

**GOVERNMENT OF MONGOLIA – EXTERNAL PARTNERS
TECHNICAL MEETING
9-10 October, 2006**

Opening Remarks
Mr. N. Bayartsaikhan
Minister for Finance

Excellencies, Ladies and Gentlemen, Members of the Parliament,

Good morning.

I would like to express my gratitude to the World Bank for co-organizing the second Technical Meeting between the Government of Mongolia and its external partners to discuss socio-economic development priority issues of Mongolia. Also I would like to thank all of you, the external partners and representatives of the government, NGOs and the private sector for attending this meeting.

During our first meeting held in February this year we discussed about development results of Mongolia, strengthening of the capacity to manage for these results, alignment of external assistance, debt management, development of the private sector and education sector reform. Furthermore, we evaluated the outcomes of the official development assistance extended to Mongolia during past 15 years and identified the framework for external assistance and support that is in line with Millennium Development Goals, the Government Action plan and implementation measures of development strategies and policies. It is a pleasure to note that this new approach for our partnership has been effective.

I believe that our meeting today is organized in the right time and it will have results and be an important measure as we are meeting today before Mongolia's long-term development strategy is revised and Mongolia's economic guidelines, state budget and monetary policy guidelines for 2007 are discussed and approved by the Parliament.

The present overall economic situation of the country is good. Structural changes and reforms have been appropriately undertaken and macroeconomic sustainability has been achieved. Since 2002, the economic growth rate has averaged 6.5 percent in real terms. For the first time, the state budget realized surplus in 2005 and such a success in budget execution is possible to be repeated in 2006. Despite a rapid increase in the amount of money-in-circulation and loans provided by commercial banks, the consumption price index was 5.0 percent as of September 2006. Current balance of payments had a surplus and foreign currency reserve is expected to reach about 600 million US dollars. It will equal to 19 days of imports.

The economic real growth is expected to reach about 7.5 percent and per capita GDP is expected to amount 950 US dollars in 2006. The amount of exports is estimated to increase by 38 percent compared with the previous year level or in other words reach 1.5 billion US dollars yielding surplus in the balance of payments. At this period when Mongolia faces favorable economic conditions, it is crucial to identify

development policies in a prudent and consistent way and resolve outstanding social issues through sound mechanisms.

The economic growth positively influenced by the economic growth in neighboring countries, increase in the price of export products and favorable weather conditions. With the effective realization of state policies supporting the private sector, the private sector now contributes over 80 percent of the GDP. Several measures have been taken recently to reinforce this achievement and to promote investment. These include changes and amendments to laws on taxation and mining sector, approval of the laws on anti-corruption, anti-money laundering and combating financing of terrorism and reducing of over 600 different special permissions for carrying out of business activities to 87. These provided an important step in removing barriers to private sector development and reducing and further eliminating bureaucracy in the civil service.

Although there are successes and achievements in our economy, it is needed to introduce the international best practices and risk management to cope with the economy's vulnerability from and overdependence on foreign trade and weather conditions. Furthermore, our meeting today should have significant influence on taking measures directed at preventing and reducing poverty that trapped 36 percent of the population. Creating jobs for low-income citizens, providing state support for their training and re-training, providing professional assistance in their engagement in small businesses and creating the environment for easy access to finances, loans and insurance also will be helpful in reducing poverty. Only 20 percent of the population live in a satisfactory housing. In order to develop the mortgage market, the Government is ready to collaborate with domestic and foreign organizations to issue long-term financing bonds, introduce life insurance, reform and commercialize the management of the pension fund, develop professional investment institutions and create the legal environment for mortgage.

There are achievements in the banking sector; however, due to high interest rate and short term of loans provided, it is difficult for us to finance long-term projects of large scale. Therefore, it is essentially important to introduce the operations of and create favorable legal conditions for an investment banking to finance such projects. Moreover, I believe that our joint efforts will be crucial in intensifying the stock market, introducing various long-term insurance schemes, strengthening the capacity of the Financial regulatory committee, improving the supervision of financial institutions, implementing sound management of the companies and ensuring the transparency.

Although abundant natural resources of Mongolia are a source of future growth of Mongolia, sound economic policy ensuring their wise utilization and distribution of revenues and benefits to the greater community will be important for the long-term development and progress of Mongolia. Within this issue, a mechanism will be established to inform and make transparent the transactions between the Government and mining companies. Also opening up of commercial agreements between mining companies and state and public organizations, including revenue distribution, payments, taxes and license fees to the state shall be made a compulsory part of the financial statement requirements. It is believed that ensuring transparency will remove bureaucracy, corruption and other deficiencies in the sector.

Reform in education sector is deepening and sector's master plan was ratified. Now we are working on its implementation. Our cooperating partners are assisting us in efficiently utilizing human resources that constitute the core of the development and re-training human resources in the developed countries and we do believe that the assistance in this field will be given more focus.

Today, we will discuss the work we have done and crucial development problems that Mongolia faces. Moreover, we hope that as a result of this meeting we will determine the framework of our cooperation to make it more effective, result-based and align loan and aid policy with real demand.

The mid-term goal is to keep our current sustainable development and achieve the rapid progress.

Taking this opportunity, I would like to extend my sincere gratitude to World Bank, ADB, UN, IMF, Japan and other donor countries supporting us in transition to the market economy, to establish democratic society that respects human development and sustain the economic growth. Your support and assistance were and will be vital to Mongolia.

Government of Mongolia accepted the new cooperation principle reflected in the Paris Declaration with gratitude and hopes that our external partners will reconsider the amount and structure of their current assistance that is aligned with national development strategy and that is crucial for reducing the poverty and sustaining economic growth. Mongolia is completing the transition and is entering to the next stage that will lay foundation for sustainable and rapid economic development. In this connection, I do not doubt that our external partners will evaluate the outcomes of our cooperation during past 15 years and expand the size and extent of their future cooperative operations in Mongolia. There is excessive demand for us to develop and prosper and we wish that our external partners will continue their assistance.

Government wishes to direct grant aid received from external partners more governance, education, culture, science, health and environmental sectors, whilst it will spend the concessional loans for the energy, road, transportation, IT, tourism, and infrastructure sectors. For mining, export oriented processing industries and sectors for introduction of new financial products, the Government's policy is to mobilize FDI. The long-term concessional loans are vital for us in financing nation-wide projects that will support our economic growth substantially. Therefore, we would like to pay attention to infrastructure issues, particularly, the introduction of modern know-how to energy sector and increasing of the civil aviation and railroad capacities in the first priority. The time, to reveal financial capacity in our economy and create domestic savings and investment flow, has come. Hence, the financial sector development will be one of our priorities.

The preliminary estimations of the Mongolian development needs for 2007-2015 have revealed the necessity for grant aid and concessional loans amounting two billion US

dollars and foreign direct investment amounting 10 billion US dollars. There is such necessity for funds and also absorptive capacity is increasing. Only with these additional resources Mongolia will be able to sustain the implementation of the National development strategy that is based on Millennium development goals.

The new external assistance mechanism that we determined together will be supporting real economic development, results based, accountable and transparent. Besides the capability to absorb the foreign loans and aid, the debt policy that defines its efficiency is also important. Therefore, you will be introduced with mid-term concept about debt management. Furthermore, the introduction and active application of the “Knowledge and technology transfer” mechanism by the Government within the external assistance policy will be the key to the economic growth acceleration in the medium and long terms. I believe that external partners and international organizations will support this principle in our future cooperation.

I do believe that this Technical Meeting will provide us with the opportunity to align foreign loan and aid policy with National Development Strategy and real economic demand. Also, our relationship with partner countries and organizations will strengthen and will become more transparent, clear, and results based.

Thank you for your attention.