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DeFacto **ARTICLE**

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A Feast in Time of Plague and **MONGOLIAN MADURO**



JULIAN DIERKES



NIELS HEGEWISCH

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Today, the coronavirus epidemic has spread to 200 countries. Of the 472,000 people infected, 21,000 have died and 120,000 have been cured. The spread of the infection is declining in Asia and increasing rapidly in Europe and North America. Countries that have acted preemptively and were prepared and disciplined, have relative control over the spread of the disease; while unprepared countries are losing thousands of lives and facing severe challenges. Due to Mongolia's awareness from the very beginning, only 11 people were reported to have contracted the virus, so far; they arrived from Europe and are already in isolation. Today, more than 2,000 people are isolated for two weeks at two northern border crossings and in the capital. Additionally, there are still thousands of Mongolians abroad, who are looking for ways to return to their home country.

Mongolia has declared a state of emergency, imposed a quarantine, restricted the passage of planes and trains, changed working hours of markets and services, closed all schools until April 30, and launched distant learning. Coal export stopped in the first two and a half months of the year, companies provided paid and unpaid leave to their employees and, in some cases, distant working is being implemented. According to the MNCCI's survey, two-thirds of enterprises and companies are experiencing a drop in income, while almost half halted the production and one-third have cut their vacancy. Budget revenues have been cut by 10%, foreign trade turnover has declined, and the economic growth has slowed.

Mongolia must fight the 'econovirus' as effectively and responsibly as it is fighting the coronavirus. In a dire situation, action must be taken, however... ►►

SLUGGISH MONETARY POLICY

As economic activity weakens, the growth is stagnating. In such a situation, countries, first of all, loosen their monetary policy and increase the amount of money circulating in the economy. The Bank of Mongolia reduced its policy rate by 1% (to 10%) and the required tugriks reserve of the commercial banks by 2% (to 8.5%). Even if the economy is functioning regularly and growing slowly, the effect of this monetary policy will be shown in half a year. However, in Mongolia, the effectiveness of this policy is low, since no business entity would risk raising a credit at such high interest rates while there is no certainty as to when the quarantine will end and the demand increase.

Hence, we need to expand our fiscal policy. Often the budget expenditures are increased in order to keep the economy from recession. However, if the recession continues, it will turn into a depression followed by first, a financial crisis, and then, an economic crisis. Therefore, Mongolia needs to at least not reduce its budget expenditures, but revise its spending and way of investment.

However, Finance Minister Ch. Khurelbaatar has repeatedly stated that the budget will not be amended. One of the reasons why the government is wary of the budget amendment is that the 2020 state budget has already been approved with a deficit of MNT 2 trillion, a revenue of MNT

11.7 trillion and expenditures of MNT 13.8 trillion. Now, when the budget revenues decline -if the expenditures expand- the deficit will be even greater. The only reserve of MNT 620 billion in the Future Heritage Fund will not be enough to cover the deficit.

Another reason is the parliamentary elections in three months. Khurelsukh's government is reluctant to amend its budget because members of parliament would not stop financing into their own electoral constituencies, moreover, as all ministers are members of parliament (except the Prime Minister).

However, additional funding will be needed to combat the epidemic. In this situation, the Mongolian government can only ask for soft loans and assistance from foreign development institutions such as the World Bank and the Asian Development Bank. Compared to the economy, although external debt has fallen from 90% in 2016 to 72% today, there is a little chance of issuing additional bonds on world stock markets. Since our foreign currency reserves have risen from red numbers to 4.5 billion USD, there will be opportunities to receive loans with favorable conditions and aid. If Mongolia get loans and assistance, the speed of Mongolian economy's recession and depression will largely depend on how the money is spent and how it used.

THE MAIN THING IS JOBS, NOT SEATS IN THE PARLIAMENT

The 'econovirus', which was caused by COVID-19, is reducing both the demand and supply of jobs nation-wide. As sick and non-essential business employees stay home, the supply of employment goes down. Since the demand cannot be artificially enhanced, the government needs to take special measures to at least prevent the loss of existing jobs. Furthermore, the citizens in poverty, or those with low-income, need to be aided with their basic needs. Thus, some governments are covering the unaffordable wages of their citizens (Germany) and are distributing cash to every citizen (Hong Kong, Australia, and Canada). The epidemic is expected to subside in Asia in the third quarter of this year, and in other continents in the fourth quarter.

However, instead of looking for ways to keep jobs and providing financial assistance to citizens and businesses through measures like tax and loan discounts and advancing

a portion of employer's salaries, the Mongolian government shows a 2020 election syndrome. Authorities appear to expect that holding the election on time (June 24) will bring them more seats than a postponement of election, since if they wait longer, the economy will inevitably be in recession. In fact, the wisest and simplest decision is to postpone elections for at least a few months during this pandemic and support the economy at the expense of election savings.

Few days ago, the political parties submitted their program to the National Audit Office Mongolia. The ruling party MPP promised to provide housing for all social insurance payers and reduce interest rates, while the DP promised to increase the average household income up to MNT 3 million so that citizens themselves can afford housing. "Our coalition" (MPRP, Civil Will-Green Party, Mongolian Traditional United Party) will increase the people's average salary to MNT 5 ►►

▶ million. In that way, the Mongolian government has again been offered as an auction item to the voters. Actually, in a democracy with a free market economy, the average salary is determined by the market productivity and demand itself, not by politicians.

When political parties promise salary raises, more money and interest rates, they raise the national debt just to save their faces. In the 2008 election, the DP promised to give every citizen stocks equal to MNT 1 million valuation, and the current MPP (in that time MPRP) promised to give each citizen 1.5 million MNT in cash. After the election, the

coalition government consisting of these parties has forced the Tavan Tolgoi company to take a very large loan for its distribution to the citizens. This debt, then, was paid with the taxpayers' money for many years.

The whole world is focusing on coronavirus and its detrimental effects, meanwhile, what matters to Mongolian politicians is trying to gain power through the seats in the parliament. The "A Feast in Time of Plague" has been realized (Written by A.S. Pushkin. 1830).

2020.03.25 ■

POST SCRIPTUM:

While this article was being published, President Kh. Battulga issued an appeal. The President assessed the spread of COVID-19 realistically and called for six measures. The first five suggestions are very important, and my article above explains how to implement them. However, I completely do not support the 6th proposal on the "centralization of state power".

I believe that the government will succeed in implementing the first five proposals, just like the success it is having in the fight against COVID-19. However, I urge you not to weaken the government's pace by splitting its governing power into two. By the way, during your New Year's greetings, you announced that the writing off loans of all pensioners which have put pressure on the government, and the Development Bank has issued bonds secured by undeveloped mines and unsold concentrates, as a result the economy at risk and increasing external debt. If we had spent those 770 billion MNT to fight this virus, how many jobs would have been saved?

It is time to remind you that the executive power of Mongolia is the Prime Minister, not the President. You do not possess the authority to build railways, develop soums and construct a satellite city. I urge you to let the government take lead in these projects. Also, I demand a \$10 million donation report taken from Russia's largest oil company, Rosneft. Along with the audit report. We, the citizens of democratic Mongolia, do not want our President to do business with foreign funds.

You called for unity in difficult times. As you are the symbol and guarantor of the unity of Mongolians, your citizens are urging you to start strengthening their unity by leading by example. The corruption you promised to end is growing. Since you became President, some of the main characters in the anti-corruption spectacle have changed, but the drama continues. Big projects are still kept secret.

I advise you, Mr. President, not to strive for the possession of the executive power.

That same year, Venezuela's President declared an economy of emergency, repealed parliament, and seized all political power. Twenty years later, the people of the world's largest oil-rich country are beggars, with no toilet paper, no food, robbing each other.

Mongolia is a parliamentary country, unlike its neighbors with a single leader. Only in a parliamentary system, decisions are made by all citizens, not just one person. This is the guarantee of Mongolia's independence.

It is right to wait out the virus and hold parliamentary elections in September, but then we must go forward.



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“ DEMOCRACY DOES NOT COME CHEAPLY – ELECTIONS SHOULD COST MONEY ”

There is no democracy without elections, elections are at the very core of democracy. They are the means by which citizens offer their view on developments of the country by selecting people and parties whose political views they agree with. Elections need to be held with regularity so that citizens can recognize whom they entrust with power and for how long.

Ideally, voters have a choice between multiple competing candidates who are advocating for different solutions for challenges that their community, region or the nation are facing. Candidates explain their reasoning in arguing for specific solutions or against alternatives. When this reasoning adds up to a pattern, it forms part of a political perspective that parties adopt. Parties advocating for justice and equality prefer different patterns of solution to those offered by parties who believe that markets and individual decision-making generate positive solutions. Most importantly, voters have an opportunity to select



one political perspective among several that are on offer.

Because elections are so central to democracy, they should only be postponed or repeated under the most extreme of circumstances. The COVID-19 pandemic may well be one such circumstances. Some particularly hard-hit countries in Europe have already postponed local elections or moved them entirely to mail-ballots. The reason for these decisions has been the risk of infection when voters gather at polling stations. But this is a

severe restriction of citizens' civil and political rights that should not be taken lightly, must be carefully considered by parliaments and should be closely examined by opposition forces and civil society.

What does this mean for Mongolia? Many voters are frustrated with a political system that does not seem to offer a policy choice to voters. Can anyone really recognize a pattern in Mongolian decision-making that adds up to a political perspective that would allow voters to decide whether they agree with this perspective or not? The lack of a substantive orientation of political parties may be one of the main challenges that Mongolian democracy is facing, but that is even more reason to insist on elections to give voters the chance to vote for new or different political voices. It is only in a democracy that governing parties face an end to their government when the people no longer believe in the solutions this party is offering. If you want a different kind of politics, demand it of your representatives. Such demands work just like oil changes (used to) in cars. Without maintenance the democratic engine does not run smoothly. Elections represent the opportunity not to re-elect corrupt or incompetent representatives or to elect those who are engaged, honest and dedicated to the nation's welfare.

Mongolians should not be denied this opportunity for renewal of the political engine. Waiting too long for an oil change can lead to the ruin of the engine. Regular maintenance is always worth its cost when it contributes to the long-term longevity of the engine. Saving money on maintenance now risks much greater damage later on.

And how expensive is the democracy oil change really? The parliamentary and presidential elections in 2016 and 2017, respectively, cost roughly MNT15b. For this year's parliamentary election MNT20b of public funds have been allocated. That amount will not only pay for the actual administration of the vote, but will also provide resources to educate Mongolians, in particular but not only first-time voters. That political education is also part of the regular renewal of democracy through elections and especially important when the Mongolian parliament has insisted on changing the electoral system with every election for the past decade.

Another part of the public resources spent on the election is specifically earmarked to build trust in the election results among the citizenry. Compared to many countries, certainly compared to almost all OECD countries, the amount and extent of deployment of technologies in Mongolia is extensive to administer but also to monitor the election. Election results that are shown to be manipulated by evidence do not contribute to a democratic renewal which makes monitoring technologies an important element of the administration of Mongolian elections.

But perhaps most significantly, the vast majority of money spent on the elections is private money spent by candidates and parties. As few public resources are offered to political parties and candidates, contrary to several drafts of political finance legislation offered by Mongolian advocates, private funds are thrown at elections. This creates competitive pressures on candidates who are truly dedicated to the public good as much as it does for self-interest, corrupt candidates. It is not the administration of elections that is driven costs for the process up, but it is candidates who treat politics as a business who are at fault for this.

In comparative perspective, Mongolia spends relatively little money on democracy. The Ikh Khural is relatively small, MPs are not paid very much nor are big political staffs paid for, parties receive very little public funding. It should be clear to everyone that this is not a good place to save money. When politicians and parties have to drum up private funds to support their work, they are particularly vulnerable to corruption. Conversely, political activities that are publicly funded, are more likely oriented toward the public good. Cheap democracy is unlikely to be the best democracy and to produce the best outcomes for its citizens.



Host:
Namsrai Tsend

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MEASURES TO CURE THE 'ECONOVIRUS'

An announcement presenting the government's measures to recover from the impact of COVID-19 on the Mongolian economy was made on Friday. Seven measures for the short and long term recovery of the economy were put forward. Last week, we touched on the coronavirus bringing about an 'ECONOVIRUS' and on a number of monetary policy measures that the government was contemplating. This week, the Prime Minister introduced a number of fiscal measures including a six-month exemption from social insurance tax for companies, exemption from personal income tax and a corporate tax exemption for companies with a turnover of less than 1.5 billion MNT in sales. This will not however encompass mining, oil import and liquor production companies.

Another interesting measure that will most likely serve as the main focus of this policy was a 200,000 MNT stipend for employees that have been given unpaid vacations as a result of the measures against COVID – 19. There was also a provision on a 300 billion MNT loan for cashmere purchasers that helps 273,000 families of herders to survive by selling their cashmere at a minimum of 100,000 MNT per kilogram. Finally, the child allowance that is currently set at 20,000 MNT shall be increased to 30,000 MNT for the next six months. It would seem that the main purpose of these measures is to prevent the further loss of jobs which is important.

Initially, the government shall need around 5 trillion MNT to implement the measures in question and while it is not clear where these funds will originate but the Future Heritage Fund which currently has 620 billion MNT of it shall contribute a substantial portion of it. However, it is worth noting that these funds are not enough to even cover the current budget deficit without amendments. A debt buyout of pension loans that constituted 770 billion MNT has led to an already undesirable situation. Those pension loans were paid by the Development bank against the bonds of a copper production company in Dundgovi aimag that has currently not begun operations.

The Prime Minister said that there are no current plans to amend the budget. He pointed at a need for school and kindergarten infrastructure and it is also a matter of jobs for the construction workers. However, the country could have had more of a reserve if it had been effectively fighting against corruption until now. The Anti-Corruption Agency estimates that 12 trillion MNT, almost equivalent of an entire annual budget was lost to corruption. On the positive side, the gold reserve is steadily increasing and the Central Bank is buying more gold than it used to. The current gold reserve of the country is at 4.5 billion USD.

We should also mention that some countries are already helping Mongolia. The US government donated 1.2 million USD to combat the effect of coronavirus in Mongolia, a French company called Orano Mining donated 1 billion MNT and Chinese living in Mongolia are also donating a 126 million MNT to the Mongolian government. Private companies are also doing their part but we appeal to companies that were privatized following the fall of communism to do more than other companies. Moreover, we should effectively fight corruption and return some of the money lost to it as the feeling is that the actors are changing but the play is one and the same.

The coronavirus is pushing down supply and demand in the world with people losing jobs or in isolation impacting demand and eventually supply. Under these conditions, measures implemented by the government should have a negligible effect on inflation. However, it is expected that the pension loan fund buyout shall increase inflation by 1% due to a large injection of funds into the economy.

It is clear that the deficit will increase regardless of whether amendments to the budget are made and we need to ask foreign development agencies such as ADB, the World Bank or the IMF for assistance as the situation is a bit better now and we have a bigger reserve, better budget discipline than before except in a few notable cases such as the Pension Loan Fund buyout. There will be payment deficit in any case but the issue is how small we can keep them.

WILL MORE FOREIGN BANKS ENTER THE MONGOLIAN MARKET?

Several measures have been taken by the Bank of Mongolia to reduce the impact of COVID-19 on the economy. They decreased the monetary policy interest rate by 1% and the reserve requirement ratio for commercial banks by 2%. Additionally, they announced that loan repayment and interest accrual shall be suspended for several months. However, there have been reports that banks are not implementing those measures leading to the Speaker of Parliament, Zandanshatar to speak with bank authorities. There are also discussions of allowing foreign banks to enter the Mongolian economy taking place.

We are talking about the consumer loan payment postponement for six months but the government statement was worded in a very vague manner. The idea was to not count missed payments for the next six months towards the classifications of loans but did not oblige banks to cease the collection of loans. The Central Bank does not have the authority to force commercial banks to forgive debts for the next six months. This was misunderstood by many individuals equated this decision to a license to cease payments of loans for the next six months.

Many sites of commercial banks now offer a link for individuals who wish to renegotiate the terms of their loan in accordance with the government decision. As this does not equate to debt forgiveness, there was no immediate economic impact as a result of the decision. The meeting of the Speaker of Parliament with commercial bank leadership was not fruitful as the banks requested a 600 billion MNT subsidy which is simply not feasible under the current state of affairs.

The Prime Minister stated that he will request the Central Bank to further decrease the 10% interest rate and also pointed at a need to look diligently into banking reform in his address to the public two days ago. Recently the names of politicians and Members of Parliament with substantial savings accounts has been circulating on social media. Those savings ranged from hundreds of million MNT to billions of MNT and the 12-14% interest rates on those savings is substantial. The list emerged as public servants above a certain classification in Mongolia are obliged to report their income and it allowed individuals some insight into why policymakers are reluctant to reduce credit interest rates which is tied to the savings interest rate.

Secondly, it also emerged that parliament members, politicians, current and previous administrators of the Bank of Mongolia all have non-banking financial institutions that lend money at twice the interest rate of commercial banks. This has led some to call for the introduction of foreign commercial banks, ideally publicly owned Western banks into Mongolia. However, there is little interest from Western Banks to enter Mongolia as mining, the only attractive sector of the economy is marred by unsustainable and volatile policies. There is also somewhat of a resentment towards the mining industry from the public arising from unpaid royalties that is spurred on by politicians in the lead up to the election. On top of all this, we also suspended the issuing of licenses for exploration.

Unfortunately, due to the unstable conditions for Foreign Direct Investment and unclear fair competition conditions originating from the fact that owners of commercial banks have vested interests in almost all sectors of the economy make low interest loans in Mongolia unfeasible. The introduction of a foreign bank with adequate management and more access to funds would reduce the loan rates. It would also provide Mongolian commercial banks to make their assets cleaner. For example, the IMF required Mongolian commercial banks to increase their equity capital in consistence with international standards and we are still not aware of whether this has been carried out.

It will help Mongolians to have a better, vibrant banking system in the country as this will lead to healthy competition, not like now where banks are connected to politicians through elections and are involved in the campaign financing of legislators.

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

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