

Macroeconomic risks and remedies for Mongolia

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Outline

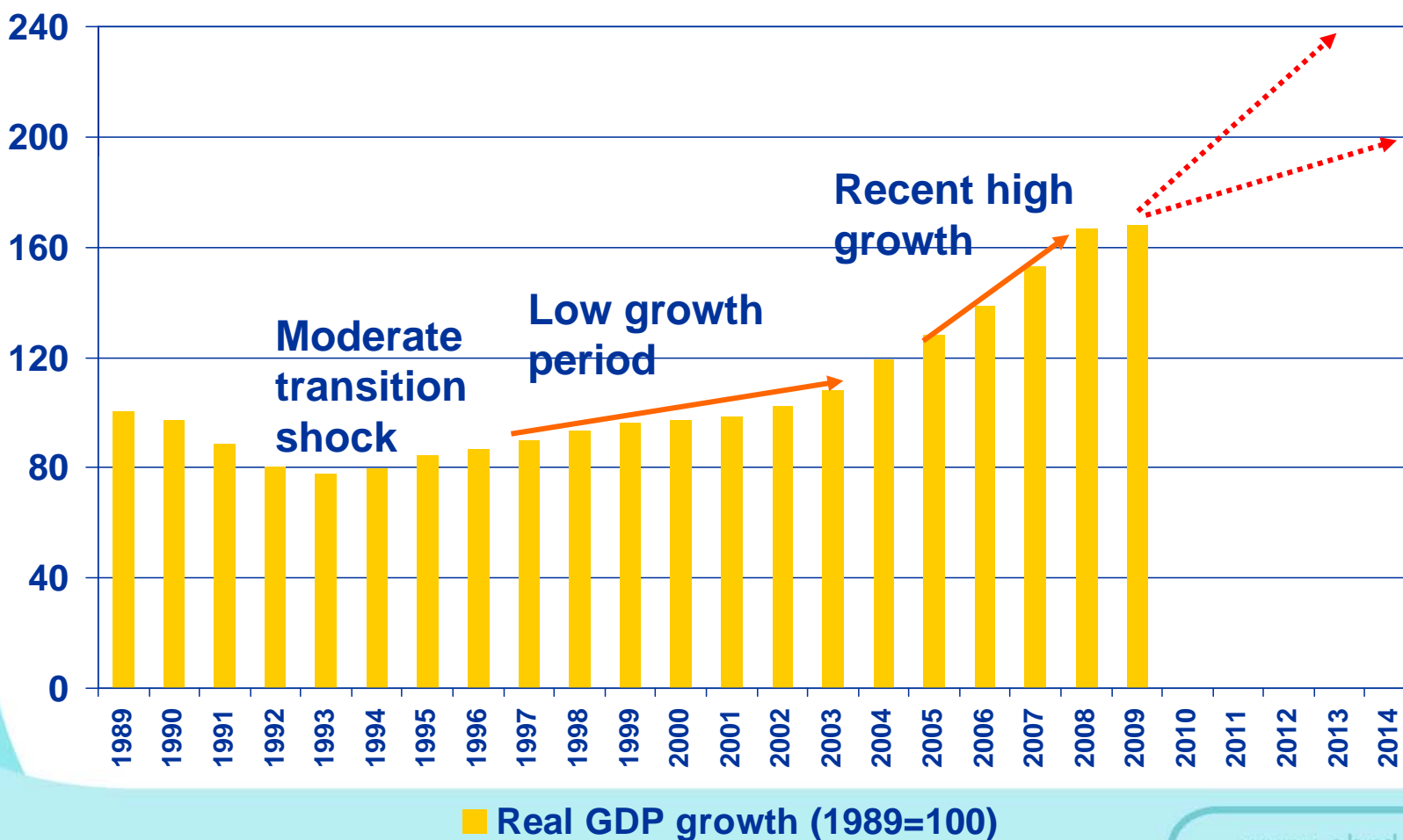
- Growth prospects of Mongolia: based on the experience in other resource rich countries
- Potential risks
- Economic diversification
- Sovereign Wealth Fund



Macroeconomic prospects

(Real Economic Growth 1989=100)

Impressive growth achieved in recent years



Experiences of other resource rich economies (US\$, millions)

Industrial output/ GDP increased by 2-10 times in other countries

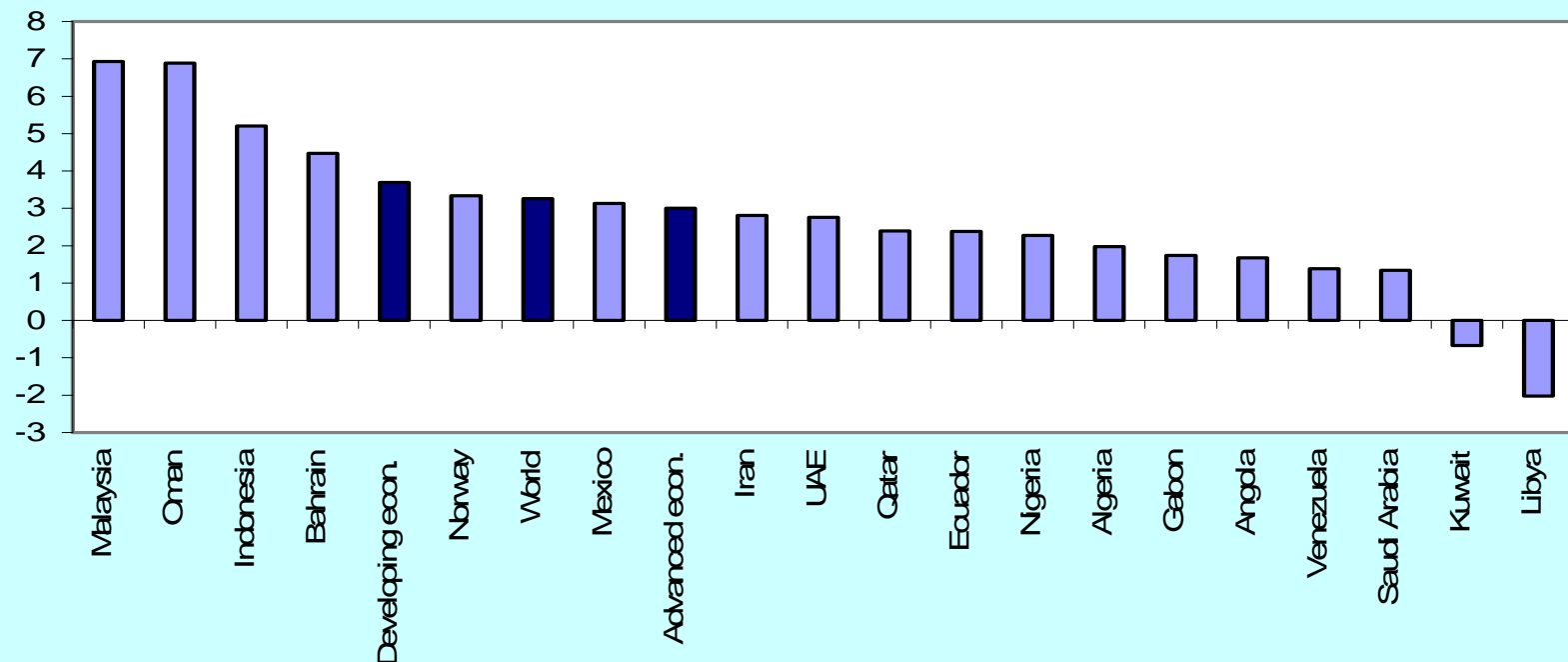
	Industrial output		Exports	
	Before resource boom	After resource boom	Before resource boom	After resource reform
Argentina	340	1,310	70	700
Chile	2,400	7,500	2,300	6,900
Peru	2,000	3,900	1,900	3,600
Azerbaijan	4,067	26,152	1,536	20,302
Kazakhstan	12,397	63,778	6,310	38,725
Mongolia	2,191	?	2,634	?



Resource curse: OPEC experiences since 1970s

- Growth of resource rich developing countries is not better than that of non resource rich developing countries

Average Annualized Real GDP Growth, 1980–2000
(In per cent, selected countries)



Source: International Monetary Fund.



Macroeconomic risks

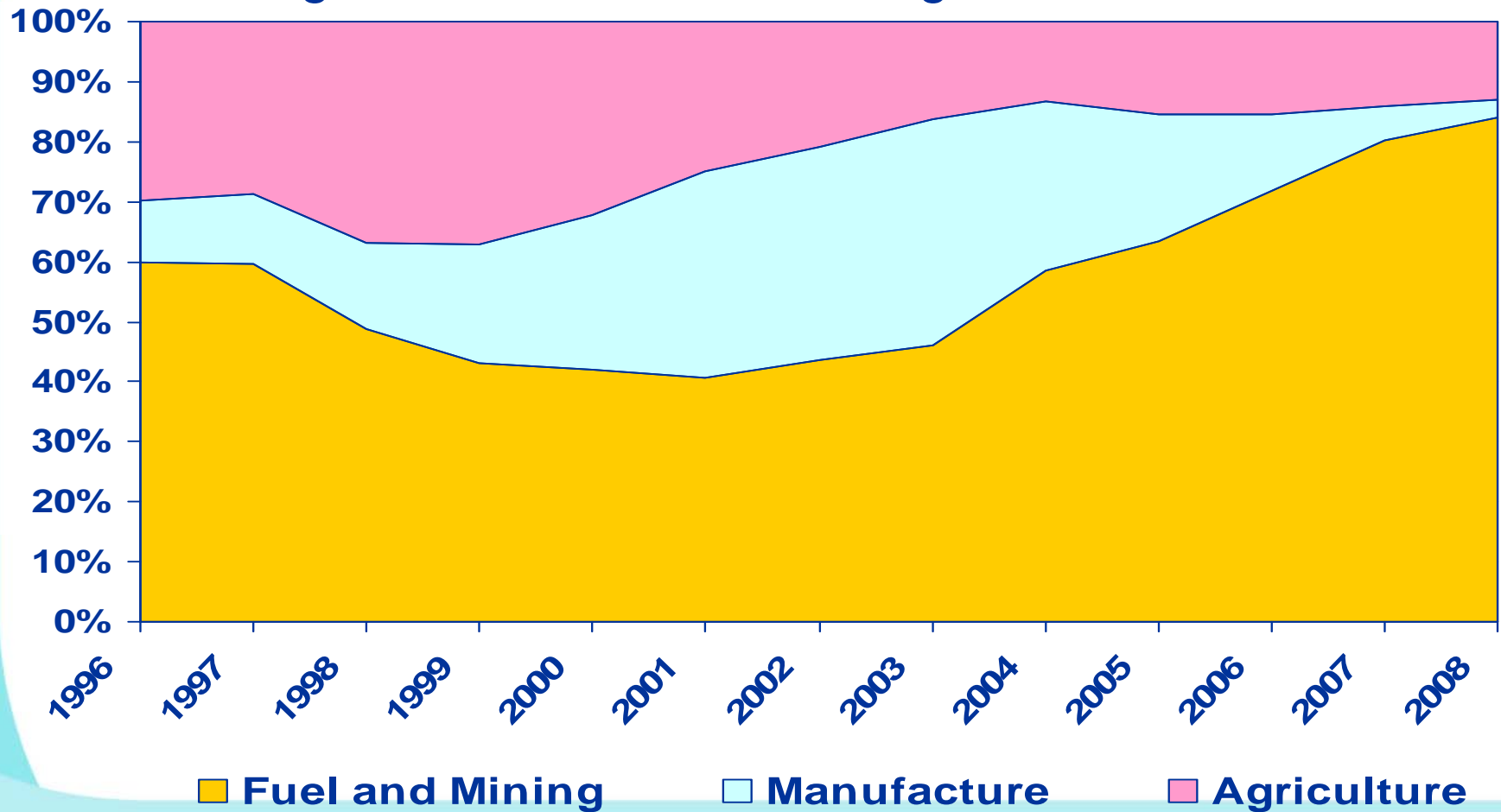
Key risks are

- Drop in commodity prices
- Higher food and oil prices
- Small domestic financial sector and high volatility of foreign financial flows
- Resource booms may erode competitiveness of other industries (i.e. Dutch Disease)
- Resource boom may erode quality of human capital and institutions (lessons from other countries)



Structure of merchandise exports in Mongolia (% of total exports)

- Increasing dominance of the mining sector



Source: World Trade Organization, Trade Statistics

Economic Diversification

- Government spending on infrastructure
- Improve the quality of education
- Financial development - A support for diversification policies
- Promoting employment in other than mineral resources sectors
- Improvements in business environment

Note: government's "picking winners" approach has been less successful in other countries

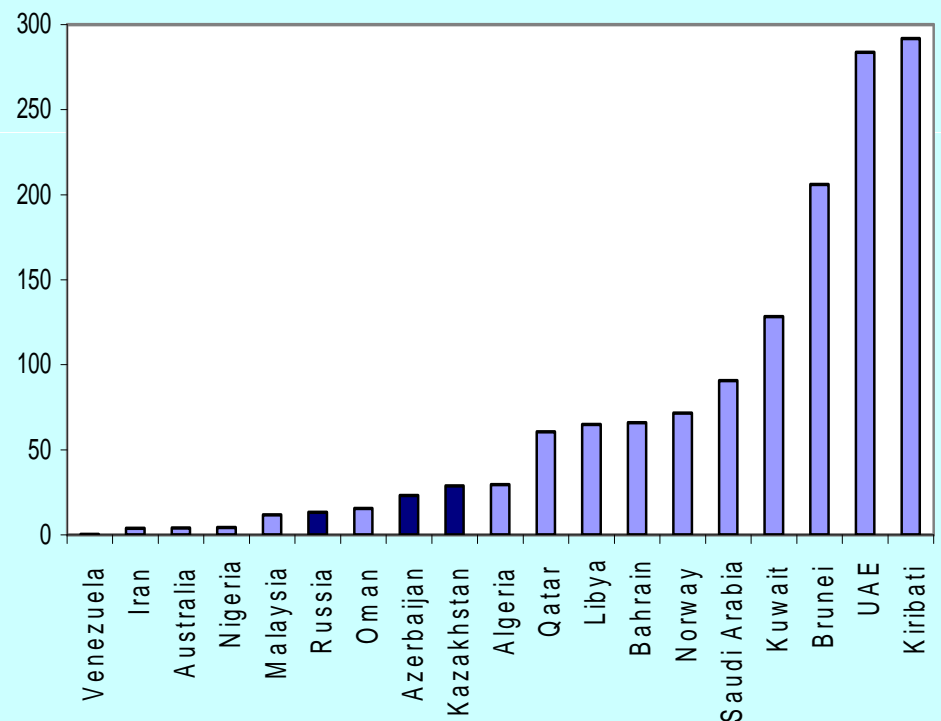


Sovereign Wealth Funds

Sovereign Wealth Funds will play an important role

- Macroeconomic management
- Savings for future or preparing for rainy days
- Financing for long-term development policies (infrastructure, education, etc.)

Sovereign Wealth Fund Assets
(In per cent of GDP, selected countries)



Sources: SWF Institute and World Bank. Data for 2008 or latest estimate available.

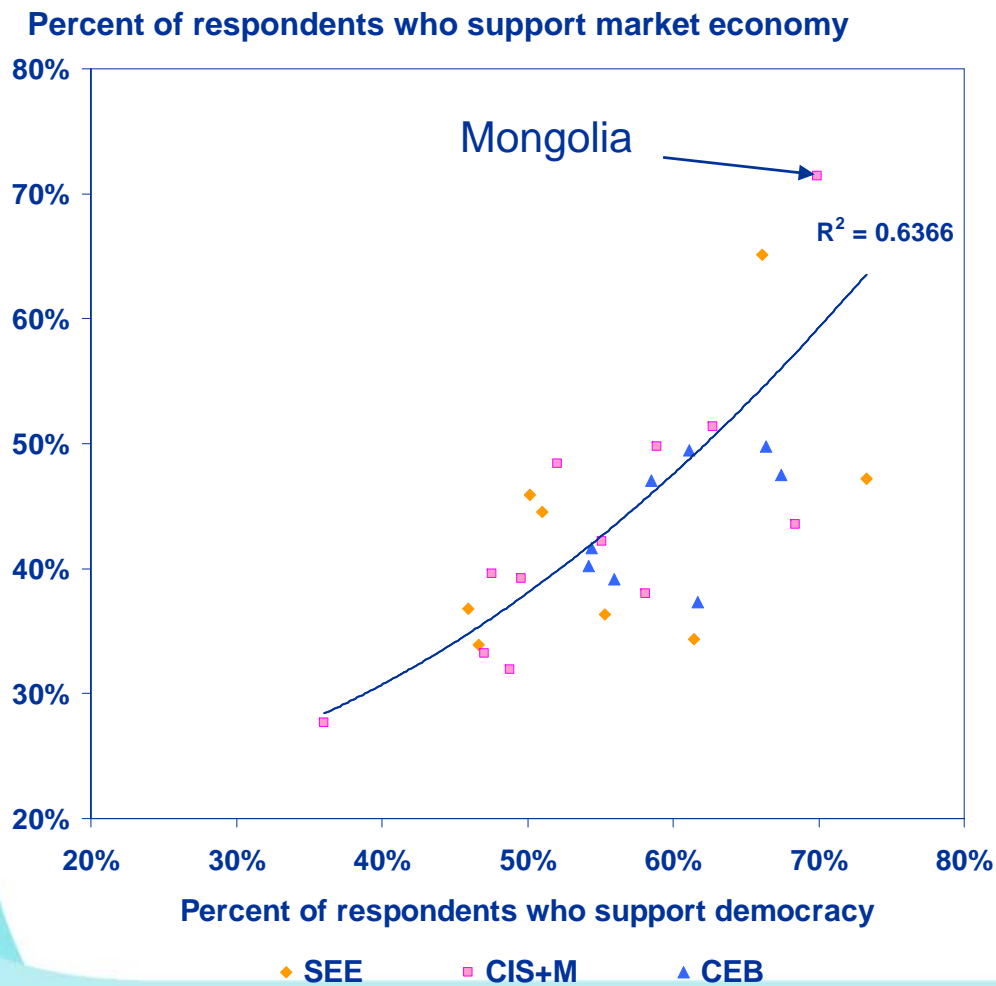


Conclusions

- Mongolia is likely to achieve high economic growth in the next decade
- But, given the risk by nature, cautious policies are required
- The government should manage resource revenues rightly and promote diversification policies
- Overall, with the right policies, it is possible to achieve high and sustainable growth. Mongolia is one of the most pro-democracy and pro-markets countries.



Strong support for democracy and markets in Mongolia



- Strong support for democracy and markets in Mongolia
- Particularly if compared with CIS countries (wide variation)

