



"The Investment Outlook of Mongolia in 2H 2017"

As we have pointed out last week, we are more optimistic about the future in a long run. However, investors are cautioned that the roads ahead are still bumpy. Below are the several check lists that investor should be aware of in the next few months.

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As we have pointed out last week, we are more optimistic about the future in a long run. However, investors are cautioned that the roads ahead are still bumpy. Below are the several check lists that investor should be aware of in the next few months.

1. Presidential Election

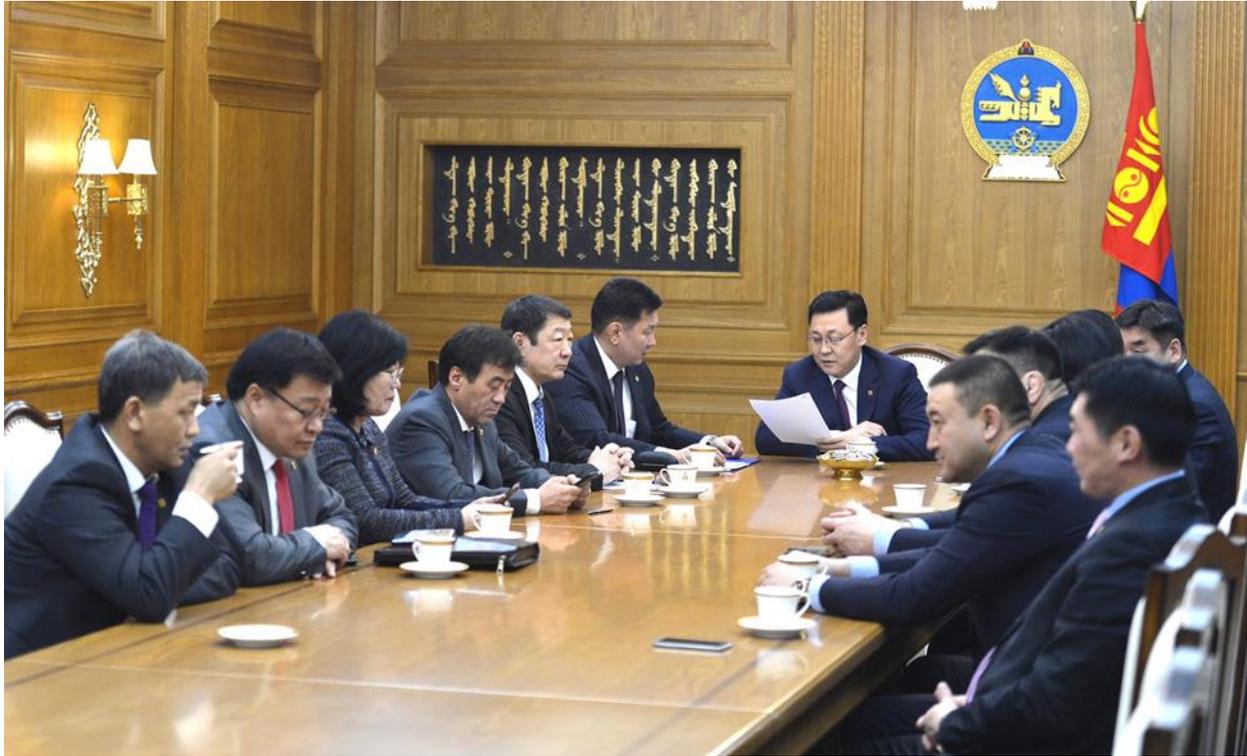
By the time this article is published, readers should know the election result. As of July 4 when the article is written, we do not know yet who will win the election. The result of the election is very important to determine the investment environment as the power and the influence of the new President is enormous. However, given that MPP occupies majority of the seats at the Parliament, the power of the President will be somewhat restricted. Nevertheless, President will control the National Security Council as before. Therefore, investors need to watch out if and how the council will be functioned especially if the leader of the opposition party wins the election.



2. Reshuffle of the Cabinet

There seems strong self-criticism among MPP leaders that the defeat of the 1st round of the Presidential election is because of the bad choices of the current cabinet members one year ago. In addition, MPP has the fear that unless the cabinet is reshuffled now, the popularity of the party may keep going down. If that is the case, the likelihood that MPP will lose the next General Election in 2020 is very likely.

Therefore, we anticipate the reshuffle of the cabinet this summer is very likely regardless of the result of the final round of the Presidential Election.



3. The impact of the reshuffle to the business

The impact of the reshuffle can be either positive or negative.

It is positive if investors will feel comfortable with the new cabinet members.

However, it can be negative if it will take too much time to appoint new ministers, vice ministers and department heads of each ministry and freeze any important political decisions in a near term.

We anticipate the implementations of the leadership under the new cabinet will not start at least until March next year.

However, unless the cabinet will not be reshuffled now, there will be long lasting criticism to the leadership of the current cabinet. Therefore, we believe the MPP should reshuffle the cabinet as soon as possible.

But, MPP should carefully nominate the new ministers this time. Otherwise, the criticism of the public may have a very bad impact to the next General Election. So, the overall impact of the reshuffle to the business depends on who will be the ministers, vice ministers and the head of the agencies. However, it is worth reshuffling for the good of the business and the investors as the reputation of the current cabinet is not good at all.



4. The first test after the Presidential Election will be at Invest Mongolia

The first test whether investors are comfortable with the renewed leadership of MPP will be on September 4th and 5th at Invest Mongolia Ulaanbaatar.

As Frontier will invite 1000 people including Ministers, Parliament Members, heads of agencies as well as business leaders, IFIs, investors and ambassadors to the premier investor conference in UB, it will be the first test for investors whether the politics after the Presidential Election is in a right track for the investment community.

We are not sure yet if the reshuffle will happen by August. But, if it will be before the conference, it will be very timely to attend the conference for everyone.

During the two day conference, various following topics will be discussed.

- The IMF Program and its implications to the economy.
- The current economic condition and the appetite of the foreign investors to Mongolia.
- What else Government should do to increase FDI?
- One belt one road and the update of the major infrastructure projects (roads, railways, power projects etc).
- The demand from China on important minerals of Mongolia.
- How to make Mongolia Greener? Through Green Bond on renewable projects including solar and wind?
- The restructuring of the Banking system through the support of IFIs and the consolidation of banks.
- The transparency agreement and its impact to the Business.
- The voices of the major chambers to the Government.
- The measures to improve the credit ratings of the Sovereign and the banks.



5. Conclusion

Although the roads ahead is bumpy, we main our positive stance on Mongolia given that some portion of the “Battulga Shock” just after the 1st round of the Presidential election is already discounted in the share price. We believe that the IMF program will eventually have positive impacts in various fields of the economy to improve the system and will make sure the economy will touch down as the soft landing rather than the hard landing.



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