

## Economy

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After years of flat or negative growth rates, economic growth took off in 2004 (10.6%) and is expected to stabilize at between 5 to 6% per year for the next few years (2005 estimate is 5.6%). The bulk of this growth comes from two sectors &ndash; agriculture (2004: 25% of GDP) and mining (2004: 12% of GDP). There are tangible signs of prosperity; wooden or brick houses are springing up alongside -- or instead of -- gers in the urban centers. Ulaanbaatar experiences traffic jams at almost any hour of the day. New shopping malls, restaurants, bars and discos and internet cafes are opening up every month. Inflation has stabilised to around 5%, this is being closely matched by the growth of real GDP. As the banking sector recovered from its 1997 crash, consumer confidence improved better rates of interest are constantly being offered thus encouraging domestic credit from the private sector, this while domestic and foreign deposits are growing in importance and the budget balance is improving.

### Rates of Inflation

Source: World Bank Country Brief

### Real GDP Growth

Source: World Bank Country Brief

MINING Mongolia has extensive and largely untapped mineral resources. Owing to poor infrastructure, only about 15% of the total area has been geologically mapped. In 2005, the Government invested \$54.5 million in infrastructure development. The mining sector is expected to play an important role in the country's future economic development. The Government adopted several long-term programs to explore for and develop metallic and non metallic minerals, such as coal, copper, fluorspar, gold, oil, and silver. The Government also encouraged foreign investment and participation in exploration, exploitation, and processing of minerals. Mining accounted for about 30% of the country's industrial output and 60% of its export revenue. In 2004, a total of \$100 million was spent on exploration in Mongolia, mainly by the private sector (Mongolia Development Gateway, 2005d§; UB Post, 2005b§). The value of metal and mineral exports and imports accounted for about 57.5% of the country's total trade value. Mongolia exported nearly all its output of copper concentrates and molybdenum concentrates to China and fluorspar was shipped to Japan and Russia. Mineral exports from Mongolia are expected to increase in the next couple of years. A copper smelter and a zinc plant are scheduled to be put into operation in 2005 and 2006, respectively. Gold mining in Mongolia increased significantly during the past decade, and the number of companies engaged in gold mining grew in the 1990s to more than 100 and produced a total of more than 12 t of gold. Gold mines at Borro, Bumbat, and Olon Ovoot were put into operation. Gold output increased sharply and was expected to continue to increase in the near future. More than 90% of total output was exported mainly to China. Since 2002, to encourage gold mining, the Mongol Bank started to buy gold from individual gold producers at the world market prices as for entities and companies. Because of climate and environment, gold excavation in Mongolia is not a year-long operation. In 2004, the Mongol Bank purchased 11.6 t of gold from local producers, and gold producers sold and exported about 7.5 t of gold directly to other buyers (Mongolia Development Gateway, 2005b). On March 1, the first hard-rock gold mine Boroo Gold Mine, which was operated by Boroo Gold Company, began operation. The total capital cost for the development of the mine is \$75 million. The mine is located in Bayangol district, Selenge Province, about 110 km north of Ulaanbaatar. The mine had gold reserves of 44 t of gold and a mine life of 8 years. Annual gold output was about 5 t (Mongolian News, 2004§). Solomon Resources Ltd. announced that the company had signed an MOU with Gallant Minerals Ltd. to acquire up to an 80% interest in each of 20 gold and base-metal projects in Mongolia. Gallant owned and managed 38 exploration licenses that covered 188,000 hectares in Mongolia.