Original Sin: Is Mongolia Facing an External Debt Crisis?

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Abstract

While many developing nations struggle under chronic debt distress, the current generation of Mongolians are considered to be fortunate people as they have no original sin, or foreign denominated debt, left to them by the previous generations. Yet they may not be as fortunate any longer as they have created excessive debt in recent years since the cancellation of large debt and the fresh start of 2005. Through the abuse of power and position, the authorities have altered the debt management laws that allowed them to contract more debt in excess of economic capacity. The debt sustainability analysis concludes that pre-crisis conditions have been formed and the crisis is imminent. Authorities will have to tackle both public and private debt in order to have realistic views on and solutions to the debt issue. Having no viable economic means in sight to overcome the debt crisis, what will the government do? We don't know yet, but certainly there are difficult times ahead for the government.

Keywords: external debt of Mongolia, original sin, debt crisis, debt threshold, public and private debt

In Christian doctrine, a sin committed by the human ancestors, Adam and Eve, who ate the forbidden fruit in the Garden of Eden, was the first human sin. Thus, this sin is called original, and also ancestral sin and it is hereditary. As a result of original sin, we humans are sinful in nature and still bear the consequences of the transgression of our ancestors. Likewise, original sin in economics is the foreign currency denominated debt created by our forefathers and passed down the generations. Eichengreen, who coined the term "original sin" and started using the metaphor, described it as the developing world's inability to borrow abroad in their local currencies and the accumulation of external net debt (Eichengreen et al, 2002). Recent developments of foreign debt crises in Iceland, Ireland, and Greece, etc., testify to the fact that debt denominated in foreign currencies is no longer a problem of the developing world only, but can be a problem for the developed world as well. Yet dealing with original sin is much more of a burden to emerging economies such as Mongolia than to developed countries with strong base economic structures.

Given falling GDP, an increasing budget deficit, decreasing foreign reserves and other negative macroeconomic indicators, experts agree that Mongolia is in economic recession, if not in crisis. Yet, the most depressing issue of foreign debt has not received the full attention it deserves. It may be that this is due to the authorities' unwillingness to attract the "unnecessary" attention of the public to the amount of foreign debt the country has accumulated and the public's unfamiliarity with the extent of the consequences the oversized external debt might bring to the country. No matter how hard politicians avoid bringing the problems of external debt to light, the debt threat is imminent and the consequences are dire, and it is just a matter of time until the debt issue is the decisive factor in the politics and socio-economic life of Mongolia.

Misuse and misunderstanding of debt by the Mongolian authorities and the anomalies in debt management laws are two fundamental issues of the debt problems the country is now facing.

1. Foreign Debt according to Mongolians

It is a commonly accepted view in Mongolia that unlike many other developing nations, modern Mongolians are considered to be fortunate and people blessed by their forefathers, who left them an independent state free of original sin. History reveals that there were two periods in the past that foreign debt was a threatening issue to the state: debt problems arose before and during the fall of the Qing dynasty in 1911, and; the ruble-denominated debt payment demanded after the 1990 social transition to a market economy. In both cases the debt was cancelled and no original sin was passed down to the younger generations. With the fall and disintegration of the Manchu Qing dynasty in 1911 and a national revolution in 1921, most of the much disputed foreign debt Mongolians were alleged to have owed to Manchu/Chinese merchants was cancelled. During the 70 years as a Soviet satellite state, Mongolia accumulated US$11.4 billion worth of Soviet ruble-denominated debt. After much debate and discussion on the international stage, however, 98% of the debt was written off by Russia, and with the remaining 2% paid off in cash, Mongolia was freed of over 91% of external debt burden by the beginning of 2005 (IMF, 2005, pp. 6–7). One can see the significance of the debt-free state of mind for Mongolians as there is a proverb for it: “Being rich is being debt-free, being happy is being free of illness.” However, this fortunate and blessed status of the current generation may soon change due to the accelerated accumulation of foreign debt.

There is no doubt that the 2005 debt relief gave Mongolians a much awaited hope for catching up with other fast-moving developing nations and presented an opportunity for a fresh start in the social system of the market economy the country had adopted fifteen years earlier. Unfortunately, as current economic analysis shows, the hope for a catch-up was dashed, and Mongolians wasted an opportunity to exploit the favorable circumstances the debt relief had presented to them. Since 2005 Mongolia’s total foreign debt grew quickly to US$20.98 billion or 175% of GDP now, with private debt making up 25% and the remaining 75% being public debt (Bank of Mongolia, 2015). The total amount of foreign debt and the public–private debt ratio is crucial to the Mongolian authorities, as public debt has a legal limit and private debt, although with no legal limit, has a significant impact on government debt management and the Mongolian economy as a whole. The government manages public debt through a combination of two laws: the “Fiscal Stability Law” (FSL) adopted in 2010 and renewed in 2015 (State Great Khural, 2010) and the “Debt Management Law” (DML) adopted in February 2015 (State Great Khural, 2015a).

Laws are made to be abided by and serve the purpose of limiting unlimited human desires and needs, and are not supposed to be tailored to the desires of the authorities. But a newly passed bill, the DML, altered the previous law, making additional room for the government to contract more debt. Thus the phrase “In Mongolia, laws don’t limit the debt size, but debt size limits the laws” became popular. This action by the authorities is viewed by many as an abuse of power and position that will bring harmful effects to the nation’s economy. Until the DML bill was passed this February, Mongolia had accepted and at least nominally followed the debt management rulings set in the FSL, which were recommended by the IMF and World Bank and designed based on the Debt Sustainability Framework (DSF) which is a standardized framework for conducting public and external debt sustainability analysis (DSA) in low-income countries (LICs). The DSF is designed to help LICs in making borrowing decisions, guides creditors to wise lending and most importantly it assesses and evaluates a country’s debt-standing which is integral to analyzing overall economic health. However, recent amendments to the FSL and a newly implemented DML were made in violation of DSF standards and have created a legal environment for the authorities for excessive external borrowing by increasing the debt threshold from the present value (PV) of debt, 40% of GDP, to 58.3% for 2015, and by narrowing the definition of government debt which excluded the borrowing of state owned enterprises (SOEs), government guarantees secured by government securities, and the Bank of Mongolia's currency-swap line from public debt (State Great Khural, 2010, 2015).

These changes in debt management laws have served the specific purpose of artificially reducing the amount of public debt by at least US$400 million, by immediately excluding the debts of several SOEs from the public debt account which includes but is not limited to: the outstanding payment amounts of US$250 million which the government borrowed in the form of a tax prepayment from the controversial Oyu Tolgoi, a Rio Tinto and Mongolian government joint mining company, and the US$350 million of another interest-bearing tax prepayment the government received from Tavan Tolgoi, a national coking-coal corporation wholly owned by the government which in turn owes the sum to China's Chalco, a coal giant. Moreover, the legislation made it possible to exclude Mongolia's currency-swap line with other countries such as China from the government's debt figures. The Chinese and Mongolian central banks have a supplementary currency-swap arrangement, signed in 2011. This bilateral 15 billion yuan (US$2.44 billion) or approximately 4.7 trillion togrog swap agreement, which ends in 2017 (Mongolian National Broadcaster, 2014; IMF, 2014b), is said to have been a life-line for cash-strapped Mongolia.

Concurrent with the reduction of the amount of public debt by narrowing its definition, the raising of the debt ceiling to 58.3% for 2015, far above the indicative 40% threshold, was a breach of the debt management standards recommended by international financial organizations. Debt threshold changes were implemented on a decreasing scale on a yearly basis: 58.3% for the current year 2015, 55% for 2016, 50% for 2017, and back to 40% for 2018 (State Great Khural, 2015b). While this may be seen as an attempt to secure public debt at the previous, safe level of 40% of GDP eventually, pragmatism in the politics of the country and analysis of the actions of the current authorities suggest that such "generous" and patriotic actions are not realistic, and not genuine. Thus, it's hard to deny the commonly held views that the debt management laws are made to meet the needs and desires of the authorities who have more concern for their own future political careers and personal gain rather than the country's cash-strapped economy, which largely depends on external borrowing. Therefore, the logic is to borrow as much as possible to keep injecting borrowed money in the form of cash into the economy and pave the way to the next parliamentary elections in 2016. If elected, they will raise the debt ceiling again to borrow more; if not elected, then they will leave it as it is, at 55% for 2016, limiting the borrowing needs of the newly elected.

2. Misunderstanding and Misapplication of the Debt Threshold

A new expression "money owed to lenders is not debt, it's just a loan, and debt is when we fail to pay the loan" was coined by economists working for the ruling political faction and was popularized on the public media to justify the ever-increasing amount of external public debt that has already exceeded the legal limit.

Before the new DML bill was passed, the initial threshold that limited government's borrowing to the PV of debt-to-GDP ratio of 40%[1] was legislated in the "Fiscal Stability Law." This threshold was based on the country's debt sustainability analysis (DSA) and presumably was suggested by the World Bank and IMF, organizations that had significant roles in restructuring, rebuilding and directing Mongolia's financial structure since 1990. Under the standardized DSF for analyzing the debt-related vulnerabilities for emerging economies introduced in 2005, reviewed in 2009 and based on the World Bank's Country Policy Institutional Assessment (CPIA),[2] a set of policy criteria, Mongolia with a CPIA average assessment rating of 3.44 in 2010–2014 by both the World Bank and Asian Development Bank (World Bank, 2014; Asian Development Bank, 2014) falls into the "medium policy" performer group. Of five baseline scenario measures for setting a country's external public debt threshold, the PV of external public debt-to-GDP ratio is most frequently used. On the one hand, as a medium performer, Mongolia's indicative external public debt threshold is the PV of debt at 40% of GDP (see Table 1). On the other hand, ranked in the medium policy group, the country's indicative public debt thresholds are 56% in the PV of debt-to-GDP and 62% in the nominal value of debt-to-GDP ratio (see Table 2).

Table 1: Indicative Policy-Dependent Threshold for External Public Debt

Debt Sustainability Framework: Indicative Policy-Dependent Thresholds
(Applicable to public and publicly guaranteed external debt)

	PV of debt in percent of			**Debt service in percent of**	
	Export	GDP	Revenue	Export	Revenue
Weak Policy (CPIA<3.25)	100	30	200	15	18
Medium Policy (3.25<CPIA<3.75)	150	40	250	20	20
Strong Policy (CPIA>3.75)	200	50	300	25	22

Source: IMF

The present value of the debt-to-GDP ratio is the most popular and frequently used baseline scenario measurement indicator in Mongolia. Based on the five-baseline measurement assessment, one of four possible risk-of-debt-distress ratings—high, moderate, low risk, and in debt distress—is assigned to a country (IMF and World Bank, 2012, pp. 6–7).

As indicated in the DSF analysis, being a "medium performer" (IMF 2015b), Mongolia's external public debt threshold should certainly have been capped at a debt-to-GDP ratio of 40% in PV terms. However, there were no laws or policies that administered external public debt, let alone setting a threshold. The threshold set in the FSL, a present value of debt of 40% of GDP, is applicable to total public debt, instead of external public debt as indicated in the IMF debt sustainability policies (Table 1). Unlike Japan or other developed nations, Mongolia's total public debt is composed largely of external debt, domestic debt making up about 20–30%. The misuse of DSF assessment thresholds or what may have been an error in what the World Bank set as the external public debt threshold for late-developing countries, including Mongolia, and what our authorities legislated in the FSL created confusion about and misunderstanding of debt not only among politicians but also among economists and researchers. As a result, many see the 40% threshold set in the FSL as a limit to the external public debt instead of the total public debt. Even some IMF staff (IMF 2015b) as well as the Mongolian authorities, giving no explanation or without distinguishing public debt from external public debt, would refer to the World Bank's CPIA-based external public debt rankings, where Mongolia is placed in the "medium performer" group and the threshold is set at 40% as a recommended standard against which to measure a country's total public debt threshold. Ironically, with the growing threat of an external public debt burden, this "error or misuse of the debt threshold" was viewed as not being that bad, as it would limit the government's total debt to 40% only, part of which will be external public debt. Yet, as we know, with the alteration of debt management laws in February 2015, the 40% threshold was raised to 58.3% for 2015, and it has no meaningful positive effect on the debt distress risks the government is facing now.

In the DSF debt distress rating policies (Table 1), a breach in the debt threshold signals a heightened risk of vulnerabilities and places a country into a "high risk" rank which is defined as "one or more debt burden indicators breach the thresholds on a protracted basis under the baseline scenario" (IMF and World Bank, 2012, p. 6). The debt dynamic has been worsening since the 2013 DSA, which alarmed the authorities with the public debt-to-GDP ratio hitting 67%. According to the IMF's 2014 DSA report for Mongolia (IMF, 2014a), total public debt stood at 77% of GDP and external public debt reached 56% by the end of 2014, which far exceeded the FSL's 40% limit, and other key external debt indicators, such as debt-service ratios, have breached or are projected to breach it, with Mongolia at high risk of public debt distress under the baseline scenario.

We've determined that there was confusion and an error in setting the debt threshold to the right category of debt. The World Bank–IMF indicative thresholds for external public debt were applied to limit the amount of public debt. No standards or indicative thresholds were mentioned or used for measuring the total amount of public debt or for comparing the legislated threshold against. But IMF staff (IMF and World Bank, 2012), produced indicative thresholds for public debt that could be used to measure debt distress risks (Table 2). This public debt-to-GDP threshold expressed in both PV and nominal terms made it quite simple and effective to see the current public debt standing.

Table 2: Indicative Policy-Dependent Threshold for Public debt

	PV of debt-to-GDP ratio for **Public Debt**	Nominal value of debt-to-GDP ratio for **Public Debt**
Weak Policy (CPIA<3.25)	38	49
Medium Policy (3.25<CPIA<3.75)	56	62
Strong Policy (CPIA>3.75)	74	75

Source: IMF

As you can see from Table 2, for a medium performer like Mongolia a debt-to-GDP ratio of 62% in nominal terms is the threshold and the 60% ratio is the “tipping point.” In present value terms, 56% and not 40% as it is legislated in FSL should have been used as the threshold for public debt (Table 2).

As the newly passed Debt Management Law allowed more room, the government was quick to contract more external debt to fill the 18.3% increase, which resulted from raising the 40% threshold for the PV of debt-to-GDP ratio to the current 58.3% for 2015.

Under the new debt management framework, for the second quarter of 2015 Mongolia’s total public debt stood at 13.2 trillion togrogs[3] or 55% of GDP in nominal terms, and 10.9 trillion togrogs or 46% of GDP in PV terms. External public debt was US$5.4 billion or 45% of a US$12 billion dollar economy, 5% over the indicative threshold (Ministry of Finance of Mongolia, 2015). However, with the large revenue shortfall reaching 18% in the first half of 2015, the togrog falling 43% against the US dollar in the past three years, and other deteriorating macroeconomic indicators, Mongolia’s authorities sought even more debt from external sources to help its faltering economy and have even been considering an IMF emergency loan under the “standby” program. Within the month of June alone the government contracted US$325 million of debt from external sources: US$163 million from the World Bank to supplement the budget deficit,[4] and US$161.08 million from a “dim sum” bond issued in Chinese yuan (Chen, 2015). Also, a recent prime ministerial visit to Washington and London claims to have concluded in success in securing more loans and investment from private sources, such as JP Morgan Chase and Rio Tinto, which ultimately will increase the country’s total external debt, if not external public debt.

No official DSA or government debt assessment report has been released yet for the current public debt standing and due to the unavailability of complete data on external public debt and the difficulties in determining discount rates used in calculating the PV of debt, no PV of debt-to-GDP ratio has been determined and no in-depth debt analysis, based on the new debt management framework, was produced by independent analysts and economists. However, the public debt-to-GDP ratio hitting 46% for the PV, 55% in nominal terms, signals a high debt distress risk as the given ratios are not too far from the IMF’s indicative risk thresholds of 56% and 62% respectively (see Table 2).

Misunderstanding of debt as a way to satisfy its growing financial desires and needs and raising debt thresholds to an unmanageable level have only increased the debt distress risks. With more debt contracted already with the new threshold and debt administration law, a rising trend is apparent of public debt and debt-to-GDP ratios that could further deteriorate debt dynamics and bring looming debt defaults closer.

3. Anomalies in the Debt Management Law (DML)

Before the country ran into a financial crisis of a cash shortage and a budget deficit in the past two years, public debt wasn’t a public issue and was quietly managed by rulings in the FSL. But with the debt threshold being breached by 2014, authorities made amendments to the FSL to raise the debt threshold and passed a new Debt Management Law. Unfortunately, these changes in the DMF have legislated rules, anomalies that served the desires and needs of the authorities and increased the risks of debt distress. Another of its limitations was that it included no rulings or thresholds for handling growing external public debt, as seemed necessary, and authorities were free to fill the gap in the public debt threshold with more external borrowing. Raising the debt threshold to a level beyond its economic capacity, exclusion of government owned enterprises and government guaranteed debts from public debt, and the rules allowing debt creation for budget supplements and bridging the old debt payments were anomalies legislated in the new debt management law.

While amendments to the FSL resulted in raising the PV of debt-to-GDP ratio to 58.3% for 2015 and lowering it back to 55% for 2016, and 50% for 2017 before stabilizing back at 40% for 2018, a new DML, that according to authorities was implemented to better manage and control public debt, loosened borrowing limits by excluding from public debt SOE debt, secured government guarantees, and the Bank of Mongolia's currency swap line with the Bank of China. It is ironic, as analysis shows, that the DML in fact had a worsening effect on public debt. The debt management environment was worse than it had been before. A decrease in the amount of debt and the raising of the threshold resulting from the altering of the debt management strategy gave authorities a false sense of debt reduction and improvement of the debt absorption capacity. But actually, with more external debt contracted and with the exclusion of debts that will have to be paid off from the government budget in any case, the risks of debt distress are higher now than before the new DMF was implemented. As of the present, about 12% of the state budget is spent on servicing debt, but this is projected to triple, if not quadruple, in the next two years. Also, despite official reports of debt reduction and capable debt management which kept debt under the legal threshold, Mongolia's sovereign credit rating did not improve at all. International credit rating agencies, for example Moody's, in July last year downgraded Mongolia to B2, a lower grade than B1, indicating the high risk of the country's investment environment (Moody's, 2014). The outlook remains negative now and agencies attribute their downgrade largely to a continued rise in the external debt burden and other macroeconomic factors, such as a sharp loss in foreign currency reserves and the strained liquidity situation which increase the country's vulnerability to external and domestic shocks relative to their peers with the same rating.

The other anomalies implemented in the new DML were the law's articles legitimizing the purpose of debt creation. In Article 12.1.1 it is indicated that debt is to be created to finance fiscal deficits and Article 12.1.4 states that new debt is to be contracted to service debt repayment and refinancing of the old debt the government is holding (State Great Khural, 2015c). Given Mongolia's weak institutions and faltering macroeconomic position both articles legitimizing debt creation are not recommended, or should even be forbidden, as they would get the country into a spiraling circle of ever growing budget deficit and government debt. It will also give authorities a legal platform to over-expend and relieve them of the responsibilities of the oversized debt they created, and could lead the country to a sovereign default. Studies by notable researchers, including a well-known scholar specializing in development economics, W. Easterly of Columbia University, and poverty specialist Paul Collier of Oxford University, showed that paying old debt and the budget deficit by borrowing externally were a common pattern in HIPCs[5] and viewed as a significant, if not the most major, contributing factor to oversized debt accumulation in emerging economies, especially those with natural resources (Easterly, 2002, pp. 1677–1696).

A clear description of how old debt was the reason for creating new debt in debt-burdened countries was given in Roodman (2006, p. 21): "… lending targets sent powerful incentives down the hierarchy for speed and volume in lending … Growing debt troubles have compounded such pressures to lend. Seeking to minimize the appearance of problems, the IMF, World Bank, and regional institutions such as the African Development Bank [Asian Development Bank in Mongolia's case] have often lent still more to countries struggling to service their old loans." Paul Collier who sees badly managed natural resources as a trap for debt-burdened African countries now warns Africa, and thus other emerging economies like Mongolia, of new debt accumulation and suggests new borrowing decisions be made upon how well the old debt is being paid and the amount of debt remaining. Easterly indicates that a pattern of poor policies by HIPCs which resulted in an overburdened debt accumulation, included, but was not limited to, new borrowings for the purpose of covering both old debt repayment and budget deficits.

A recent development of the debt case in Greece which was much opposed by the Greek people and the opposition was a clear display of how a bridging loan and its vicious circle of debt accumulation worked. The EU "agreed" to a €7 billion, three-month bridging loan for Greece. This will allow Greece to make a €3.5 billion payment due to the European Central Bank and the €1.5 billion arrears it owes to the IMF (BBC News, 2015). It said that the bridging loan paves the way for negotiations on a bailout of up to €86 billion to begin with, which is more debt accumulation in any case, unless the debt relief given to Africa is on the table for discussion with Greece.

It is clear that the current institutional set-up for debt management harbors anomalies, weaknesses that could easily be exploited further by the corrupt and politically motivated authorities and thus further increase the risk of debt distress and default. Increasing the borrowing limit to a level beyond the manageable capacity and twisting laws to the likes and needs of the authorities exacerbates the situation for an already weakened economy.

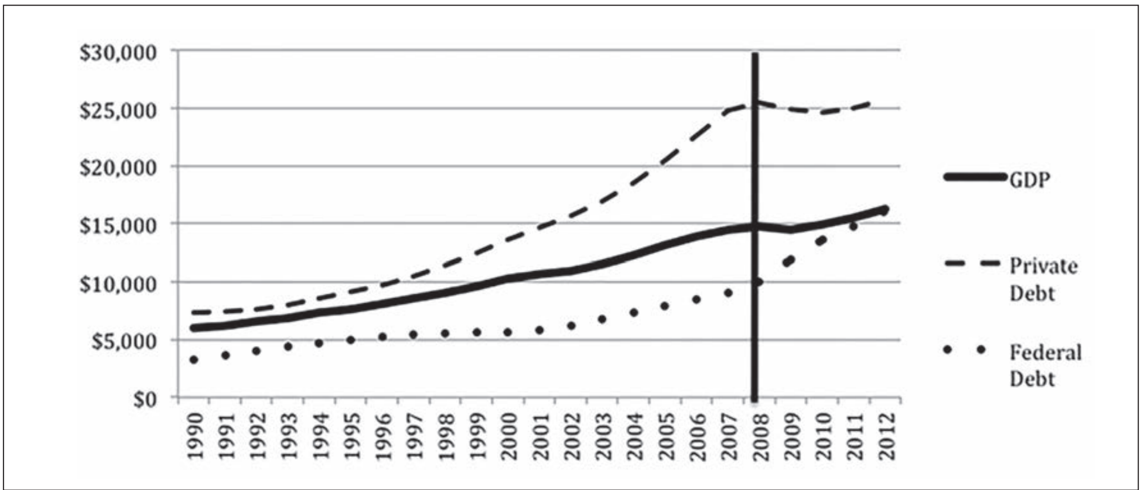
4. Public Debt versus Private Debt.

In the discussion of debt in Mongolia one vital component which usually remains outside the scope of attention is private debt. Why is it then that we cry out loud when public debt reaches 40% of GDP and don't give it a mention when private debt hits 150% of GDP? It's left out because it is considered that private debt was a private matter, not the government's problem. However, ignoring private debt issues creates another misunderstanding, or an illusion that if we can rein in public debt, then we will have really tackled the debt problem. With the claim that private hands create up to 80% of GDP (Ulaan, 2013), the country's private debt certainly has a crucial impact on the economy and requires undivided attention from the authorities.

There is not much in common between Mongolia on the one hand and Japan and the United States on the other. But one thing these countries appear to have in common are the preconditions for an economic crisis—high private debt and rapid private-debt growth—as in the 2007–2008 crisis in the United States, the 1991 crisis in Japan, and the imminent crisis Mongolia is approaching now. Vague's (2014) studies of financial crises around the world find that a major financial crisis is preceded by a running-up of private debt with public debt remaining at a lower, or manageable, parallel level to GDP. Note the features of the pre-crisis conditions in Figure 1 for the United States, Figure 2 for Japan, and Figure 3 for Mongolia. In all cases, for the years preceding the crisis, the dashed lines representing private debt shoot up to exceed the GDP line, the dotted lines representing public debt (Federal Government debt for the United States in Figure 1) roughly parallels the line representing GDP, with a rapid growth in private debt, and public debt remaining at a lower, parallel level to GDP. There is no dramatic growth in public debt as a proportion of GDP. In Mongolia's case both public debt and private debt, as a proportion of GDP, were not very high to begin with. But in recent years, with public debt remaining at a lower level, parallel to GDP, private debt has grown rapidly, exceeding in size both GDP and public debt, making the current situation look very much like the pre-crisis conditions depicted in Figure 1 for the United States, and Figure 2 for Japan.

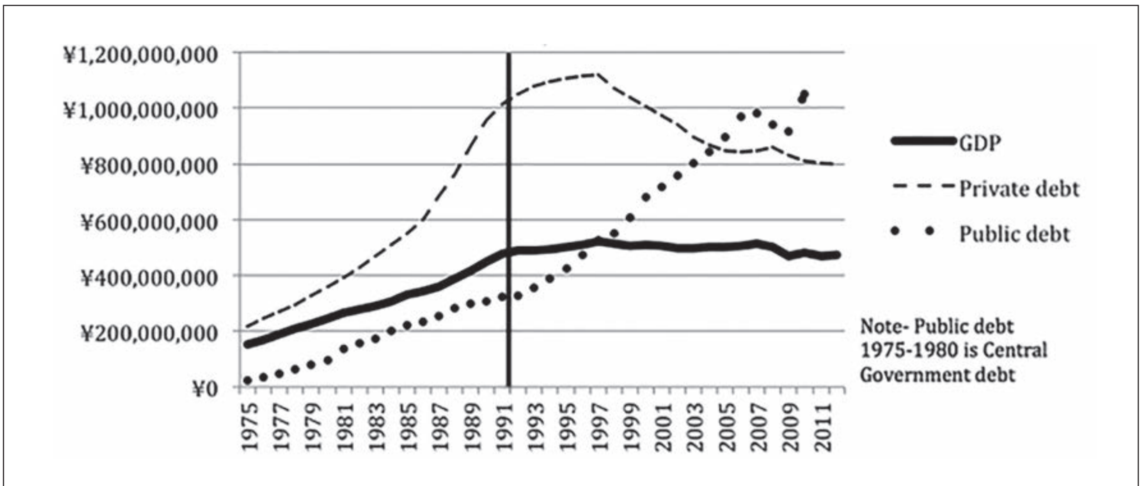
Vague (2014) concluded that almost all instances of rapid debt growth coupled with high overall levels of private debt have led to a crisis, and made this finer point in the summary: if the private debt-to-GDP ratio is at least 150% and that ratio grows by at least 18% over the course of five years, then a big crisis is likely. This pre-crisis condition of debt was observed not only in the 2007–2008 crisis for the United States, and the 1991 crisis for Japan, but also in the 1997 Asian crisis and in other crises around the world.

Figure 1: US Crisis of 2007–2008: GDP, Public Debt, and Private Debt (in billions)



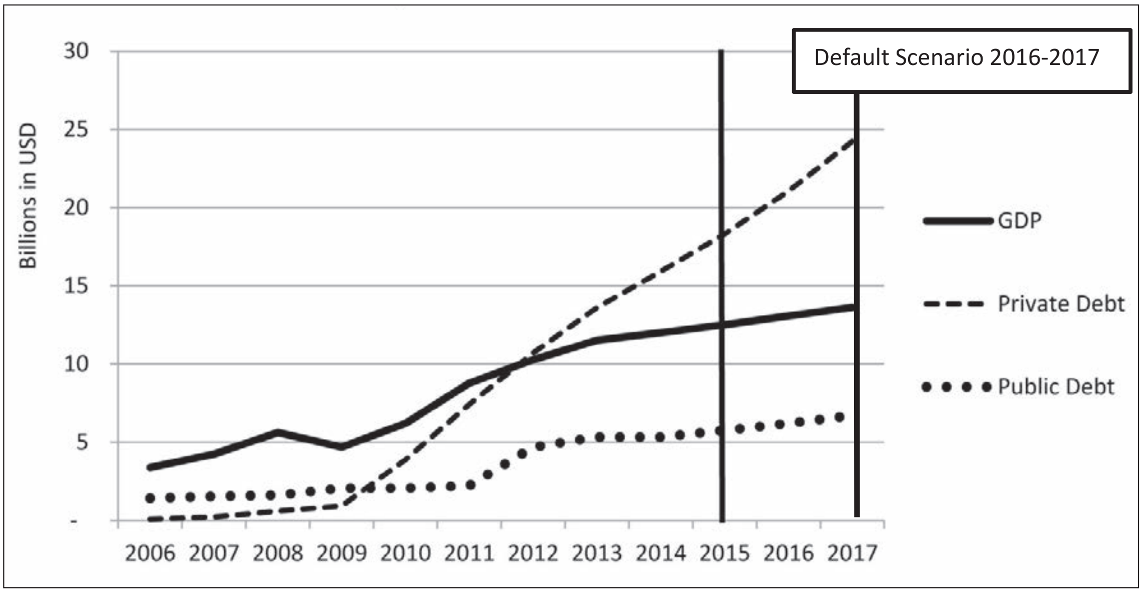
Source: Vague, R. (2014).

Figure 2: Japan Crisis of 1991: GDP, Public Debt, and Private Debt (in millions of yen)



Source: Vague, R. (2014).

Figure 3: Mongolia's Current and Projected Position after 2015: GDP, Public Debt and Private Debt



Source: Author made graphic. Data obtained from the Bank of Mongolia.

With total private debt hitting more than 170% of GDP, external private debt growing at 500% on average in the preceding five years, as opposed to the 18% indicated in the description of preconditions, and public debt remaining at a lower, parallel level to GDP, in this case a 44% ratio of GDP, Mongolia certainly meets the precondition "criteria" for a crisis.[6] What's alarming in any case is that, just as shown in the pre-crisis conditions, "private debt remains high even after crisis is over," and Mongolia's private debt is projected to remain high here on in. Therefore, if the conditions are met, then when will the crisis occur? Given the deteriorating macroeconomic indicators, including, but not limited to, the three months-worth of foreign reserves remaining, falling export revenues, and no improvement of the situation in sight, a crisis is imminent and looming large. If no change in the course, the crisis is predicted to start with defaults on both public and private debt payments largely due in early 2017 (see Figure 3). Although no official information is available on private debt details, analysis of the Bank of Mongolia's debt data indicate that most of the private debts, which now make up about 75% of total external debt, were incurred during the so-called "mining boom" years of 2008–2012 (see Figure 3) and have loan maturity dates falling in 2017–2021. Given no viable economic means for repaying the debt, private companies have already started lobbying the government for a "bailout" (Daily News, 22 November 2014).

On the other hand, the government also has an oversized debt repayment due in the first quarter of 2017, and is the first of a series of large debt repayments the government has to make through to 2021. A US$580 million loan from the Development Bank of Mongolia (Ministry of Finance of Mongolia, 2014), which is due in the first quarter of 2017, is quite a large chunk of the repayment the government has to make in one go. Furthermore, with a projection of the required debt-servicing payment in 2017 increasing up to 35% from the current 12% of budget revenue, the government will be in no position to bail out private companies. Not only are there difficult times ahead, but the government itself is under debt distress already. Facing financial difficulties, the Mongolian government back in February 2015 asked the IMF for a loan and the IMF, as a lender of last resort, offered its life-saving “standby” bailout program, but the deal fell through as the Mongolian Parliament rejected it (Kohn, 2015). If faced with defaults and a debt crisis, what are the realistic options for the government? Will the IMF come to Mongolia’s rescue? And even if it does, what will be the cost? Authorities are suspected of eyeing the possibilities of repaying the debt by incurring a new one, or selling a piece of land or mineral deposits which the country is rich in. Neither is a good solution, especially as giving up a piece of land or mineral deposits for debt repayment may not be feasible.

In any case, it is an illusion that if we can rein in public debt, then we’ll really have tackled the debt problem. That external private debt has been climbing at an increasing pace in recent years presents a lethal threat to Mongolia’s economy. Ignoring or avoiding private debt issues will only exacerbate the situation. To overcome the imminent crisis the country is approaching, Mongolia will have to tackle both public and private debt issues.

5. Conclusion

From one point of view the current generation of Mongolians are fortunate people as they have not inherited any original sin or foreign currency denominated debt from their predecessors, and thanks to the latter. But from another point of view they aren’t so fortunate, as they themselves have generated such large external debt that not just the current generation, but the subsequent generation may not be able to pay it off. The consequences of and the impact the external debt will have on the economy were suppressed or played down regarding the public, by disguising what debt really is. Through the abuse of power and position, the authorities have altered the debt management laws and created excessive external public debt which will bring a crisis to the economy. Ignoring the issues of private debt, which composes three quarters of total external debt, will only aggravate the situation. The country’s total external debt is insurmountable, equaling 175% of GDP. The government will have to tackle both public and private debt in order to have realistic solutions to the crisis it is facing. Analysis shows that pre-crisis conditions have been formed and a crisis is imminent. It is predicted to come with the government’s possible default at the beginning of 2017—if not earlier—on the oversized debt repayment due in the first quarter of that year.

With no viable means to handle the crisis in sight, what will the government do at the time of a crisis? Extreme measures such as selling a piece of land or mineral deposits will neither be feasible nor be supported by the people, and at the same time, no one wants or sees another loan bridging the repayment as a good solution to the crisis. Let’s just wait and see. There certainly are difficult times ahead for Mongolia.

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[1] Note that this threshold indicated in the FSL is for total public debt, not just external public debt. For “medium performers”, the World Bank and the IMF indicative thresholds for total public debt are 56% for the PV and 62% in nominal terms (see Table 2), IMF and World Bank (2012): *Revisiting the Debt Sustainability Framework for Low-Income Countries.*

[2] World Bank rating of countries against a set of 16 criteria grouped in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.
[3] The togrog is Mongolia's domestic currency. In the last two years the togrog's USD exchange rate fluctuated from MNT 1850 to 1990.
[4] Author's count. Sources: (MMINFO.MN, 2015; TIMES.MN, 2015).
[5] HIPC = heavily indebted poor countries.
[6] Author's calculation. Source: Ministry of Finance Report: First quarter 2015.

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