



*The **AMERICAN CHAMBER** of Commerce in Mongolia*

POSITION PAPER ON THE ECONOMIC IMPACT OF COVID-19 ON BUSINESSES AND WAYS FORWARD

AmCham Mongolia
May 2020

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This paper was prepared by AmCham Mongolia's Director of Policy and Advocacy Javkhlantugs Ganbaatar based on panel discussions during online monthly meetings of the AmCham Financial Services Committee ("AFSC") and AmCham Mongolia's survey on economic impact of COVID-19 pandemic on our members. All rights to this publication remain with AmCham Mongolia. Any part of the report may be freely reproduced with the appropriate acknowledgment.

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Background

The global outbreak of COVID-19 and unprecedented precautionary measures around the globe, and in Mongolia, have had a significant impact and brought tremendous challenges to businesses, their supply chains, employment, cash flows, and contractual obligations.

This policy paper reviews the pandemic situation in Mongolia, highlighting AmCham Mongolia's policy efforts to support its members during this challenging time, and defines ways forward in operating in the post-COVID-19 world, based on international experience and best practices.



1. Mongolia's macroeconomic outlook in light of the COVID-19 pandemic

S. Bold, Senior Economics Officer from the Asian Development Bank, highlighted that research indicates the global and regional economic outlooks and expectations have dramatically changed in the last 3-6 months, shifting from synchronized slowdown to downturn and recession due to the COVID-19 pandemic. Mongolia's economic growth had already been slowing down before the COVID-19 pandemic, and the epidemic has severely hit the economy through both external spillover and the risk of a domestic outbreak. Thus, economic growth forecasts have had to be adjusted, showing a significant downward trend, as a colossal output loss is to be expected. In this critical situation, ensuring financing stability, protecting employment, and maintaining social security are the top priorities.

Various economic sectors, such as mining, transportation, tourism, manufacturing, industry, services, trade, SMEs, public finance, monetary aggregates, and banking, have been severely affected by the COVID-19 pandemic. Due to the heightened risk and pressures on the balance of payments and the state budget, Mongolia's external and domestic financing needs a significant increase. International experience suggests that countries across the Asia-Pacific region have been implementing comprehensive economic policy packages in response to the COVID-19 pandemic, which consists of coherent fiscal, monetary, prudential, and other financial measures. These packages focus on both short and medium-term targets in the areas of shock mitigation and relief, followed by stimulus and recovery measures when supply and demand constraints ease after global containment of the pandemic.

(AmCham Mongolia's online roundtable hosted with EuroChamber Mongolia on April 28, 2020).



2. The Mongolian government's economic stimulus package

Governments around the world are acting decisively to protect their businesses and people from the economic disruption caused by the COVID-19 pandemic.

The Government of Mongolia announced the introduction of a seven-point stimulus package of five trillion MNT:



- The government will exempt businesses and entities from paying social insurance fees between April 1 and October 1.
- The government will waive personal income taxes between April 1 and October 1.
- The government will waive corporate income taxes for entities with revenue of less than 1.5 billion MNT.
- For a period of three months, the government will provide a monthly 200,000 MNT in financial support to employees of companies that are retaining their workforce.
- The government will issue 300 billion MNT in loans with a three percent interest rate to herders.
- For a period of three months, the government will increase monthly child support to 30,000 MNT for eligible children under 18 years of age.
- The government will reduce petroleum prices by 300-400 MNT per liter by April 11.

Despite pressure from businesses, the Government of Mongolia has repeatedly stated that the 2020 State Budget will not be amended as no other country in the world has reduced state spending that could lead to even further shrinking of economic activities. However, the government has announced that it will be making 34 billion MNT in agricultural equipment, financed by the Agriculture Support Fund, available at a 50 percent discount to 1,500 entities operating in agriculture.

Furthermore, the Speaker of the Parliament, the Governor of Mongol Bank, and Chairman of the Fiscal Standing Committee provided a detailed briefing on additional policy actions:

(i) Banking sector reform that will offer discounted interest for loans of less than 500 million MNT for three months;

(ii) An additional 300 billion MNT in mortgage loans will be granted to targeted borrowers, namely, medical workers and public employees, including police officers.

The Parliament approved a bill on COVID-19 policy action and will also authorize Cabinet to revise the state budget, if necessary. The Bank of Mongolia also took some policy measures against COVID-19, reducing the monetary policy interest rate by one percentage point down to 10 percent. Reducing the obligatory reserve rate of commercial banks by two units to 8.5 to increase liquidity at commercial banks, and setting the policy interest rate corridor between +1 and -1 percentage points. The Monetary Policy Committee also held an unscheduled meeting on April 13, 2020. The Committee decided to lower the policy rate by one percentage point to 9 percent and to extend the maturity limit on consumer loans up to 12 months for lenders experiencing difficulty in their loan repayments.



3. AmCham Mongolia's Response: Managing Uncharted Waters

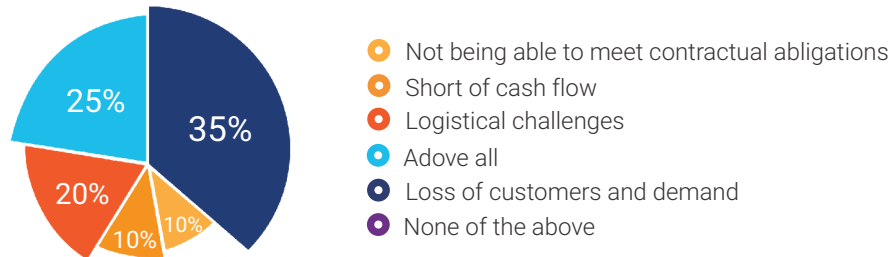
AmCham Mongolia swiftly adjusted to the country's new economic realities, offering all possible support to its membership with useful resources for managing a business during a disease outbreak and adapting business operations. Based on the needs of its members and information collected through a survey, AmCham has been sharing international best practices in addressing the pandemic. To provide timely policy updates on emerging new developments in-country and globally, organizing monthly online discussions on relevant topics with prominent speakers, and, most importantly, listening to and addressing AmCham members' needs and concerns.

- AmCham Survey: Impact of COVID-19 on AmCham Mongolia Members

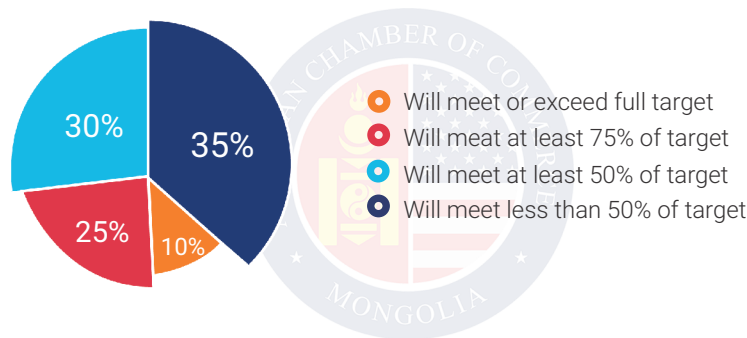
On April 30, 2020, AmCham Mongolia completed its online survey to assess the impact of COVID-19 on our members. According to the survey results, 35 percent of the survey participants stated that they had lost



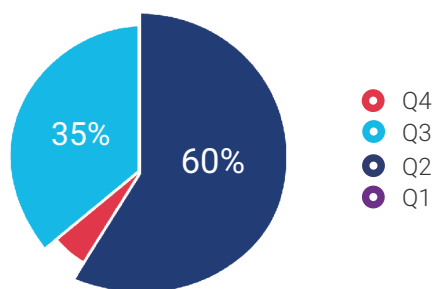
customers and saw declining demand for their products and services. While 10 percent are short of cash flow, 20 percent experiencing logistical challenges, 25 percent said that they are facing all of the above problems, and 10 percent are facing other difficulties during the COVID-19 pandemic.



Survey results also revealed, 35 percent of the participants are expecting to meet 50 percent of their targeted sales performance in the first half of 2020, and 30 percent said they would meet at least 50 percent of their target. Moreover, 25 percent expect to reach at least 75 percent of their goal, and only 10 percent plan to exceed their full target.

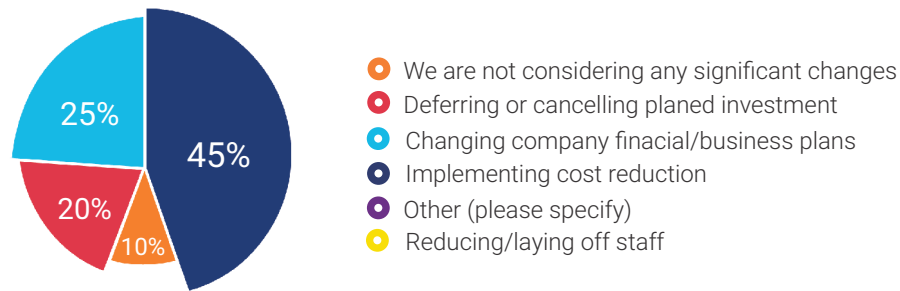


The data shows that 60 percent of the participants are expecting significant economic effects from COVID-19 in the second quarter of 2020; 35 percent stated that they expect it in the third quarter, and five percent said that the impact of COVID-19 would come in the fourth quarter.

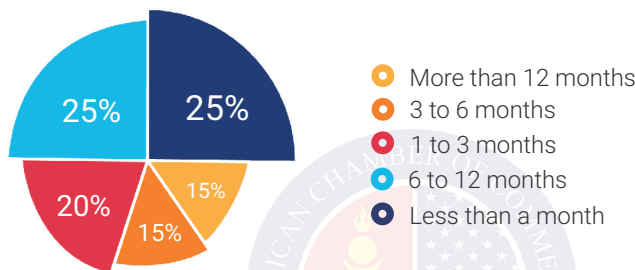


To adjust their businesses to the current reality, most companies (45 percent) are gradually implementing cost reduction; 25 percent are changing their company's financial and marketing plans, and 20 percent are deferring or canceling planned investments. Due to the lockdown measures in Mongolia, 55 percent of the members surveyed are letting their employees work from home, while 25 percent have reduced hours in the office.

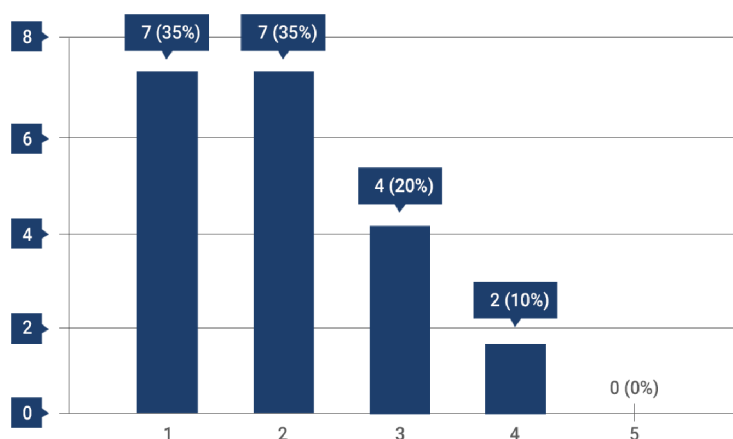




If COVID-19 outbreak prevention measures were to be lifted by the end of April 2020, 25 percent of the participants estimate their business operations would go back to normal within a month, 20 percent of businesses would take 1-3 months, and 25 percent said that it would take 6-12 months. Finally, 15 percent said that it would take more than 12 months to recover from the economic crisis.



Our members rated the projected impact of the Mongolian government's 5.2 trillion MNT stimulus package on their businesses. The majority (70 percent) of the participants stated that the effects of the stimulus package would be low or very low, 20 percent rated it as having a medium impact, and 10 percent rated it as a high impact solution.



The survey results clearly show that COVID-19 has had a very high impact on AmCham Mongolia members, particularly in disrupting their businesses, customers, and supply chains, and the majority of them need additional support from the Mongolian government, Parliament, and the banks.



- AmCham Mongolia's policy initiatives

AmCham Mongolia is helping its members by providing timely updates and resources to adjust businesses by issuing recommendations to Cabinet and Parliament, developed in partnership with other foreign chambers in Ulaanbaatar.

AmCham Mongolia partnered with the Australian Chamber of Commerce in Mongolia, British Business Group (BBG) Mongolia, the German-Mongolian Business Association, and EuroChamber Mongolia to issue a joint-statement with policy recommendations to stimulate the economy in the context of COVID-19. The specific policy recommendations included:

Easing liquidity pressures:

- Arrange for low-interest, unsecured loans to be made available to all SMEs – value up to 50 percent of the corporate income tax paid in 2019;
- General import customs duties set at zero percent for April-October 2020 (excluding demerit goods and other special goods, e.g., alcohol, cigarettes, etc.);
- All corporate VAT collection deferred for six months;
- Arrange for overpaid tax and VAT to be automatically returned to corporate entities within two weeks of application;
- Allow the deferral of utility payments for corporate entities.

Addressing the capacity of the Mongolian economy and the domestic banking system

- Establish a government innovation fund to stimulate local businesses into generating solutions for the health and financial crisis, with a focus on alleviating challenges to daily life (e.g., e-learning, 3D printing).

Easing unemployment pressures

- Increase salary support measures for Mongolian staff, both for employees and the self-employed.

Programs for maximizing current opportunities

- Revise the current Mongolian State Budget for 2020 and offer targeted support to vulnerable sectors and industries (e.g., tourism);
- Allow key foreign workers to enter Mongolia in April and May on a well-controlled and restricted basis; e.g., minimum entry of six months, minimum salary levels (e.g., 10x minimum wage), three weeks' quarantine (with costs to be met by employer); an additional SHI "risk premium" would be fair recompense for these specialist cases;
- Utilize MIAT passenger planes as dedicated air freight solutions to ease urgent export and import logistics pressures;
- Since there is no local transmission of COVID-19 in Mongolia, allow the gradual re-opening of the hospitality industry and lift restrictions on public gatherings that maintain social distancing measures recommended by the WHO;
- Fast-track major development projects that have been delayed by bureaucracy, e.g., railway projects, energy projects (renewable and traditional), improved healthcare, and the new airport.

The foreign chambers also proposed having a monthly bilateral meeting with the office of the Prime Minister and relevant ministries, to exchange information and proposals to ensure the economic prosperity for the Mongolian people. Official letters with these recommendations have been sent to the Prime Minister and the Speaker of Parliament.





4. The best international practices in coping with COVID-19

This policy paper highlights a few examples of the best international practices in managing COVID-19 that can be replicated and useful in a Mongolian context:

- The U.S. Chamber of Commerce

The U.S. Chamber of Commerce took a strong stance and acted as a leader in offering support to AmChams around the globe, feeding them updates and relevant resources. The U.S. Chamber of Commerce announced the launch of the Path Forward program, an initiative to address how Americans and businesses can return to work safely, successfully, and sustainably.

- The U.S. Chamber's Global Dashboard on COVID-19 Government Policies

The U.S. Chamber of Commerce developed the Global Dashboard on COVID-19 Government Policies, a resource addressing the challenges about the ever-changing international regulatory landscape in response to the COVID-19 pandemic. This dashboard provides direct links to COVID-19 developments across 32 countries, covering issues such as government stimulus programs, guidance on critical infrastructure and workers, export restrictions, and data protection authorities.

AmCham Mongolia provided an update on the Mongolian government's policies to update the global dashboard. It is available online at <https://www.uschamber.com/international-affairs-division/covid-dashboard>.

- Roadmap to Re-opening

The American Enterprise Institute produced "National Coronavirus Response," a roadmap to re-opening. This report provides a roadmap for navigating through the current COVID-19 pandemic in the United States. It outlines specific directions for adapting public health strategy as we limit the epidemic spread of COVID-19 and can transition to new tools and approaches to prevent further spread of the disease. More details are available at <https://www.aei.org/research-products/report/national-coronavirus-response-a-road-map-to-reopening/>

- The Trump Administration: Guidelines for Opening Up America Again

On April 16, President Trump introduced "Guidelines for Opening Up America Again," a three-phased approach based on the advice of public health experts. These steps will help U.S. state and local officials when re-opening their economies, getting people back to work, and continuing to protect American lives: <https://www.whitehouse.gov/openingamerica/>

- China

Among global businesses, those in China first faced the COVID-19 pandemic and had to adjust their activities to quarantine conditions and the negative impacts of the epidemic. AmCham Mongolia hosted a meeting with the President of AmCham China, who provided updates on the COVID-19 pandemic situation in China, experiences, and lessons learned from foreign companies operating on the frontline in China, and how AmCham China is supporting their members, who are facing unprecedented business challenges. AmCham China was on the frontline, helping its members and the government navigate the crisis through their Wuhan Chapter to support members at the epicenter, gathering frontline information and sharing it with them daily by the aggressive use of technology, media, and social media platforms. Also, by conducting a monthly survey on the impact of COVID-19.

A specific example of the economic stimulus policy action used in China was giving out digital coupons of 750 million RMB to retailers to drive consumer demand. Moreover, large corporations in China also acted as



private bankers for small and medium-sized enterprises (SMEs) by offering more relaxed payment terms to support them financially.

Based on their experiences in dealing with COVID-19, AmCham China made a list of its top 20 recommendations for businesses in four areas, including protecting their workforce, mitigating risks, adapting to a new normal, and engaging their communities. These 20 recommendations are available at <https://www.amchamchina.org/news/free-20-recs-for-us-business-during-covid-19>. AmCham China also highlighted that businesses around the world are proactively identifying, exploring, and capturing new business opportunities, mostly in digital arenas.



5. Ways Forward: What will a post-COVID-19 world look like?

AmCham Mongolia advocates that public health must remain the primary consideration in all actions. However, Mongolia also needs to gradually re-open closed businesses, get back to work, and progressively bring business operations back to normal, as the economy in Mongolia is deteriorating very quickly. The bigger picture we need to look at is the need to develop a public health strategy that is complemented by a "get back to work" strategy, as there is a need for both public health safety and economic growth. Stimulus packages designed to get us through the near term come at high costs.

Some key considerations in ways forward in living in a post-COVID world, based on the discussions in the global business community and the U.S administration, are highlighted below:

- The world's nations should cast aside the illusion that we will be living in a post-COVID-19 world anytime soon. Instead, countries will be in a world of post-COVID shock and will need to think carefully and creatively about how to restore society and the economy.
- The economic contraction is likely to be severe, and more protracted than initially projected. In the interim, there will be a considerable need for economic stimulus across the developing world, which is less equipped to deal with the financial and health impacts of the pandemic.
- We are likely to see a significant movement of supply chains, with countries seeking to re-nationalize manufacturing, particularly of health goods. The crisis has also sparked an accelerated digital transition and increasing reliance on tech companies.
- International coordination to combat COVID-19 remains vital, particularly given ongoing challenges in the U.S.-China relationship. The U.S. government and other leaders are looking for new models to facilitate the sharing of best practices and information.
- As the U.S. and other economies begin to re-open, the business community can play a critical role, helping to communicate the successes and failures of governments around the globe to establish best practices. Industry and associations can also help to disseminate guidance from governments. Ultimately, rebuilding the confidence of businesses and consumers is critical to restoring economic vitality.

