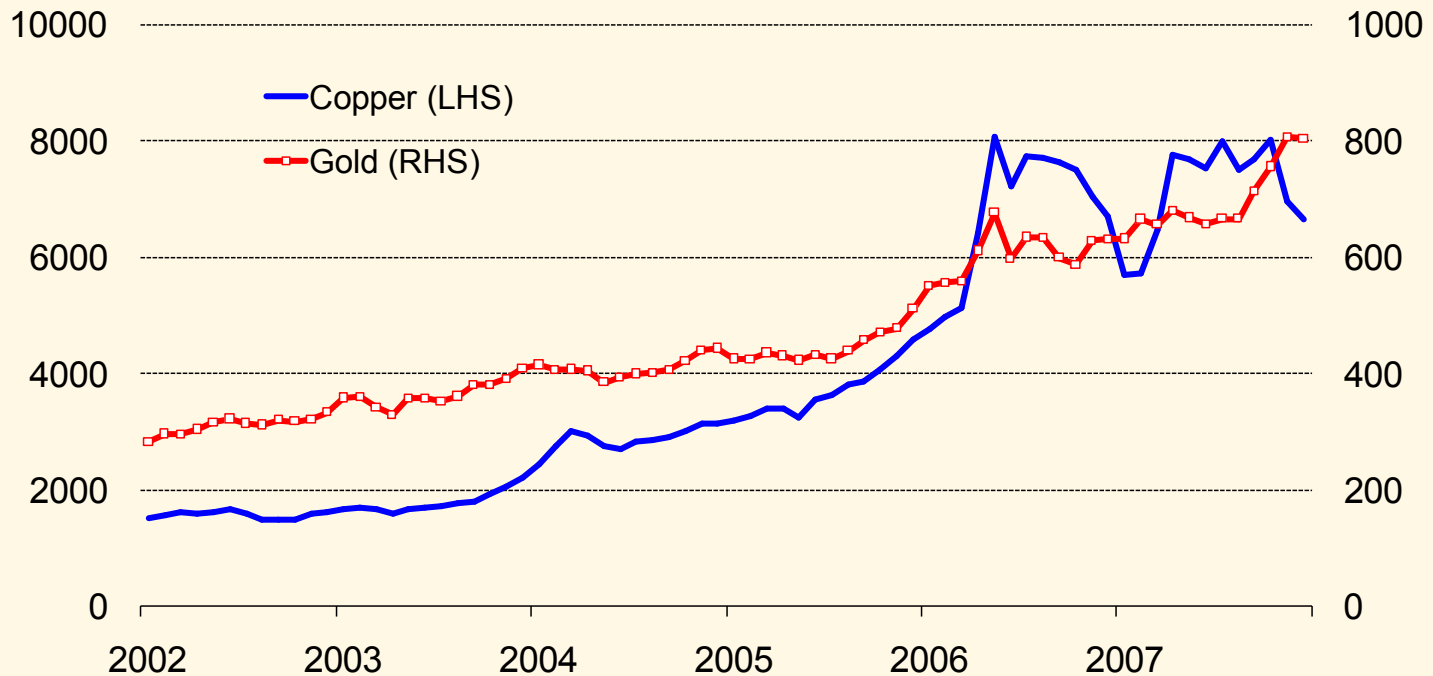


Commodity boom

Copper and Gold Prices

US\$ per metric tonne

US\$ per troy ounce



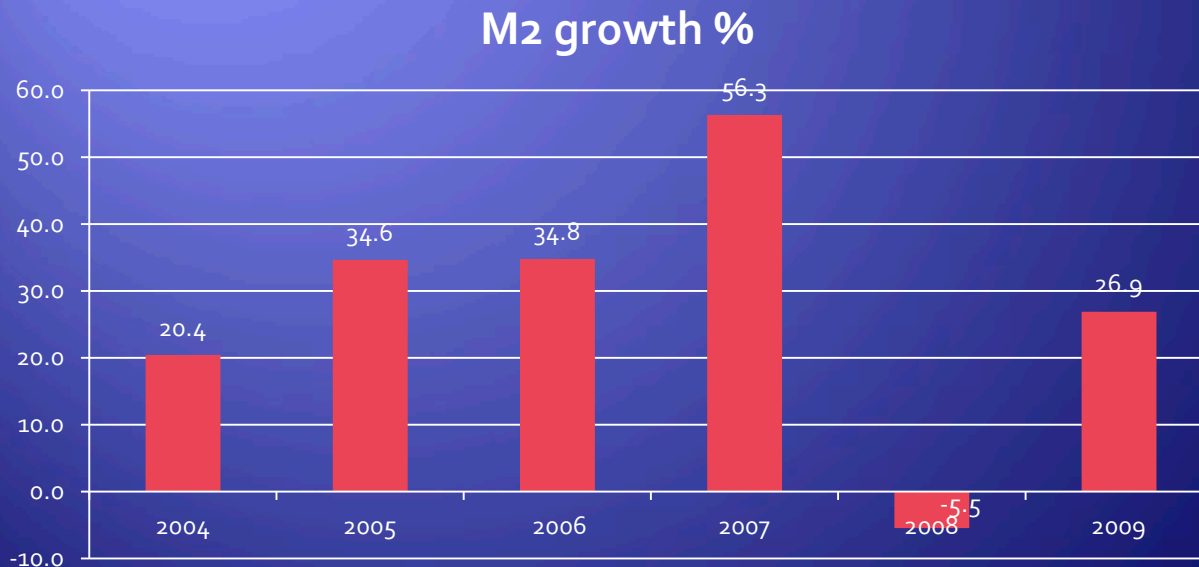
Source: IMF, Commodity Price System.

Prices and money

As an oil and food importing country, both oil price increase and food price increased stimulated domestic inflation

Domestic inflation reached 22%

Easy monetary policy:

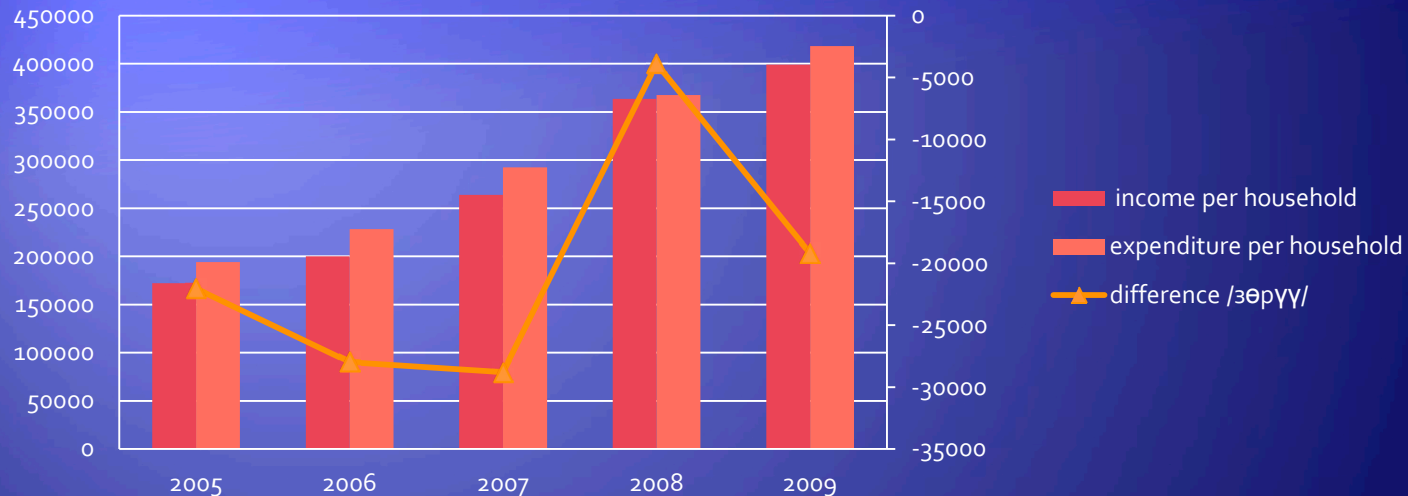


These factors attributed to assets price bubble, namely in real estate

Social allowances, wage increase led to:

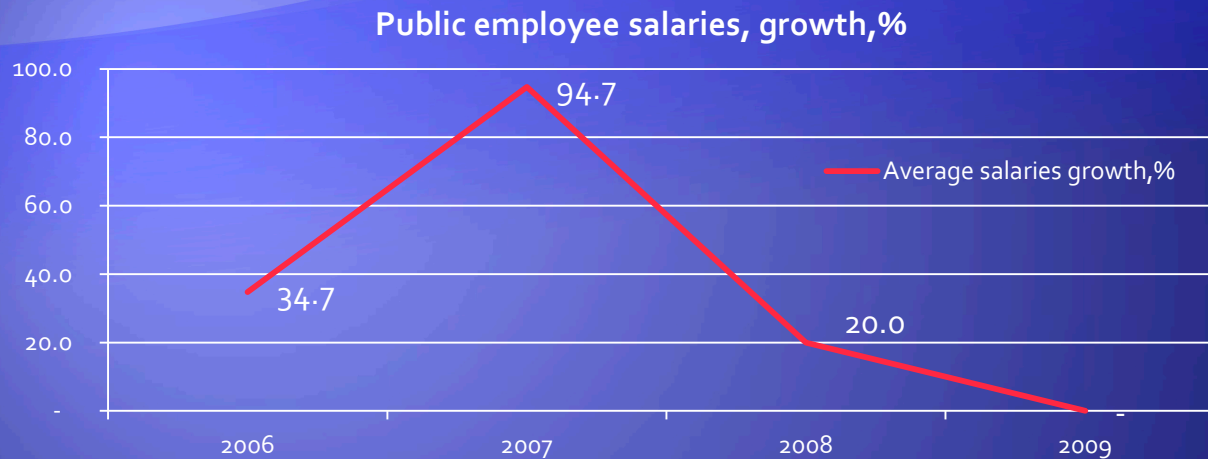
Household consumption expenditure exceeded household income
Nationwide, sharp increase in imports, consumption

Monthly average income and expenditure per household, togrog



Investment, consumption was financed increasingly by loans

Distributing fruits of mining-spending side



- ◆ 2006: Public employee salaries increased by 30.0%
- ◆ In 2007 wages almost doubled
- ◆ In 2008 wages grew by 20%
- ◆ Children money 100 000 MNT\
- ◆ Newborn baby money 100 000 MNT
- ◆ mothers allowance 50,0-100,0 thousand MNT

Almost 190 million USD 90 million from budget on

- ◆ New couple money 500 000 MNT
- ◆ In total almost 40 kinds of allowances and social welfare payments

Crisis beginning: money market

- ◆ By start of 2008 Central Bank began to tighten money supply to fight inflation
- ◆ Large balance of payments deficit by end of 2008
- ◆ The world crisis struck Mongolia through trade channels of falling copper and gold prices at late 2008. By January 2009, severity of situation became clear
- ◆ By end of 2008, Mongolia experienced high inflation, high interest rates, sharp fall in FDI and tax revenue, budget deficit for the first time in 3 years, deficit of BOP and trade
- ◆ sharp exchange rate depreciation: an attempt to defend currency against speculative attacks resulted in loss of 40% of foreign currency reserves

Crisis beginning: world markets

From the end of 2008, particularly from the November and December in Mongolia, the signs of the financial and economic crisis began to appear like many world countries had.

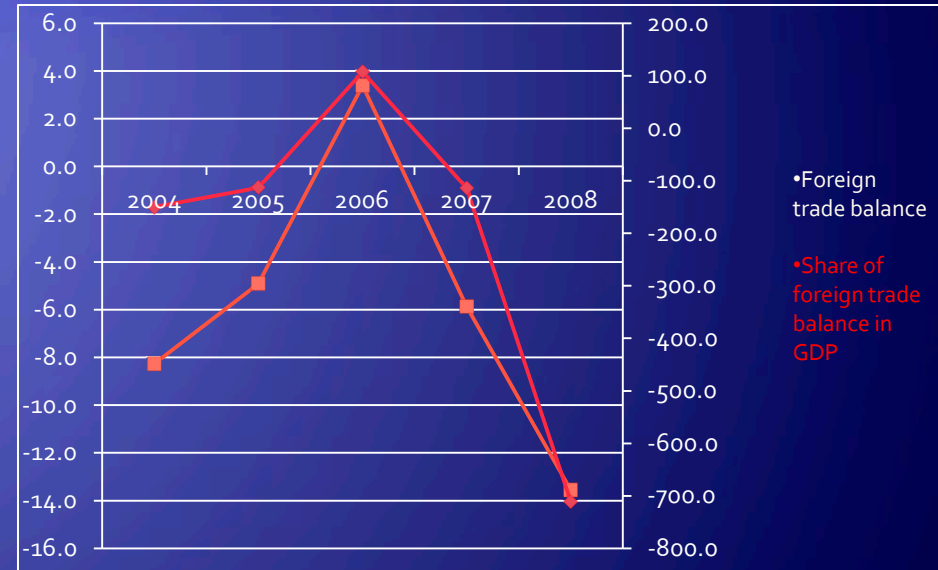
The Signs of the crisis:

Copper price US \$ /ton : 2008.8-2009.8



In the world market, copper price was \$8600/ton in the second quarter of 2008, yet copper price was down to \$3000/ton.

Foreign trade balance /million US \$ / and its share in GDP



Share of foreign trade balance in GDP was +5.6% in 2006, -5.9% in 2007, -13.5% in 2008, and overall the foreign trade balance had shortage of \$710.1 million. The shortage of foreign trade balance in 2008 was 6 times larger than the shortage of foreign trade balance in 2007.

Crisis beginning: FDI

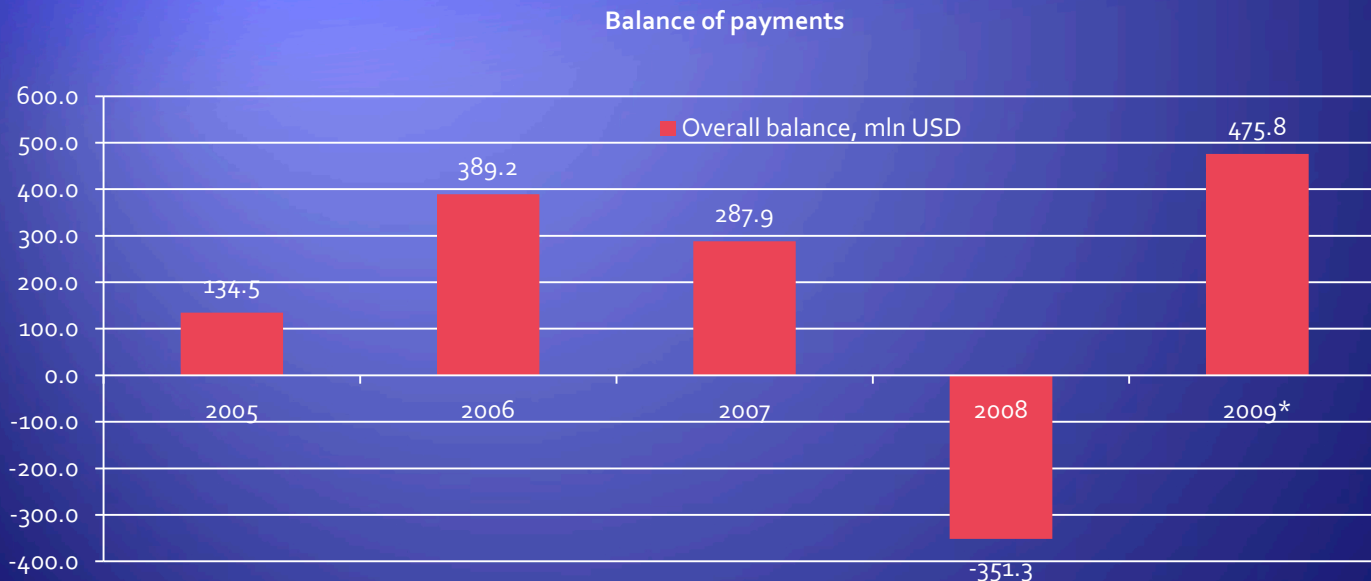
- ◆ Shortfall of planned tax revenue
- ◆ Reduction in FDI

Direct investment, mln USD



Crisis beginning: BOP

◆ BOP crisis

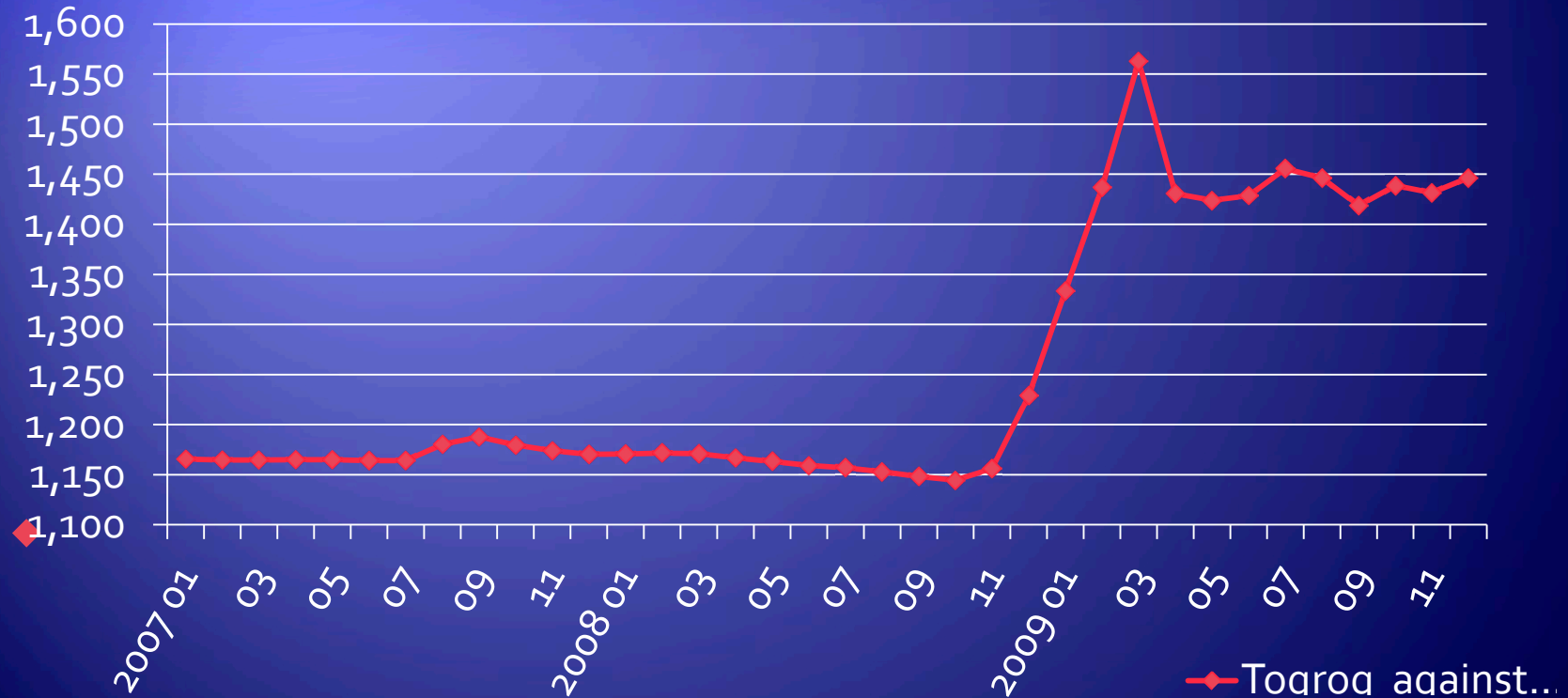


- ◆ Reduction in remittance revenue (approximately 200 mln USD 2008)

Crisis beginning: Exchange rate

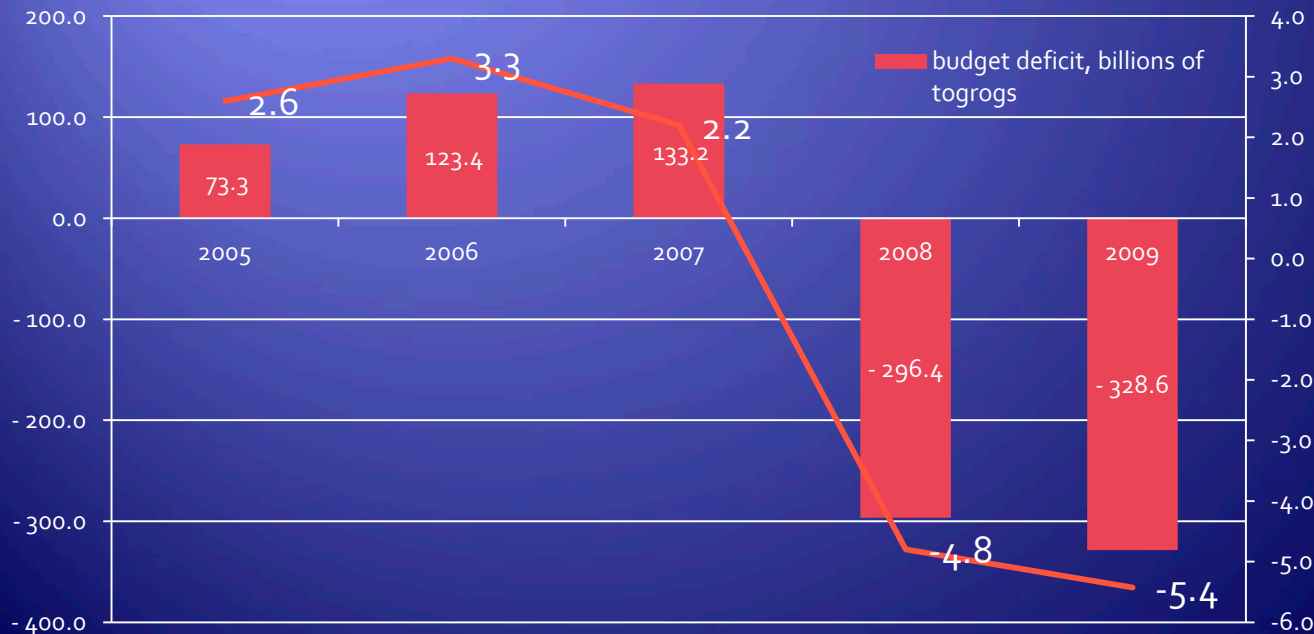
1USD: MNT

- ◆ Sharp depreciation of exchange rate
exchange rate



Crisis beginning: budget

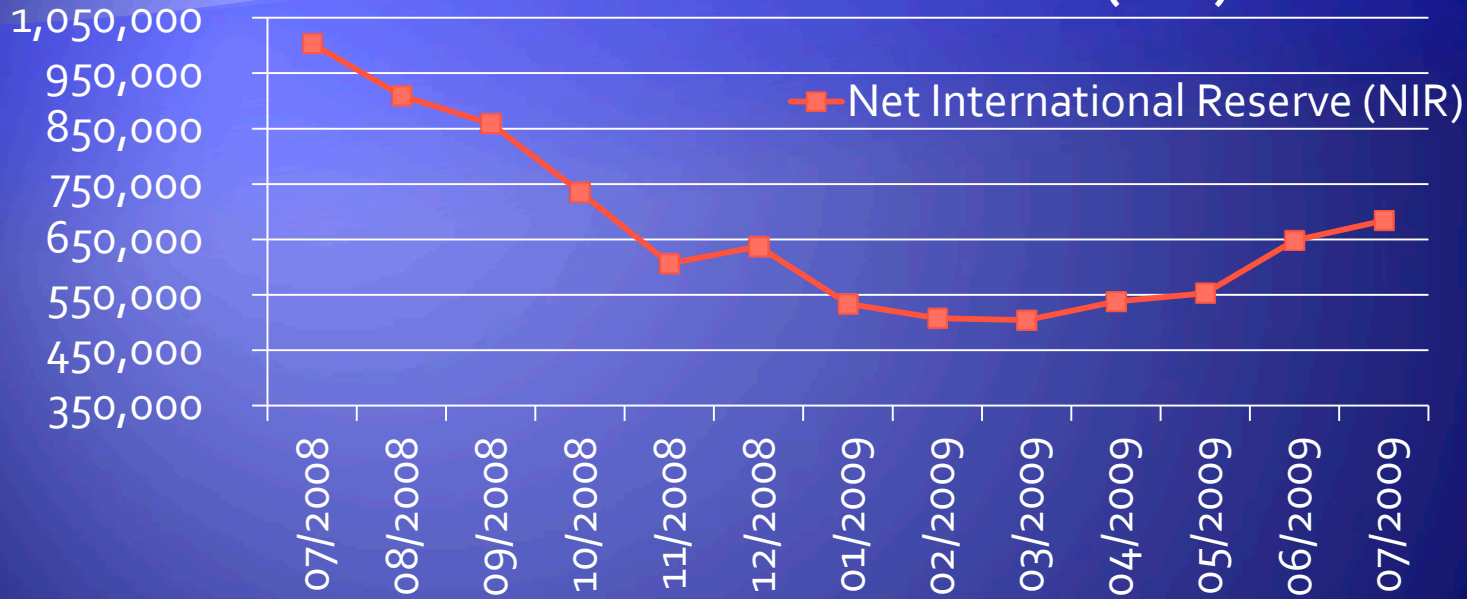
- ◆ Budget deficit made difficult to maintain social welfare spending as well as large public investment programs



I. The Approaches of Anti-Crisis Action Plans

The Signs of the crisis:

Net International Reserve (NIR)



Net international reserve declined by 34.7% in December of 2008 comparing with December of 2007.

I. The Approaches of Anti-Crisis Action Plans

The Signs of the crisis:

- ◆ In 2007 the budget had surplus, but in 2008 the budget had deficit, 4.8% of GDP
- ◆ In the banking system, the negative signs began to appear, the repayment of loans slowed down
- ◆ the non-performing loans increased by 4.1 times and reached 11.6% in January of 2009.

II. The Approaches of Anti-Crisis Action Plans

The impact of crisis

- ◆ Consumption- all types of revenue recourses shrank, so adjustment in consumption became necessary
- ◆ Investment- both business environment and demand got worse, so that many investment projects became less profitable
- ◆ The budget adjustment had to be made because of the revenue shortfall
- ◆ Net export (difference between export and import)- the export declined
- ◆ Our case- the prices and costs of import commodities and equipments continued to rise because of the currency's weakness against other major foreign currencies.

II. The Approaches of Anti-Crisis Action Plans

The action plans that other countries took against the crisis

- To support the consumption through the budget, to inject large amount of money in the market: : the US, South Korea, Australia, and New Zealand
- To lower the interest rate through the monetary policy: Canada, the US, Japan

Which of these methods were applicable to our country?

Our case

- Fiscal expansion: copper price declined significantly, so that it was impossible to increase the budget outlays
- increasing money supply: had danger of further weakening national currency value (for example, the crisis would become worse if 1 US dollar = 2000 MNT rather than 1500 MNT), higher inflation

Therefore

The possible options for our country:

- ♦ To borrow soft loans and to receive funds from abroad to finance the budget gap
- ♦ To apply the monetary policy to keep currency value, because of our country's case, highly dependent in many ways from the import and high usage of the dollars.
- ♦ To get economical benefits from large investment projects, to recover the economy through foreign investment (not loans in order to control debt/GDP ratio), to increase foreign reserves to improve outlook and expectations

II. The Approaches of Anti-Crisis Action Plans

Summary: what kind of economic problems in 2008 appeared in the country?

- ◆ Unbalance of the macro economy
- ◆ Food safety
- ◆ Foreign trade/ trade/balance of payments great deficit
- ◆ Budget deficit
- ◆ Dependence on Copper price
- ◆ Price rise
- ◆ Exchange rate depreciation

II. The action plan against the economic crisis and its implementation

- The Government of Mongolia submitted to Parliament the plan against the engulfing economic crisis on 3rd of March 2009. This plan was to be implemented in the following fields:
 - **Financial sector:** To fundraise for the implementation of the plan and force the commercial banks to support the real economy;
 - **Real economy:** To support crucial sectors /energy, mining and agriculture etc/ ;
 - **Infrastructure:** To secure electricity system safety, improve Ulaanbaatar's auto road and develop infrastructure in Gobi area;
 - **Social security:** To help the low income families for neutralizing the crisis affect; introduce food coupons, improve the targeting of social welfare

Principal decisions

- ◆ Cut budget expenditures
- ◆ Reduce budget deficit
- ◆ Raise policy rates of Central bank
- ◆ Stop supporting exchange rate by currency injections and let it freely float
- ◆ Support real production in agriculture
- ◆ Shift to economy means in public sector, freeze wages, liberalize labor market
- ◆ Target poor and vulnerable by job creation and targeted welfare

II. The anti - crisis action plan and its implementation

- ❑ **Financial sector: To fundraise for the implementation of the plan**
- ✓ The Executive Board of the International Monetary Fund (IMF) approved a 18-month Stand-By Arrangement for Mongolia in an amount equivalent to SDR 153.3 million (about US\$224 million) to support the Mongolia's economic stabilization program. US\$168.6 million has been used to finance a budget deficit so far.
- ✓ The soft loans of US\$185 million for the implementation of the plan were granted by the donors/ADB, WB, Japan, India, Australia/. By December 2009, the financial assistance of US\$141.4 had been given to Mongolia.
- ✓ The largest FDI agreement- Oyutolgoi investment agreement - the Ivanhoe Mines Ltd transferred US\$100 million to the Government of Mongolia (in total 250 mln USD of loans)
- ❑ **The government of Mongolia has mobilized fiscal funds of US\$300/450 billion MNT or at least by 6% of GDP**
- ❑ **while keeping budget deficit to GDP is under 5% of her GDP**
- ❑ **and keeping debt/GDP ratio under 50%/**
- ❑ **Greece and Italy who had budget deficits didn't manage to revive their economy by fiscal means.**

II. The action plan against the economic crisis and its implementation

Regarding banking and financial sector:

- ◆ Support the real economic sectors through the commercial banks:
 - ✓ Loans from Central Banks to commercial banks for supporting real sector (mining)
 - ✓ Developing mortgage market to revive real estate market that has stalled 300 million USD in loans
 - ✓ Restructuring of commercial failed banks
 - ✓ Support of mining industry (to increase exports/currency reserves)

II. Actions taken against crisis and their implementation

Supporting real economy:

- ◆ Supporting industrialization:

- ✓ Government of Mongolia has approved and begun implementation of “Industrialization Program of Mongolia” and “Development direction for industrialization in rural areas” in 2009. In order to support SMEs, a financial support of 17 million US dollars has been distributed to 1466 projects and as a result of that, 4400 jobs have been created.
- ✓ Concluded 4 billion USD FDI agreement in copper/gold, with potential to create 5000 jobs and double exports
- ✓ Prepared another 3 billion FDI deal in coal industry

- ◆ Supporting farming sector:

- ✓ As a result of support for farming sector, domestic production can supply 86 percent of wheat, 103 percent of potato and 50 percent of vegetable needs in 2009.
- ✓ Currently working to construct warehouses in farming regions in order to increase wheat reserve.
- ✓ Renewed 65 of equipments used for farming production.

- ◆ Supporting construction sector:

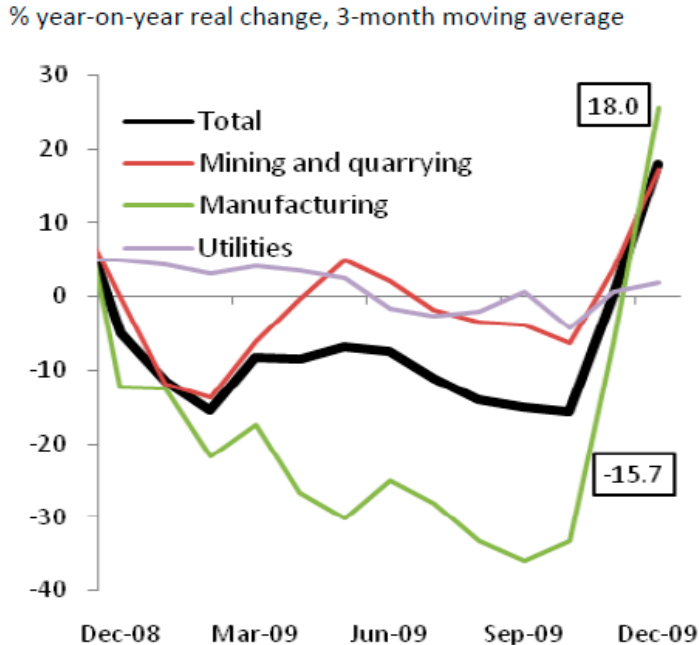
- ✓ Provided housing for war veterans, financing from Development fund of Mongolia.
- ✓ Government has issued \$128.5 million worth of bonds to provide long-term, soft loans to 4000 public servants' households for housing

III. Outcome of actions taken against crisis

- ◆ GDP has decreased 4.2% in the first half of 2009, 1.6 percent in total but rebounded by 3.9% growth in last quarter of 2009
- ◆ Food security – some improvement is seen (domestic supply has improved)
- ◆ Foreign trade/balance of payments deficit decreased from \$710 million to \$228 million.
- ◆ Budget deficit -5.2%, 5% (2010)
- ◆ Dependency on copper market price– Same as before
- ◆ Price increase (inflation) – Stabilized (from 22% down to 4.2%)
- Exchange rate increase– Stabilized around \$1=1440 tugrug with 25% depreciation
- Foreign currency reserve increased from 2008 levels
- ◆ money supply (M2) grew by 26.9 percent higher than that of December, 2008 – return to normal levels

III. Results of actions taken against crisis

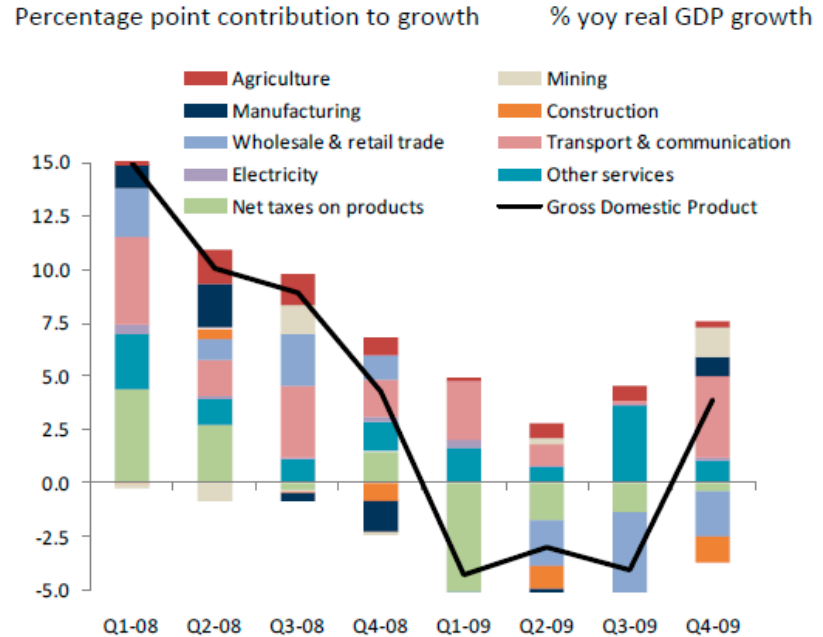
Figure 3 Industrial production spiked in November and December



Note: Numbers in boxes are October and December growth.

Source: National Statistical Office, World Bank.

Figure 4 ...while GDP growth in the fourth quarter rebounded strongly



Source: National Statistical Office, World Bank.

WB: preliminary data indicate real GDP growth of 3.9 percent yoy in Q4 2009, a significant rebound from the 4.0 percent contraction in Q3. An extremely strong recovery was seen in the transport and communication sector, up by 29.8 percent yoy in Q4. In first 2 months of 2010, industry grew by 17% yoy

IV. Lessons from crisis

- ◆ Importance of diversification away from commodity dependence
- ◆ To avoid a budget system that is concurrent with economic cycle and provide budget consistency and improve it through legal means.
- ◆ To have a clear state policy regarding large investment projects and coordinate economic policy
- ◆ Public investment are being postponed and not being implemented due to procurement and other related organizational issues
- ◆ These delays are costly in development

V. Future plans

Following actions are planned for financial and fiscal policies:

- ◆ To continue budget reforms, to provide optimal framework for financial and fiscal policies, to direct budget against economic cycle and to provide economic stability in the long-term
- ◆ To improve budget income collection, PIP and expenditure effectiveness
- ◆ To provide integration and coordination of monetary and budget-fiscal actions
- ◆ To increase commercial bank loans for supporting enterprises (avoid credit crunch, deal with NPL)
- ◆ To work towards improving status and ratings of Mongolia at the foreign markets.

Financial system

- ◆ Stabilization fund and budget reform
- ◆ Development Bank to utilize proceedings from mining
- ◆ Modernization of stock exchange and financial markets to attract capital
- ◆ Linkage with international financial markets

V. Future plans: institutional reforms

- ◆ Business Enabling Environment Reform 2010
 - ◆ Improving business related legal and regulatory environment;
 - ◆ Proving private sector and businesses with improved financing;
 - ◆ Optimizing public involvement in businesses;
 - ◆ Providing economic sustainable development by reducing poverty level, strengthening capacity of entrepreneurs and providing the with opportunities and increasing their right and obligations.
- ◆ To promote PPD (public private dialogue), PPP
- ◆ Introduce one-stop business centers, regulations
- ◆ To formulate a draft on “ Promote the private sector development” strategy

BEER 2010 Action plan

/Appendix 1. Ease of doing business/

OBJECTIVES, MEASURES	RESPONSIBLE ORGANISATION	IMPLEMENTATION PERIOD, EXPEDITURES	INDICATORS OF ACHIEVEMENT
One. Actions and measures directed towards enhancing Mongolia's ranking in Doing business survey			
1.1. Ease of starting business	<p>The first part of the plan deals with microeconomic foundations of business climate and is focused on enabling better business climate for an enterprise</p> <p>Highlights of the plan: Registration improvement, less bureaucratic procedures for , less costs for startups, e-governance development, one-stop services, reducing licences and permits by up to 90%, encourage entrepreneurship, improve property rights protection, loan guarantees, increase SME funding by 4 times from 2009 , national Corporate Governance program, development of financial markets, reinvest into securities market balances of government funds, protect minority shareholders, trade guarantees system, trade logistics improvement, expand capacity of border points, PPP.</p>		
1.2. Dealing with construction per			
1.3. Employing workers			
1.4. Registering property			
1.5. Getting credit			
1.6. Protecting investors			
1.7. Paying taxes			
1.8. Trading across border			
1.9. Enforcing contract			
1.10. Closing a business			

BEER 2010 Action plan

/Appendix 1. Ease of doing business/

OBJECTIVES, MEASURES	RESPONSIBLE ORGANISATION	IMPLEMENTATION PERIOD, EXPEDITURES	INDICATORS OF ACHIEVEMENT
Two. Actions measures directed towards improving legal and regulatory environment			
Three. Actions measures directed towards improving financial and investment climate			
Four. Actions measures directed towards optimizing public service delivery and quality			

Highlights of the legal, investment and public service reforms:

Improve 81 existing laws, ensure transparency of economic policies, implement public consultations on legislature development, export promotion actions, improve procurement system, introduction of international standards, Private Sector development strategy, improve legal infrastructure for planning and public investment, improve credit environment, access to finances through bond issue, development bank and reform of stock exchange and securities market, transfer some government activities to NGOs, improve professional inspection, customs, green economy

V. Цаашид хийх ажлын тухай

Regarding real economy and supporting employment

- ◆ To start preparation on major investment objects,
- ◆ To take an action to increase export and find new source of export,
- ◆ To promote financially the final buyers in the construction sector by providing long-term mortgages.
- ◆ To protect low-income households from negative impact of crisis by keeping work place and creating new job positions, to combat poverty: Household program

◆
**Thank you for
your attention**