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Politics

After 25 Years of Democracy, Mongolia's Political Progress Stalls

December 28 (economywatch.com) This year marked the 25th anniversary of Mongolia's democratic revolution. So after 25 years of democracy, where does Mongolia stand? In addition, what role does Asia's only post-state socialist democracy play internationally?

Politically, it was a quiet year. The Mongolian economy remains moribund largely due to domestic policy decisions, exacerbated by international commodity prices. Yet Mongolia has continued to be active in the international arena.

The political year began with the replacement of the former Democratic Party (DP) Prime Minister N Altankhuyag by Ch Saikhanbileg, also of the DP, following a motion of no confidence in November 2014.

Saikhanbileg made a mark early in his tenure by conducting an SMS poll asking Mongolians to choose between austerity and large mining projects. Saikhanbileg was seeking a popular mandate for action on the giant Oyu Tolgoi (gold and copper) and Tavan Tolgoi (coal) projects. Unfortunately, for the new leader, the poll delivered a tepid response: only 350,000 votes were cast from over three million cell phones. Mongolians were apparently not persuaded that an SMS poll was an appropriate method to gauge their views. Of those who did respond, 56 percent preferred large projects to austerity.

Then in August, the DP decided to remove all Mongolian People's Party (MPP) members from cabinet and return to its coalition with the Mongolian People's Revolutionary Party (MPRP) and the Mongolian National Democratic Party only. Alongside the dissolution of the super-coalition, which was forged only nine months earlier, the government introduced an amnesty law to parliament.

Traditionally, parliament has marked the anniversary of democracy with a general amnesty, but this summer's variant covered a number of criminals that had been involved in political activities and corruption. This led to the general perception that it was law forced on the DP by its coalition partner, the MPRP, and its leader, N Enkhbayar, former president but also pardoned money laundering convict.

Debates around this law have persisted, especially after the arrest of the MPRP Minister of Health, G Shiilegdamba, on corruption charges in November.

Ongoing proposals to reconfigure the institutional underpinnings of Mongolian democracy have received particular attention this year. Constitutional reforms centred on rebalancing the division of power between the president, prime minister and parliament were floated in November, but the push for such reforms seems to have stalled.

A more pressing issue is the timing of the upcoming 2016 parliamentary election. In recent years, elections have been held at the end of June, but that will put the election just before Mongolia is set to host the Asia–Europe Meeting (ASEM) in mid-July.

On the international front, Mongolia's foreign relations continue to be rooted in its 'Third Neighbour Policy' of cultivating virtual neighbours beyond the bounds of geography.



This policy aims to balance the overwhelming and sometimes overbearing influence of Russia and China. The most significant steps taken this year towards diversifying Mongolia's foreign relations were the negotiation of an Economic Partnership Agreement with Japan and Indian Prime Minister Narendra Modi's visit.

In multinational matters, Mongolia continued to enjoy relative international prominence despite its small population, modest economy and limited geopolitical significance. In May, Mongolia served as the first Asia Pacific host for the Freedom Online Coalition, an organisation of like-minded democracies dedicated to preserving human rights online.

At the UN General Assembly in September, President Ts Elbegdorj declared his intention to pursue a state of permanent neutrality for Mongolia. Presumably, this would be used to fend off Chinese and Russian pressure for Mongolia to join the Shanghai Cooperation Organization. However, the concept of permanent neutrality is now being debated actively in Mongolia with more opposition than the president might have anticipated.

In October 2015, Mongolia was elected as one of five representatives of the Asia Pacific region in the UN Human Rights Council, with the highest support in its region. It is the first time that Mongolia has been elected onto the Human Rights Council. In addition, it might pave the way for its declared 2022 candidacy for the UN Security Council.

Since taking over the government in 2012, the DP has pushed Mongolia's economy into a largely self-made crisis, initiated by legislation that restricted sales of stakes in Mongolian mining companies. This legislation was primarily aimed at preventing further dependence on Chinese investments, but the foreign investment community saw it as an unacceptable restriction. The economic fallout from this legislative blunder has been exacerbated by a fall in the price of Mongolia's primary exports.

In March 2015, Canadian uranium miner, Khan Resources, was awarded US\$100 million in an arbitration case against the Mongolian government stemming from the loss of its mining license. This seemed to confirm that the Mongolian government had made arbitrary decisions that hurt foreign investors. This idea has been exacerbated by contradictory government statements on the giant Oyu Tolgoi mining project.

Even a commitment in May by both the government and investor Rio Tinto to underground expansion of the Oyu Tolgoi project could not halt this slide in investment. Foreign debt has put Mongolia in a fiscally precarious position and a default has only been prevented by lines of credit from China, India and international organisations. In the middle of this economic malaise, Mongolia has been promoted to 'upper middle income' status by the World Bank, as it has had a per-capita GDP of above US\$4,000 since 2012.

Mongolians will be voting for a new parliament in 2016. The government that will result from this will continue to enjoy an international visibility rooted in Mongolia's democracy. However, that same democracy will also give voice to increasing expectations in the population that Mongolia meet more of its economic potential.

Mongolia's flagging economy stalls political progress is republished with permission from East Asia Forum



Speaker Z.Enkhbold made a statement to annul the decision of Constitutional Court of Mongolia

December 28 (infomongolia.com) Speaker of the State Great Khural (Parliament), Mr. Zandaakhuu ENKHBOLD and Governor of the Capital City and Mayor of Ulaanbaatar, Mr. Erdene BAT-UUL attended the ribbon-cutting ceremony of "Buyant-Ukhaa II" apartment complex held on December 25, 2015.

The "Buyant-Ukhaa II" apartment complex was built by order of State Housing Corporation of Mongolia (SHC) and 1,620 apartments, first part of the complex, are ready as of December 2015.

During the ceremony, Chairman of the State Great Khural delivered a speech and cut red ribbon welcoming its new residents. However, only five families could get their apartment during the opening.

Speaker Z.Enkhbold said: "1,620 families could not have their new apartments before the New Year celebrations because of decision made by Constitutional Court of Mongolia recently. It has invalidated three most important provisions of two laws, which led Mongolian commercial banks to suspend their mortgage loan programs. Commercial banks stated that they will not change their decision unless the Government fixes the issue. I am sure that people who addressed banks for mortgage loans got the same answer.

Therefore, I am making this official statement as a Speaker of Parliament. The Parliament will annul the decision of Constitutional Court and restore original law with the same provisions as before.

SHC is in no condition to pay its debt to building materials companies due to suspension of mortgage loans and could not pay two months' salary of its employees. Before the mortgage suspension, there were 200 families ready to apply for housing program. It could bring 10 billion MNT (Tugrug) to SHC."

Prime Minister attends children's new year concert

Ulaanbaatar, December 28 (MONTSAME) Mongolian Children's Palace hosted on December 26 the biggest new year concert for children for the 57th time, this year. Prime Minister Ch.Saikhanbileg conveyed greetings and handed presents to the top children.

"There are the future teachers, engineers, herdsman, doctors, politicians and many other future professionals among you. However, the most important thing for you is to become good individuals", he said. All government actions and policies aim at this, added the PM.

The latter also wished the children success in their studies.

Deputy PM Ts.Oyunbaatar also handed presents.



104th anniversary of declaration of Mongolian independence celebrated

Ulaanbaatar, December 29 (MONTSAME) Mongolians are celebrating the 104th anniversary of declaration of the national independence.

The National Independence Day is celebrated in Mongolia every year on December 29. This day marks the Mongolian independence declaration from Manchu Qing Empire.

In 1911 of this day, the Eighth Jebtsundamba Khutugtu (Javzandamba Khutagt) was proclaimed as the Bogd Khaan, and a historical decision was made to establish the government with five Ministries.

After the Bogd Khaan received the state seal and flag, Sain Noyon Khan Namnansuren was appointed as the first Prime Minister of Mongolia. Including the Prime Minister, the government of Mongolia had six Ministers. Chin Van Khanddorj was the Minister of Foreign Affairs; Erdene Dalai Van Gombosuren--the Minister of Military; Tushee Gun Chagdarjav--the Minister of Finance; Erdene Van Namsrai--the Minister of Court; and Da Lam Tserenchimed--the Minister of Internal Affairs.

The National Independence Day is celebrated annually pursuant to a decree of the President N.Enkhbayar issued on October 28, 2008.

Foreign Relations

State Secretary D.Gankhuyag held official talks with North Korean Deputy Foreign Minister

December 28 (infomongolia.com) The Deputy Foreign Minister of the Democratic People's Republic of Korea, Mr. Ri Gil-song visited Mongolia on 24-25 December, 2015, at the invitation of Mr. D.Gankhuyag, State Secretary of the Ministry of Foreign Affairs of Mongolia.

During the official talks, the two sides evaluated the outcome of bilateral visits made in 2015 and shared views on cooperation activities planned for 2016. The parties expressed their satisfaction at the regular exchange of high-level visits, increased social, economic cooperation and cultural exchanges as well as the active cooperation at the regional and international arena.

Mongolian side expressed appreciation to North Korean side for participating on a regular basis in meetings and events, organized within the framework of the "Ulaanbaatar Dialogue on Northeast Asian Security" initiative, and expressed confidence that North Korea would further continue to participate in the activity, reports the Press and Public Relations Department of the Ministry of Foreign Affairs of Mongolia.



Montsame names 10 key global events of 2015

December 28 (MONTSAME) 1. Historical anniversaries marked

The year 2015 marked the 70th anniversary of the United Nations. The international organization has the aim to maintain international peace and security and foster co-operations among countries. In addition, people across the globe widely celebrated the 70th anniversary of the end of the Second World War. Commemorating the anniversary, the People's Republic of China held a military parade on its central square where heads of states and governments of over 30 nations as well as high level delegates from more than 50 countries were in attendance.

2. New bank in Asia and Chinese Yuan

The Asian Infrastructure Investment Bank (AIIB) is an international financial institution directed at strengthening financial cooperation and financing infrastructure projects in the Asia Pacific region. The Articles of Agreement that form the legal basis for the AIIB proposed by China remain open for signing by its Proposed Founding Members until December 31, 2015. A total of 13 countries have ratified the agreement out of 57 nations that are considered to be prospective founding members in Asia, Australia and America. It is expected that the AIIB start its operations by the end of this year or in 2016. In addition, Chinese national currency – Yuan, has been included in the basket of reserve currencies of the International Monetary Fund (IMF). The IMF has approved China's Yuan into its elite reserve currency, which is considered to be the elite club of major currencies. The addition to the IMF list goes into effect on October 1, 2016.

3. New Japanese military doctrine

According to Japan's new military doctrine, the Japan Self-Defense Force will be used to protect its allied countries, including the USA even if Japan is not directly attacked. Also, the legislation allows the Japanese military broader participation in international peacekeeping operations. The Defense Ministry of Japan passed the defense doctrine this year.

4. Actions to destroy the 'Islamic State'

More than 40 nations, such as USA, Great Britain, Germany and France, established a joint coalition to defeat the Islamic State of Iraq and the Levant (ISIS or ISIL) a terrorist group which is one of the biggest threats facing the world today and have been conducting air strikes against the group. While Russia did not join the coalition, it has been carrying out airstrikes targeting terrorist groups in the country, especially the 'Islamic State', at the request of Bashar Al-Assad, President of Syria.

5. European migrant crisis

Europe has been affected by the biggest humanitarian crisis since the Second World War as hundreds of thousands of migrants and refugees are still surging across the continent since late August and early September. As of December 1, Europe has received 878,485 migrants and refugees.

6. Turkey downs Russian jet

A Russian Sukhoi Su-24M bomber aircraft was shot down from an altitude of 6,000 meters by a Turkish Air Force F-16 fighter jet near the Syria–Turkey border for allegedly



violating its airspace. Following the incident, Russia imposed sanctions against Turkey, denouncing its action.

7. Counter actions of 'Islamic State'

A Russian 'Airbus A321-231', operated by Russian airline Kogalymavia, crashed in the northern Sinai Peninsula killing 224 people. According to the Federal Security Service of the Russian Federation, an improvised explosive device was placed in the passenger cabin and detonated. The Sinai Branch of the 'Islamic State' claimed responsibility for the incident. Afterwards, a series of coordinated terrorist attacks took place in Paris France killing 130 and injuring more than 350 people. 'The Islamic State' also claimed responsibility for the attacks, which are called '9/11 French Style'.

8. Nuclear program of Iran

Iran and the P5+1 (USA, China, UK, Russia, France and Germany) reached an agreement on the nuclear program of Iran - the Joint Comprehensive Plan of Action to resolve the longstanding dispute. Under the agreement, the United Nations Security Council, USA and European Union would lift their sanctions imposed on Iran if its nuclear program confirmed to be used exclusively for peaceful purposes

9. Natural disasters

A magnitude 7.8 earthquake hit Nepal killing 9018 people, including 8857 people in Nepal, 130 in India, 27 in China and 4 in Bangladesh. Soon afterwards on May 12, another major earthquake of 7.3 magnitude occurred in Nepal and 210 people were reported dead including 153 people in India, 63 in India, 1 in China and 2 in Bangladesh were killed by the earthquake.

10. Historical climate agreement

Representatives of 195 countries agreed by consensus to the Paris Agreement which aims to reduce their carbon output in a significant amount and holding the increase in the global average temperature to well below 2° C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5° C above pre-industrial levels. The new agreement, which will replace the Kyoto Protocol, will be open for signature in April 2016. Then, it will enter into force and become fully effective if 55 countries ratify the agreement.

Economy

ECONOMIC REVIEW 2015: News on Oyutolgoi has been the most waited one

December 28 (gogo.mn) We are delivering you the review of the year 2015 by sectors. This time GoGo News Agency names the main economic events happened in 2015.
USD 4.4 BILLION FOR OYUTOLGOI UNDERGROUND DEVELOPMENT SECURED



Oyu Tolgoi LLC signed a \$4.4 billion project finance facility, one of the largest in the mining industry. Hence, there are no calculations or analysis made on the multiplier effect of this investment, which equals 35 percent of the total Mongolian economy. But it has been announced that the first deposit will be transferred in the first half of 2017 and the construction will start then leading to the about 3,000 permanent jobs and domestic suppliers can be part of the development. There is expectation that this event will be a good point for Mongolia to up the credibility, increase investments and have a positive effect on currency stabilization.

SUPPORT TO FINANCE USD 1.5 BILLION FIFTH POWER STATION

Mr.Hwang Kyo-ahn, Prime Minister of South Korea has paid an official visit to Mongolia by invitation of his Mongolian counterpart Ch.Saikhanbileg. This was the first visit of Korean PM to Mongolia in 14 years and was conducted in the view of the 25th anniversary of the diplomatic relations between two countries. The visit was significant by agreeing to grant loans from the South Korean Economic Development Fund, cooperation in maritime transportation and transportation sector, joint development of the SMEs and cooperation in the energy sector.

Moreover, Korean PM promised to support with financing of the USD 1.5 billion Fifth Power Station. One of the biggest energy sector participants in Korea POSCO Energy is in the consortium of the Power Plant development.

In return, Korean PM has asked to support the Korean entities working in Mongolia especially those at Ukhaakhudag-Gashuun-sukhait railroad construction and soil exploitation and penetration of the smart card into the micro payment use.

IMMOVABLE PROPERTY IS NOT VALID COLLATERAL FOR BANK LOAN

Commercial banks have stopped issuing of the 8 percent APR mortgage loans at the same time as a result of the Constitutional Court decision. While Constitutional Court says that their decision has nothing to do with 8 percent mortgage loan, the decision was regarding the three clauses of the Law on Immovable Property Collateral. Commercial banks view that the decision affects their ability to control property under collateral and causing risk and are not issueing any loans other than salary loans. Many have questioned whether commercial banks have the right to do so. Then in the Housing Mortgage Financing Rule clause 5.6 states: "Commercial banks are entitled to make independent decision on the mortgage loans... "

This entitles commercial banks to decide whether to issue the mortgage loans or not. Mortgage loans has been halted not entirely due to the decision made by the Constitutional Court. The situation has worsened even before that and the statistics show decrease of 13 percent compared to previous month and 14.9 percent decrease compared to the previous year.

While the financial conditions of the construction companies with loans from banks have worsened, banks are trying to shoot two rabbits with one stone by suggesting the apartments of the debtor construction companies. The decline of the mortgage loans through the commercial banks led the citizens to contract directly with the construction companies.

FAIR COMPETITION AND CONSUMER PROTECTION AGENCY PETITIONED AGAINST THE COMMERCIAL BANKS...

Another issue related to commercial banks this year has been the petition against them from the Fair Competition and Consumer Protection Agency on the grounds that banks



are charging illegally 1 percent from the amount of the processed loan. While the above issue is mostly viewed as having the political grounds, this issue was different, as the petition was submitted by O.Magnai previous head of the agency and continued by current head A.Ayursaikhan. Unfortunately, the case was returned to the primary court and has ruled out in favor of the commercial banks. Supreme Court judge was said to have conflict of interest as the judge was previously working as the Legal Department Head of the Trade and Development Bank.

Primary court has ruled out that commercial banks haven't violated the rights of their customers in accordance with Law on Consumer Rights Protection and Law on Competition.

MNT 1 TRILLION DEFICIT FOR 2016 BUDGET

Below is the table on balance of State Budget (million tugrugs)

State Great Khural does the budget adjustment at least once a year, which means it does the same job twice. But this year Parliament managed to do the budget adjustments twice, which in turn is reasoned by the changes in the market price of the minerals that contribute to the majority of the state budget, rather than their poor planning skills.

State Great Khural approved the balanced budget income for the next years to be MNT 7.1 trillion, which equals to 25 percent of the GDP. While the expenditures are set to be MNT 7.8 trillion, which leads to another budget deficit of MNT 940 billion, a 3 percent of the total GDP. Ministry of Finance has announced that while working on budget it has decreased the salary expenses of the public officers by 10 percent and reduced the costs of work trips abroad.

But the events lined up for the next year surely dictate the override of the budget expenditures, such as parliamentary elections, Summer Olympics, ASEM. Although Bank of Mongolia had warned the MPs to be careful with the state budget it helped none, therefore leading to decision to keep the policy rates as it is.

JAPANESE PM PROMISES LOAN OF USD 200 MILLION AND RESEARCH ON THE TAVAN TOLGOI RAILROAD

Japanese Prime Minister Shinzo Abe has paid an official visit to Mongolia for the second time. This may count as the historic event as the Prime Minister of Japan has paid two official visits in a single term and can be viewed as how actually Japan sees Mongolia. Although the visit lasted only for four hours, it has left Mongolians with huge deals.

Mongolia has established EPA with Japan for the first time and is to be valid starting the 2016 and is viewed as the potential leverage of the foreign investment flow into Mongolia. Implementation of the EPA with Japan will enable 8100 products of Mongolia to enter the Japanese market with discounted prices, while it also enables 5900 products of Japan to enter Mongolian market with discounted prices.

Here we also need to emphasize that Shinzo Abe has signed the MOU between the Governments of two countries on cooperation of the railroal construction and its related infrastructure development. The idea of this MOU was submitted by Mongolian side.

Moreover, Japanese PM announced to grant the loan equal to USD 200 million, which is around MNT 398 billion and equals one third of the budget deficit.



Japan is to host the 2020 Tokyo Olympics and in view of this Japanese side proposed to use the work force of Mongolian construction workers in the development of the infrastructure.

INDIAN PM VISITED WITH USD 1 BILLION AND REMINDED OF THE TIES OF TWO COUNTRIES

Indian PM Narendra Modi paid an official visit to Mongolia upon the official invitation of PM Ch.Saikhanbileg during May 16-18. This was the first ever state visit by Indian PM to Mongolia to commemorate the 60th anniversary of the diplomatic ties of Mongolia and India.

The official visit resulted in over 10 negotiations totaling to USD 1 billion discounted loans. The loan money is to be dedicated to the institutional development, infrastructure development and human resources development. This was one of the significant news to Mongolians in deficit of foreign investments.

One of the significant proposals of Modi was the value adding of the Mongolian cashmere and dairy products and proposed the cooperation on the cyber safety.

OPENING OF THE MONPOLIMET CEMENT FACTORY

As Mongolia has limited water resources to be used in any of the processing factory the main choice of the technology lies on the dry one, which uses the least amount of water. Moncement Plant has become the second dry technology cement processing factory in Mongolia which opened its doors officially in summer. On top of using very less water the technology allows to recycle the 90 percent of grey water in its processing. This is the one of the newest technology factories to be built in Mongolia, equipment of which is capable to operate in the range of -40C up to +40C conditions. The project has become viable with the support of EBRD.

The cement factory has the capacity to produce 1 million tons of cement annually and is located in Urgun soum of Dornogobi aimag. The product will be fully meeting the European standards, which in turn means to be ecologically friendly.

MSE TRADED THE 100 PERCENT INSURED COMPANY BONDS

First ever 100 percent insured company bonds were registered and traded on MSE in August of 2015.

This is the first time ever MSE introduces this financial tool on the market. Golomt Bank and Golomt Securities acted as the underwriter for his Erchim Bonds, while Soyombo Insurance insured the bonds.

FIFTH POWER PLANT DEVELOPMENT TO START NEXT YEAR

Fifth Power Plant is considered as one of the first PPPs in the energy sector in Mongolia and one of the first power and thermal plant projects since 1984.

July of 2015 was significant as the Concession Agreement has been signed between Consortium member and Government of Mongolia. Consortium consists of:

- Engie (formerly knows as GDF Suez-30 percent owner),
- Sojitz Corp (30 percent owner)
- Posco Energy (30 percent owner)
- Newcom Group (10 percent owner).

Above companies and State Entities such as National Dispatching Center and National Power Transmission Grid have signed an agreement, which in turn obliges the State entities to purchase the power produced at the Fifth Power Plant. As the agreement is signed, the consortium is now responsible for the financing of the project, which is USD



1.5 billion. While the consortium is in charge of the development of the plant the Government of Mongolia is in charge of the development of the railroad and infrastructure needed to support the plant.

VERTICAL AXIS ROAD OF WESTERN REGION COMMENCED

Seven years ago in 2008 resolution to construct vertical axis road in western region has been approved. In 2009 the bids for the contractor were held and the works have started back in 20110.

As Mongolia has horizontal location it is crucial for the economy to construct vertical axis roads to connect our northern and southern neighbours. The majority of the western region vertical axis road has been commenced in July of 2015 and is to connect Russia and China through Mongolia.

Most of the financing for the road construction has been provided by ADB soft loan of 32 years with APR of 1.5 percent, while the rest was provided by the Government of Mongolia, leading to relatively low cost, which is on average MNT 550 million per kilometer. If the construction will be in accordance with plan the construction works will be done by the end of 2017.

PRIVATIZATION STARTED

Government has decided to start the privatization of the major state entities in order to increase state budget income and economic liberization. State Property Committee has started the bids with the biggest power plants. The privatization work is led by the Ministry of Finance and includes other state entities such as:

- Mongolian Stock Exchange
- Mongolian Securities Clearing House and Central Depository
- Development Bank
- Finance Regulatory Committee
- State Property Committee
- Office of the Government
- Erdenes Mongol LLC

The privatization list extends to 10 state owned entities, 5 entities with state participation and total of 15 entities and as a result to collect MNT 150 billion into state budget. The first entity to be privatized is the Mongol Post.

APPROVAL OF LAW ON ECONOMIC TRANSPARENCY

August 2015 was the month when State Great Khural approved the Law on Economic Transparency, which was initiated by the Government led by former PM N.Altankhuyag, to bring transparency into the hidden economy.

The approval of the law has resulted in:

- Reporting of income of MNT 6.1 trillion which is equal to 27.9 percent of GDP,
- Reporting of taxes of MNT 1.2 trillion which is equal to 18.8 percent of the tax income of 2014,
- Freeing of fines of MNT 362.1 billion.

Moreover, the implementation of the law resulted in accumulation of MNT 378.6 million into Social Security funds and MNT 5.7 million of the state stamp fees into the state budget.

The law will be effective until February 10th of 2016. According to PM there is a need to make changes into the Taxation laws as huge amount of monies have become evident. But most of the businesses who have been fair since day one are skeptical if the law



has really been that effective. As many see the implementation of the law as only as a support to those who have been shady in their reporting.

MAIN THEME OF THE ECONOMIC FORUM-CREDIBILITY

GoGo News Agency was the main media sponsor of the Mongolian Economy Forum 2015 and delivered the insight from the Government Palace. The main theme of the forum, which was held during the economic downturn, was CREDIBILITY. All of the financial activities are based on the credibility. Therefore, this year's theme was credibility as the Government is paying more attention to drawing investment.

This year's forum has been significant in terms of the discussions held, as the participants have covered wide range of topics covering mining, investments, business environment, local competitiveness, health sector management, tourism, urban development and vision for Mongolia.

Opening speech of Baabar has been most discussed topic as he has accused the people for electing the current leaders, whom he tagged as robbers and called for coming up with list of those robber whom in future we need to be careful not to let them near the political stage.

COAL MONGOLIA 2015: WILL DELIVER COAL TO SOUTH KOREA THROUGH NORTH KOREA

Coal Mongolia 2015 has been conducted in a year of decreased coal market for Mongolia. During the forum new coal processing technologies have been introduced and participants have proposed to set the energy price closer to its real costs, rather than freeing the prices.

While the authorities have announced that coal will still be the main source of energy as Mongolia won't use atomic energy until 2030 and in the meantime the Tavantolgoi power plant to be commenced in 2019. At the same time private entities have delivered their message to the authorities on improving the business environment and approval of the standards in order to allow the coal-chemical industry to develop in Mongolian market. Moreover, over 100 coal projects are frozen for the lack of investments and coincidence of the market decline.

The most pleasant news delivered at the forum was the delivery of coal to South Korea through the port in North Korea, as the test transportation has been held and the MOUs have been signed by the ministries of Mongolia and Korea during the visit of Korean PM in Mongolia.

CONSTANT GDP DECLINE SINCE THE BEGINNING OF THE YEAR

According to the statistics of the first nine months the GDP has seen increase of only 2.5 percent, while in first quarter it was 4.0 and first half was at 3.3 percent respectively. The majority of the GDP increase of the first nine months was from the agricultural sector, as mining, construction and retail sector were hit hard by the economic decline. GDP has been on decline since 2011 and according to the ADB prognosis in 2016 it will be at 3.0 while Ministry of Finance predicts it to be at 4.1 percent respectively.

ECONOMY WILL SHRINK AS THE INFLATION IS ON DECLINE

Inflation has been on constant decline for the last six years and according to the statistics it is at 2.9 percent as of November. NSO has explained such decline with the shrinking economy.

It is no surprise that inflation is at low as the GDP has seen no significant increase and the money supply was low as well. Prices of meat, vegetables and clothes has been the



main drivers of decrease in inflation. While ADB has been warning on possible inflation rates to be at 18 percent the current situation says the opposite with 3 percent.

According to some economists inflation might get back on track, but not as high as previous increase. Bank of Mongolia reported the saving yield increased by 6-7 percent thanks to the low inflation rates. The low inflation is the first sign of the lower policy rates. But the Monetary Council at the Central bank is on waiting mode to see the state budget income before taking any measures to lower the policy rates.

INCREASING DEBT, WAITING FOR DEBT MANAGEMENT...

Total foreign debt of Mongolia reached USD 21.7 billion, which is almost a double from the USD 11.6 billion in 2011. The majority of which is Government debt.

Current value of the Government debt is at MNT 13.7 trillion. Calculations of the debt to be paid in 2016-2018 is to show huge increase:

- 2016 debt of Government and private entities will total to USD 900 million,
- 2017 will be USD 2 billion,
- 2018 will be USD 1.3 billion.

This equals to MNT 8 trillion according to current rates. Coming year will be the year to pay the loan service fees of MNT 962 billion (equals to 37 percent of the total state budget), of which the opposition has announced the day before approving the budget. The reason is just the lack of debt management.

While Bank of Mongolia has warned of having and implementing debt management and Ministry of Finance has come up with plan on how to do the debt management, nothing was approved as of today.

RELATIVELY STABLE CURRENCY RATE OF USD

Sell rate for USD in January of 2015 was at MNT 1927, while some decline occurred in June 2015 at MNT 1898 and then seen the increase and is currently at MNT 2000. This can be regarded as relatively being stable compared to previous years.

The main reason for such USD rates is the shrinking of the mining market, known as the major source of the foreign currency inflow. Bank of Mongolia faced tough task to keep the rates at MNT 2000 by using the currency sources and lending CNY from the Bank of China

Many have had a slight relief with the news of securing the USD 4.4 billion financing for the OT underground mining development, while others are warning to be prepared to have the currency rates be high as there are lots of foreign debt to be repaid next year. It is true that USD 4.4 billion won't come in one big transaction and the amount is to be used for the development of the underground phase of OT.

Anyways predictions of some economists of USD jumping to MNT 2030 haven't realized. But the increase of the currency rates has been good reminder for the nation.

AVERAGE SALARY INCREASED BY MNT 44,000 AND IS MNT 836,000

As of the first nine months the average salary amount is at MNT 836,000, which is the increase by MNT 44,000 compared with the same period of the previous year.

NSO calculates the average salary based on the social security payment. There are 51,000 citizens with salary above MNT 1.5 million and the employees in mining sector are paid the highest, which is above MNT 2 million per month.

MEAT PRICE IN DECLINE LEAVING HERDERS IN DIFFICULT SITUATION

As of the December 16th prices per kilogram of:

- Mutton with bones is MNT 3,900,



- Beef with bones is MNT 5,515,
- Beef is MNT 7,045,
- Horse meat is MNT 4,780,
- Goat meat with bones is MNT 3,280.

It was very recent when beef was MNT 10,000. It is good news for the city dwellers, but leaves herders in a difficult situation. Although the politicians claiming that economic downturn is affecting the herders less, it is obvious that herders are being affected by price decline as well, as their main cash source is the meat and cashmere sales. A year ago the prices per kilogram meat were:

- Mutton with bones MNT 5,825,
- Beef with bones MNT 7,465,
- Beef MNT 9,395,
- Horse meat MNT 5,435,
- Goat meat MNT 4,735 for the comparison.

SUMMARY

Economic downturn continued in 2015 as purchasing power of the citizen's declines and debt stress of the entities have increased. Many questions are waiting for answer such as will the policy rate go down and mortgage loan deposit will be 10 percent.

This year Mongolia managed to attract USD 70 million as investments, while this number was at USD 385 million the previous year. WB predicts that Mongolia will attract USD 900 million. Mongolia ranks 104 out of 140 countries with 3.8 points of 7.0 points. Although Mongolia managed to improve in five criteria, the decline in three also played role in such ranking.

But Mongolia managed to avoid crisis and bankruptcy as Jubilee Debt Campaign analysts predicted ranking Mongolia 8th out of 14 countries with likelihood to go face debt crisis. With still positive GDP Mongolia is on safer side and the underground development of the OT in the second quarter of the next year lets us see our situation in a positive light.

Business

Mongolian and Chinese businessmen donate care house

Ulaanbaatar, December 30 (MONTSAME) The "Friendly Partnership-2016" New Year's celebration has been run by Mongolian and Chinese businessmen.

Co-organized by the Mongolian Unified Confederation of Employers, the "Jung-hua" association of Mongolian and Chinese businessmen and the "Je zhyan" Mongolian business society, the event has attracted Ts.Oyunbaatar, the Deputy Premier of Mongolia; Xin Haiming, the Ambassador Extraordinary and Plenipotentiary of China to Mongolia; leaders of entities and other officials. They have discussed issues of the collaboration between businessmen of the countries and market environment.



During the celebration, the businesspeople have donated money of 10 million Togrog to the "Badamlyankhua" children's care house, founded in 1993. This center aims to render essential aid to those children affected by violence, running training on independence and sense of living to secondary school pupils.

The two countries' businessmen said they will contribute to the bilateral socio-economic ties.

Banking

China-led Asian Infrastructure Investment Bank Enters Into Force: What Next?

December 30 (The Diplomat) The AIIB's Articles of Agreement entered into force, taking the China-led development bank one step closer to operational status.

On December 25, the China-led Asian Infrastructure Investment Bank (AIIB) effectively launched in earnest, marking a major milestone in China's bid to play a more active role in global governance and development. With the ratification of the bank's Articles of Agreement by 17 member states, representing 50.1 percent of the bank's capital stock, the AIIB entered into force. The members that have ratified that bank's Articles of Agreement include Australia, Austria, Brunei, China, Georgia, Germany, Jordan, Luxembourg, Mongolia, Myanmar, the Netherlands, New Zealand, Norway, Pakistan, Singapore, South Korea and the United Kingdom.

In a press release on the bank's website, the AIIB interim secretariat noted that "Entry into force under Article 59 of the Articles of Agreement required deposit of such instruments by at least 10 Signatories with at least 50 percent of the shares allocated."

The next step for the bank as it moves toward becoming operational as a full-fledged multilateral development bank will be the inaugural meeting of its Board of Governors, which will be held on January 16 and 17 in the new year. The interim secretariat, in the same release, notes that "the Board of Governors will announce the commencement of operations, in accordance with Article 60 of the Articles of Agreement."

The inaugural meeting of the Board of Governors is really when the bank will "kick off," so to speak. According to Article 60 in the AIIB's Articles of Agreement, the inaugural governors meeting will formally anoint Jin Liqun (whom I wrote about here), a Chinese bureaucrat and vice minister of finance, its first president. The meeting will additionally elect directors for the bank, set a start date for the bank's formal operations, and decide a range of other administrative matters.

2015 has been a banner year for the AIIB. In March, eager to meet the deadline for founding membership, a range of countries, including western states, rushed to submit their applications. In Asia, the bank's appeal is nearly universal. As my colleague Shannon Tiezzi wrote at the time, "Japan is nearly alone in Asia in not joining the AIIB."



In discussions of China's rise in 2015, the AIIB is commonly brought up as an example of China's growing institutional ambition on the international stage. The bank is commonly invoked as an example of a Chinese alternative to the powerful post-World War II financial institutions favored by the United States and its western allies, including the International Monetary Fund and the World Bank. In Asia, the AIIB is seen as a foil to the Asian Development Bank, where Japan plays a major role.

Heading into 2016, we'll see the AIIB emerge as a new player in the world of development financing in Asia. With a total capitalization of \$100 billion, the AIIB is no small fry on the international stage. For the United States, coming to terms with the AIIB has been difficult. In March 2015, when it emerged that the United Kingdom and other western European states would join, Washington very publicly voiced its concerns about the bank's governance standards.

As I discussed in September, after Chinese President Xi Jinping's latest state visit the United States, it appears that Washington is making peace with the AIIB's existence and popularity. The United States' worries about the bank are well-placed to an extent. The governance structure in effect codifies a veto for China over where the bank's funds are used—with 26 percent voting power, no three-quarter majority decision is possible at the AIIB without Beijing's imprimatur.

That said, given China's overt preference (reflected in the Articles of Agreement, by the way) to dole out capital and technical assistance from the AIIB solely based on economic considerations and setting aside "the political character of the member concerned," there is little chance that Beijing will be able to deploy the AIIB to effect any wily geopolitical machinations. For Washington and Tokyo, it may be best to observe the AIIB's emergence in 2016 and let it operate freely. If circumstances favor success for the AIIB, Washington and Tokyo may even finally sign up to join the bank.

Khan Bank Named One of Top Ten Entrepreneurs of 2015

December 30 (Khan Bank) The Mongolian National Chamber of Commerce and Industry held the "Entrepreneur-2015" Award Ceremony on 28 December 2015 to recognize those leading entities and businessmen that have made enormous contributions to the social and economic developments of the nation.

During the ceremony, Khan Bank was named one of the TOP Ten Entrepreneurs of the Year for its achievements in introducing new products and services based on advanced technology and its great contributions to the banking sector, as well as for the total amount of tax it paid into the state budget and for its implementation of social responsibility.

In 2015, Khan Bank implemented many new activities and initiatives. For example, the Bank has completely replaced its card system, tailoring it to meet international standards, in addition to paying constant attention to reducing branch workloads, improving customer service, and introducing new advanced technology into its operations. As a result, the Bank has opened Express Banking Centers in UB and rural areas, where customers may receive banking services without visiting bank branches. At present, customers are receiving banking services reliably and promptly through over



280 Recycle ATMs installed at more than 60 Express Banking Centers throughout the country.

In the sphere of social responsibility in 2015, Khan Bank implemented more than 30 projects and programs aimed at social well-being and made concrete contributions to society through its Khan Bank Foundation. Among these are such large projects as the National Campaign against Cancer, the Khan Bank Scholarship program, the Khan Bank Forest, and the donation of training materials and medical equipment to kindergartens for children with autism.

Khan Bank was named the "Best Bank in Mongolia" by THE BANKER magazine and welcomes New Year with the inspiration of doing more in 2016.

Khan Bank would like to wish success and express its gratitude to all its customers and partner organizations for their cooperation and dedication for receiving such a highly regarded award.

Mining

Gatsuurt Gold Property to be discussed in Parliament

December 28 (news.mn) On 24th December, Parliament discussed the draft legislation on "State Shares in the Gatsuurt Gold Property". Almost 70% of the members voted that the project should be debated. It has therefore been passed to the Economical Standing Committee. Parliament has also discussed draft legislation for increasing the area of land under special protection. A total of 85.4% of the members voted that this should be discussed: the project has been passed over to the Standing Committee for Agriculture and the Environment, who will be tasked with conducting the preliminary debate.

Industry

Investment agreement of "Moncement Plant" project signed

December 28 (gogo.mn) Investment agreement of "Moncement Plant" was signed by the Government, "Monpoliment" LLC and "Moncement Building Materials" today in accordance with the investment law.

Specifically, 20.1 Article of Investment Law stated that "The Government of Mongolia shall conclude an investment contract with the investor who is to invest more than MNT



500 billion at the investor's request with the purpose of stabilizing the environment of business activities."

Working group in charge of concluding investment agreement with project investors was established at the order of PM.

Working Group led by the Minister of Industry D.Erdenebat proposed 83 principles and technical requests to the agreement and made negotiation with investors side. Delegations from all ministries involved in the Working Group.

Draft agreement has 16 articles and 19 pages which included amount of investment to the project and its stages, source, stabilization of tax issue, rights, duties and responsibilities of the Government and investors, the environment, social issues and other issues.

Project investor "Monpoliment" LLC started the project to establish dry technology cement processing factory based on Senjit Hudag limestone deposit located in Urgun soum, Dornogobi aimag since 2006. In further, "Moncement Building Materials" LLC to implement this project. If "Moncement Plant" to work with their high capacity;

- 984 000 tons of clinker
- 1 000 000 tons of cement
- 100 000 tons of lime to be produced.

The total investment required for the project is MNT 512.2 billion. Currently, MNT 463.4 billion was invested. Remaining MNT 48.8 billion will be funded by the investors, international banks and financial institutions.

WHAT RESPONSIBILITY DID THEPROJECT IMPLEMENTOR "MONCEMENT BUILDING MATERIALS" LLC TAKE?

- To budget total of MNT 458.1 billion to the state budget as tax (MNT 21.8 billion in a year)
- To employ 375 Mongolian citizens
- To construct kindergarten, apartment for 220 households, shopping center by their own financing
- To decide environment and social issues
- To cooperate with local authorities and residents
- To choose domestic entities at first as subcontractors and suppliers needed for the construction and production of the project

This agreement became the third agreement which was established in accordance with the investment law implemented since the end of 2013.

Energy

Mongolia and China strengthens energy cooperation

Ulaanbaatar, December 30 (MONTSAME) A Memorandum of Understanding on cooperation has been signed by Ministry of Energy of Mongolia and China National



Complete Engineering Corporation. The company is the main executor of site work of the MonCement project.

The MoU binds long-term sustainable cooperation between Mongolia and the People's Republic of China in energy sector, mainly, in order to meet the increasing demand of power supply of Mongolia through utilizing Chinese practices of plant building and operations, noted the State Secretary of the Ministry D.Delgertsogt.

Present at the document signing ceremony were, the Energy Minister D.Zorigt and A.Tleikhan MPs.

Company News

Prophecy Development Corp (PCY) Director Sells 1,000,000 Shares of Stock

January 1 (dakotafinancialnews.com) Prophecy Development Corp (TSE:PCY) Director John Lee sold 1,000,000 shares of the business's stock in a transaction that occurred on Tuesday, December 29th. The shares were sold at an average price of C\$0.04, for a total value of C\$35,000.00.

John Lee also recently made the following trade(s):

On Thursday, December 24th, John Lee sold 350,000 shares of Prophecy Development Corp stock. The stock was sold at an average price of C\$0.04, for a total transaction of C\$12,250.00.

On Tuesday, December 22nd, John Lee sold 2,350,000 shares of Prophecy Development Corp stock. The stock was sold at an average price of C\$0.04, for a total transaction of C\$86,950.00.

Prophecy Development Corp (TSE:PCY) opened at 0.035 on Friday. The firm's market capitalization is \$11.96 million. The stock's 50 day moving average is \$0.03 and its 200 day moving average is \$0.05. Prophecy Development Corp has a one year low of \$0.02 and a one year high of \$0.08.

Prophecy Development Corp., formerly Prophecy Corp., is engaged in exploration and development of coal properties. Prophecy Power Generation LLC (TSE:PCY), wholly owned subsidiary of Prophecy Coal has the Chandgana Coal-Fired Power Plant Project Province in Central Mongolia which includes the building of a 600 MegaWatt coal fired mine-mouth power plant. The Chandgana Coal Project is located in Khentii Aimag in eastern Mongolia lies within the Nyalga Coal Basin and has exploration and mining licenses which host a measured resource of approximately 633 million. The Okeover Property (copper-molybdenum) consists of eleven cell mineral claims located in the Vancouver Mining Division of southwestern British Columbia, northwest of Vancouver covering an area of approximately 3,950 hectares. Prophecy Resource Corp. has an 80% interest in the Titan Vanadium-Titanium-Iron. The Kanichee Mine, located in the Temagami region of northeastern Ontario, Canada has produced 4.2 million pounds of metal.



Turquoise Hill Resources Ltd (NYSE:TRQ) Given Average Rating of “Hold” by Analysts

December 29 (putnamstandard.com) Shares of Turquoise Hill Resources Ltd (NYSE:TRQ) have received a consensus rating of “Hold” from the eight ratings firms that are covering the company, Marketbeat reports. Two research analysts have rated the stock with a sell rating, one has given a hold rating and three have given a buy rating to the company. The average 12 month price objective among brokerages that have issued ratings on the stock in the last year is \$5.75.

Shares of Turquoise Hill Resources (NYSE:TRQ) opened at 2.59 on Tuesday. Turquoise Hill Resources has a 52 week low of \$2.28 and a 52 week high of \$4.74. The firm's 50-day moving average price is \$2.58 and its 200 day moving average price is \$3.05. The firm has a market capitalization of \$5.21 billion and a price-to-earnings ratio of 18.50.

Turquoise Hill Resources (NYSE:TRQ) last issued its earnings results on Thursday, November 5th. The company reported \$0.01 earnings per share (EPS) for the quarter, missing the Zacks' consensus estimate of \$0.02 by \$0.01. The company earned \$431.70 million during the quarter, compared to analyst estimates of \$522.85 million. The firm's revenue was down 12.2% on a year-over-year basis. During the same quarter last year, the firm earned (\$0.05) EPS. On average, analysts anticipate that Turquoise Hill Resources will post \$0.11 EPS for the current year.

A number of equities analysts recently issued reports on the company. Macquarie upgraded Turquoise Hill Resources from a “neutral” rating to an “outperform” rating in a report on Monday, November 9th. Zacks Investment Research cut Turquoise Hill Resources from a “hold” rating to a “sell” rating in a report on Monday, November 9th. TD Securities upgraded Turquoise Hill Resources from a “hold” rating to a “buy” rating in a report on Friday, December 11th. Finally, Scotiabank decreased their target price on Turquoise Hill Resources from \$5.75 to \$5.00 in a research report on Tuesday, September 29th.

Turquoise Hill Resources Ltd. (NYSE:TRQ) is an international mining company focused on mining operations in Mongolia. The Company's principal and only material mineral resource property is the Oyu Tolgoi copper-gold mine in southern Mongolia. The Oyu Tolgoi Mine is approximately 550 kilometers south of Ulaanbaatar, Mongolia's capital city, and 80 kilometers north of the Mongolia-China border. The minerals on the property consist of porphyry-style copper, gold, silver and molybdenum contained in a linear structural trend (the Oyu Tolgoi Trend) that extends over 26 kilometers. Mineral resources include, from south to north, the Heruga Deposit, the Southern Oyu deposits (Southwest Oyu, South Oyu, Wedge and Central Oyu) and the Hugo Dummett deposits (Hugo South, Hugo North and Hugo North Extension).