

DeFacto **REVIEW**

➤ THE AUTUMN SESSION OF  
PARLIAMENT COMMENCES

➤ PARLIAMENTARY OR PRESIDENTIAL SYSTEM

➤ CORRUPTION CASES IN EDUCATION SECTOR

IV PAGE

DeFacto **ARTICLE**

*Jargalsaikhan Dambadarjaa,  
Mongolian political and economic  
observer, columnist*

# ECONOMIC FEVER

II PAGE

# The Defacto Gazette

INFORMING | INSPIRING | EMPOWERING

Wednesday, 2018.10.10 №66

A WEEKLY INDEPENDENT, NONPARTISAN, ANALYTICAL NEWSPAPER COVERING THE POLITICS  
AND ECONOMICS OF MONGOLIA-IN ENGLISH, JAPANESE, AND MONGOLIAN

[www.defacto.mn](http://www.defacto.mn)



# ECONOMIC FEVER



№ 450

**JARGALSAIKHAN** Dambadarjaa

For weekly articles,  
visit <http://jargaldefacto.com/category/23>

# ECONOMIC FEVER

In past few days, the Mongolian tugrik (MNT) has depreciated against the US Dollar (USD) by 3.4 percent. MNT has continuously depreciated for some time, with 1 USD being 2500 MNT in January 2017, 2000 MNT in May 2016 and 1000 MNT in January 1999. In the last two years, there has only been a slight fluctuation. If we assume that 2500 MNT is considered as normal, and normal body temperature is 36C, then the Mongolian economy has a slight fever.

“ *A fever can be treated with pills temporarily. This would mean that the Bank of Mongolia would reduce its reserves and support MNT as usual.* ”

## THE EXTERNAL CAUSES OF THE FEVER

The US Federal Reserve has slightly raised its interest rate to 2.5 percent. In addition, the US dollar has strengthened globally as US companies have withdrawn their capital back to the US due to the Trump Administration's trade policies. For instance, the Turkish lira and Argentine peso have slumped.

Our northern neighbor, sanctioned by the West, has

*However, the BoM sells the dollars and has not stopped the depreciation of MNT, which is a major threat to many people, especially those who borrowed in dollars.* ”

The fever may be temporarily cured with pills, but it is not possible to treat the sickness completely without finding the underlying reasons. Even if the BoM sold all its reserves, but MNT is still weakening and the USD strengthens, the economy will continue to depress if we do not find out the real cause of the economic fever.

recently increased gasoline and fuel export prices to maintain the strength of the ruble. As regards our other neighbor, the Chinese Yuan weakened by 8 percent last year, but it has not increased taxes on coal, copper and gold, although quotas have been set. However, the external causes of depreciation of the MNT are significantly less important than its internal causes. »

## ► THE INTERNAL CAUSE OF THE FEVER

Mongolia's external debt is too big relative to its economy. This has negatively affected the MNT rate as debt and interest on the debt are paid in foreign currency. The total amount of external debt of Mongolia is now 27.7 billion USD, in other words 2.5 times larger than its economy. Out of this, 8 billion USD in Government debt interest was reduced and is to be paid in loans under the IMF program.

Even though the internal debt of the Government is decreasing, BoM's bonds have increased. As of September 10, 2018, the monthly central bank bonds amounted to 4.2 trillion MNT, an increase of 8 times compared to 2 years ago.

While the Government debt and the Central bank debt are growing fat, the state budget has been approved as a deficit; i.e. the state spends more than its earnings. Despite increasing state revenues by rising taxes, the private sector, which creates the largest number of jobs has been shrinking, and the unemployed are leaving the

country. Also, the government cannot fully disclose or report on returns from projects implemented by foreign bonds, which indicates that these projects have not been able to repay the loans from from the government's loan portfolio. The government has spent inefficiently on many projects, which have not been implemented, yet no one is liable. That also causes MNT depreciation.

Mongolia pays hundreds of millions dollars in penalties imposed by international arbitration courts due to corrupt or misleading government decisions and state-owned companies' actions.

Our economy has always been dependent on commodity prices and so far, we have not found a way to diversify the economy away from mining. Besides cashmere products, a small portion of meat and meat products are currently exported, but they are sold for domestic market prices, meaning that this business is not profitable over the long term.

## MONETARY AND FISCAL POLICY

The BoM is obliged to maintain the stability of the national currency and lower the inflation rate. Currently, the inflation rate is 6.2, and therefore the 10 percent interest policy rate can be reduced and the money supply can be enhanced. However, our main exports such as coal, copper and gold tend to be at lower than international prices, so a reduction in the policy rate is not demanded.

Banks are borrowing cheaper loans in dollars and lending in dollars domestically.

The volume of loans grew by 30 percent from the beginning of this year and 40 percent of all loans are in dollars. It impacts on the currency rate when borrowers obtain loans in dollars because of the lower interest rate (roughly 10 percent), whereas they earn revenue in MNT. The Bank of Mongolia encourages commercial banks to lend in MNT to share exchange rate risk, and the amount of risk fund for non-performing loans increased from 120 to 150 percent.

The Asian Development Bank (ADB) last week increased Mongolian economic growth outlook from 3.8 percent

to 6.4 percent for 2018. Despite the economic recovery, non-performing loan repayments require attention. From the beginning of the year, a 40 percent rise in imports has meant an increased need for dollar, sending the MNT exchange rate soaring.

*“ At the same time, under the current economic circumstances and public governance situation, BoM's intervention in reducing the currency reserves is virtually impossible, while on the other hand, it will not be able to support a half-year of imports. ”*

Mongolia may not be able to repay its foreign and domestic debt, like Zimbabwe and Venezuela, unless it fights against corruption, introduces more accountability into state procurement, reduces the budget deficit, stops borrowing and makes a report on every single dollar that is borrowed from abroad to increase its efficiency.

The Government shouldn't count its chickens before they are hatched.

2018.10.03 ■



Guest commentator/ founder of  
[www.trends.mn](http://www.trends.mn) Bolor-Erdene Bazarsuren

### THE AUTUMN SESSION OF PARLIAMENT COMMENCES

*This past week, the parliament fall session was opened. Mr. Enkhbold pointed out couple of legal reforms that are going to be made to the constitution framework, concerning improvements to business environment, education and health sectors.*

Guest commentator/ founder of [www.trends.mn](http://www.trends.mn) **Bolor-Erdene Bazarsuren**: Speaking of irregular parliamentary sessions, we have to get back to Mr.Oyun-Erdene's attempt to have the parliament session during summer. He insisted on holding a parliamentary session to shed more light on the 60 billion tugriks bribery case. After all, it's not about fighting corruption as it was actually undermined and downplayed; it was more about gaining bargaining power in favor of Mr.Khurelsukh's political position and authority, who is the current Prime Minister and the head of MPP. It appeared that in the end, Mr.Oyun-Erdene ended his campaign without substantial outcomes on fighting corruption. The absence of regular parliamentary sessions and stability of the current government and understanding inside the leading political party are interrelated.

Enforcement of state and government functions, improving business environment, taking care of education and health care system and screening and evaluation of law implementation the four topics which will be addressed during this parliamentary session, though it is the exact same in every single parliamentary opening. Given that only a year and a half is left until the next parliamentary election, all that matters to the MPP is to take action. When it comes to political matters, sugar-coated facts and romanticized promises are no longer attractive.

The president wanted to thank the constitution and pointed out that there were some reforms to be made. During the public discussion on this matter, some people raised concerns about moving backwards from the parliamentary system. Our constitution is the cornerstone of the society that we

are living in, not just limited to politics. Reforms are to be made to laws regarding election and political parties. This means that us citizens should also be observant about these changes that are to be made during this session since they are the root of social problems we are facing today. There are also some legal reforms being made, regarding individual and corporate tax law, as well as investment banking law. Given these statistics, this parliamentary session is very effective and speedy, so far.

The leading party with 64 seats in the parliament has every power and button to make policies changes and enact law proposals. There used to be a 32-33 faction, but since Mr.Gantulga's resignation, it is now 32-32. The majority is at the hands of Mr. Khurelsukh, but the mutual understanding lies at the hands of the speaker or the 32 faction. However, Mr.Khurelsukh has stated that there are no longer two factions but rather an united party to make decisions.

The President, Mr.Battulga is entitled to draft and submit a law to the parliament, or inform the parliament about domestic issues and legal changes which are needed. It is not necessarily an overreach of power or an attempt to have more legal powers that he is trying to bring legal changes. Since the leading party has 64 seats in the parliament, the legal reforms previously mentioned can be more effectively implemented, especially now that Mr.Khurelsukh said that there are no internal divisions. Playing against the opposition is not a problem and it only comes down to his leadership skills. We only have to have faith in the parliament now, instead of complaining.

## PARLIAMENTARY OR PRESIDENTIAL SYSTEM

**Bolor-Erdene:** The main difference between parliamentary and presidential democracy is who executes that policy. In a parliamentary democracy, people elect their own representatives, in which the leading party will constitute the parliament and elect the Prime Minister, hence his or her cabinet. In a presidential democracy, however, the elected President will execute policies. We have both parliamentary and presidential elections and both the PM and the President have cabinets, though the presidential cabinet doesn't have legislative power. Out of 60 countries with parliamentary democracy, Mongolia is one of the 4 countries with both parliamentary presidential democracies. Since the parliament elects the Prime Minister and the cabinet, there is less friction between the legislative system

and the executive branch. The President, however can communicate with the people and create his or her own cabinet. Therefore, there is better check of balance and speed.

Since we are still in the early age of democracy and free market, populism is still predominant. What if the authority is handed to a populist president if we were in a presidential system? Mongolia has recently become a member of the Shanghai Trade Organization, although it is not clear who proposed this. Given our geopolitical disadvantage, being sandwiched between two powerful neighbors, the parliament is the only representation of our will, in case any pressure is put upon us. We need speed, rather than balance between powers.

## CORRUPTION CASES IN EDUCATION SECTOR

*Asia Foundation has recently released a study on corruption and ethical misconduct on the education sector in Ulaanbaatar and 4 aimags. The survey was used to assess respondents' perception and understanding of ethics, transparency and corruption in the education sector.*

**Bolor-Erdene:** It is crucial to measure the depth and seriousness of corruption as the spoken problems are becoming official. What we have to do now is to tackle with the numbers. We need to understand how powerful the market and the demand is because when the demand is not met with proper supply, it always finds its ways, whether it's through corruption. Especially in the education sector, good education is not meeting the needs and people are finding other ways to get good education for their children. Instead of asking why corruption is there, we should ask "where the supply is distorted?". Why aren't we supply good enough education which causes bribery to exist?

The issue lies in planning and regional development. If the region has its own industries and revenues to

supply with goods, not as many people will have to find other ways to bribe their way into fulfilling their needs. There is a serious mismatch between people's wants and will. It all comes down to fiscal policy and unfairness.

In the recent years, a number of corruption cases involving public officials have been released to the public. It can be a sign of IAAC doing a good job, but bear in mind that these investigations have only been identified after the damage was done, instead of finding out where the supply has been distorted.

In order to fight corruption, let the market do its job. If you rob too many jobs or taxes from the market, corruption will always find its ways. There is no need to fight corruption if we resolve the distortion of supply.

*This review has been edited here for space and clarity. You can watch the full 30-minute review on the Defacto website [HERE](#).*





# JARGAL DEFACTO MOBILE APPLICATION

## The Defacto Gazette

➤ MONGOLIA

➤ ENGLISH

➤ JAPANESE



GOOGLE STORE

APP STORE



Subscribe or renew your subscription at [www.jargaldefacto.com](http://www.jargaldefacto.com) and [www.defacto.mn](http://www.defacto.mn) websites.

### EDITORIAL BOARD

Jargalsaikhan Dambadarjaa  
Christopher Melville  
Garrett Wilson

### EXECUTIVE:

Editor-in-chief: Javzmaa Ganbaatar  
Team: James E. Kaemmerer  
Amar Batkhuu  
Bilguun Otgonsuren

### CONTACT US:

✉ editor1@jargaldefacto.com  
☎ +976 94109342  
🌐 www.defacto.mn  
www.jargaldefacto.com