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Mongolian economy is back on the ground

Before contracting by 1.6 percent in late 2008, Mongolia's economy was experiencing an average growth of nine percent annually due to the economic bubble caused by increased mining investment. The decline in economic growth was largely due to international copper prices that had decreased by 60 percent by the end of 2008. In order to make up for the public budget deficit that year, Mongolia borrowed 280 million USD from the International Monetary Fund under a stand-by arrangement. As the global financial crisis was deepening, Mongolians were talking about reducing their dependency on mining and developing other industries. Although our politicians were making promises about what actions to take to achieve those goals, all was forgotten soon after the prices of copper, coal, and gold started increasing in 2010. As a result, the economic bubble began to expand once again.

Instead of accumulating the mining income and investing it in building infrastructure, the coalition government, which was formed by the two major political parties, subsequently distributed free cash to citizens in order to fulfill their election promises from 2008. It did not take long before their accumulation ran out and people started demanding that the government fulfill what was promised. In order to fulfill those promises prior to the next election, the government handed some more cash to the people by using the income generated by state-owned companies and forcing them to provide loans. The government acquired loans worth 100 million USD from Erdenet Mining Corporation, 250 million from Erdenes Tavan Tolgoi, and 100 million from Oyu Tolgoi.

Due to increased corruption and illegal trade within the mining industry, the President of Mongolia banned the issuance of mining exploration licenses for an indefinite amount of time in 2010. Also, just before the 2012 parliamentary elections, the parliament enacted a new law that included mining, communications, and financial sectors as strategic sectors where foreign investment would be restricted. Because of this law being passed by the parliament, foreign investment stopped coming into Mongolia as many investors left the country.

The Democratic Party won the 2012 elections and formed a government in cooperation with several smaller political parties. The government first issued the Chinggis Bonds worth 1.5 billion USD and later received another loan in yen worth 250 million USD through the Samurai bonds. Taking into account the government-guaranteed bonds worth 580 million USD issued by the Development Bank, Mongolia had a huge external debt that equaled 20 percent of GDP and 50 percent of the public budget at that time. It made the economic bubble even bigger.

By the beginning of 2013, Mongolbank used the loans mentioned above as guarantees to print money, and started providing soft loans designated to maintaining economic growth and protecting jobs by supporting construction projects, helping people purchase apartments, and stabilizing the prices of petrol and meat. Our domestic currency had relatively small fluctuations before, as much of the bond money was put into circulation. Mongolia had a trade deficit that equaled one fourth of the economy at the time. Foreign investment, which amounted to 50-60 percent of GDP, was used to make up for the deficit. Nevertheless, the foreign investment stopped coming while the inflow of foreign currency decreased for two consecutive years. It led to the Mongolian tugrug weakening starting in autumn of 2013. Currently, one American dollar has become worth more than 1,800 Mongolian tugrug. In 2010, the Mongolian tugrug was one of three currencies with the strongest increases in their rates against U.S. dollars (Mongolian tugrug – 15 percent, South African rand – 14 percent, Australian dollar – 13 percent). However, due to the tugrug's decline against the dollar, many correlations within economic indicators were disrupted. As a result, the economic bubble started losing air, began shaking with unpredictable patterns, and popped, shrinking in size. The Mongolian economy has come back to the ground.

The parliament issued a resolution on May 8, 2014, to set out an action plan that includes measures to be taken by the government to invigorate the economy in 100 days. Most of the actions in the 100-day plan to overcome financial difficulties and change the management system of public properties are already included in the existing government action plan. However, it appears that those measures have not been implemented for two years.

The authorities tend to like using the phrase "providing support to businesses". Nevertheless, they usually do the opposite in reality by increasing public expenditures and strangling market competition. It ultimately reduces productivity, which is the basic requirement for development. Economic programs from our government usually include enterprises and business activities, but they do not set out exactly who will do what. For this reason, new state-owned companies are established as well. For example, what does the government mean when they say that they will create equipment and machinery leasing in order to boost domestic production? Leasing services are currently provided by large commercial banks. The only condition is that leases must be cheaper than bank loans. If they are going to make them cheaper through soft loans provided by the government, every single tugrug injected into the economy today will weaken the rates and increase the price of equipment being imported from abroad. Or, are they going to establish a state-owned company? Who will set up the national insurance corporation? Will it be the government? Also, the government said that they would, "develop a program to establish ownership in large state-owned companies". This does not mean anything other than confirming that public property has no particular owner, thus, no oversight. It would be an entirely different case if the government said that they would turn state-owned companies into publically-owned shareholding companies.

The government stated that they would support many projects. However, it does not make sense when the government says that they will return 90 percent of taxes collected from economic entities. Does it mean that the one billion tugrug expected to be saved from a 20-percent reduction in public expenditures will be spent on this? Although the government promised to implement dozens of projects that have been discussed for decades, it looks like they will still not start work on the 5th power plant, the funds for which have already become available.

Furthermore, the 100-day action plan includes spending to promote our tourism industry. We hope that their detailed plan includes more specific actions, such as improving tourism services and setting standards and requirements for tourist camps, hotels, and transportation.

It would be more efficient if the basic principles for implementation of all tasks were determined when developing the list of actions to be taken to invigorate the economy. The principles of the policy pursued by the government in the mining industry should be based on long-term sustainability, mitigated environmental impact, good planning, and

transparency. The financing of political parties has to be made transparent in order to reduce corruption and strengthen good governance. This job belongs to the government. In order to provide public oversight of state-owned companies, they must be turned into shareholding companies that are publically owned. No tugrug should be printed until there is more foreign investment coming into the country. The supply of money ought to be regulated by economic growth. Our economic policy should be supported by free competition. However, the 100-day action plan did not include such details. Therefore, this plan currently looks more like a wish list.
It is time for us to carefully develop and fully implement a long-term policy based on the principles of the free market in order to keep us up in the air, determine the internal and external factors which contribute to an economic bubble that flies but bursts afterwards, and try not to land too hard on the ground.

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