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Statement by the Hon. **YANSANJAV OCHIRSUKH**,
Governor of the Bank for **MONGOLIA**,
at the Joint Annual Discussion

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**Mr. Chairman,
Respected Governors,
Ladies and Gentlemen**

It is a great privilege and pleasure for me to represent the Government of Mongolia at the Fifty-Forth Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund, here in Washington D.C.

Economic recovery during the year of 1999 in the transition economies has been mixed. Most of the countries of the Commonwealth of Independent States and those in South East Europe have been experiencing a lower economic recovery in relation to the Central European and Baltic countries, which clearly demonstrates that growth achieved when there is progress on structural reforms. Rapid disinflation has been achieved by many of the transition economies, which has been possible because of the timely strong stabilization support package of the international communities. Growth has been generally fastest in the areas where reforms were most far reaching and bolder. The countries in transition had the benefit of a relatively large agricultural sector and labour rural surpluses. There has been a mixed approach on the methods of privatisation, but all agree that there is no alternative to privatization. Regarding banking sector reform transition economies have set a priority for improving corporate governance, prudential regulation and supervision. Countries have begun to realise now the potential of the underground economy, which in some countries accounts to more than 20 % of GDP. Excessive regulatory discretion, weak rule of law and corruption are perhaps common to the transition economies. All the growth witnessed by these countries has been accompanied by increase in income inequality and social instability. The vital steps needed for creation and strengthening of legal, fiscal, regulatory infrastructures needed for the operation of a market-led economy.

Respected Governors, Ladies and Gentlemen.

Let me now discuss my point on how Mongolia is performing within this framework.

ECONOMY

For three consecutive years Mongolia is experiencing an annual growth of 3-4%. The year of 1998 was hard on Mongolia due to steep decline in key export commodity prices and the deepening of the regional financial crisis. Copper prices plunged 42% in 1998 and 17% in the first quarter of 1999. In addition international prices of gold and cashmere dropped resulting in a terms of trade shock of about 9% of GDP. This has resulted in a chain of deterioration in other sectors of the economy. External shocks led into a large cut of fiscal revenue and resulted in the widening of the fiscal deficit to over 11% of GDP. The adverse external conditions and resulting fiscal stress strained Mongolia's financial system. The increased deficit plus reduced foreign financing sharply increased the domestic bank financing of the budget and put upward pressure on interest rates. The bank loan portfolio performance deteriorated, as a result.

Despite all the adversities at the end of 1998 and the beginning of 1999, Mongolia managed to achieve a growth of 3.5% and a sharp decline in inflation from over 53% in 1995 to single digits in 1998. With little prospect for significant improvements in the terms of trade over the medium term the Government has embarked on a strong adjustment program: to maintain inflation at a low level of below 10%, to promote sustained growth of about 4-5% and strengthen Mongolia's external position with the assistance of the second ESAF program of the International Monetary Fund. The Parliament of Mongolia has approved a fiscal policy package designed to progressively reduce the Government deficit through reduction in the net bank credit to Government, consolidation of price stability and freeing of additional resources through the privatization of remaining public assets Government shall be better positioned to promote the fragile private sector. Government has also moved to address financial system distress by placing 3 insolvent banks under conservatorship and taking a whole set of measures aimed at bank restructuring.

SOCIAL ISSUE, STRUCTURAL ADJUSTMENT

Consolidating price stability and achieving economic growth closer to Mongolia's potential will be essential to improving living standards and reducing poverty. For the purposes of improving the social safety net the Government enacted the Law on social safety net early this year. Mongolian proverb called the plentiful life states "A country prospers when its citizens prosper". The Government recognizes the need for health care reform in order to improve the efficiency of public health services. The introduction of the health insurance system is easing considerably the budgetary burden of health care. Reforms in the pension system are being undertaken as well. It is the aim of the Government to improve the financial position in these sectors, firstly by the introduction of cost recovery measures and later by putting them on a sounder financial footing.

GOVERNANCE REFORM

A new Public Sector Management and Financial Act awaits Parliament decision. The act would introduce a new framework to rationalise Government functions and improve the delivering of public services aimed at enhancement of accountability of all budgetary entities, while increasing the flexibility. The public sector reform will help significantly in the reengineering of the Mongolian public sector. Over a 10 year period it is expected that the pilot administrative reforms and the public financial reforms will undoubtedly lead to significant economic and social benefits for the whole country.

ENVIRONMENTAL ISSUES FOR SUSTAINABLE DEVELOPMENT

Extensive livestock production supports at least half the population and since 1990 has become the social safety net of last resort. Pastureland is now under severe pressure due to over concentration of herds around urban centers. Effective policy interventions are needed to alleviate rural poverty, tackle pressure on grazing land and ensure natural resource conservation and sustainable development. It is necessary to develop land management practices, clarify the Land law, promote alternative income generating activity and rehabilitate local infrastructure.

POTENTIAL FOR FUTURE GROWTH

Mongolia has a tremendous growth potential despite its obvious disadvantages. In many ways Mongolia has only scratched the bottom of the mountain. Regional integration is in the interest of the whole economy. Beyond better exploiting its comparative advantages Mongolia needs to invest more resources in its people as the education of its people is essential in today's high tech technology age of globalization.

The years of 1999-2002 are crucial in enhancing Mongolia's economic stabilization and establishing a strong foundation for the future development. The major economic objectives of the Mongolian Government over the medium term are to enhance further macro economic stabilization, intensify structural reforms in economic and social sectors, institute the private sector-led economic structure and on this basis rapidly develop export oriented production and increase domestic savings. With all these challenges ahead we are approaching the new millennium.

Over the last few years we have learnt that a good deal of judgement is involved in preparing of the monetary and fiscal programs under the ESAF. In rapidly changing economies such as ours and where the global environment is also rapidly changing, it is impossible to derive true, scientific and precise performance criteria, the breach of which will lead to substantially worse outcomes in terms of inflation, interest rates, exchange rates and international reserves. **And therefore, on the behalf of the Government of Mongolia, I would like to ask the senior management of both the institutions to be lenient and flexible with Mongolia and not to impose conditions that will be too tough or too unnatural to meet. We have noted that the IMF has demonstrated these**

qualities in the past with Mongolia as well as other countries and therefore request IMF to continue to be flexible over the course of the ESAF program, the second year of which commenced in June this year.

Transitional economies, including Mongolia are receiving handsome assistance from the donor countries and multilateral financial institutions. However the utilisation of these funds remains one of the sensitive issues in these countries. In order to avoid the duplication of the funds in the sectors of the economy we would be encouraged by continuing support from the World Bank. In June, Mongolia successfully organised the seventh Donor's conference for the first time in Ulaanbaatar, the capital of Mongolia. In fact the successful outcome of the conference, the donors' willingness to assist and their commitment are in part based on the tremendous efforts of the World Bank staff.

In conclusion, I would like to take this opportunity to record our heartfelt gratitude and appreciation for the willingness of the World Bank and the International Monetary Fund to support Mongolia in its critical period of transition.

Thank you for your kind attention.