

# MONGOLIA: WHAT'S NEW?



## Summary

It is no secret that the fall in global commodity prices and Chinese demand has hurt the Mongolian economy. In addition, the Mongolian government is facing a number of imminent debt repayments and the prospect of having to restructure its sovereign and parastatal debt remains very real.

## Introduction

Copper, coal, iron ore, gold and zinc account for the vast majority of Mongolia's exports, and nearly 88% of the country's exports are to China. As such, the Mongolian economy is precariously exposed to the drop in global commodity prices and slump in Chinese demand for these commodities. This is reflected in the projected economic growth figures: Mongolia's economic growth reduced from 7.8% in 2014 to 3.0% in the first half of 2015. According to the Asian Development Bank, growth is anticipated to bottom out at 2.3% in 2015, before a modest increase to 3.0% in 2016.

## What has happened?

Mongolia's upcoming debt repayment obligations are eye-watering.

Mongolia sold its first international government debt, US\$1.5 billion of dollar-denominated Chinggis Bonds, in November 2012 with repayments due in 2018 and 2022. The government has also guaranteed two bonds for Trade and Development Bank of Mongolia, including a US\$500 million dollar medium-term-note programme set up earlier this year, which mature in 2017 and 2020. The state-owned Development Bank of Mongolia, which finances social development and commercial projects, and grants subsidised mortgage credits, has a US\$580 million bond due in 2017. A CNY15 billion (US\$2.4 billion) bilateral three-year swap line with the People's Bank of China is due to expire in 2017, though this may be extended. A CNY1 billion (US\$161.1 million) three-year sovereign dim sum bond was issued in June.



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**BRIAN GORDON, PARTNER**

With so many repayments due to fall in the coming years, it is questionable how Mongolia will be able to meet its debt obligations. Moody's external vulnerability indicator, measuring maturing external debt payments in relation to foreign reserves, stands at 203.7%. Among the nations that Fitch rates, Mongolia has the second highest net external debt to GDP ratio at 129.8% and this burden is predicted to ease slowly to 119.8% by 2017.

Under the Debt Management Law of Mongolia passed earlier this year, the government can guarantee borrowings of the Development Bank

of Mongolia in full, or up to 85% of borrowings of other eligible entities. Litigation proceedings, such as those ongoing between Standard Bank and the Mongolian petroleum distributor Just Group, could become a regular occurrence. In this case, a loan, now in default, from Standard Bank to Just Group came with a guarantee from government-backed Erdenet Mining Corporation, which is the operator of a major copper deposit.

#### **That's the bad news, here's the good**

In addition to the troubling macro-economic worries resulting from the slowdown in the Chinese economy, Mongolia was also the subject of what many commentators considered to be self-inflicted negative publicity, which led to foreign investment paralysis. The most publicised was the long-running dispute with Rio Tinto over the Oyu Tolgoi mine. What is however refreshing, is the resilience of the parties to work out a negotiated solution that both parties, Rio Tinto and the Mongolian government, can be satisfied with. Whereas there are numerous examples of nations acting far slower to correct and restore market confidence, Mongolia deserves credit for working with Rio Tinto on this issue. The hope is that it has not been too late.

#### **What can HFW do?**

HFW has particular experience in advising on the renegotiation of loans provided to both sovereign nations and parastatal companies as well as private companies. Earlier this year we worked on behalf of the Republic of Niger on a sovereign debt restructuring deal, whereby the Government of Niger was able to secure more favourable and achievable payment terms, reduced

interest and a write-down of capital. We develop both the strategy and the implementation to generate the best possible results for our clients. Our recent experience is indicative of what can be done in Mongolia for the government, parastatal and private companies.



For more information, please contact the authors of this briefing:

**Brian Gordon**

Partner, Singapore  
T: +65 6411 5333  
E: brian.gordon@hfw.com

**Nick Hutton**

Partner, London  
T: +44 (0)20 7264 8254  
E: nick.hutton@hfw.com

Research conducted by Sammy Beedan, Trainee Solicitor.

HFW's Singapore office is part of an international network of 13 offices in 11 countries. For further information about corporate issues in other jurisdictions, please contact:

**Giles Beale**

Partner, London  
T: +44 (0)20 7264 8585  
E: giles.beale@hfw.com

**Patrick Cheung**

Partner, Hong Kong  
T: +852 3983 7778  
E: patrick.cheung@hfw.com

**Robert Follie**

Partner, Paris  
T: +33 1 44 94 40 50  
E: robert.follie@hfw.com

**Aaron Jordan**

Partner, Melbourne  
T: +61 (0)3 8601 4535  
E: aaron.jordan@hfw.com

**Pierre Frühling**

Partner, Brussels  
T: +32 (0) 2643 3406  
E: pierre.fruhling@hfw.com

**Carolyn Chudleigh**

Partner, Sydney  
T: +61 (0)2 9320 4620  
E: carolyn.chudleigh@hfw.com

**Jeremy Davies**

Partner, Geneva  
T: +41 (0)22 322 4810  
E: jeremy.davies@hfw.com

**Matthew Blycha**

Partner, Perth  
T: +61 (0)8 9422 4703  
E: matthew.blycha@hfw.com

**Jasel Chauhan**

Partner, Piraeus  
T: +30 210 429 3978  
E: jasel.chauhan@hfw.com

**Jeremy Shebson**

Partner, São Paulo  
T: +55 11 3179 2900  
E: jeremy.shebson@hfw.com

**Rula Dajani Abuljebain**

Partner, Dubai  
T: +971 4 423 0502  
E: rula.dajaniabuljebain@hfw.com

**Henry Fung**

Partner, Shanghai  
T: +86 21 2080 1000  
E: henry.fung@hfw.com

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