

Mongolia Macro Flash

Reelection of President Elbegdorj Likely Heralds More Pro-Business, Foreign-Investor Friendly Policies

- **Policy continuity likely.** The June 26 presidential election marks the end of the current election cycle that started in 2012. The election ran peacefully and incumbent President Elbegdorj won. The Democratic Party (DP) looks well positioned to push its policy agenda with the re-election of President Elbegdorj, who is also head of DP and has served as prime minister twice, and given that the party currently holds majority seats in the cabinet (State Great Khural). The next election cycle will start in 2016 with the parliamentary election.
- **Election promises focused on social issues.** Comments by President Elbegdorj during the campaign suggest more deliverables for voters including the ongoing subsidized mortgage program, continuing the current anti-corruption drive, and improving electricity supply. This is in line with the latest Sant Maral Foundation (SMF) survey findings that the top five problems for Mongolia are: (1) standard of living; (2) unemployment; (3) corruption; (4) law enforcement; and (5) social justice.
- **Business friendly policies.** Post election, we expect policies would turn more pro-business and foreign investor friendly, in particular in light of falling FDI and export trends which could severely damage economic growth. Exports fell by -3.3%yoy in the first five months of 2013, impacted by a 7% decrease in mineral exports (as increases in iron ore, concentrate and non-monetary gold were insufficient to offset the nearly 43% fall in coal). Meanwhile, FDI was still falling as of April (to US\$113mn, see Fig. 1). Two key pending regulatory changes to watch are the New Investment Law and the New Mining Law. The proposed New Investment Law would grant fair treatment between local and foreign investors and ensure regulation continuity which would allow for longer-term investment plans. The re-draft of the New Mining Law is thought to be more business friendly, in particular removing two previously highly criticized clauses (see: [Mongolia Macro View - Takeaways from Ulaanbaatar: Key Stalled Issues Started Moving](#)). Investor attention is also likely to turn to the recent twice-delayed Oyu Tolgoi's first batch of copper concentrate export shipments. We expect the Mongolian government and Rio Tinto will come to an agreement very soon given both sides fully understand the damage to economic growth and profits the longer the delay persists.
- **Bank of Mongolia rendering growth support.** BoM on 24 June cut its policy rate the third time this year by 1ppt to 10.5% (this is a larger than our expected 50bps cut). BoM's price stabilization measures appear to be successful at lowering inflation; May CPI came in at 9.7%yoy, nearer to BoM's 8% inflation target. Given the benign inflation backdrop, BoM took another aggressive step to spur real economic activities, citing concerns about falling FDI and exports.

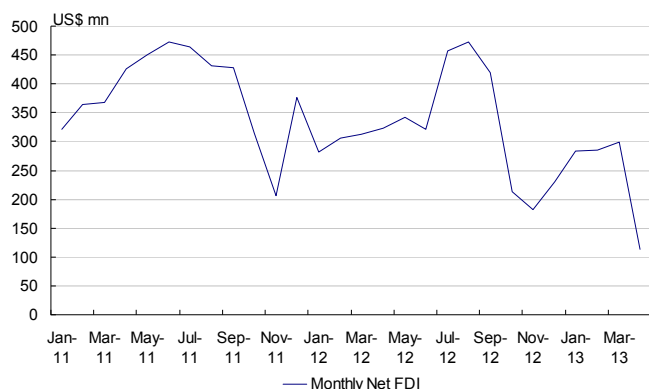
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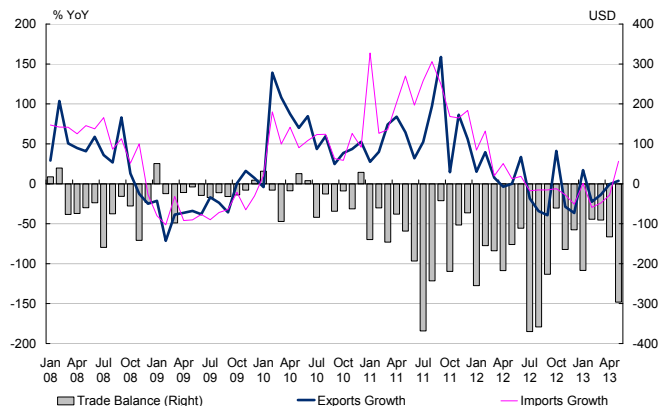
- **Incumbent president reelected by narrow majority.** The General Election committee confirmed the final results. DP incumbent President Ts. Elbegdorj won a majority of 50.23%. MPP's candidate B. Bat-Erdene secured 43% of the votes, while MPRP's candidate Ms. N. Udval received 6.8% of the vote. The winning margin was very slim, given a 50% threshold was needed to win. Also the gap between President Elbegdorj and Bat-Erdene narrowed from what was indicated by the latest SMF survey, where it polled an Elbegdorj/Bat-Erdene/Udval split would be 54%/37%/9%. The low voter participation rate (record low of 64%), especially in the countryside, helped the incumbent president.

Figure 1. Net FDI still falling as of April 2013



Source: CEIC and Citi Research

Figure 2. Imports started to pick up, but exports recovery still anemic as of May; adding net exports drag on economic growth



Source: CEIC and Citi Research

Appendix A-1

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