



# PROGRAM OF MONGOLIAN GOVERNMENT TO REVITALIZE ECONOMY



## Contents:

1. Introduction	.....	1
2. Parliament Program	.....	1
3. Cabinet Plan	.....	3
4. Conclusion	.....	6

## 1. Introduction

- On 24 November 2016, the Mongolian legislature approved a set of objectives aimed at reviving the flagging economy. The document is titled “*Program to Revitalize the Economy*” (“**Parliament Program**”). The Parliament Program has come into force on the same date it has been passed - 24 November 2016.

Pursuant to the Parliament Program, the Cabinet approved, on 28 December 2016, a document titled “*Detailed Plan of Actions to implement the Program to Revitalize the Economy*” (“**Cabinet Plan**”).

The two documents – the Parliament Program and the Cabinet Plan – are intertwined. The Cabinet Plan is based on, and is an outgrowth of, the Parliament Program. The former elaborates each of the objectives set out in the latter by providing specific measures and actions within each objective. Hence both documents should be read together. While the Parliament Program is rather concise, the Cabinet Plan is detailed (to illustrate - the Parliament Program is 12 pages long; the Cabinet Plan is over 40 pages). According to the Parliament Program, all of the program objectives and actions are set to be implemented or commenced in 2017-2018.

This note summarizes both the Parliament Program and the Cabinet Plan.

## 2. Parliament Program:

The Parliament Program consists of two main parts.

One contains the list of various laws that must be drafted and passed by the

parliament “*on an immediate basis*” (“**Legislative Objectives**”).

The other part outlines various economic measures/objectives related to “*macroeconomic stabilization*” and “*medium-term economic restructuring*” (“**Economic Objectives**”).

### 2.1. Legislative Objectives:

Some of the notable legislative initiatives that must be passed by the Parliament on an immediate basis include:

- Foreign investment legislation (improving legal environment for long-term stable foreign direct investment, establishing the investor protection council, resolving investment disputes),
- A law establishing a professional asset management structure (with participation of commercial banks of Mongolia) to address the growing in NPLs,
- A law enabling establishment of a subsidiary (branch) of a foreign bank in Mongolia,
- A law introducing a 1 (one) percent corporate income tax for certain sectors (such as farming, animal husbandry, food, clothing, textile etc.) on the income below MNT 1,5 billion,
- A law regulating the national payments system.
- Fiscal and budget legislation (restricting parliamentary authority to increase the public spending, the public debt or the budget deficit beyond the proposed levels of the Cabinet),

- Law of Mongolia on the MongolBank (Central Bank) (strengthening its independence and powers to effectively carry out monetary policy),
  - Law of Mongolia on Development Bank of Mongolia (strengthening its independence and overall governance and management),
  - Law of Mongolia on the Financial Regulatory Commission (revising its powers so as to improve policy coordination and risk-management of financial markets), and
  - Law of Mongolia on Currency Regulation (effectively regulating currency flows).
  - A law enabling establishment of casino,
  - A law enabling establishment of horse race gambling.
- Most of the above proposals must be presented by the Cabinet to the Parliament in time for discussion and adoption during the 2017 spring session of the Mongolian Parliament. The 2017 spring session of the Mongolian Parliament is scheduled to run from April 2017 until July 2017 (when it recesses until the 2017 autumn session which will start in Oct 2017).
- 2.2. Economic Objectives:**
- The Economic Objectives consist of two sets of different objectives.
- 2.2.1. One set contains a wide array of objectives of “*Macroeconomic stabilization policy*”, for instance:
- To review concession projects, both past and ongoing, to publish a new concession projects list with clear implementation mechanisms,
  - To establish an investment fund for long-term financing of large projects,
  - To hold regular consultative meetings with partner countries, international banks and financial institutions with the view of attracting from them long-term low-interest financing,
  - To support and facilitate implementation of the projects whose feasibility studies are complete and who have secured financing,
  - To ease the current imbalance of payments and ensure stable inflation rate,
  - To trade Government (treasury) bonds on a regular basis through the Mongolian Stock Exchange,
  - To seek ways to pay the immediate outstanding external public debt,
  - To protect domestic markets through tariff and non-tariff measures,
  - To introduce policies to support “buying local”,
  - To improve accessibility of capital markets,
  - To introduce tax incentives for businesses who keep employees (jobs), and

- To settle outstanding debts owed to public procurement suppliers.

2.2.2. The other set includes objectives of “*Medium-term economic restructuring, stable economic growth, reduction of debt pressure*”, for instance:

- To support implementation of specific projects in various industries such as:
  - Mining (Tavan Tolgoi coal mine and Gachuurt gold mine),
  - Energy (construction of 450MW Tavan Tolgoi power plant, 250MW expansion of the existing CHP3, 50MW expansion of the existing Choibalsan CHP in eastern Mongolia, construction/expansion of power transmission and substation assets),
  - Railway (railroad lines Tavantolgoi-Gashuun Sukhait, Nariin Sukhait-Shiveekhuren, Zuunbayan-Khangai, Erdenet-Ovoot, Khuut-Bichigt as well as the Bogd Khan Mountain railway bypass),
  - Urban (satellite city next to the New Ulaanbaatar International Airport).
- To reduce the current number of business licenses and permits three-fold, to eliminate various overlapping enquiries and inspections by various government authorities such as the state inspection, tax, social insurance, law enforcement,

- To commence negotiations with potential investors once the laws on casino and on horse race betting, respectively, have been passed,

- To support Mongolians travelling to work (labor) in foreign countries.

Most of the objectives above must be acted upon by the Cabinet within 2017 or at the latest within the first half of 2018.

Finally, in the same resolution which approved the Parliament Program the legislature requires the Cabinet (i.e., executive branch) to report its progress to the legislature every 6 months.

### **3. Cabinet Plan:**

As described above, the Cabinet-approved plan of actions is designed to implement the Parliament-approved program to revitalize the economy. Specifically, the Cabinet Plan sets out specific measures and actions to be undertaken by the executive branch within each Economic Objective of the Parliament Program (described in 2 above).

Below we set out a summary of select measures that the Cabinet Plan provides for the Economic Objectives which we consider relevant.

#### **3.1. To trade treasury (Government) bonds on a regular basis through the Mongolian Stock Exchange**

- Within this Objective, government bonds will be available for public trading on primary and secondary markets through the Mongolian Stock Exchange (target date: H2 2018),

- Such trading will be held at regular dates announced to the public in advance (target date: 2017),
- Fees and charges imposed on government bond trading will be reduced (target date: H2 2017),
- To this effect, amendments to the Law on Securities Markets will be presented to the legislature for review and approval (target date: H1 2018).

### **3.2. To improve accessibility of capital markets**

- Within this Objective, relevant legislative bill will be presented to the Parliament in order to facilitate public listing of large national businesses on the Mongolian Stock Exchange (target date: H1 2018),
- Similarly, reinvigorate the process of listing the shares of operators of strategic mining deposits on the Mongolian Stock Exchange (target date: H1 2018),<sup>1</sup>
- Privatize state-owned assets through the Mongolian Stock Exchange (target date: H1 2018),<sup>2</sup>

<sup>1</sup> MDS KhanLex: under Mongolian law a “strategic mining deposit” is a deposit which “may have a potential impact on national security, national or regional economic or social development or that is producing or has the potential to produce more than five percent of the total annual gross domestic product”. Further under Mongolian law, an operator of the mineral deposit of strategic importance is required to issue no less than 10% of its shares through the Mongolian Stock Exchange. In practice, the foregoing requirement is to be implemented and followed.

<sup>2</sup> MDS KhanLex: it is understood that the Government of Mongolia is preparing to publish a list of state assets to be privatized during 2017-2020.

- Regulatory framework and necessary infrastructure will be pursued to promote broader application of derivative financial instruments (target date: H1 2018),
- Assist with building capacity of securities intermediaries and agents (target date: H2 2017),
- Support more active involvement of securities intermediaries and agents in the government bond trading (target date: H1 2018),
- Exclude from the Stock Exchange’s trading those listed companies who fail qualifications and requirements of the Exchange (target date: H1 2017).

### **3.3. To review concession projects, both past and ongoing, to publish a new concession projects list with clear implementation mechanisms**

- Review and assess all concession projects, both past and ongoing (target date: H1 2017),
- Publish a new concession projects list (target date: H1 2017),
- Clearly determine for potential investors implementation mechanisms of future PPPs, prepare draft PPP law (target date: H2 2017),
- Pass the PPP law through the legislature (target date: H1 2018).

### **3.4. To ease the current imbalance of payments, ensure stable inflation rate**

- Pass law establishing a professional asset managing structure (with participation of commercial banks of Mongolia) to address the growing in NPLs (target date: H1 2017),
- Take appropriate actions to keep the annual inflation rate at 8 (eight) percent (target date: H1 2018).

### **3.5. To establish an investment fund for long-term financing of large projects**

- To support establishment of an investment fund to specifically finance large projects to promote economic growth (target date: H2 2017),
- Study feasibility of establishing, together with potential foreign investors, an investment fund to diversify economy (target date: H1 2018).

### **3.6. To address (i) the immediate debt (bonds) and (ii) the contingent liability of Government and of Development Bank of Mongolia**

- To prepare a plan/schedule to repay and/or refinance the Government's and the Development Bank of Mongolia's current debt (target date: H1 2018),
- To add a dedicated menu (page) on the official website of the Ministry of Finance, to hold regular talks with the investors (target date: H2 2017),

- To re-define the Government strategy and structure of the debt management, to set a new debt service plan/schedule (target date: H1 2017),
- To examine contingent liability currently assumed by the Government and by the Development Bank (target date: H2 2017),
- To prepare the contingency plan to pay off the debt if and when any such contingent liability crystallizes (target date: H2 2017),
- To prepare a legislative proposal in order to strengthen supervision over contingent liability of the Government and of the Development Bank (target date: H2 2017),
- To examine contingent liability currently assumed by the MongolBank, to carry out risk-management against such liability (target date: H2 2017).

### **3.7. To pass foreign investment legislation (improving legal environment for long-term stable foreign direct investment, establishing the investor protection council, resolving investment disputes) (target date: H1 2017).**

### **3.8. To pass law enabling establishment of a subsidiary (branch) of a foreign bank in Mongolia (target date: H2 2017)**

### **3.9. To support and facilitate implementation of the projects**

**whose feasibility studies are complete and who have secured financing**

- To support implementation (whether in the form of preparatory work, feasibility study, selection of or negotiations with potential investors, permitting, construction, commissioning) of a number of predominantly mineral processing projects such as oil, zinc, lead, iron ore, copper.

**3.10. To support Mongolians travelling to work (labor) in foreign countries.**

- To pass through the legislature the Work and Holiday Visa programme between Australia and Mongolia (target date: H2 2017),
- To pass through the legislature the new Law on Sending Workforce Abroad (target date: H2 2017),
- To pass through the legislature necessary legislative amendments in order to qualify for Japan's Technical Intern Training Program (TITP), to enter into a new memorandum of understanding with the Japanese counterparty (target date: H2 2017),
- To join the USA's H-2B visa nonimmigrant program and enable Mongolians to work in the USA (target date: H1 2018).

**3.11. Legislative initiatives (new laws to pass)**

- A law enabling establishment of casino and horse race gambling (target date: H1 2017),
- Law of Mongolia on the MongolBank (Central Bank) (strengthening its independence and powers to effectively carry out monetary policy) (target date: H1 2017),
- Law of Mongolia on Development Bank of Mongolia (strengthening its independence and overall governance and management) (target date: H1 2017),
- Law of Mongolia on the Financial Regulatory Commission (revising its powers so as to improve policy coordination and risk-management of financial markets) (target date: H1 2017),
- Law of Mongolia on Currency Regulation (effectively regulating currency flows) (target date: H1 2017).

**4. Conclusion**

It is not the first time that the Government of Mongolia – whether the legislative or the executive branches of power – resolutions and orders containing various policy measures aimed at reviving the country's economy. For an example one may look no further than May 2014 when the Parliament issued a resolution approving certain actions to stimulate the economy. Following the Parliament's resolution, the Cabinet issued a so-called 100 Day Plan with the primary objective of reviving the economy.

While based on the past experiences the outcome of such efforts by the Government may not necessarily be guaranteed, its

intention and resolve certainly deserve commending.

We will continue our coverage of the above government programs, with focus on the legal and legislative initiatives.

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