Troublesome Times for the Mongolian Economy

In early October of 2014, the Mongolian coalition democratic government, because of its policy known as the "Reform Government" at the initiative of Prime Minister Norovyn Altankhuyag proposed a reform of the government by reducing the number of ministries from 16 to 13 by their merger, updating their composition, etc. Norovyn Altankhuyag, in his letter to President Tsakhiagiin Elbegdorj, justified the need for these changes by the economic situation, the desire to reduce bureaucracy and cut the costs of the administrative apparatus.

However, despite the President’s agreement in principle, the Government’s proposal has met stiff resistance from the Mongolian parliament - the State Great Hural (SGH), especially from deputies - members of the Mongolian People's Party.

The MPP had long been leading an attack against, the Prime Minister and Chairman of the Democratic Party Norovyn Altankhuyag. And on October 19, 2014, all 26 members of the BNP’s MPP faction and two independent deputies through the Speaker of the Parliament Zandaakhüügiin Enkhbold demanded resignation of Norovyn Altankhuyag accusing him of a variety of unforgivable sins: the collapse of the consolidated budget for 2015, the consolidation of the 2013-2014 budgets with a large deficit, the failure of the “100-day Economic Stimulus Initiative”, the devaluation of the national currency, the Tögrög, nepotism in the appointment of advisors, etc.

From our point of view, most of these accusations are far-fetched, because Norovyn Altanhuyag was one of the most successful Mongolian Prime Ministers who had done a lot within the 2 years when he was leading the government for the good of the people and the country and promotion of democratic governance. He fell because of the ploys and pressure from the MPP.

Whatever the reason may be, on November 5, 2014, at the plenary session of the SGH, on the recommendation of the Parliamentary Standing Commission on State Building, 36 members of parliament voted for the resignation of the Prime Minister (with 30 votes against this decision) and, accordingly, for the resignation of the entire truly reformist government.

It can be said that this lead to an intergovernmental crisis, but it was resolved by November 19, 2014 when 72 out of the 76 members of the SGH (with 95.5% present at the session), with 2 votes against and with the absence of all the 26 members of the MPP fraction, elected the new Prime Minister, member of the DP and former chief of staff of the government, a 45-year-old historian and lawyer Chimediiin Saikhanbileg, who formed a coalition government from almost all political parties. Moreover, unlike in the previous Government, more than half of ministers, are not members of the SGH, which should please President Tsakhiagiin Elbegdorj, who is an opponent of “double-purpose garments” when one person is a member of the SGH while holding a position in the government.

Consequently, Mongolia for the first time was faced with a paradoxical situation when there is virtually no opposition in the Parliament, except for the votes of three independent members, who are usually critical of the policy of any office, but they make no difference, which makes it possible for the Government, together with the Parliament, to proceed to solving the backlog of the acute problems, the economy, which has seen better times, being the first and foremost priority.

The fact of the matter is that 2014 was the year of the fall of important economic indicators when the GDP growth
declined from 17.3% in 2011 to 7.2-5% in 2014. The forecast for 2015 also predicts a 5% growth. By all means, 7.2% or even 5% growth is not yet a crisis, but there is a clear sharp economic slowdown which is caused by objective and subjective reasons.

The Mongolian economy is powered, to a great extent, by foreign investment which fell 7.5 times from USD 4.5 billion in 2011-2012 to USD 600-845 million in 2014. Accordingly, the rate of the national currency – the Tögrög – also fell from 1,320 MNT per USD at the beginning of 2014 to 1,995 MNT at the end of the same year, i.e. by more than 40%.

The financial situation is also very unstable. Mongolia’s currency reserves are only sufficient to meet the country’s needs for 18 weeks. It can be said that Mongolia is mired in debt: as of October 2014, the amount of outstanding loans increased 3.4 times and reached MNT 550 billion. The country also has a large foreign debt – USD 19.8 billion – which has to be repaid to foreign creditors, with USD 580 million due by March 2017. According to estimates, Mongolia will have to spend 10% of its budget revenues each year for 16 years to fully repay its foreign debts.

The high inflation rate which reached 11.5% in 2015 instead of the planned 6.8%, the upward surge in consumer goods prices from 10.6% to 177% on average, the closing of over half (54.1%) of businesses by the middle of 2014, all these are evidence of the serious difficulties and signs of crisis in the Mongolian economy.

Most certainly, the main reason for these negative developments is the effect of the global economic crisis which caused a sharp drop in the prices of basic articles of Mongolian exports: copper, coal, iron ore, cashmere, resulting in the 2014 budget losing USD 800 million. But in many ways, these challenges are man-made. The new Prime Minister Chimediin Saikhanbileg admitted in the address to the members of the parliament "We have created this crisis ourselves. Our efforts to expand production failed and our laws scared away investors."

One of the subjective reasons for the current difficulties is the irrational waste of budgetary funds by the previous government, especially of USD 2.3 billion received on global capital markets through the issue of the so-called "Genghis Khan bonds" and "Samurai bonds."

Part of these extra-budgetary revenues was simply handed out in cash, including through various types of grants: scholarships to students regardless of their academic performance, high severance payments to retiring government officials, allowances to mothers of large families who have the “Mother Glory” award, monthly payments of MNT 20,000 to all children under the age of 18, etc. All this has enabled the columnist of the Morning Newspaper D. Enyatuvshin to describe Mongolia as a "subsidized state" in his article titled “The Real Situation” in January of this year.

An example of the irrationally generous spending, which was pointed out by the Prime Minister in his first big TV interview on January 28, 2015, was the construction of 29 cultural centers in the centers of somons with a population of up to 1000 people and two-story schools in areas which had as little as 100 students.

It is clear from all of the above why Chimediin Saikhanbileg, when answering the question during the same interview on the priorities for the government, repeated three times “the economy, the economy and the economy again." The Prime Minister believes that the current economic difficulties will be temporary and that they can be overcome by relying on the private sector and that there are two options to achieve this: "1) to launch large-scale projects and attract investment and 2) to reduce costs and become economically disciplined."

An online, e-mail and TV opinion poll was carried out from January 31 to February 3, 2015 to identify the ways for development of Mongolia in 2015-2016. 56.1% of the 365,841 respondents were in favor of the first option, i.e. for the implementation of large-scale formative projects and 43.9% were supported the reduction of costs and strengthening of economic discipline.

Thanking the poll participants, Chimediin Saikhanbileg said during a government meeting on February 3, 2015 that the cabinet will work actively to promote large-scale projects, to harmonize the economic and fiscal policy and to reduce budget losses.

The first efforts of the government are evidence of its determination to use both ways identified by the Prime Minister. As such, the government has approved the Mongolian-Chinese-Japanese consortium as the investor for the development of the rich mine in the Umnugovi Aimag Tavan Tolgoi that has 100 billion tons of coal, including coking coal. The consortium is comprised of the leading China Shenhua Energy Company, the Japanese group Sumitomo and the Mongolian Energy Resources (Erdenes Tolgoi).
Minister M. Saihan has already announced the successful start of negotiations with the consortium. The deal will require the investment of USD 3-4 billion to increase the production and export of coal; in 2014, exports amounted to about 6 million tons (or 10% of China's coal imports, the plans for 2015 are to export 11 million tons), to construct a coal preparation plant by 2017 with the annual capacity of 30 million tons, power plant and railway to the Chinese border: Tavan Tolgoi – Gashuun Sukhait.

Commissioning of the Sharyn Gol coal preparation plant with the annual capacity of 600,000 tons of coal is scheduled for the end of Q1 2015.

The 2015 budget has been approved with amendments and additions. Expected revenues are MNT 6,000,632,000,000 (27.5% of the GDP), expenditures - MNT 7,000,237,000,000 (32.7% of the GDP). Although budget expenditures have been cut by MNT 400 billion, the deficit is still very high: MNT 1,204,000,000,000 or 5% of the GDP.

The number of state employees will be reduced by 15% or 1,600 people, whose numbers in 2014 increased from 4,400 to 6,800 people leading to the increase in the payroll by MNT 210 million.

The government is also forced to discontinue the New Somon project which provided for a radical transformation of somon (district) complexes, leaving only 2 of the previously planned 14 complexes, to implement restructuring of the Academy of Sciences which currently has 49 research institutes and employs 1,500 research staff with the payroll of MNT 400 million. The focus is being made on transferring research work to universities where it should be combined with teaching and training of professionals.

On the whole, the government is committed by 2015 to reduce all budget and off-the-budget costs by almost MNT 1 trillion after obtaining from international financial institutions cheap long-term loans with the annual rate of 2% maturing in 10-15 years.

The austerity measures will go hand in hand with the income tax raise by MNT 60 billion from businesses and MNT 7.3 billion from individuals.

It looks like it will not be easy for the government to sustain the policy of austerity measures, because the Parliament insisted on retaining all the multibillion social commitments: the increase of state employees’ salaries by 10%, the allocation of MNT 19.4 billion. in benefits to mother heroines and MNT 9.1 million to pregnant women and nursing mothers, the MNT 19 billion increase of pensions and the allocation of MNT 70 billion for soft-term financing to small and medium-sized businesses, etc.

Under these conditions, the signing on February 11, 2015 by the Japanese Prime Minister Shinzo Abe and the Mongolian Prime Minister Chinediyn Saikhanbileg of the long-awaited Economic Partnership Agreement following the working visit of the Mongolian Prime Minister to Japan on 9-11 February 2015 is becoming even more important. The idea of preparing such an agreement (which is the 15th of this kind for Japan and the first one for Mongolia) was announced for the first time in 2010 during the state visit of then President of Mongolia Tsakhiagiin Elbegdorj to Tokyo, when Japan was named a strategic partner of Mongolia. Since that time, this idea has been gradually acquiring form and substance. And in 2014, after three years of work, 80 experts presented the preliminary text of the 1,000-page Agreement. It is a general agreement which covers a wide range of issues of trade, industry, production, services, competitiveness, etc. In February 2015, the Parliament of Mongolia, SGH, ratified the Economic Partnership Agreement with Japan and it entered into force. The Agreement is intended to smooth the trade structure: today Mongolia imports account for 90% and its exports for 10% with 50% of imports being used Japanese cars and exports comprised of meat, horse meat and cashmere.

The Agreement also paves the way for increasing the inflow of direct investments from Japan which was USD 500 million in 2014 and which, according to the Mongolian counterparts, was clearly unsatisfactory. There will be a manifold increase in investments as during the negotiations, the Government of Japan allocated a further ODA loan of JPY 46,800,000,000 (or USD 310.6 million) at the request of the Mongolian side for completion of the construction of the new Khöshig Valley Airport near Ulan Bator.

Finally, the ties of the Mongolian economy to the third most powerful economy in the world will, to a great extent, contribute to the country's industrialization. According to Chinediyn Saikhanbileg "we have agreed to solve many problems that have long been awaiting a solution, including the implementation of the medium-term program of Mongolia-Japan strategic cooperation in such areas as construction of power plants, railways, steel and copper production factories, hard surface roads and a subway in the capital city."
As such, it can be safe to assume that the measures undertaken by Chinediyn Saikhanbileg’s government, which is said by the public the government of national unity and the government to "solve all problems," the policy of austerity measures and the promotion and implementation of major projects, along with the help and support from Japan, will prevent Mongolia from sliding into an economic crisis and will help it to achieve sustainable development, which we sincerely wish they will do.

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