

# Mongolia Growth Rate May Sink by One-Third, Central Banker Says

By Rishaad Salamat & Yuriy Humber - Oct 30, 2012 11:40 AM GMT+0800

Mongolia's central bank governor said that the nation's growth rate may slow by a third this year from a record 17 percent in 2011 as inflows of foreign investment cool.

"It's a reality check for us," Naidansuren Zoljargal said in an interview with Bloomberg Television in [Hong Kong](#) today, saying that the pace of expansion may be a "very healthy" 11 to 12 percent.



Standard & Poor's yesterday revised down its outlook for Mongolia's debt rating to stable from positive, citing increased risks of volatility in an underdeveloped economy. The [World Bank](#) said in February that the nation should guard against "another boom-and-bust cycle," while foreign investors are concerned after [Rio Tinto](#) Group said it was asked to renegotiate a deal for a \$6 billion mine.

Zoljargal said Mongolia is focusing on investment in infrastructure to improve the competitiveness of the [mining industry](#) that is the drawcard for overseas investors.



Mongolia's new government, led by Prime Minister Norovyn Altankhuyag, faces challenges ranging from wealth disparities to the slowdown in neighboring [China](#), the destination for most of its exports. Rio Tinto, the world's second-biggest mining company and the biggest single foreign investor in the nation, said this month that it had rejected a renewed government request to renegotiate a 2009 deal over the

Oyu Tolgoi copper mine.

## IMF Forecast

The [International Monetary Fund](#) said last month that growth is likely to be in "double digits" this year and to accelerate in 2013 as Oyu Tolgoi starts to produce and the Tavan Tolgoi mine expands.

While the central bank has tightened monetary policy, raising the official policy rate to 13.25 percent and increasing reserve requirements, "inflation remains high and pressures on the balance of payments are increasing," the IMF said in last month's report.

Mineral product exports, which account for more than 90 percent of the country's goods sold abroad, fell 41 percent in September from a year earlier to \$324 million, on reduced demand from China, government statistics show. That was the biggest decline in three and a half years.

Inflation is about 15 percent, “primarily due to rapidly rising [government spending](#),” the IMF said last month. That exceeds the central bank’s target of a rate of less than 10 percent this year and below 8 percent in 2013 and 2014.

## **Investment Rules**

Perceived uncertainty over investment rules after a political debate over renegotiating the Oyu Tolgoi contract is hurting Mongolia’s standing among foreign investors, the IMF said.

The likelihood of an upgrade for the nation’s debt rating has waned with increases in external borrowing and domestic credit growth that could lead to “financial sector problems,” Standard & Poors said. The ratings company reduced the outlook on the BB- long-term rating to “stable” from “positive,” highlighting the nation’s dependence on mineral sales and “the lack of a strong political leadership.”